

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Nestande Analyst: Janet Jennings Bill Number: AB 2320

Related Bills: None Telephone: 845-3495 Amended Date: April 19, 2012

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: FTB & BOE Study And Deliver Report To Legislature Regarding Cost Of Administering And Revenue Lost By California's Economy Due To Complex Tax System

SUMMARY

This bill would require the Franchise Tax Board (FTB) and the Board of Equalization (BOE) to jointly prepare a report detailing the costs to the state and to taxpayers as a result of the tax programs administered under the Revenue and Taxation Code, and the estimated revenue loss to California's economy attributed to utilizing the current tax system versus a flat tax.

RECOMMENDATION

No position.

Summary of Amendments

The April 19, 2012, amendments removed all of the bill's provisions related to postsecondary education, and replaced them with the provisions discussed in this analysis. This is the department's first analysis of the bill. This analysis only addresses the provisions of this bill that impact the department's programs and operations.

REASON FOR THE BILL

It appears the reason for this bill is to provide information to the Legislature so that they can evaluate the costs of the current tax system in order to determine whether the current system is more favorable than a flat tax system.

EFFECTIVE/OPERATIVE DATE

This bill would become effective and operative January 1, 2013.

ANALYSIS

STATE LAW

State law requires the Department of Finance (DOF) to provide an annual report to the Legislature on tax expenditures, providing details on individual categories of the expenditures and historical information on the enactment and repeal of the expenditures. In addition, the FTB is required under specified statutes to provide information on certain tax expenditure programs.

Board Position:

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Executive Officer

Date

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State law requires the DOF to develop, issue, and implement consistent and adequate guidelines for state agencies to follow when submitting budgets. The guidelines must ensure the following:

- The budgets are reflective of an agency's activities;
- The budgets are reflective of the costs that are associated with their execution; and
- The budgetary presentation is designed to display expenditures based on various goals or objectives when a program budget format is used.

DOF, in cooperation with the Legislature, must develop a format for state agencies to use when developing a program budget.

THIS BILL

This bill would require the FTB and the BOE to jointly conduct a study and deliver a report to the Legislature, before January 1, 2014, determining the following:

- The cost of the FTB and the BOE in administering their tax functions.
- The cost to taxpayers to comply with the Revenue and Taxation Code, administered by the FTB and the BOE.
- The amount of revenue being lost, if any, attributed to utilizing the current tax system versus a flat tax.

The provisions of this bill would be repealed on January 1, 2017.

IMPLEMENTATION CONSIDERATIONS

This bill uses the term "flat tax" that is undefined. The absence of definitions to clarify this term could lead to disputes with the report. Does the author intend flat tax to mean a reduction in the current number of tax brackets, elimination of the zero tax bracket, or an elimination of all tax expenditures, including deductions, exemptions and credits? The author should amend the bill to define the meaning of "flat tax".

PROGRAM BACKGROUND

Governor Schwarzenegger's Executive Order S-15-09 mandated the bipartisan Commission on the 21st Century Economy to re-examine and modernize California's out-of-date revenue laws that contribute to feast-or-famine state budget cycles.

This report contains recommendations that would overhaul the state's tax structure, bringing it up-to-date with California's economy today. The recommendations include a significant reduction in personal income tax rates for all income groups, elimination of the state sales tax, changes to taxes on commerce, a strengthened rainy day fund and a new tax dispute forum. For more information on the report or for the full recommendations, visit: www.cotce.ca.gov.

FISCAL IMPACT

This bill would require the utilization of the departments Economic and Statistical Research Bureau staff to compile and complete the report. By itself, enactment of this bill would not significantly impact the department. However, if this and other proposed legislation impacting this bureau were enacted, such as AB 2638 (Eng) 2011-2012; the staffing resources may not be sufficient to meet both mandates. Administrative costs for temporary or contracted economists have not been determined at this time. As the bill continues to move through the legislative process, costs will be identified and an appropriation will be requested, if necessary.

ECONOMIC IMPACT

This bill would not impact state income tax revenues.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Would argue the report is necessary to determine if a flat tax would better serve the taxpayer's and government of California

Opponents: Would argue that in light of the current economic climate another study on the issue of flat tax verses the current tax system is a waste of limited resources.

LEGISLATIVE STAFF CONTACT

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