Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Gaines	Analyst:	Davi Milam	Bill Number:	SB 891
Related Bills:	See Legislative History	Telephone:	845-2551	Amended Date:	March 15, 2016
		Attorney:	Bruce Langston	Sponsor	

SUBJECT: Standard Deduction/ Increase for Taxable Years Beginning on or After January 1, 2016

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), increase the amount of the standard deduction.

RECOMMENDATION

No position.

Summary of Amendments

The March 15, 2016, amendments removed the Commercial Code provisions relating to personal property leases and replaced them with the provisions discussed in this analysis.

This is the department's first analysis of the bill.

REASON FOR THE BILL

The reason for the bill is to provide tax relief and make residing in California more affordable.

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, 2016.

FEDERAL/STATE LAW

Existing state and federal laws allow taxpayers who do not elect to itemize their deductions for the taxable year to deduct from adjusted gross income a basic standard deduction amount in calculating their taxable income.

Both state and federal laws provide annual indexing of the standard deduction. The 2015 state standard deduction for single or married filing separate taxpayers is $4,044 and $8,088 for married filing joint, head of household, or qualifying widow(er).

THIS BILL

For taxable years beginning on or after January 1, 2016, this bill would, under the PITL, increase by 25 percent the amount of the standard deduction.

The standard deduction amounts under the terms of this bill would be:

Filing Status	Current Law 2015 Standard Deduction	Under this Bill 2016 Standard Deduction
Single, Married Filing Separate	$4,044	$5,055
Married, Head Of Household, Qualifying Widow(er)	$8,088	$10,110

The increased amounts would be adjusted annually for taxable years beginning on or after January 1, 2017.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems.

LEGISLATIVE HISTORY

SB 330 (Morrow, 2003/2004) would have doubled the amount of the standard deduction.
SB 330 failed to pass by the constitutional deadline.

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 does not have a personal income tax.

Illinois and *Massachusetts* tax laws do not allow a standard deduction.

Michigan tax law allows a standard deduction only to taxpayers who are 67 or older. For the 2015 tax year, the standard deduction is $20,000 for a single taxpayer, and $40,000 for married filing joint.

Minnesota tax law generally allows the same standard deduction as federal law. For the 2015 tax year, the federal standard deduction is $6,300 for single or married filing separate, $9,250 for head of household, and $12,600 for married filing joint and surviving spouse.

New York tax law allows a standard deduction. For the 2015 tax year, the standard deduction is $7,900 for single or married filing separate, $11,100 for head of household, and $15,850 for married filing joint and surviving spouse.

FISCAL IMPACT

The department's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 891 As Amended March 15, 2016 Assumed Enactment After June 30, 2016 ($ in Millions)		
2016-17	2017-18	2018-19
- $260	- $280	- $290

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

Revenue Discussion

Based on data from the FTB's personal income tax micro-simulation model, the aggregate amount of standard deduction claimed under current law and the amount that would be claimed under proposed law was calculated. The estimate includes those taxpayers who currently claim the standard deduction, and those taxpayers who would shift from claiming itemized deductions to claiming the increased standard deduction. The difference between the estimated impact of the 25 percent increase in the standard deduction was compared to the estimated impact of current law resulting in a $260 million revenue loss for 2016. This amount was then adjusted to reflect changes in the economy over time.

The tax year estimates are converted to fiscal year estimates, and then rounded and reflected in the above table.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Some may say that this bill would reduce the tax burden on California's working families, and thereby enhance the state's economy.

Opponents: Some may argue this bill would be overly broad and could be an expensive way to provide tax relief.

LEGISLATIVE STAFF CONTACT

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