Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Wolk	Analyst:	Jahna Alvarado	Bill Number:	SB 1272
Related Bills:	See Legislative History	Telephone:	845-5683	Amended Date:	April 5, 2010
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Tax Credits/Add General Provisions

SUMMARY

This bill would require bills that would create a new tax credit to include the following:

- specific goals, purposes, and objectives of the credit,
- performance measures for the credit within the language of the bill, and
- repeal dates that are five years after the enactment date of the bill.

SUMMARY OF AMENDMENTS

The April 5, 2010, amendments would remove provisions making technical changes to the Corporate Tax Law from the bill as introduced February 19, 2010. The amendments would add provisions requiring performance measures and an automatic five-year repeal date on all tax credit bills.

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

PURPOSE OF THE BILL

According to the language of this bill, it is the Legislature's intent to provide a standard method for the Legislature to evaluate tax credits periodically to ensure that these expenditures are providing the most benefit to the State and its taxpayers.

EFFECTIVE/OPERATIVE DATE

Assuming enactment before October 1, 2010, this bill would become effective on January 1, 2011, and specifically operative for any bill authorizing a tax credit for taxable years beginning on or after January 1, 2011.

POSITION

Pending.

Board Position:			Department Director	Date
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ANALYSIS

FEDERAL/STATE LAW

Existing state and federal laws provide various tax credits and other tax benefits designed to provide tax relief for taxpayers who 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 benefits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Existing federal and State law are silent with regard to requiring tax credit bills to include specific goals, purposes, and objectives, performance measures, or a sunset date.

THIS BILL

This bill would require any bill that would authorize a tax credit that would become operative for taxable years beginning on or after January 1, 2011, to contain language that would specify:

- The goals, purposes, and objectives of the tax credit (e.g., a jobs credit that would provide an incentive for a company to hire a certain demographic),
- Detailed performance measures for the Legislature to use to measure the goals, purposes, and objectives. For example, in the case of a jobs credit bill, performance measures could include the increase in the number of jobs available, or the number of individuals that would be targeted for employment,
- Data collection and reporting requirements that would allow the Legislature to evaluate whether the credit is meeting its goals, purposes, and objectives, and
- A sunset date that would be five years after the date of enactment.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concern. Department staff is available to work with the author's office to resolve this and other concerns that may be identified.

This bill would require that specified bills include a sunset date that would be five years after the date of enactment. Because bills are enacted throughout the year, this requirement could result in a credit ceasing to be operative in the middle of a taxable year. It is recommended that this bill be amended to limit the operative period to five taxable years with a repeal date that is the second January 1 following the end of the operative period.

LEGISLATIVE HISTORY

ACA 6 (Calderon 2009/2010) would amend the State's constitution to, among other things, limit the operative period to seven years from the date of the enactment of a new or amended tax credit. ACA 6 is currently pending before the Assembly.

AB 831 (Parra, 2007/2008) would have required any legislative measure creating a new tax expenditure or extending the operation of an existing tax expenditure to include a repeal of the expenditure in a manner that reflects the needs and conditions of the proposed expenditure. This bill failed to pass out of the Senate Revenue and Taxation Committee.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota,* and *New York.* These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Review of these states' laws found no comparable limitation to the one proposed by this bill.

FISCAL IMPACT

Because this bill would add requirements for future bills, no departmental costs are associated with this bill.

ECONOMIC IMPACT

Revenue Estimate

This bill would not impact the state's income tax revenue.

LEGISLATIVE STAFF CONTACT

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