

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Rainey Analyst: Gloria McConnell Bill Number: SB 1508

Related Bills: _____ Telephone: 845-4336 Amended Date: 06/17/98

Attorney: Janet Ballou

Sponsor: _____

SUBJECT: Child Support Delinquencies/Public Agencies/Claims for Damages/FTB Orders to Withhold

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 02/06/98, and AMENDED 04/14/98, STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

This bill would require public agencies to notify Franchise Tax Board (FTB) before making payments where the amount to be paid to the individual on administrative or judicial actions for damages (claims) is at least \$500. If FTB determines the claimant owes child support arrearages, FTB would have five business days to issue to the public agency an order to withhold (OTW) payment from the claimant. If the OTW is not issued by FTB within five business days, the public agency is required to pay the claim to the individual. Any withheld payment would be remitted to FTB 10 business days after receipt of the OTW. Upon receipt of the OTW, the public agency would be required to issue notice of the OTW to the claimant.

Liens for medical and legal expenses, however, would be superior to an OTW for child support. Disputes as to the amount of the medical or legal lien would be resolved by the court that heard the underlying claim. However, in the event the claimant owes both delinquent child support and personal income tax (PIT), the withheld payment would continue to be applied to PIT delinquencies before child support delinquencies, as required under current law.

The FTB would be required to report to the Legislature no later than January 1, 2002, various data regarding the implementation and administration of the bill and, to the extent possible, identify the statewide costs incurred in complying with and recommendations for improving the process added by this bill. The provisions of the bill would be repealed on January 1, 2003, unless the sunset is deleted or extended.

Board Position:

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

Department/Legislative Director

Date

Johnnie Lou Rosas

7/1/98

SUMMARY OF AMENDMENT

As the bill is amended:

1. "claims" expressly would not include applications under the State Victims of Crime Programs,
2. if FTB does not issue a withholding order within five business days, the public agency would be "required" instead of "permitted" to pay the claim to the individual,
3. public agencies complying with a withholding order expressly could not be held liable, and
4. repeal of the provision would be delayed one year, from January 1, 2002, to 2003.

Implementation Consideration

As amended, this bill resolves the Implementation Consideration raised in FTB's previous analysis by delaying for one year the repeal of these provisions (above item #4). According to the author's office, resolution of the remaining concern, which follows, is under consideration.

As discussed in the analysis of the bill as amended April 14, 1998, the bill provides that disputes concerning the amount of liens for medical or legal expenses would be heard by the court in which the original claim was settled or awarded. The bill does not provide the forum for resolving disputes involving administrative claims.

FISCAL IMPACT

Departmental Costs

In its analysis of the bill as amended May 12, 1998, FTB used different information as a basis for estimating its departmental costs and for estimating collections.

FTB staff has revisited the methodology used in estimating the departmental costs and, as an alternative, used the information source on which it based its collection estimate. Using Pennsylvania's experience in the number of annual claims paid by public entities and the population size of Pennsylvania compared to California indicates that FTB would be notified of approximately 15,000 claims. Staff estimates that to process 15,000 claims would require 1.8 additional senior compliance representatives. For the first fiscal year, 1998/99, FTB's child support collection program costs would increase by approximately \$123,000 and for 1999/00 approximately \$155,000.

If the notifications received by FTB were used for the PIT collection program, staff continues to estimate it would need an additional senior compliance representative at a cost to the General Fund of \$53,000 for fiscal year 1998/99 and \$74,000 for fiscal year 1999/00.

Collection Estimate

Based on the discussion below, additional collections of child support and past due state income taxes are estimated to be on the order of \$2.3 million annually after full implementation. It is estimated that approximately \$1.3 million of all collections will be for delinquent child support cases and the remaining \$1 million will be for the collection of unpaid personal income taxes.

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

Collection Estimate Discussion

This revised estimate has been increased overall by \$300,000 to reflect that California's median income is higher than Pennsylvania's. It is assumed that there is a positive correlation between median income and the dollar value of the delinquency owed.

In all other issues, FTB's collection estimate in the analysis of the bill as amended April 14, 1998, and the assumptions still apply.