

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Medina Analyst: Michelle Chan Bill Number: AB 825
Related Bills: See Legislative History T. elephone: 845-6805 Introduced Date: February 21, 2013
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: New Jobs Credit/Expand to Taxpayers that Employ 50 or Fewer Employees

SUMMARY

This bill would modify the New Jobs Tax Credit to increase the availability of the credit from employers with 20 or fewer employees to employers with 50 or fewer employees.

RECOMMENDATION

No position.

REASON FOR THE BILL

The reason for this bill is to stimulate job creation by offering a hiring incentive to businesses that have the ability to employ new workers and expand their current workforce.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2013.

ANALYSIS

STATE LAW

Current California law allows a New Jobs Tax Credit for taxable years beginning on or after January 1, 2009, for a qualified employer in the amount of \$3,000 for each increase in the number of qualified full-time employees hired in the taxable year, determined on an annual full-time equivalent basis.¹ A qualified employer is one that employs 20 or fewer employees. The credit has a cap of \$400 million for all taxable years. The Franchise Tax Board (FTB) is responsible for determining the cut-off date (the last day of the quarter in which the \$400 million cap will be reached), after which claims for the credit will no longer be allowed. The credit statute remains in effect until December 1 of the calendar year after the year in which the cumulative credit limit has been reached and is repealed as of that date. Any credits not used in the taxable year may be carried forward up to eight taxable years.

¹ ABX3 15 (Stats. 2009, Ch. 10) and SBX3 15 (Stats. 2009, Ch. 17)

Board Position:

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Executive Officer

Date

Selvi Stanislaus

4/5/13

THIS BILL

For taxable years beginning on or after January 1, 2013, this bill would modify the definition of a qualified employer, under the New Jobs Tax Credit provisions, as employing 50 or fewer employees as of the last day of the preceding taxable year.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would occur during the department's normal annual update.

LEGISLATIVE HISTORY

AB 234 (Weickowski, 2011/2012) would have modified the current New Jobs Tax Credit to: (1) increase the types of employers that qualify for the credit, (2) modify the amount of the credit to either \$4,500 or \$9,100, and (3) change the definition of qualified employee to one that was unemployed for at least 30 days immediately prior to being hiring. AB 234 failed passage out of the Assembly by the constitutional deadline.

AB 1195 (Allen, 2011/2012) would have modified the current New Jobs Tax Credit to increase the allowance of the credit from employers with less than 20 employees to employers with 50 or fewer employees. AB 1195 was held in the Senate Appropriations Committee.

AB 1596 (Cook, 2011/2012) would have modified the New Jobs Tax Credit to increase the availability of the credit from employers with less than 20 employees to employers with 50 or less employees. AB 1596 was held in the Assembly Revenue and Taxation Committee.

ABX3 15 (Krekorian, Chapter 10, Statutes of 2009) and SBX3 15 (Calderon, Chapter 17, Statutes of 2009) created the New Jobs Tax Credit to provide for a tax credit of \$3,000 for each full-time equivalent increase over the prior year.

PROGRAM BACKGROUND

As of March 4, 2013, the total Personal Income Tax and Business Entity returns claiming the New Jobs Tax Credit was 24,345, and the amount of credits claimed was \$142.4 million. The cut-off date will be the last day of the calendar quarter within which the FTB estimates it will have received timely filed original returns claiming the credit that cumulatively total \$400 million.

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.

Florida, Illinois, Michigan, Minnesota, and New York do not provide a credit similar to the New Jobs Tax Credit.

Massachusetts allows a Full Employment credit to employers who participate in the Full Employment Program and continue to employ a participant for at least one full month. The taxpayer may claim a credit of \$100 per month of eligible employment per participant, up to \$1,200 per participant.

FISCAL IMPACT

This bill would require modification of existing forms and instructions used to calculate and report the New Jobs Tax Credit. These changes could be incorporated into the department's annual changes, and as such, the costs would be minor.

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact of AB 825 For Taxable Years Beginning On or After January 1, 2013 Assumed Enactment After June 30, 2013 (\$ in Millions)		
2013-14	2014-15	2015-16
-\$50.0	-\$7.1	-\$4.5

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

SUPPORT/OPPOSITION²

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Some may say that this bill would increase the usage of the New Jobs Tax Credit and provide tax relief to small businesses.

Opponents: Some may say that the New Jobs Tax Credit is an insufficient incentive to expand employment while the economic recovery remains fragile.

LEGISLATIVE STAFF CONTACT

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² As reported on the Legislative Counsel's website at < <http://www.leginfo.ca.gov/cgi-bin/postquery> > [as of April 2, 2013].