

SUMMARY ANALYSIS OF AMENDED BILL

Author: Calderon Analyst: Victoria Favorito Bill Number: AB 104
 Related Bills: See Prior Analysis Telephone: 845-3825 Amended Date: April 1, 2009
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Conformity To Federal Pension Protection Act Of 2006

- DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced January 8, 2009.
- 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 _____.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED January 8, 2009, STILL APPLIES.
- OTHER – See comments below.

SUMMARY

This bill would conform California Personal Income Tax Law (PITL) to a select provision of the federal Pension Protection Act (PPA) of 2006, which provides for a waiver of the 10% additional early withdrawal tax on certain distributions of pension plans.

SUMMARY OF AMENDMENTS

The April 1, 2009, amendments do the following:

- remove language that would apply California early withdrawal penalty exception to transactions and taxable years as applicable for federal purposes.
- add language that specifically provides the early withdrawal penalty exception would apply only to taxable years beginning on or after January 1, 2010.

The amendments also resolved the technical consideration discussed in the bill as introduced January 8, 2009, by deleting language that is duplicative of existing law.

Board Position:	Legislative Director	Date
_____ S	Brian Putler	04/09/09
_____ NA		
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_____ NAR		
<input checked="" type="checkbox"/> PENDING		

As a result, the “Effective/Operative Date,” “This Bill,” and “Economic Impact” sections of the analysis have been revised. The remainder of the department’s analysis of the bill as introduced January 8, 2009, still applies.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically apply to taxable years beginning on or after January 1, 2010.

ANALYSIS

This Bill

This bill would conform California law to the PPA provision that provides an exception to the 10% early withdrawal tax for retirement payments made to a public safety employee (i.e. firefighters) who separates from service after age 50.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, this bill would result in the following revenue losses. The bill would be operative for taxable years beginning on or after January 1, 2010.

Estimated Revenue Impact for AB 104 Effective for Taxable Years BOA 1/1/10		
2009-2010	2010-2011	2011-2012
-\$90,000	-\$200,000	-\$200,000

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

Revenue Discussion

Estimates are based on a proration of federal revenue projections developed for the Pension Protection Act of 2006, adjusted to reflect California differences.

As amended April 1, 2009, the revenue impact of waiving the early withdrawal penalty would be determined by the amount of penalties forgone on applicable distributions that would be taken annually on or after January 1, 2010.

California data regarding eligible distributions is not readily available. However, eligible distributions would be treated the same for both federal and California tax purposes, except for the amount of the penalty. Federal revenue projections are prorated to California and adjusted for the difference in penalty percentages. Amounts prorated to California are adjusted to reflect that the California penalty is 25% of the federal penalty (California 2.5% penalty divided by the federal 10% penalty = 25%). It is assumed that California's share of eligible distributions is approximately 13%.

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