

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Senate Budget Committee Analyst: Jennifer Bettencourt Bill Number: SB 87

Related Bills: See Legislative History Telephone: 845-5163 Amended Date: July 19, 2007

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Repeal Of The Teacher Retention Tax Credit

SUMMARY

This bill would repeal the Teacher Retention Tax Credit and provide a procedure for assessing property tax on fractionally owned aircraft.

SUMMARY OF AMENDMENTS

The July 19, 2007, amendments would make the following changes:

- Repeal the Teacher Retention Tax Credit,
- Add language relating to property tax law, and
- Add language to make this an urgency measure.

This is the department's first analysis of this bill. This analysis only discusses the provision that would impact the department.

PURPOSE OF THE BILL

According to the Senate Budget Committee staff, the purpose of the bill is to enact statutory changes relating to the Budget Act of 2007 and achieve a general fund savings.

EFFECTIVE/OPERATIVE DATE

As an urgency statute, this bill would be effective upon enactment and operative for taxable years beginning on or after January 1, 2007.

POSITION

Pending.

Board Position:

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Department Director

Date

Selvi Stanislaus

7/31/07

ANALYSIS

FEDERAL/STATE LAW

Existing federal and state laws provide various tax credits designed to provide tax relief for taxpayers that incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they might not otherwise undertake.

Current state law allows a tax credit for credentialed teacher's that is the lesser of 50% of the amount of tax imposed on a teacher's salary or the amount based upon the years of service as a credentialed teacher as follows:

- At least 4, but less than 6 years: \$250
- At least 6, but less than 11 years: \$500
- At least 11, but less than 20 years: \$1,000
- 20 or more years: \$1,500

The Teacher Retention Tax Credit was enacted in 2000 and first operative for the 2000 taxable year. It was subsequently suspended for the 2002, 2004, 2005, and 2006 taxable years.

THIS BILL

This bill would repeal the Teacher Retention Tax Credit for taxable years beginning on or after January 1, 2007.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would occur during the department's normal annual update.

LEGISLATIVE HISTORY

AB 1809 (Assembly Budget Committee, Stats. 2006, Ch. 49) suspended the Teacher Retention Tax Credit for taxable year 2006.

SB 1100 (Senate Budget Committee, Stats. 2004, Ch. 226) suspended the Teacher Retention Tax Credit for taxable years 2004 and 2005.

AB 2065 (Oropeza, Stats. 2002, Ch. 488) suspended the Teacher Retention Tax Credit for the 2002 taxable year.

AB 2879 (Jackson, Stats. 2000, Ch. 75) enacted the Teacher Retention Tax Credit.

FISCAL IMPACT

This bill would not impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, the revenue gain from this bill would be as follows:

Estimated Revenue Impact of SB 87 Effective On Or After January 1, 2007 Enactment Assumed After June 30, 2007 (\$ in Millions)			
Repeal	2007-08	2008-09	2009-10
Teacher Retention	+\$170	+\$175	+\$180

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

Revenue Discussion

The revenue impact of this bill would be determined by the amount of Teacher Retention Tax Credits that would otherwise be applied to reduce tax liabilities.

The Teacher Retention Tax Credit was suspended for tax years 2002, 2004, 2005, and 2006. Credit usage in 2003, the last year the credit was allowed, totaled approximately \$155 million. The number of credentialed teachers has increased approximately 2.5% annually. This growth rate is applied to the \$155 million to derive an estimate of \$170 million for the 2007 taxable year. Estimates are rounded to the nearest \$5 million.

LEGISLATIVE STAFF CONTACT

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