Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Niello, et al.	Analyst:	Scott McFarlane	Bill Number:	AB 111
Related Bills:	See Prior Analysis	Telephone:	845-6075	Amended Date:	March 31, 2009
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Mortgage Forgiveness Debt Relief Extension

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended __________________.

_X_ 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 ____________________.

_X_ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED MARCH 5, 2009, STILL APPLIES.

_X_ OTHER – See comments below.

SUMMARY

This bill would allow a taxpayer who had all or part of the loan balance on their principal residence forgiven by their lender in 2009, 2010, 2011, or 2012 to exclude up to a maximum of $2,000,000 from gross income.

SUMMARY OF AMENDMENTS

The March 31, 2009, amendments eliminated the California modifications for conformity to federal law; thus, this bill would provide the same exclusion from gross income that's allowed under federal law.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to provide financial relief to distressed homeowners and to provide an incentive for homeowners to refinance indebtedness instead of seeking foreclosure.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	04/24/09
____ N	____ OUA	_X_ PENDING		

EFFECTIVE/OPERATIVE DATE

As a tax levy, the bill would be effective immediately and would be operative for taxable years beginning on or after January 1, 2009.

THIS BILL

This bill would provide an exclusion from gross income of up to $2 million for any discharge-of-indebtedness income (i.e. COD income) by reason of a discharge of qualified principal residence indebtedness. The exclusion would apply to discharges occurring in 2009, 2010, 2011, or 2012.

POSITION

Pending.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, this bill would result in the following revenue losses:

Estimated Revenue Impact of AB 111 as Amended March 31, 2009 Effective for Taxable Years 2009, 2010, 2011 and 2012 Enactment Assumed After June 30, 2009 $ in Millions		
2009-10	2010-11	2011-12
-$9.4	-$8.7	-$6.7

This analysis 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 qualified principal residence indebtedness discharged and the marginal tax rate of taxpayers otherwise reporting this income.

The revenue loss is estimated as follows. First, federal estimates by the Joint Committee on Taxation are converted to liability (tax) year estimates ($233.9 million, $201.5 million, $140.6 million and $86.8 million for 2009, 2010, 2011 and 2012, respectively). Second, the federal liability amount is prorated to California using proration factor of 4.3 percent for 2009 and 2010, 4.7 percent for 2011, and 5.1 percent for 2012. These proration factors are calculated using four factors: (1) the ratio of California foreclosure to foreclosures nationally using data from RealtyTrac (26 percent); (2) the ratio of median house price in California to median price nationally (123 percent), calculated using data from National Association of Realtors and California Association of Realtors; (3) the ratio of qualified taxpayers in California to qualified taxpayers nationally (43 percent for 2009 and 2010 tax years and 47 percent for tax year 2011 and 51 percent for tax year 2012), which was calculated based on assumed differences in percentage of foreclosures involving insolvency, non-recourse loans and non-qualified recourse loans; and, (4) the California average marginal tax rate as a percent of the federal average marginal tax rate (31 percent).

The proration percentages are determined as follows:

- 0.043 = 0.26 x 1.23 x 0.43 x 0.31 for 2009 and 2010
- 0.047 = 0.26 x 1.23 x 0.47 x 0.31 for 2011
- 0.051 = 0.26 x 1.23 x 0.51 x 0.31 for 2012

The revenue loss estimates are determined as follows:

- 2009 tax year: 0.043 x $234 million = $10.1 million
- 2010 tax year: 0.043 x $202 million = $8.7 million
- 2011 tax year: 0.047 x $141 million = $6.6 million
- 2012 tax year: 0.051 x $87 million = $4.4 million

Taxable-year estimates are converted to fiscal-year estimates and rounded up in the table above.

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