Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Irwin & Brough	Analyst:	Jessica Deitchman	Bill Number:	AB 931
Related Bills:	See Legislative History	Telephone:	845-6310	Introduced Date Amended Date:	February 26, 2015 and April 6, 2015
		Attorney:	Bruce Langston	Sponsor	

SUBJECT:	Employer Hiring Credit/Qualified Full-Time Employee Veterans

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), modify the definition of “qualified employees” for purposes of determining the New Employment Credit.

RECOMMENDATION

No position.

Summary of Amendments

The bill as introduced on February 26, 2015, would make amendments to the definition of “qualified employee” in the New Employment Credit.

The April 6, 2015, amendments modified the operative date of the bill for the modified definition of “qualified employee.”

This is the department’s first analysis of the bill.

REASON FOR THE BILL

The reason for the bill is to encourage employers to hire veterans in California.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2016.

FEDERAL/STATE LAW

Current state law allows a New Employment Credit that is available to a qualified taxpayer that hires a qualified full-time employee, has an overall net increase in employment, and pays or incurs qualified wages attributable to work performed by the qualified full-time employee in a

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designated census tract[1] or former Enterprise Zone.[2] The qualified taxpayer must receive a tentative credit reservation from the Franchise Tax Board (FTB) for that qualified full-time employee. A qualified full-time employee must satisfy any of the following conditions upon commencement of employment with the qualified taxpayer:

- Unemployed for six months immediately preceding employment.[3]
- Veteran separated from the U.S. Armed Forces in the preceding 12 months.
- Recipient of the Earned Income Tax Credit in the previous taxable year.
- Ex-offender convicted of a felony.
- Current recipient of CalWORKS or general assistance.

THIS BILL

For taxable years beginning on or after January 1, 2016, this bill would modify the "qualified full-time employee" criteria specifically applicable to veterans in the New Employment Credit, by expanding the criteria from those that separated from the U.S. Armed Forces in the preceding 12 months, to those separated in the preceding 36 months.

IMPLEMENTATION CONSIDERATIONS

This bill would not significantly impact the department's costs.

LEGISLATIVE HISTORY

SB 90 (Galgiani and Canella, Chapter 70, Statutes of 2013), modified AB 93 as chaptered on July 11, 2013. Specifically, SB 90, for purposes of the new hiring tax credit, modified the definition of qualified employee, excluded sexually oriented businesses from the definition of qualified taxpayer and small business, and modified the defined geographical area that the hiring credit may be generated in.

AB 93 (Assembly Committee on Budget, Chapter 69, Statutes of 2013), repealed the geographically targeted economic development area tax incentives and the New Jobs Tax Credit under the PITL and the CTL, created a New Hiring Tax Credit, established the California Competes Tax Credit Committee, and created the California Competes Tax Credit under the PITL and CTL.

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[1] A census tract within the state that is determined by the Department of Finance to have a civilian unemployment rate that is within the top 25 percent of all census tracts within the state and has a poverty rate within the top 25 percent of all census tracts within the state.
[2] "Former enterprise zone" means an enterprise zone designated as of March 1, 2012, and any expansion of an enterprise zone prior to December 31, 2012, as in effect on December 31, 2012, excluding any census tract within an enterprise zone that is identified by the Department of Finance as a census tract with the lowest civilian unemployment and poverty.
[3] The employee must not be; receiving wages subject to withholding, self-employed and not be a full-time student.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota,* and *New York.* These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Illinois offers a hiring tax credit of up to $2,500 for small businesses that hire and retain (for at least one year) new employees that are paid at least $10 per hour.

New York offers a hiring tax credit of up to $2,100 for every individual with disabilities that is hired and retained for at least two years.

Florida offers a hiring tax credit of up to 30 percent of wages paid to employees hired as long as there is an overall net increase in employment and the new hire is employed for at least three months.

Massachusetts, Michigan, and *Minnesota* lack a hiring credit similar to the credit being modified by this bill.

FISCAL IMPACT

The department's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified and an appropriation will be requested, if necessary.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 931 As Amended April 6, 2015 Assumed Enactment After June 30, 2015		
2015-16	2016-17	2017-18
- $20,000	- $150,000	- $250,000

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

Revenue Discussion

It is estimated that $17.7 million in credits have been reserved for the New Employment Credit for the 2014 taxable year. This bill would revise the definition of "qualified full-time employee" from a veteran that separated within the 12 months preceding commencement of employment, to one that separated 36 months prior. Using data from the Department of Veterans Affairs and Bureau of Labor Statistics, it is estimated that 5 percent of the total amount of credit claimed is attributed to qualified veterans. A 15 percent increase was added to the estimate to account for the additional 24 months a new veteran could be separated from service. The estimate includes a 3 percent reduction for each year for attrition. This results in an estimated additional revenue loss of $100,000 for taxable year 2016. The additional credit usage will peak when there is a five year combined period in 2020, at approximately $600,000.

The tax year estimates are converted to fiscal years, and then rounded, and reflected in the table above.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Some may argue that this bill would increase employment of recently separated veterans by expanding the pool of veterans that could be “qualified full-time employees” for purposes of the New Employment Credit.

Opponents: Some may argue that this bill may be overly narrow and expanding eligibility as a “qualified full-time employee” should be considered for all categories.

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