Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Machado, Correa, & Oropeza	Analyst:	Scott McFarlane	Bill Number:	SB 1055
Related Bills:	See Prior Analysis	Telephone:	845-6075	Amended Date:	February 25, 2008
		Attorney:	Tommy Leung	Sponsor:	

SUBJECT: Mortgage Forgiveness Debt Relief

X DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced January 7, 2008.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended ____________________.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ____________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED January 7, 2008, STILL APPLIES.

____ OTHER – See comments below.

SUMMARY

This bill would generally conform California law to the recently-enacted federal Mortgage Forgiveness Debt Relief Act of 2007, which generally provides for an exclusion from gross income for qualified debt forgiveness on a principal residence, up to a maximum of $1 million.

SUMMARY OF AMENDMENTS

The February 25, 2008, amendments added additional coauthors, reduced the maximum exclusion amount from $2 million to $1 million, and made minor technical amendments. Except for the discussion in this analysis, the remainder of the department's analysis of the bill as introduced January 7, 2008, still applies.

POSITION

Pending.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	3/21/08
____ N	____ OUA	X PENDING		

ANALYSIS

THIS BILL

This bill would conform to the mortgage-debt forgiveness provision of the federal Mortgage Forgiveness Debt Relief Act of 2007, with two differences: (1) the exclusion period, and (2) the maximum exclusion amount.

The difference in the exclusion *period* is:

- *Federal* - The exclusion applies to discharges occurring on or after January 1, 2007, and before January 1, 2010.
- *California* – This bill would exclude discharges occurring on or after January 1, 2007, and before January 1, 2009.

The difference in the maximum exclusion *amount* is:

- *Federal* - The maximum exclusion is $2,000,000.
- *California* – The maximum exclusion is $1,000,000.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, this bill would result in the following revenue losses:

Estimated Revenue Impact of SB 1055 as Amended 02/25/2008 Effective for Tax Years 2007 and 2008 Enactment Assumed After 6/30/2008 $ in Millions		
2007-08	2008-09	2009-10
-$4.7	-$6.9	-$1

On a cash flow basis, the fiscal impact of the bill would be spread over 2008/09 ($11.6 million) and 2009/10 ($1 million). Of the $11.6 million loss for 2008/09, $4.7 million is accrued back one year to 2007/08 because the bill impacts mortgage debts discharged during 2007.

Revenue Discussion

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

The revenue impact of this bill would be determined by the amount of qualified principal residence indebtedness discharged and the marginal tax rate of taxpayers otherwise reporting this income.

The revenue loss was estimated as follows. Federal estimates by the Joint Committee on Taxation will be converted to liability (tax) year estimates ($117 million and $200 million for fiscal year (FY) 2008 and 2009, respectively). The federal liability amount was prorated to California using a proration factor of 4.2%. This proration factor was calculated using four factors: (1) the ratio of California foreclosure to foreclosures nationally using data from RealtyTrac (22%); (2) the ratio of median house price in California to median price nationally (145%), calculated using data from National Association of Realtors and California Association of Realtors; (3) the ratio of qualified taxpayers in California to qualified taxpayers nationally (43%), which was calculated based on assumed differences in percentage of foreclosures involving insolvency, non-recourse loans and non-qualified recourse loans; and (4) the California average marginal tax rate as a percent of the federal average marginal tax rate (31%).

The calculation for the 4.2% proration factor is: $0.042 \approx 0.22 \times 1.45 \times 0.43 \times 0.31$

The calculations of the revenue losses *__prior to__* the February 25, 2008 amendments were:

- 2007 tax year: 4.2% X $117 million ≈ $4.9 million
- 2008 tax year: 4.2% X $200 million ≈ $8.4 million

These estimates were further adjusted to reflect the reduction in the maximum amount of COD excludible, which was reduced from $2 million to $1 million in the February 25, 2008, amendments. We estimated a 5% reduction in the revenue loss due to this reduction.

The *__revised revenue loss estimates__* are:

- 2007 tax year: 0.95 x $4.9 million ≈ $4.7 million
- 2008 tax year: 0.95 x $8.4 million ≈ $8 million

These taxable year estimates are converted to fiscal year estimates in the table above.

LEGISLATIVE STAFF CONTACT

Legislative Analyst	Revenue Manager	Legislative Director
Scott McFarlane	Rebecca Schlussler	Brian Putler
(916) 845-6075	(916) 845-5986	(916) 845-6333
scott.mcfarlane@ftb.ca.gov	rebecca.schlussler@ftb.ca.gov	brian.putler@ftb.ca.gov