BILL ANALYSIS

Department, Board, Or Commission	Author	Bill Number/Version Date
Franchise Tax Board	**Wolk**	**SB 0508**

SUBJECT

Tax Credits/Add 10 Year Sunset

SUMMARY

This bill would create requirements for bills introduced on or after January 1, 2012, that would create a new tax credit.

PURPOSE OF BILL

According to the legislative findings in this bill, it is the Legislature's intent to provide the same level of review and performance measure that is applied to spending programs to tax preference programs, including tax credits.

EFFECTIVE/OPERATIVE DATE

This bill would become effective on January 1, 2012, and would be specifically operative for any bill introduced on or after January 1, 2012, that would create a new tax credit.

ANALYSIS

FEDERAL/STATE LAW

Existing state and federal laws provide various tax credits and other tax benefits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These benefits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Existing federal and State law are silent with regard to requiring tax credit bills to include specific goals, purposes, and objectives, performance measures, or a sunset date.

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THIS BILL

This bill would require bills introduced on or after January 1, 2012, that would create a new tax credit under the Personal Income Tax Law or the Corporation Tax Law, to contain language that would specify:

- The specific goals, purposes, and objectives the new tax credit will achieve (e.g., a jobs credit that would provide an incentive for a company to hire a certain demographic);
- Detailed performance measures for the Legislature to use to measure whether the tax credit meets the goals, purposes, and objectives in the bill. For example, in the case of a jobs credit bill, performance measures could include the increase in the number of jobs available, or the number of individuals that would be targeted for employment;
- Data collection and reporting requirements that would allow the Legislature to evaluate whether the credit is meeting, failing to meet, or exceeding its goals, purposes, and objectives, including baseline data, to be collected and remitted in each year the credit is effective for the Legislature to measure the change in performance indicators, and the specific taxpayers, state agencies, or other entities required to collect and remit data; and
- The credit would cease to be operative no later than ten taxable years after its effective date and would be repealed as of January 1 of the year following the end of the operative period.

LEGISLATIVE HISTORY

SB 1272 (Wolk, 2009/2010) would have required bills introduced on or after January 1, 2011, that would create a new tax credit to include specific goals, purposes, and objectives of the credit; performance measures for the credit; data collection and remittance requirements; and language that would repeal the credit after seven years. With the exception of the effective and operative dates, this bill is essentially identical to SB 1272. SB 1272 was vetoed on September 23, 2010, by Governor Schwarzenegger.

ACA 6 (Calderon, 2009/2010) would have amended the State’s constitution to, among other things, limit the operative period to seven years from the date of the enactment of a new or amended tax credit. ACA 6 failed to pass out of the first house by the constitutional deadline.

AB 831 (Parra, 2007/2008) would have required any legislative measure creating a new tax expenditure or extending the operation of an existing tax expenditure to include a repeal of the expenditure in a manner that reflects the needs and conditions of the proposed expenditure. This bill failed to pass out of the Senate Revenue and Taxation Committee.

OTHER STATES’ INFORMATION

The states surveyed 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.

Under *Illinois* law, every exemption, credit, and deduction against tax shall be limited by a reasonable and appropriate sunset date. Absent a specified reasonable and appropriate sunset date, a five-year sunset date shall apply.

No performance measuring requirements or required sunset dates comparable to those proposed by this bill were found for *Florida, Massachusetts, Michigan, Minnesota*, or *New York*.

FISCAL IMPACT

Because this bill would add requirements for future bills, no departmental costs are associated with this bill.

ECONOMIC IMPACT

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

APPOINTMENTS

None.

SUPPORT/OPPOSITION[1]

SUPPORT: California Labor Federation

OPPOSITION: BIOCOM
California Bankers Association
California Chamber of Commerce
California Taxpayers Association
California Aerospace Technology Association
California Manufacturers Association
TechAmerica

VOTES

Concurrence	08/30/11	Y: 21 N: 16
Assembly Floor	08/29/11	Y: 45 N: 30
Senate Floor	04/25/11	Y: 23 N: 17

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[1] As reported by the Senate Floor Analysis dated August 30, 2011 at <http://www.leginfo.ca.gov/pub/11-12/bill/sen/sb_0501-0550/sb_508_cfa_20110830_093158_sen_floor.html> [as of August 31, 2011].