BILL ANALYSIS

Department, Board, Or Commission	Author	Bill Number
Franchise Tax Board	**Committee on Budget and Fiscal Review**	**SB 836**

SUBJECT: Advanced Strategic Aircraft Credit

SUMMARY

This bill would, among other things, modify the operative date for the Advanced Strategic Aircraft Credit, under the Corporation Tax Law (CTL).

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

REASON FOR THE PROVISION

The reason for this provision is to allow those taxpayers involved in the Advanced Strategic Aircraft Credit to claim the tax credit for the entire 15 years of the project by modifying the operative date.

EFFECTIVE/OPERATIVE DATE

As a bill with an appropriation related to the budget and identified as related to the budget in the Budget Bill, this bill would be effective immediately upon enactment. The provision in the bill related to the Advanced Strategic Aircraft Credit would modify the specific operative date from taxable years beginning on or after January 1, 2015, and before January 1, 2030, to taxable years beginning on or after January 1, 2016, and before January 1, 2031.

STATE LAW

Existing state and federal laws provide various tax credits 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 credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Current state law provides an Advanced Strategic Aircraft Credit for taxable years beginning on or after January 1, 2015, and before January 1, 2030, in an amount equal to 17 ½ percent of qualified wages paid or incurred by a qualified taxpayer during the taxable year with respect to qualified full-time employees multiplied by an annual full-time equivalent ratio. A qualified taxpayer means any taxpayer that is a major first-tier subcontractor awarded a subcontract to manufacture property for ultimate use in, or as a component of, a new advanced strategic aircraft for the United States Air Force.

THIS PROVISION

This provision would modify the operative date for the Advanced Strategic Aircraft Credit to taxable years beginning on or after January 1, 2016, and before January 1, 2031 (current law's operative date is for taxable years beginning on or after January 1, 2015 and before January 1, 2030). In addition, the repeal date would be changed from December 1, 2030, to December 1, 2031.

LEGISLATIVE HISTORY

SB 718 (Roth, et al., Chapter 189, Statutes of 2014) modified the Advanced Strategic Aircraft Credit to add specific requirements on who can claim the credit and how the credit is calculated.

AB 2389 (Fox, et al., Chapter 116, Statutes of 2014) created the Advanced Strategic Aircraft Credit that provides qualified employers a tax credit for certain wages paid to employees that work on an advanced strategic aircraft.

OTHER STATES' INFORMATION

Review of *Illinois, Florida, Massachusetts, Michigan*, *Minnesota*, and *New York* laws found no comparable tax credits. These states were selected and reviewed due to their similarities to California's economy, business entity types, and tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

This provision would shift the operative date for the Advanced Strategic Aircraft Credit from the 2015 taxable year to the 2016 taxable year. Due to delays in the program, credits were not awarded in the 2015 taxable year. The provisions would not have a fiscal impact until the 2020 taxable year. Current law allows for $25 million in credits for each calendar year for the first five years, $28 million in credits for each calendar year for the next five years, and $31 million in credits for each calendar year for the last five years. By shifting the operative date under this provision, 2020 would become the fifth rather than the sixth year of the program, therefore, the credit available for 2020 would be reduced from $28 million to $25 million, resulting in a $3 million revenue gain in that year.

Similarly, there would be a $3 million revenue gain in the 2025 tax year, which would now be the tenth year of the program, capped at $28 million, rather than the eleventh year, capped at $31 million. This shift in operative date would extend the operation of the program from 2029 to 2030, and would result in a $31 million revenue loss in tax year 2030.

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

APPOINTMENTS

None.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

VOTES

	Date	Yes	No
Concurrence	06/16/16	26	13
Assembly Floor	06/16/16	59	17
Senate Floor	04/14/16	25	11

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