

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Leno Analyst: Deborah Barrett Bill Number: SB 10
Related Bills: See Legislative History Telephone: 845-4301 Introduced Date: December 1, 2008
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Voter Approved Local Assessment Deduction/FTB Report To Department Of Motor Vehicles Amount Of Revenue Loss Incurred By The State

SUMMARY

This bill would require the Franchise Tax Board (FTB) to report to the Department of Motor Vehicles (DMV) the estimated revenue loss as a result of deductions taken by residents of any county that has passed a voter approved local vehicle assessment.

This bill also contains provisions for the imposition of a voter approved local assessment, which do not impact FTB and are not discussed in this analysis.

PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to give the voters of Counties options to increase funding for public services.

EFFECTIVE/OPERATIVE DATE

This bill would become effective January 1, 2010, and would become operative as specified when a majority of residents of a county approve an ordinance passed by the Board of Supervisors imposing the assessment. If the election in which the ordinance receives voter approval occurs between January 1 and June 30, the bill would be operative on the next January 1 that follows that election. If the election in which the ordinance receives voter approval occurs between July 1 and December 31, the bill would be operative on the next July 1 that follows the election.

POSITION

Pending.

ANALYSIS

STATE LAW

Current state law imposes a Vehicle License Fee (VLF) on its residents for the privilege of operating a vehicle on public highways. Currently, the fee is calculated at .65% of the market value of a vehicle and is assessed annually. Counties currently receive an allocation from the General Fund that represents the difference between the current VLF rate and the rate that was in place in 2003, when the Governor rolled back the VLF rate statewide.

Board Position:

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Department Director

Date

Selvi Stanislaus

04/01/09

Existing federal and state law allows individuals to deduct certain expenses, such as medical expenses, charitable contributions, interest, and certain state or local taxes paid as itemized deductions. The VLF imposed by a state or local entity is considered a personal property tax that can be deductible for individuals as a personal property tax on the federal Schedule A for itemized deductions. For business entities, the VLF can be deducted as a business expense for vehicles used in the business.

THIS BILL

This bill would enact the Local Assessment Act, which would authorize any county, including the City and County of San Francisco, to impose, upon voter approval, a local assessment on specified vehicles of residents of the county.

This bill would require a county to contract with DMV for the administration and collection of the assessment. This bill would require DMV, on a quarterly basis, to provide FTB with the aggregate total amount of local assessments paid by residents of each county that has enacted the local vehicle assessment. This bill would define terms such as “board of supervisors,” “county,” “department,” “market value,” “person,” and “voter-approved local assessment.”

This bill would require that on or before January 1 of the second year after the tax is imposed, FTB must report to DMV an estimate of the revenue loss to the state for the prior year resulting from deductions taken under the Personal Income Tax Law and the Corporation Tax Law for taxes paid or incurred as a result of the assessment.

This bill would require DMV to transmit an amount equal to the revenue loss to the state from the vehicle assessments collected for deposit into the General Fund. This bill would also authorize a county to impose a lesser assessment for vehicles with a lesser carbon footprint.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department’s programs or operations.

LEGISLATIVE HISTORY

AB 1590 (Leno, 2008) carried similar provisions as this bill, but was limited to the City and County of San Francisco. This bill was held in the Senate Revenue and Taxation Committee.

AB 799 (Leno, 2005/2006) would have required the FTB to report the estimated amount of revenue loss to the state as a result of increased itemized deductions taken by residents of the County for a local VLF. This bill was vetoed by Governor Schwarzenegger whose veto message can be found in Appendix A of this analysis.

AB 1208 (Yee, 2005) would have imposed an additional VLF on the residents of the City and County of San Francisco for the purpose of funding maintenance and improvement of roads. This fee would have been a flat fee per registered vehicle. This bill was vetoed by Governor Schwarzenegger whose veto message can be found in Appendix A of this analysis.

AB 1690 (Leno, 2003/2004) would have given FTB the authority to administer and collect a local income tax approved by the voters. This bill had provisions regarding public safety finance agencies and property taxes. AB 1690 was held in the Senate Appropriations Committee.

AB 1187 (Leno, 2003/2004) contained similar language that would have permitted the City and County of San Francisco to impose, upon voter approval, a local vehicle license fee. AB 1187 failed passage out of the Assembly Appropriations Committee.

OTHER STATES' INFORMATION

The states reviewed 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. There does not appear to be any comparable statutes with respect to a local vehicle license fee in these states.

