SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Poochigan | Analyst: Roger Lackey | Bill Number: SB 1974

Related Bills: See Prior Analysis | Telephone: 845-3627 | Amended Date: 04-24-00

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: Irrigation System Improvement Costs Credit

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

__X__ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

__X__ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced __February 25, 2000___.

__X__ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO __________________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 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 allow a tax credit equal to 30% of the cost to purchase and install an irrigation system improvement that provides water conservation or savings and that is used in a business for the production of farm income.

SUMMARY OF AMENDMENT

The April 24, 2000, amendment specified that the credit would be 30%.

In addition, the amendment deleted the provisions of the bill concerning sales and use tax.

Except for the new revenue estimate, the department's analysis of the bill as introduced February 25, 2000, still applies. The implementation and technical concerns have been included below.

Implementation Considerations

The requirement that the certifying engineer or designer be "independent of" the taxpayer is a subjective standard and may be open to interpretation. Providing an objective relationship standard, perhaps by reference to an existing tax law standard defining a "related party," would make it clear that the engineer or designer may not be an employee or otherwise related to the purchaser, seller or manufacturer of the water application or distribution equipment.

Board Position:			Legislative Director	Date
_____ S	_____ NA	_____ NP		
_____ SA	_____ O	_____ NAR	Johnnie Lou Rosas	5/2/00
_____ N	_____ OUA	__X__ PENDING		

The use of a water application or distribution system on fallow land would be an increase in the amount of water used on the land. Consequently, the installation of "irrigation system improvements" on such land would not meet the specified requirements of the bill and may not be considered eligible for the credit.

Technical Considerations

The recapture provision under the B&CTL uses the term "taxable years." Amendment 1 would correct the reference to "income years."

Tax Revenue Estimate

The revenue analysis is estimated to impact PIT and B&CT revenue as shown in the following:

Revenue Impact of SB 1974 Income/Taxable Years Beginning After 1/1/2000 Enactment Assumed After June 30, 2000 $ Millions			
	2000-1	2001-2	2002-3
Revenue Impact	($12)	($18)	($23)

This analysis assumes that the installation must take place in California. Any changes in employment, personal income, or gross state product that could result from this measure are not considered.

Revenue Discussion

This estimate was developed in several steps. Discussions with industry experts indicated that replacing existing systems as well as the incentive effect of this bill would induce about 200,000 acres of irrigated land in California to adopt water-saving systems or equipment. The average cost per acre to install the equipment and improve the irrigation system was calculated to be about $525 per acre for 2000. Total qualifying expenditures are projected to be about $100 million for 2000. The applied credit amounts were adjusted to account for the reduction in depreciation that would result from the use of the credits. The portion of credits that could be applied in any given year against available tax liabilities was estimated using tax returns that report farm income. It was assumed that unapplied carryover credits would be exhausted by the fourth year.

In the department's Tax Revenue Discussion of the bill as introduced February 25, 2000, the analysis erroneously stated that the total qualified credit amounts were projected to be on the order of $200 million. That amount represented the "total qualified expenditures," not "total qualified credit amount." Moreover, the $200 million should have been $100 million, but the prior revenue estimate was calculated using the correct projected qualifying expenses ($100 million).

BOARD POSITION

Pending.

Analyst Roger Lackey
Telephone # 845-3627
Attorney Patrick Kusiak

FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO SB 1974
As Amended April 24, 2000

AMENDMENT 1

On page 6, line 32, strikeout "taxable years" and insert:

income years