

SUMMARY ANALYSIS OF AMENDED BILL

Author: Karnette Analyst: Jeani Brent Bill Number: SB 1814

Related Bills: See Prior Analysis Telephone: 845-3410 Amended Date: APTBA

Attorney: Doug Bramhall

Sponsor:

SUBJECT: Enterprise Zone Employers' Wage Credit/Increase Amount of Credit/
Modify Qualified Wages Definition

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

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 _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 18, 1998, STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

As proposed to be amended, this bill would make the following changes to the enterprise zone employer wage credit (hiring credit):

1. Double the percent of "qualified wages" that qualify for the credit allowable to taxpayers for each taxable or income year.
2. Increase the amount of wages that qualify for the credit by changing the definition of "qualified wages" to the amount of wages paid to qualified employees (other than those employed in the Long Beach Enterprise Zone) that exceeds the minimum wage, but does not exceed the "state average hourly wage."
3. Provide that "qualified wages" are the amount of wages paid to up to 1,350 qualified employees employed in the Long Beach Enterprise Zone in aircraft manufacturing activities that exceeds the minimum wage, but does not exceed 125% of the "state average hourly wage."
4. Provide that qualified wages include any amount paid by an employer for a qualified employee's health insurance premium.

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Board Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
 PENDING

Agency Secretary Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
DEFER TO _____

GOVERNOR'S OFFICE USE

Position Approved ___
Position Disapproved ___
Position Noted ___

Department/Legislative Director Date
Johnnie Lou Rosas **4/8/98**

Agency Secretary Date

By: Date:

SUMMARY OF AMENDMENT

The proposed amendments would reinsert the 1,350-person limitation on the number of qualified aircraft manufacturing employees for which an enhanced hiring credit may be taken, which would have been removed by the bill as introduced, and would make the changes to the allowable amount of credit and the definition of "qualified wages," as discussed in this analysis.

Except for the following Specific Findings, Revenue Estimate, and Position, the department's analysis of the bill as introduced February 18, 1998, still applies.

SPECIFIC FINDINGS

The existing Revenue and Taxation Code allows a hiring credit to enterprise zone taxpayers for a percentage of wages paid to qualified employees. A credit is allowed for the taxable or income year equal to the sum of each of the following:.

- 50% of the qualified wages paid in the first year of employment;
- 40% of the qualified wages paid in the second year of employment;
- 30% of the qualified wages paid in the third year of employment;
- 20% of the qualified wages paid in the fourth year of employment;
- 10% of the qualified wages paid in the fifth year of employment.

Qualified wages are defined as (1) the portion of wages that does not exceed 150% of the minimum wage, which currently is set at \$5.75, making the maximum amount of wages qualifying for the credit \$8.73 (\$5.75 x 150%), (2) wages received during the five-year period beginning when the employee commences employment with the taxpayer, and (3) wages paid before the expiration of the enterprise zone designation or within 60 months after the designation expiration.

In addition, the **existing Revenue and Taxation Code** provides that the maximum amount of certain qualified wages eligible for the hiring credit is 202% of the minimum wage (\$5.75 x 202% = \$11.62) for up to 1,350 qualified employees employed by the taxpayer in the Long Beach Enterprise Zone in aircraft manufacturing activities described in Codes 3721 to 3728, inclusive, and 3812 of the Standard Industrial Classification (SIC) Manual.

The existing Unemployment Insurance Code provides that the "state average hourly wage" is the average weekly wage paid by employers to employees covered by unemployment insurance, as reported to the Employment Development Department for the preceding fiscal year, divided by 40 hours. According to the Employment Development Department, the state average hourly wage for the 1996/1997 fiscal year is \$15.47.

SB 1814, as proposed to be amended, would:

1. Double the percentage of qualified wages that qualify for the credit allowable to taxpayers for each taxable or income year. As proposed to be amended, the hiring credit amount would be equal to the sum of each of the following:.
 - 100% of the qualified wages paid in the first year of employment;
 - 80% of the qualified wages paid in the second year of employment;
 - 60% of the qualified wages paid in the third year of employment;
 - 40% of the qualified wages paid in the fourth year of employment;
 - 20% of the qualified wages paid in the fifth year of employment.

2. Eliminate the existing definition of "qualified wages" as the wages paid that do not exceed 150% of the minimum wage, and instead provide that "qualified wages" are the amount of wages paid to qualified employees (other than those employed in the Long Beach Enterprise Zone) that exceeds the minimum wage, but does not exceed the "state average hourly wage." Thus, qualified wages could be \$9.72 per hour (state average hourly wage of \$15.47 minus the current minimum wage of \$5.75).
3. Eliminate the existing definition of "qualified wages" for specified employees in the Long Beach Enterprise Zone as the wages paid that do not exceed 202% of the minimum wage, and instead provide that "qualified wages" are the amount of wages paid to qualified employees employed in the Long Beach Enterprise Zone that exceeds the minimum wage, but does not exceed 125% of the "state average hourly wage." Thus, qualified wages for specified employees in the Long Beach Enterprise Zone could be \$13.59 per hour (state average hourly wage multiplied by 125%, or \$19.34 minus the current minimum wage of \$5.75).
4. Provide that qualified wages include any amount paid by an employer for a qualified employee's health insurance premium.
5. Reinsert the 1,350-person limitation on the number of qualified aircraft manufacturing employees for which an enhanced hiring credit may be taken, which would have been removed by the bill as introduced.

Implementation Considerations

Implementing this bill, as proposed to be amended, would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

FISCAL IMPACT

Departmental Costs

This bill, as proposed to be amended, would not significantly impact the department's costs.

Tax Revenue Estimate

Revenue losses from this bill are estimated to be:

Effective After December 31, 1997 Assumed Enactment After June 30, 1998 (In Millions)		
1998-9	1999-0	2000-1
(\$11)	(\$11)	(\$12)

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

Revenue Estimate Discussion

Revenue losses under the Personal Income Tax Law and the Bank and Corporation Tax Law would depend on the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming additional tax credits.

For 1995 taxable year the revenue loss from hiring credits was approximately \$12 million for all enterprise zones. The revenue loss is estimated to be \$13 million for 1998.

Increase hiring credits for all zones except Long Beach:

It is estimated that doubling the allowable credit percentages for the projected \$12 million in hiring credits attributed to all zones (except Long Beach) would increase the revenue loss by 75% (this allows for sufficient tax liability) and an additional 10% for the approximate \$1 per hour increase in maximum wages eligible for the credit. This results in a revenue loss of \$10 million.

Increase hiring credits for Long Beach aircraft workers:

It is estimated that (a) doubling the allowable percentages for the hiring credit for Long Beach aircraft workers and (b) increasing the wage base amount by nearly \$2 per hour would result in revenue losses of \$1 million annually.

BOARD POSITION

Pending.

The Board considered this bill, as introduced, at its March 26, 1998, meeting, and took no position (Julie Bornstein, acting on behalf of Controller Kathleen Connell was opposed, Member Dean Andal was neutral, and Robin J. Dezember, acting on behalf of Member Craig L. Brown, abstained). However, the Board has not yet considered the bill as proposed to be amended.