FISCAL IMPACT

The bill would require FTB to provide an estimate of the revenue loss attributable to deduction taken by residents of the County for payment of the local assessment. The department's costs are expected to be minor.

ECONOMIC IMPACT

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

Estimated Revenue Impact of SB10 As Introduced 12/01/08 (\$ in Millions)					
	2009-10	2010-11	2011-12	2012-13	2013-14
Deduction			-\$180	-\$190	-\$190
Reimbursement				+\$180	+\$190
Net	No impact	No impact	-\$180	-\$10	\$0

Estimates assume all counties, including the City and County of San Francisco, would begin imposing a VLF fee on January 1, 2011. Based on this assumption, the proposed local fee would begin to be deducted on the 2011 income tax returns that are filed in 2012.

Tax Revenue Discussion

The revenue impact of this bill would be determined by the amount of additional vehicle license fees deducted on income tax returns and the tax rates of taxpayers deriving a tax deduction benefit.

The Department of Finance's estimate of VLF remittances was utilized to determine the estimated vehicle values in 2011 of \$349 billion. As calculated in an enacted bill, ABX3 (Stats. 2009, Ch. 18), the state VLF was calculated at a rate of 1.15% of the vehicle value for the first six months of 2011. This rate is reduced to .65% of the vehicle value on July 1, 2011. (Proposition 1A on the May 19, 2009, special election ballot, would extend the 1.15% rate through June 30, 2013.)

This estimate assumes each county would raise the local VLF to the maximum 2% of the vehicle value beginning in 2011. Assuming a local VLF of .85% for January through June of 2011 (2% maximum less 1.15 state VLF) and 1.35% from July 1, 2011, and subsequent years (2% maximum less .65% state VLF) would generate a total local VLF of \$3.84 billion (\$349 billion x .85 % VLF x 6/12 months = \$1.48 billion plus \$349 billion x 1.35% VLF x 6/12 months = \$2.36 billion). If 50% of the \$3.84 billion would result in a tax deduction benefit to personal income and corporate taxpayers, then applying a 7% tax rate yields a loss of approximately \$134 million (\$3.84 billion x 50% x 7%).

Taxable year estimates are converted to fiscal year cash flow estimates in the table above. Deduction estimates reflect a reduction in tax liability and estimated payments for subsequent taxable years.

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Appendix A
To SB 10

BILL NUMBER: AB 799
VETOED DATE: 09/22/2006

To the Members of the California State Assembly:

I am returning AB 799 without my signature.

Within hours of taking office in 2003, I signed an Executive Order to reverse the car tax increase. That action returned \$4 billion to the people of California. Putting that money back into the hands of hard working Californians is one of the ways we have helped our economy grow over the last three years.

This measure would, in effect, reinstate the car tax for the people of San Francisco. In fact, if the vehicle license fee increase proposed by this bill were enacted, the people of San Francisco could pay more than twice the amount to register their vehicles than anyone else in the state.

As noted in my veto messages of prior years, I am not opposed to modest increases in fees if such increases are approved by the impacted voters and not addressed in a piecemeal fashion. Although this bill requires voter approval, it impacts only one county. In addition, the revenues generated by this bill would not be directed to projects related to vehicles but used to bolster the city's general fund. This is an unfair burden to place solely on the shoulders of motorists.

Throughout the year, my administration worked with members of the legislature on a proposal that would have given all counties the authority to adopt, with voter approval, modest license fee add-ons to fund environmental and traffic mitigation programs. Unfortunately, those efforts were ultimately rejected. I encourage the Legislature to reconsider this decision when they return next year.

Sincerely,

Arnold Schwarzenegger

BILL NUMBER: AB 1208
VETOED DATE: 10/07/2005

To the Members of the California State Assembly:

I am returning Assembly Bill 1208 without my signature.

This bill seeks to impose a new \$5 tax on all cars in Santa Clara County and does so without a two-thirds vote of the people. While the goal of the program to increase funds for transportation infrastructure is laudable and vitally needed, I do not believe these fees should continue to be added without the approval from the people upon whom the fee is imposed.

In this years budget, I proposed the full funding of Proposition 42 for the first time since its passage in 2002. The additional \$1.3 billion from Proposition 42 is just a fraction of the funds needed to relieve Californias congested freeways and improve our roadways. Finding new funds for Californias fractured infrastructure is a top priority; however, this piecemeal approach that does not allow for a vote of the people is not the right way to accomplish the goal.

For these reasons, I cannot support this measure.

Sincerely,

Arnold Schwarzenegger