

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Campbell Analyst: Marion Mann DeJong Bill Number: AB 2592

Related Bills: See Prior Analysis Telephone: 845-6979 Amended Date: 05/18/2000

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Research Expenses Credit/Increase to 15% of Excess Expenses/Minimum Base Not Less than 35%

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

x 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 _____.

x REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 25, 2000, AND AMENDED April 25, 2000, 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 increase the state credit for "qualified research expenses" from 12% to 15% of such expenses. It would decrease the minimum threshold for the taxpayer's base amount for computing the research expenses credit from not less than 50% to not less than 35% of the taxpayer's current year qualified research expenses.

SUMMARY OF AMENDMENT

The May 18, 2000, amendments reduced the increase in the qualified research expenses credit from 20% to 15% and changed the decrease in the minimum base requirement from 20% to 35%.

Except for the above discussion and the revenue estimate, the department's analyses of the bill as introduced February 25, 2000, and as amended April 25, 2000, still apply.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> N	<u> </u> OUA	<u> X </u> PENDING

Legislative Director

Date

Johnnie Lou Rosas

6/20/00

TAX REVENUE ESTIMATE

The revenue impact of this bill is estimated to be revenue losses as shown below:

Revenue Impact of AB 2592 Effective for taxable and income years BoA 1/1/2000 Enactment assumed after 6/30/2000			
Losses in \$ Millions			
2000-01	2001-02	2002-03	2003-04
-\$22	-\$34	-\$42	-\$45

This estimate does not account for changes in employment, personal income, or gross state product that could result from this measure.

REVENUE ESTIMATE DISCUSSION

The revenue impact of this bill is estimated in the following manner. The research credits generated under current and proposed laws are simulated for each corporation in a sample of the 50 corporations with the largest research and development expenses. These simulations take into account specific micro-economic data for each corporation, such as gross receipts, wage, property, and sales factors, net income, historical research expenditures, and detailed tax and financial data. The results of the simulations are weighted statistically to the population level. The revenue losses are estimated as the differences between the taxes simulated under current and proposed laws. The Department Of Finance forecast of corporate profits is used to extrapolate the estimates to future years.

Revenue impact for the PITL is assumed to be equal to 5% of the B&CTL impact and is added to the corporate impact.

BOARD POSITION

Pending.