

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Cedillo Analyst: Roger Lackey Bill Number: AB 1992

Related Bills: See Prior Analysis Telephone: 845-3627 Amended Date: 05-22-2000

Attorney: Patrick Kusiak Sponsor:

SUBJECT: FTB Disclosure of Tax Return Information to Charter Cities if Written Agreement

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

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 02-18-2000.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED 02-18-2000 STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

Under the Administration of Franchise and Income Tax Laws (AFITL), this bill would permit the Franchise Tax Board (FTB) to disclose certain specified income tax information to tax officials of charter cities. Disclosure would have to be made under a written agreement and would be limited to information regarding taxpayers filing a tax return within a charter city and claiming income from a trade or business to the FTB. The information that may be provided is a taxpayer's name, address, social security or taxpayer identification number, and business activity code. Use of the information would be limited to employees of the taxing authority of a charter city.

SUMMARY OF AMENDMENT

The May 22, 2000, amendments added double-joining language that provide this bill would only take effect if AB 83 is enacted and becomes effective on or before January 1, 2001.

The April 25, 2000, amendments:

- Removed language regarding taxpayers who operate a business located in a charter city.
- Added language that allows tax information to be reported to the charter city only on taxpayers who both file a tax return within the jurisdictional boundaries of the charter city and claim income from a trade or business to the FTB.
- Added a repeal date of December 31, 2008, and requires the California Research Bureau to report to the Legislature the impact and effects of this act by December 31, 2008.

Board Position:

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

Legislative Director

Date

Johnnie Lou Rosas

6/12/2000

The department's implementation consideration relating to the definition of operating a business and how to identify a business that operates within a charter city has been resolved. However, three additional implementation concerns and a technical concern have been identified and are addressed below. In addition, as a result of the policy and implementation concerns a departmental costing has been provided.

Except for the discussion of this analysis, the department's analysis of AB 1992 as introduced February 18, 2000, still applies.

Implementation Consideration

This bill would allow the department to share certain information, including business activity codes, with charter cities. A large number of the business activity codes used by the department are obtained from Internal Revenue Service (IRS) data shared with the department. Federal law and IRS policy provide that information obtained from the IRS by the department not be disclosed or be used in any manner not authorized. Currently, the department's authority is to use information obtained from the IRS to resolve state income tax issues. As a result, if the department uses the business activity codes or other information received from the IRS to select and gather information that is to be reported to the charter city, it would exceed the department's authority to use IRS information and would be interpreted as the unauthorized use of IRS information and would be a violation of federal law and a violation of the IRS and FTB agreement. Current departmental systems do not have the ability to provide the information necessary to comply with the provisions of this bill without using federal data. To comply with the bill, the department would have to create a new database and process to capture the information that could be reported to the charter city. Without the new database and process, the department would not be able to provide the information to the charter city. In addition, the department would have no other use for this database and process beyond reporting the information to the charter city.

This bill would provide that a charter city could be granted tax information only with respect to taxpayers filing a tax return within the jurisdictional boundaries of the charter city. Department records capture the address listed on the return, but not "where" the return was filed. Amendment 1 is provided to allow the charter city to request information on taxpayers with an address as reflected on the department's records that is within the jurisdictional boundaries of the charter city.

Technical Consideration

Taxpayers do not claim income from a trade or business to the Franchise Tax Board, but rather report income. Amendment 2 would clarify this language.

Departmental Costs

Since the department's current programs do not capture the necessary data to comply with this bill, the department would need to develop a new process. To comply, the department would revise the Schedule CA and instructions to include a business activity code. Department staff would scan the Schedule CA and key the business activity code into a database where the information would be retained for future reporting to the charter city.

The department would incur significant costs related to creating the new process, additional employees hours, and purchasing equipment. In the year of implementation, it is estimated that departmental costs would be approximately **\$2 million** with an expected **29 PYS**. For the year following implementation the departmental costs would be **\$847,172** with an expected **25.5 PYS**.

BOARD POSITION

Pending.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 1992
As Amended May 22, 2000

AMENDMENT 1

On page 2, line 10, ~~strikeout "filing a tax return"~~ and insert:
with an address as reflected on the Franchise Tax Board's records

AMENDMENT 2

On page 2, line 11, ~~strikeout "claim"~~ and insert:
report