SCS Agency
Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Leach | Analyst: Jeani Brent | Bill Number: AB 1708

Related Bills: See Prior Analysis | Telephone: 845-3410 | Amended Date: 04/20/98

Attorney: Doug Bramhall | Sponsor:

SUBJECT: Employer Qualified Wage Credit/Qualified Training Program

_____ 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/AMENDED ___________ STILL APPLIES.

_____ OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would authorize a credit to taxpayers equal to 50% of the qualified wages paid or incurred during the taxable or income year. To qualify for this credit, the qualified wages must be paid to an employee enrolled in a qualified training program administered by the Employment Development Department (EDD) or taught at an accredited vocational school or community college.

SUMMARY OF AMENDMENT

The April 20, 1998, amendments would modify this wage credit by:

1. Expanding the requirement that the qualified training program be administered by the Employment Training Panel (ETP) by substituting any program administered by the EDD (of which ETP is a part) or an accredited vocational school or community college.
2. Eliminating the requirement for an ETP contract.
3. Redefining "qualified time period" to be the employee's first year of employment with the taxpayer.
4. Requiring that the employee must have been eligible for or receiving Temporary Assistance for Needy Families (TANF) program benefits.
5. Providing that qualified employees are entitled to participate in the

DEPARTMENTS THAT MAY BE AFFECTED:

____ STATE MANDATE ____ GOVERNOR'S APPOINTMENT

Board Position:	Agency Secretary Position:	GOVERNOR'S OFFICE USE
____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR ____X____ PENDING	____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR DEFER TO ____________	Position Approved ____ Position Disapproved ____ Position Noted ____
Department/Legislative Director Date Johnnie Lou Rosas 5/19/98	Agency Secretary Date	By: Date:

California Work Opportunity and Responsibility to Kids (CalWORKS) program grievance process.

6. Providing that the credit shall not be allowed if the qualified taxpayer's participation in the qualified training program results in any of the position-creating practices disallowed under the CalWORKS program.
7. Defining "qualified taxpayer" as one who owns a small business that has a net increase in jobs for the taxable year in which the credit is claimed.
8. Defining "small business" as an independently owned and operated business located in California that has 100 or fewer employees.
9. Providing that taxpayers must recapture the credit if, within 630 days of employment after the qualified employee is hired, they terminate the employment of the qualified employee.
10. Limiting the credit to $5,000 per qualified taxpayer per year.

The April 20, 1998, amendments also would delete the proposed credit that would have been equal to 6% of the amount paid or incurred for qualified training property.

The policy consideration and one of the implementation considerations in the department's analysis of the bill as introduced January 27, 1998, have been resolved by the amendments. Except for the changes discussed above and the technical considerations and new revenue estimate discussed below, the remainder of the department's analysis of the bill as introduced January 27, 1998, still applies. The remaining implementation consideration is included below for convenience.

Implementation Considerations

This bill would allow an unlimited carryover for the credits. Recently enacted credits have contained a limited carryover since credits typically are exhausted within eight years.

Technical Considerations

The department has identified a number of technical issues in the bill and is currently working with the author's staff to correct them.

Tax Revenue Estimate

This bill is estimated to impact PIT and B&CT revenue as shown in the following table.

AB 1708, Amended April 20, 1998 Fiscal Year Cash Flow $ Millions			
1998-9	1999-0	2000-01	2001-02
(Minor)	($3)	($6)	($7.5)

Minor = loss less than $500,000

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

Revenue Discussion

The revenue impact for this bill would be determined by the number of individuals who participate in an EDD training program or a training program taught at an accredited vocational school or community college, the amount of wages paid, and the average amount of credit applied against available tax liabilities.

The April 20, 1998, amendment differs from the previous version dated March 20, 1998 by allowing only businesses with fewer than 100 employees (with a net gain in employment over the prior year) to qualify for the credit and by requiring a minimum employment period (i.e. 630 days of employment) for retaining tax credits claimed.

This estimate was developed in the following steps. First, according to EDD, approximately 76,000 welfare recipients were enrolled in its training program, the Job Training Partnership Act Program (JTPA), during fiscal year 1995-96. Second, according to the ETP, an additional 5,000 welfare recipients are projected to qualify under this proposal for 1999, resulting in approximately 81,000 potentially qualified individuals for 1999. This number was grown 5% per year to account for any increase in enrollees in JTPA, ETP, vocational schools, and community colleges. Third, this number was adjusted to exclude individuals who would be hired by a government agency (15%), and further adjusted to exclude individuals who would be hired by businesses with more than 100 employees or without a net increase in employment (25%), leaving nearly 51,900 qualifying individuals for 1999. Fourth, it was assumed that 25% of the remaining qualifying individuals in any given year would meet the training program requirements and qualify employers for the credit. Fifth, for this analysis an average credit amount of $1,000 per employee was used (i.e. $2,000 in wages on average per employee). It was further assumed that 50% of the individuals would be employed throughout tax year 1999. Fourth, the proposed revenue was adjusted for the wage expense deduction under current law. It was assumed that 40% of the credits provided under this bill would be applied in any given year against available tax liabilities and the remaining credits would be carried over and applied over three years. The resulting revenue was adjusted for the recapture of credits in later years, beginning with fiscal year 2001-02.