

Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Butler Analyst: Janet Jennings Bill Number: AB 1044
Related Bills: See Legislative History Telephone: 845-3495 Introduced Date: February 18, 2011
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Registered Warrants/Tax Liabilities

SUMMARY

This bill would allow holders of registered warrants to remit the warrants for payment of their tax liability with the Franchise Tax Board (FTB) or the State Board of Equalization (BOE).

This analysis only addresses the provisions of this bill that impact the department’s programs and operations.

RECOMMENDATION AND SUPPORTING ARGUMENTS

No position.

PURPOSE OF THE BILL

According to the author’s office, the purpose of the bill is to require the FTB and the BOE to accept a registered warrant, at face value for the payment of any obligation owed to that agency by the warrant holder.

EFFECTIVE/OPERATIVE DATE

This bill would become effective January 1, 2012, and would be operative as to registered warrants remitted as payment of obligations on and after that date.

ANALYSIS

STATE LAW

Generally, under state law, the Controller is responsible for issuing warrants drawn from the General Fund for payment of obligations of the state. In instances where the amount payable out of the General Fund is in excess of the balance remaining in the General Fund after deducting amounts earmarked or reserved for payment by law, the Controller can issue a “registered warrant.”

Board Position:	Executive Officer	Date
_____ S		
_____ SA	Geoff Way	04/01/11
_____ N	For Selvi Stanislaus	
_____ NA		
_____ O		
_____ OUA		
___ X ___ NP		
_____ NAR		

A registered warrant is a warrant that carries the State's promise to pay the bearer the amount shown on the warrant, plus interest. There are two types of registered warrants:

1. Registered warrants bearing a redemption date prescribed on the warrant, usually within one year of the date of issuance. Interest accumulates on this type of registered warrant at the rate determined by the Pooled Money Investment Account. A registered warrant that bears a redemption date is paid by the Treasurer upon that date with interest out of any unapplied money in the General Fund.
2. Registered warrants not bearing a redemption date are paid with interest when the Controller determines, with the approval of specified members of the Legislature¹, that money in the General Fund is sufficient to cover the debts. Upon approval, the Controller notifies the Treasurer of the numbers of the warrants that are to be paid.

Under state law, if a taxpayer has a California personal income or corporate tax liability and is a payee named in a registered warrant, the taxpayer may pay the tax liability, in whole or in part, either by submitting the registered warrant to the FTB or by remitting a copy of the registered warrant together with a check in an amount not to exceed the amount of the registered warrant. State law provides that the check may not be presented for payment by the state or paid by the bank until the registered warrant is redeemable upon its presentation to the Treasurer. These provisions apply only if the check is presented with a copy of the registered warrant.

BACKGROUND

For a registered warrant not bearing a redemption date, current law is silent on whether submitting the warrant for payment on an FTB account before it is redeemable shall include interest accrued. During 2009, the FTB administratively accepted registered warrants not bearing a redemption date as follows:

- If the registered warrant was submitted before the redemption date, it was credited at face value, with no accrued interest, or
- If the registered warrant was submitted after the redemption date, it was credited at face value, plus accrued interest.

THIS BILL

This bill would do the following:

1. Allow a taxpayer that receives a registered warrant not bearing a redemption date the following options:
 - Submit the registered warrant for payment at face value, with no accrued interest, on their FTB account if submitted before the redemption date, or
 - Submit the registered warrant for payment at face value, plus accrued interest, on their FTB account if submitted on or after the redemption date.
2. Delete the provision in existing law that directs taxpayers wishing to use a registered warrant for payment of a tax debt to submit a copy of their registered warrant along with a check to the tax authority.

¹ The committee consists of the Chair and Vice Chair of the Assembly and Senate Budget and Fiscal Review Committees, the Chair and Vice Chair of the Assembly and Senate Appropriations Committees.

IMPLEMENTATION CONSIDERATIONS

The department currently accepts registered warrants as payment for tax liabilities; as a result, implementing this bill would not impact the department's programs and operations.

LEGISLATIVE HISTORY

SB 11 (Anderson, 2011/2012) would prohibit a state entity from assessing a fine, interest, or penalty on a debt owed to the state for the payee of a registered warrant if the debt owed to the state was imposed between January 1, 2006, and December 31, 2009, and would change the due date of a state debt to 30 days after the payable date of registered warrants. SB 11 is unlike AB 1044 in that AB 1044 adds the BOE as a state agency that accepts warrants. This bill was referred to the Senate Committee on Governmental Organization on January 20, 2011.

SB 506 (Simitian, 2011/2012) would provide a procedure for a beneficial owner of a state bond who receives a registered warrant to utilize the warrant to pay an FTB liability and would recast the interest provisions. This bill was referred to the Senate Rules Committee on February 17, 2011.

AB 1506 (Anderson, 2009/2010) would have required state agencies to accept a registered warrant for payment of any state obligation. This bill was vetoed September 30, 2010, by Governor Schwarzenegger, stating that requiring state departments to accept IOUs in lieu of cash payments defeats the purpose of issuing IOUs.

OTHER STATES' INFORMATION

A comparison with other states would not be meaningful for this bill because only California has issued registered warrants.

FISCAL IMPACT

This bill would not impact the department's costs.

ECONOMIC IMPACT

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

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Pro: Allowing taxpayers to pay their FTB debts, up to the amount of the registered warrant, would stop the accrual of interest on the taxpayer's FTB debt.

Con: Requiring state departments to accept registered warrants in lieu of cash payments could defeat the purpose of issuing IOUs.

LEGISLATIVE STAFF CONTACT

Janet Jennings

Legislative Analyst, FTB

(916) 845-3495

janet.jennings@ftb.ca.gov

Brian Putler

Legislative Director, FTB

(916) 845-6333

brian.putler@ftb.ca.gov