

Author: Runner Analyst: Janet Jennings Bill Number: SB 1133
 Related Bills: See Prior Analysis Telephone: 845-3495 Amended Date: April 7, 2010
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Abolish FTB/Transfer Powers & Duties To BOE

_____ ANALYSIS NOT REQUIRED of this bill – Not within scope of responsibility of this department.

_____ TECHNICAL BILL – No program or fiscal changes to existing program.

_____ BILL AS AMENDED NO LONGER WITHIN SCOPE of responsibility or program of the department.

_____ TECHNICAL AMENDMENT – No change in previously submitted analysis required. Approved position of prior analysis is _____.

X MINOR AMENDMENT – Remainder of previous analysis of the bill as introduced on February 18, 2010, still applies.

_____ MINOR AMENDMENT – No change in approved position of _____.
 See Comments below

X OTHER – See comments below.

COMMENTS:

This bill would abolish the Franchise Tax Board (FTB) and transfer its powers and duties to the State Board of Equalization (BOE).

The April 7, 2010, amendments added language to repeal the provision that would require the BOE to report to the Governor and the Legislature regarding the assumption of the duties of the FTB after June 30, 2015. As a result of the amendments, the “Technical Consideration” as discussed in the analysis of the bill as introduced February 18, 2010, has been resolved. The “Implementation Considerations”, “Fiscal Impact”, and “Economic Impact” still apply and are included below for convenience.

Board Position: _____ S _____ NA _____ NP _____ SA _____ O <u> X </u> NAR _____ N _____ OUA _____ PENDING	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Franchise Tax Board Staff</td> <td style="width: 30%;">Date</td> </tr> <tr> <td>Janet Jennings</td> <td>04/08/10</td> </tr> </table>	Franchise Tax Board Staff	Date	Janet Jennings	04/08/10
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IMPLEMENTATION CONSIDERATIONS

This bill would authorize the tax administrative responsibilities of four revenue-generating organizations. The following table shows staff positions and funding based on the Governor's 2008/2009 budget.

It is not known to what extent these positions and budgets are allocated for tax administrative responsibilities.

	Positions	Funding, in millions
BOE	4,033	\$428
FTB	5,336	\$537
CDI	1,304	\$227
EDD	8,739	\$111

Until implementation plans and identification of problems are clarified, the impact to transfer duties is unknown. Department staff notes the following concerns.

Pursuant to AB 986 (Horton, Stats. 2003, Ch. 569), the Legislative Analyst's Office (LAO) issued a report to the Legislature on January 10, 2005, regarding the merits of consolidating specific functions and operations of the FTB, the BOE, and the EDD. The LAO summarized the findings of its report released January 10, 2005, as follows:

Consolidation of the tax agencies' payment and documentation processing activities could, in the medium to long term, generate some annual cost savings and interest earnings through elimination of duplicative functions and increased efficiencies. The state, however, would have to incur significant net costs in the short term to achieve these savings. In addition, such benefits are likely to be less than benefits from increasing electronic processing. We therefore recommend that low priority be given to consolidation of payment and document processing functions in favor of steps to increase electronic processing.

The LAO further noted that expanding electronic technologies could be used to achieve "virtual consolidation" of remittance and document processing. The report states, "Under this type of system, taxpayers could log onto a single Web site and through a series of menus, be directed to the proper form which would allow them to file their taxes or remit a payment. This payment, in turn, would be automatically directed to the appropriate agency."

FISCAL IMPACT

Consolidating the FTB with the BOE would provide opportunities to increase efficiency and effectiveness over the long term; however, the magnitude of impact is unknown and would be realized over time. Potential benefits would be offset by the costs associated with merging the organizations and systems, particularly in the short-term. The magnitude of the benefits and costs would depend on the degree to which the departments' functions and systems are integrated as a result of consolidation. In addition, working through the organizational, technology, and other issues associated with merging the FTB into the BOE and with the BOE assuming the tax administrative responsibilities of the EDD and the Department of Insurance could divert resources from core revenue-generating functions.

An accurate cost analysis of consolidation would require input from the other affected departments to analyze each function and process each such department performs in comparison to functions and processes performed by the BOE. Accordingly, the department's costs to administer this bill cannot be determined at this time. The department will continue to analyze consolidation and its potential fiscal impacts as this bill moves through the legislative process.

ECONOMIC IMPACT

The timing of tax revenue receipts, as well as disbursements to taxpayers, may be impacted by an unknown amount to the extent this bill could disrupt the FTB's existing programs. In addition, the extent this bill may impact the FTB's revenue generating programs and procedures by a redirection of resources is unknown and cannot be determined until implementation considerations have been resolved.