

SUMMARY ANALYSIS OF AMENDED BILL

Author: Portantino Analyst: Scott McFarlane Bill Number: AB 558
 Related Bills: None Telephone: 845-6075 Amended Date: May 18, 2011
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Economic Hardship Exception to the Additional Tax on Early Distributions from Certain Retirement Plans

SUMMARY

For individuals who have exhausted their unemployment benefits, this bill would provide a temporary exception to the 2½-percent additional tax that is imposed on early distributions from certain retirement plans.

RECOMMENDATION AND SUPPORTING ARGUMENTS

No position.

SUMMARY OF AMENDMENTS

The May 18, 2011, amendments resolved the technical and policy concerns that were identified in the department’s analysis of the bill as introduced on February 16, 2011.

As a result of the amendments, the “THIS BILL,” “ECONOMIC IMPACT,” and “ARGUMENTS” sections have been revised, and the “TECHNICAL CONSIDERATIONS” and “POLICY CONCERNS” sections no longer apply. The remainder of the department’s analysis of the bill as introduced February 16, 2011, still applies.

THIS BILL

For individuals who exhaust their unemployment benefits, this bill would provide a temporary exception to the 2½-percent additional tax that is imposed on early distributions from individual retirement arrangements, qualified retirement plans, tax-sheltered annuities, and qualified annuity plans. The exception would generally apply to distributions of up to \$25,000 that are received in 2011 or 2012.¹

¹ The exception would apply to the first \$25,000 distributed to an individual in taxable years beginning on or after January 1, 2011, and before January 1, 2013.

Board Position:	Legislative Director	Date
_____ S _____ NA <u> X </u> NP _____ SA _____ O _____ NAR _____ N _____ OUA	Brian Putler	06/09/11

ECONOMIC IMPACT

Estimated Revenue Impact of AB 558 As Amended May 18, 2011 Assumed Enactment After June 30, 2011		
2011-12	2012-13	2013-14
-\$3,000,000	-\$800,000	\$0

ARGUMENTS

Pro: Proponents would argue that this bill would provide tax relief to individuals who take early distributions from their retirement accounts because their unemployment benefits are exhausted.

Con: Opponents would argue that this tax exception would have little impact on an individual's decision to take an early withdrawal from a retirement account because the federal 10-percent early-withdrawal tax would generally still apply.

LEGISLATIVE STAFF CONTACT

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