

ANALYSIS OF ORIGINAL BILL

Author: Monteith Analyst: Kimberly Pantoja Bill Number: SB 1526

Related Bills: None Telephone: 845-4786 Introduced Date: 02/10/98

Attorney: Doug Bramhall Sponsor:

SUBJECT: Personal Income Tax Standard Deduction/Double Amount for Taxable Years On or After January 1, 1998

SUMMARY

Under the Personal Income Tax Law (PITL), this bill would double the amount of the standard deduction used in computing the income subject to tax.

EFFECTIVE DATE

This bill is a tax levy and would apply to taxable years beginning on or after January 1, 1998.

SPECIFIC FINDINGS

Existing state and federal laws allow individuals, 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.

Existing federal law allows additional standard deductions for aged and blind persons. California does not allow these deductions, but gives personal exemption credits for single and married individuals, heads of household, surviving spouses, and aged and blind persons.

Both **state and federal laws** provide annual indexing of the standard deduction. The 1997 state standard deduction for single or married filing separate taxpayers is \$2,583 and \$5,166 for married filing joint, head of household, or qualifying widow(er).

This bill would double the amount of the standard deduction used in computing the income subject to tax.

DEPARTMENTS THAT MAY BE AFFECTED:

STATE MANDATE

GOVERNOR'S APPOINTMENT

<p>Board Position:</p> <p><input type="checkbox"/> S <input type="checkbox"/> O</p> <p><input type="checkbox"/> SA <input type="checkbox"/> OUA</p> <p><input type="checkbox"/> N <input type="checkbox"/> NP</p> <p><input type="checkbox"/> NA <input type="checkbox"/> NAR</p> <p><input checked="" type="checkbox"/> X <input type="checkbox"/> PENDING</p>	<p>Agency Secretary Position:</p> <p><input type="checkbox"/> S <input type="checkbox"/> O</p> <p><input type="checkbox"/> SA <input type="checkbox"/> OUA</p> <p><input type="checkbox"/> N <input type="checkbox"/> NP</p> <p><input type="checkbox"/> NA <input type="checkbox"/> NAR</p> <p>DEFER TO _____</p>	<p>GOVERNOR'S OFFICE USE</p> <p>Position Approved <input type="checkbox"/></p> <p>Position Disapproved <input type="checkbox"/></p> <p>Position Noted <input type="checkbox"/></p>
<p>Department Director Date</p> <p>Gerald H. Goldberg 3/3/98</p>	<p>Agency Secretary Date</p>	<p>By: Date:</p>

Implementation Considerations

This bill may cause some head of household filers to have to file a 540 return due to the interaction of the alternative minimum tax requirements. However, even those taxpayers whose exemption credits are limited should receive a financial benefit.

Implementation of this bill would occur during the department's normal annual system update.

Technical Considerations

The filing threshold requirements need to be reevaluated because fewer taxpayers would have a tax liability because of the increased standard deduction, but may still wish to file to receive a refund on their withholding.

FISCAL IMPACT

Departmental Costs

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

Tax Revenue Estimate

Revenue losses are estimated to be:

Estimated Revenue Impact SB 1526 For Taxable Years Beginning 1/1/98 Enactment After 6/30/98 (In Millions)		
1998	1999	2000
(\$930)	(\$955)	(\$1,010)
Revenue Impact by Fiscal Years (In Millions)		
1998-9	1999-0	2000-01
(\$1,500)	(\$990)	(\$1,050)

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

Tax Revenue Discussion

Revenue losses under the Personal Income Tax Law would depend on the number of taxpayers who would have their tax reduced or eliminated by increasing the standard deduction as proposed.

The above estimates are based on the department's personal income tax model. These estimates allow for those taxpayers who would receive a larger deduction by claiming the enlarged standard deduction than by itemizing.

For 1998, it is projected that approximately 5.8 million filers would benefit from the increased standard deduction.

BOARD POSITION

Pending.