ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author:	Gaines	Analyst:	Matthew Cooling	Bill Number:	AB 1700
Related Bills:	See Legislative History	Telephone:	845-5983	Introduced Date Amended Date:	February 1, 2010 March 23, 2010
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Personal Exemption Credit For Dependents/Repeal Decrease In Credit January 1, 2010/Pit Rates/Repeal Temporary Increase January 1, 2010

SUMMARY

This bill would do the following:

- Repeal the increases to Sales and Use Tax Rates and Vehicle License Fees (VLF).
- Repeal the Increase in Personal Income Tax (PIT) and Alternative Minimum Tax (AMT) Rates.
- Repeal the Reduction of the Dependent Exemption Credit.

SUMMARY OF AMENDMENTS

The March 23, 2010, amendments removed the provision amending the Revenue and Taxation Code section relating to the VLF collected and used to fund the Local Safety and Protection Account within the Transportation Tax Fund.

This is the department's first analysis of this bill.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to provide tax relief to taxpayers to help revitalize the economy, bring back jobs, and provide financial stability to the state.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment.

The repeal of the increases to sales and use tax rates and vehicle license fees would be operative immediately upon enactment.

The repeal of the PIT and AMT rates increases and the dependent exemption credit decrease would be specifically operative for taxable years beginning on or after January 1, 2010.

POSITION

Pending.

Board Position:			Department Director	Date
_______ S	_______ NA	_______ NP		
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_______ N	_______ OUA	___X___ PENDING		

Repeal the Sales and Use Tax Rate Increases and the VLF Increases

ANALYSIS

STATE LAW

Under current law, the statewide sales and use tax rate is 8.25 percent. Of the 8.25 percent base rate, 7.25 percent is the state portion and 1 percent is the local portion.

Current law also authorizes the Department of Motor Vehicles to collect the VLF of 1.15 percent of the depreciated value of the vehicle for automobiles, commercial vehicles with a declared gross operating weight under 10,001 pounds, motorcycles, and trailer coaches.

In addition, current law allows taxpayers to deduct as an itemized deduction for the VLF on the personal income tax returns.

THIS PROVISION

This provision would repeal the sales and use tax rate increases and restore the statewide rate to 7.25 percent. It would also reduce the VLF to 0.8 percent of the depreciated value of the vehicle. This bill would not remove the provision adding the additional 0.15 percent VLF used to fund the Local Safety and Protection Account within the Transportation Tax Fund. As such, this provision would reduce the amount of VLFs deductible on the state income tax return.

FISCAL IMPACT

This provision would not significantly impact the department's costs.

Repeal the Increase in the Personal Income Tax (PIT) and AMT Rates

ANALYSIS

FEDERAL/STATE LAW

Federal tax law imposes six different income tax rates on individuals, estates, and trusts ranging from 10 percent to 35 percent.

For taxable years beginning on or after January 1, 2009, and before January 1, 2011, state tax law imposes six different rates under the Personal Income Tax Law (PITL) ranging from 1.25 percent to 9.55 percent. Each tax rate applies to different ranges of income, known as "tax brackets." Current state tax law requires the Franchise Tax Board (FTB) to recalculate the tax brackets each year based on the change in the California Consumer Price Index (CCPI).

For taxable years beginning on or after January 1, 2005, state law imposes an additional 1 percent Mental Health Tax (MHT), not subject to reduction by credits, on the portion of a PIT taxpayer's taxable income that exceeds $1 million. The taxable income threshold of $1 million is not indexed based on changes in the CCPI. The MHT is subject to estimated tax payment requirements, interest, penalty, and other tax administration rules applicable to other taxes imposed under the PITL.

Federal law provides an AMT rate of 26 percent on alternative minimum taxable income up to $175,000 and 28 percent on AMT taxable income exceeding that amount for PIT taxpayers. Existing state law provides an AMT rate of 7.25 percent under the PIT law for taxable years beginning on or after January 1, 2009, and before January 1, 2011. A taxpayer with substantial income can use preferential tax benefits, such as exclusions, deductions, and credits, to reduce their income tax liability. AMT was established to ensure that a taxpayer who can use preferential tax benefits does not completely escape taxation.

THIS PROVISION

This provision would repeal provisions increasing the PIT and AMT tax rates by 0.25 percent for taxable years beginning on or after January 1, 2010.

