SCS Agency
Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Runner | Analyst: Marion Mann DeJong | Bill Number: AB 1779

Related Bills: AB 390 (1997/98), AB 2361 (1995/96) | Telephone: (916) 845-6979 | Amended Date: 03/18/98

Attorney: Doug Bramhall | Sponsor:

SUBJECT: Joint Strike Fighter Program Credits

X DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 6, 1998.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended __________.

_____ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO _________________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 6, 1998, STILL APPLIES.

_____ OTHER - See comments below.

SUMMARY OF BILL

This bill would create a wage credit and property credit for the Joint Strike Fighter (JSF) program. These credits would apply to taxpayers under contract or subcontract to manufacture property for ultimate use in a JSF.

SUMMARY OF AMENDMENT

The March 18, 1998, amendments changed the operative date of the wage and property credits from taxable or income years beginning on or after January 1, 1998, to taxable or income years beginning on or after January 1, 2001. For purposes of the wage credit, the specified percentage of employee wages would be 50% for 2001, 40% for 2002, 30% for 2003, 20% for 2004 and 10% for 2005.

The amendments also make technical changes (recommended by the department) and remove the requirement that the State Auditor report to the Legislature regarding the JSF credits.

The amendments resolve the department's technical considerations raised in the analysis of the bill as introduced February 6, 1998. Except for the Effective Date, Technical Considerations, Tax Revenue Estimate, Legislatively Mandated Reports and Board Position, the department's prior analysis still applies.

DEPARTMENTS THAT MAY BE AFFECTED:

____ STATE MANDATE ____ GOVERNOR'S APPOINTMENT

Board Position:	Agency Secretary Position:	GOVERNOR'S OFFICE USE
____ S ____ O ____ SA ____ OUA ____ N _X_ NP ____ NA ____ NAR ________ PENDING	____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR DEFER TO ____________	Position Approved ____ Position Disapproved ____ Position Noted ____
Department/Legislative Director Date Johnnie Lou Rosas 3/31/98	Agency Secretary Date	By: Date:

EFFECTIVE DATE

As a tax levy, this bill would become effective immediately upon enactment. The bill specifies that the credits would apply to taxable or income years beginning on or after January 1, 2001, and before January 1, 2006.

TAX REVENUE ESTIMATE

Revenue losses for this bill over the initial three-year period are projected to be as follows:

Fiscal Year Cash Flow Impact $ Millions			
	2000-01	2001-02	2002-03
Property	(2)	(18)	(20)
Wages	(4)	(54)	(56)
Total	(6)	(72)	(76)

This analysis does not take into account any change in employment, personal income, or gross state product that may result from this bill becoming law.

TAX REVENUE DISCUSSION

This revenue estimate depends on the value of investment and wages paid in California as part of the JSF project. This estimate assumes that the credits could be claimed in the year in which the federal government disburses money under the JSF program and would be in addition to any other credits or deductions currently allowed for such expenditures. These credits would be available only for JSF contracts and subcontracts that specifically reflect the use of these credits in the bid.

These credits would apply to the Engineering and Manufacturing Development phase of the JSF program. Expenditures for this phase are expected to be $875 million in 2001 (*Joint Strike Fighter Program Master Plan 1996*). This estimate assumes that the same amount would be spent in each of the following years. The estimate assumes that approximately 70% of the work on the JSF project will be performed in California, this is based on information in *Department of Defense Press Releases* regarding contracts awarded under the concept demonstration phase of the JSF project.

Other assumptions include:

- 40% of all JSF contracts will be spent on qualified investments.

- 40% of all JSF contracts will be spent on wages of qualified employees. In addition, 40% of subcontracts for qualified investments would be spent on wages of qualified employees. However, since the credit is limited to $10,000 per employee, it is estimated that the wage credit would be approximately 25% of total wages in 2001. As the structure of the credit changes, the credit as a percentage of total wages declines to just under 105 by 2005.

- 50% of credits would be used in the year in which they are generated because of alternative minimum tax limitations. The numbers in the table reflect credits used.

BOARD POSITION

At its March 26, 1998, meeting the Franchise Tax Board considered this bill but took no position. Julie Bornstein, on behalf of Controller Kathleen Connell was neutral, Member Dean Andal was in support, and Robin J. Dezember, on behalf of Member Craig L. Brown, abstained.