

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Gallagher Analyst: Davi Milam Bill Number: AB 961
Related Bills: See Legislative History Telephone: 845-2551 Amended Date: March 26, 2015
Attorney: Bruce Langston Sponsor: _____

SUBJECT: California Competes Tax Credit/Increase Aggregate Credits Allocated to Taxpayers Located in County, City & County or Metropolitan Statistical Area with 10% or Higher Unemployment Rate

SUMMARY

This bill, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), would increase the funding for the California Competes Tax Credit (CA Competes Credit).

This analysis only addresses the provisions of the bill that would impact the department's programs and operations.

RECOMMENDATION

No position.

Summary of Amendments

The March 26, 2015, amendments removed intent language and replaced it with the provisions discussed in this analysis. This is the department's first analysis of the bill.

REASON FOR THE BILL

The reason for the bill is to increase funds available for economic development in areas of California with high unemployment.

EFFECTIVE/OPERATIVE DATE

As tax levy, this bill would be effective immediately upon enactment and operative as of that date.

STATE LAW

The CA Competes Credit is administered by the Governor's Office of Business and Economic Development (GO-Biz).¹ The amount of the credit available to a taxpayer for a taxable year is negotiated and set forth in a written agreement between GO-Biz and a taxpayer, and approved by the "California Competes Tax Credit Committee," consisting of the State Treasurer, the Director of the Department of Finance (DOF), the Director of GO-Biz, and one appointee each by the Speaker of the Assembly and Senate Committee on Rules.

¹ <http://www.business.ca.gov>.

Board Position:					Executive Officer	Date
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Upon approval of the written agreement by the Committee, GO-Biz informs the Franchise Tax Board (FTB) of the terms and conditions of the written agreement. The FTB reviews the books and records of taxpayers allocated a CA Competes Credit to ensure that the taxpayer complied with the terms and conditions of the written agreement. In the case of a small business, the FTB reviews the books and records of the taxpayer if it deems the review appropriate or necessary in the best interest of the state. If the FTB determines that a possible breach of the agreement has occurred, GO-Biz is provided detailed information regarding the basis of the possible breach.

THIS BILL

Under the PITL and the CTL, this bill would increase the aggregate amount that may be allocated for the CA Competes Credit administered by GO-Biz, by up to fifty million dollars (\$50,000,000) for the 2015-16 fiscal year, and each fiscal year thereafter, through the 2017-18 fiscal year, for taxpayers otherwise eligible for the CA Competes Credit who are located in a county, city and county, or metropolitan statistical area that has a 10 percent, or higher, rate of unemployment. The amount available to be allocated in any given fiscal year would be adjusted by any unallocated credit amount from the preceding fiscal year, and the amount recaptured, if any, from previously allocated credits.

This bill would specify that the allocation reserved for small business² and the limitation on the maximum credit amount that could be allocated to any one taxpayer would be inapplicable to the increased allocation amount proposed by this bill.

IMPLEMENTATION CONSIDERATIONS

Because this bill would modify provisions administered by GO-Biz and the DOF, implementing this bill would not impact the department's programs and operations.

FISCAL IMPACT

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

ECONOMIC IMPACT

This bill would result in a revenue loss because the aggregate amount of credit that may be allocated by GO-Biz would be increased by up to \$50 million. The amount and timing of the CA Competes Credit is subject to the written agreement between GO-Biz and the taxpayer. Accordingly, staff defers to the DOF to determine the revenue impact of this bill.

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

LEGISLATIVE HISTORY

AB 1560 (Quirk-Silva, et al., Chapter 378, Statutes of 2014), modified the funding for the CA Competes Credit.

AB 93 (Assembly Committee on Budget, Chapter 69, Statutes of 2013), among other provisions, created the CA Competes Credit.

² As defined in Revenue and Taxation Code sections 17053.73 and 23623.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Supporters may say that increasing funding for the CA Competes Credit for areas with high unemployment would focus economic development to areas within the state that most need development.

Opponents: Some may say that economic investment and hiring decisions are often separate from tax planning decisions; thus, income tax hiring incentives are an inefficient way to encourage economic development.

LEGISLATIVE STAFF CONTACT

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