FISCAL IMPACT

This provision would not significantly impact the department's costs.

Repeal the Reduction of the Dependent Exemption Credit

ANALYSIS

FEDERAL/STATE LAW

Overview

Federal and state law both provide "personal-exemption" type reductions to tax; however, federal law provides a "personal-exemption" deduction, whereas the state provides a "personal-exemption" tax credit. An exemption deduction is a reduction to adjusted gross income[1] to arrive at taxable income, whereas a tax credit is a dollar-for-dollar reduction to tax.

Federal Law

Federal law provides a "personal-exemption" deduction.[2] Taxpayers are generally allowed one exemption for each individual and one exemption for each qualifying child or dependent. Each exemption is worth the same amount, and taxpayers multiply the total number of exemptions by the current-year exemption amount. The exemption deduction amount is $3,650 for taxable year 2009, and is adjusted annually based on the Consumer Price Index published by the Department of Labor. The amount of the exemption for senior, blind, and disabled taxpayers is more.

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[1] For purposes of state income tax law, AGI is defined by cross-reference to the Internal Revenue Code (IRC) as gross income, which includes all income from whatever source derived, adjusted for certain allowable amounts, including IRA contributions, alimony paid, moving expenses, and Keogh account contributions.
[2] IRC section 151.

State Law

Legislation enacted in 2009, ABX3 3 (Evans, Stats. 2010, 3rd Ex. Sess. 2009, ch. 18), temporarily reduces the amount of the dependent exemption credit from $309 in 2008 to an amount equal to the personal exemption credit. This reduction is effective for the 2009 and 2010 taxable years. For 2009, the reduced personal exemption, senior exemption, blind exemption, and dependent exemption credit amounts are $98.[3]

THIS PROVISION

This provision would repeal the reduction of the dependent exemption credit enacted in 2009 for taxable years beginning on or after January 1, 2010. After the reduction ceases to apply, the dependent exemption credit would be increased to the amount it would have been if the reduction had never become operative.

FISCAL IMPACT

This provision would not significantly impact the department's costs.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update. As such, this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

ABX3 3 (Evans, Stats. 2010 3rd Ex. Sess.2009, Ch. 18) added 0.25 percent to each PIT rate for taxable years 2009 and 2010 and reduced the dependent exemption credit to the same amount as the personal exemption credit for taxable years 2009 and 2010.

ABX1 2 (Evans, 2009/2010) would have, among other things, imposed a 2.5 percent additional tax on the total tax for all personal income taxpayers and require FTB to report the revenue increase to the Department of Finance. This bill was vetoed by Governor Schwarzenegger on January 6, 2009. The full text of the Governor's veto message can be found in Appendix A.

SB 96 (Ducheny, 2009/2010) would modify and add PIT rates of 9 percent, 9.5 percent, 10 percent, 10.5 percent, and 11 percent and would increase the AMT rate for 8.5 percent. This bill is currently in the Senate Revenue and Taxation Committee.

SB 952 (Wyland, 2009/2010) would repeal the same provisions as this bill. In addition, it would repeal the 10 percent increase to the withholding rates that became effective in November 2009. This bill has been referred to the Senate Revenue and Taxation Committee.

[3] R&TC section 17054.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 1700 As Amended March 23, 2010 Effective September 30, 2010 for taxable years Beginning On or After 01/01/2010 Enactment Assumed After September 30, 2010 ($ in Millions)	
	2010-11
Repeal of 1 percent Increase in Sales and Use Tax	+$20
Repeal of 0.35 percent Increase in Vehicle License Fees	+$25
Repeal of the Increase in the PIT and AMT Rates	-$1,900
Repeal of the Reduction of the Dependent Exemption Credit	-$1,200
Interaction between the PIT/AMT Rates and the Dependent Exemption Credit	+$200
Total Estimated Net Revenue Impact for AB 1700	-$2,855

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

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Appendix A

BILL NUMBER: ABX1 2
VETOED DATE: 01/06/2009

January 6, 2009

To the Members of the California State Assembly:

I am returning Assembly Bill X1 2 without my signature because it is part of a bill package that does not deal with California's current budget and economic crisis. This bill package punishes Californians by raising revenue without providing permanent and ongoing cuts, does not create jobs or stimulate our economy, does not allow government to run more efficiently in California, and makes no attempt to keep people in their homes.

Sincerely,

Arnold Schwarzenegger