

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Bob Pacheco Analyst: Kristina E. North Bill Number: AB 53

Related Bills: See previous analyses Telephone: 845-6978 Amended Date: APTBA

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Child Support Payment Deduction/FTB Report To Legislature Regarding Deduction

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 amended May 3, 1999.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED May 3, 1999, STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL), this bill would allow a deduction equal to the amount of court-ordered child support payments made by the noncustodial parent for each child of that parent, not to exceed an amount equal to the tax benefit of the exemption credit allowable for a dependent under the PITL. In order to take the deduction, the noncustodial parent must have paid all court-ordered child support payments, including arrearages, by December 31 of the year for which the deduction is claimed.

This bill requires the Franchise Tax Board (FTB) to report annually to the Legislature the total number of taxpayers who claim the deduction, their adjusted gross income, and the total value of the deduction. The Department of Social Services also would report on the percentage of child support payments made relative to the total amount of child support payments due and, if available, the percentage of cases receiving payment relative to the total number of cases owed payment.

SUMMARY OF AMENDMENT

The proposed amendments delay the operative and repeal dates of the bill for one year, so that the bill applies for years beginning on or after January 1, 2000, and before January 1, 2004. Further, the proposed amendments specify that the deduction would not be allowed if the taxpayer elects to claim the joint custody head of household credit for the same child.

Except for these changes, the remainder of the department's analysis of the bill as amended May 3, 1999, still applies. The implementation considerations and the Board position are restated below for convenience. Department staff is available to assist the author's office in resolving these and any other concerns identified.

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 checked="" type="checkbox"/> N	<input type="checkbox"/> OUA	<input type="checkbox"/> PENDING

Legislative Director

Date

Johnnie Lou Rosas

01/11/00

IMPLEMENTATION CONSIDERATIONS

Since the deduction provided by this bill is limited to the amount of exemption credit allowable, the taxpayer would be required to calculate taxes twice - with and without the deduction - to assure that the proper deduction amount is claimed. The necessary instructions for these calculations would be complicated and difficult for some taxpayers, particularly those without access to computer tax software.

A definition is needed for "child support payments" to ensure that disputes do not arise between the taxpayers and the department over what amounts should be properly included.

Tax Revenue Estimate

Based on the data and assumptions below, revenue losses are estimated as follows:

Revenue Impact of AB 53			
For Taxable Years Beginning 1/01/2000			
Assumed Enactment After 6/30/2000			
Fiscal Years			
(In Millions*)			
2000/2001	2001/2002	2002/2003	2003/2004
-\$65	-\$65	-\$70	-\$70

*After rounding

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

Any behavioral improvement in child support compliance due to this proposal is not anticipated to be particularly significant over the initial years. It is estimated that approximately \$1 million in losses would be attributable to taxpayer behavior and would primarily be from those obligors who currently pay on a regular basis but are occasionally late with their payments.

Tax Revenue Discussion

Revised revenue losses above reflect elimination of the 1999 tax year impact, no change for fiscal year 2000/2001, a reduction of \$5 million for 2001/2002, and no change for 2002/2003 from the previous version of this bill as amended May 3, 1999. The change in fiscal year losses is primarily attributable to changing the effective date from taxable years beginning on or after January 1, 1999, and before January 1, 2003 to taxable years beginning on or after January 1, 2000, and before January 1, 2004.

In addition to the above amendment, no deduction would be allowed if a taxpayer elects to claim the credit for joint custody head of household with respect to a qualifying child for whom the taxpayer is eligible to claim a deduction under this section. This provision of the bill is not anticipated to have a significant revenue impact and does not affect the rounded estimate above.

With the above exception, the previous analysis and assumptions for this bill still apply.

BOARD POSITION

Neutral.

At its March 23, 1999, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill as amended March 1, 1999. The Board has not reviewed the April 20 or May 3, 1999, amendments or the proposed amendments.