

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Cardoza Analyst: Marion Mann DeJong Bill Number: AB 94

Related Bills: _____ Telephone: (916) 845-6979 Amended Date: 06/11/98

Attorney: Doug Bramhall Sponsor: _____

SUBJECT: Gun Safe Credit

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

This bill would create a tax credit for individual taxpayers equal to \$150 for each gun safe purchased by the taxpayer during the taxable year.

SUMMARY OF AMENDMENT

The June 11, 1998, amendments deleted the provisions of the bill relating to the Manufacturers' Investment Credit and replaced them with provisions for a gun safe credit.

EFFECTIVE DATE

As a tax levy, this bill would become effective immediately and would apply to taxable years beginning on or after January 1, 1998.

SPECIFIC FINDINGS

Current federal and state laws impose an income tax on individuals. **Under current state law**, residents of California are taxed on their entire taxable income, regardless of where it is derived. Nonresidents are taxed only on income derived from California sources.

Current federal and state laws allow a taxpayer to deduct expenses paid or incurred in the ordinary course of a taxpayer's business. Generally tax deductions are not allowed for personal expenses. Personal expenses that are deductible, except for items such as charitable contributions, medical expenses, interest, and taxes, are primarily work-related and considered miscellaneous itemized deductions. Miscellaneous itemized deductions are deductible to the

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ <input checked="" type="checkbox"/> PENDING

Department Director

Date

Gerald H. Goldberg

7/3/98

extent that they exceed 2% of adjusted gross income.

Current federal and state laws provide for various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child and dependent care credits) or to influence business practices and decisions.

This bill would create a Personal Income Tax Law (PITL) credit equal to \$150 for each gun safe purchased by the taxpayer during the taxable year. "Gun safe" would mean a safe specifically manufactured to store firearms. Any credit in excess of "net tax" could be carried forward indefinitely. Since this bill does not specify otherwise, this credit would not reduce regular tax below tentative minimum tax.

Policy Considerations

This bill would raise the following policy considerations.

- This bill would allow a credit for \$150 even if the actual cost of the gun safe were less than \$150.
- This bill would not restrict the credit to purchases of gun safes for personal use. The bill would allow taxpayers a credit for gun safes purchased for resale.
- Most credits relating to the purchase of property require the taxpayer to recapture the credit if the property is subsequently disposed of or removed from the state. This bill does not have a recapture provision. However, credits with recapture provisions are usually much larger than \$150.
- This bill would provide a credit for the purchase of a gun safe regardless of whether the safe was used to store firearms (the safe could be used to store valuable items such as jewelry).
- This bill would provide a credit for the purchase of a gun safe to be used by the taxpayer outside of California.
- Most tax credits contain a sunset date to allow the Legislature to review the credit's effectiveness. This bill does not contain a sunset date.

Implementation Considerations

This bill would raise the following implementation considerations. Department staff is available to assist the author with any necessary amendments.

- This bill would define "gun safe" as a safe specifically manufactured to store firearms. However, "safe" is not defined. It is unclear whether portable strong boxes specifically manufactured to store firearms (some of which come with bolts to permanently affix them to real property) or a lockable storage cabinet would qualify for the

credit. Unclear definitions can cause disputes between taxpayers and the department.

- This bill would provide an unlimited carryover of excess credit amounts. Since tax credits are usually used within eight years, most recently enacted credits contain limited carryover provisions, usually eight or ten years.

Technical Considerations

Adding the phrase "for taxable years beginning on or after January 1, 1998," to the beginning of subdivision (a) would clarify when the credit would be available. Most tax credits begin with that phrase.

FISCAL IMPACT

Departmental Costs

If amended to resolve the implementation considerations raised in this analysis, this bill would not significantly impact the department's costs.

Tax Revenue Estimate

Based on data and assumptions discussed below, this bill would result in revenue losses under the PITL as shown in the table.

Estimated Revenue Impact of AB 94 As Amended 6/11/98 [\$ In Millions]		
1998-99	1999-00	2000-01
(\$8)	(\$9)	(\$10)

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

The revenue impact of this bill would be determined by the number of gun safes, as defined, that are purchased by taxpayers, the credit amount (specified as \$150 for each safe purchased), and the amount of credits that could be applied to reduce tax liabilities.

As defined, "gun safe" is assumed to include gun safes and lighter gauge metal gun cabinets and boxes. Retail dealers have indicated that a gun safe can cost from \$600 up to a few thousand dollars, gun cabinets cost around \$350, and gun boxes start at about \$100.

Projected sales data for the current year were obtained from industry contacts. Sales data were grown by industry provided growth rates plus an estimated incentive effect based on the relative cost of a safe versus the proposed credit. California's share of national sales was assumed to be 12%. The number of projected units sold was multiplied by the credit of

\$150. It is assumed any credits generated during a taxable year would be applied.

BOARD POSITION

Pending.