LEGISLATION PRESENTED FOR BOARD POSITION
June 10, 2004

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16	**SB 246**	Escutia	12	Neutral	Court Ordered Debt/Allows Superior Court To Refer Delinquent Amounts To FTB For Collection

LEGISLATION PRESENTED FOR BOARD POSITION
June 10, 2004

Item No.	Bill Number	Author	Pg	Staff Recom	Comments
17	**SB 615**	Cedillo	13	Support	Conformity To Federal Servicemembers Civil Relief Act
18	**SB 1162**	Machado	14	Neutral	California Military Family Relief Fund
19	**SB 1354**	Escutia	15	Neutral if Amended	CreditCarryovers/Aggregate Amount May Not Reduce “Net Tax” For The Taxable Year By More Than 50 Percent
20	**SB 1534**	Johnson	16	Oppose	Allow Taxpayers With Income Less Than Specified Amounts To use Form 540 2EZ
21	**SB 1689**	Poochigian	17	Neutral	Exclusion Reparation Payments/Armenian Genocide
22	**SB 1713**	Machado	18	Neutral	Conformity To The Military Family Tax Relief Act Of 2003 (MFTRA)

(1)

AB 263 (Oropeza) **As Amended June 2, 2003**
SUBJECT: Dividends Received Deduction

DIGEST This bill would repeal and re-enact Revenue and Taxation Code (RTC) Section 24410 to allow taxpayers that own 80% or more of a subsidiary engaged in an insurance business to deduct 80% of dividends received from that subsidiary. The deduction would be allowed regardless of whether the insurance company is engaged in business in California. The deduction would apply to taxable years beginning on or after January 1, 2003.

The bill would apply to all years that the FTB may propose additional tax (open years). In order for the provisions to apply to open years the taxpayer must make an election to:

- Be subject to the dividends received deduction percentage for all taxable years in the election period.
- Report and remit any amounts due pursuant to the election for all open taxable years in the election period. This remittance must occur within 180 days of the effective date of the bill or by the due date of the return for taxable years where the return is due more than 180 days after the effective date of the bill.
- Agree that the dividends are business income and are deductible only in the percentage allowed by this bill.

For purposes of determining taxable income for the taxable years during the election period, RTC Section 24425 (no deduction for expenses associated with non-taxable or deductible income) would not apply to any expense related to Section 24410 deductible dividends. Thus, taxpayers would not be required to reduce any expenses related to the Section 24410 deductible dividends.

This bill would repeal the part of Section 24410 that allows an 80% deduction for taxable years beginning on or after January 1, 2003, if the amount of tax collected pursuant to the dividends received deduction for the election period is less than $15 million. The $15 million in tax must be collected by the later of 180 days after the effective date of the bill or by the original due date of the return for taxable year 2002.

COMMENTS Substantial tax planning opportunities are available to insurance companies because of the way these companies are taxed and because there is no limit on the assets used to fund insurance companies. First, income can be sheltered from corporate taxation by moving assets from the general corporation to an insurance company subsidiary that would pay tax only on the gross premiums. Second, there is opportunity to generate interest and rental expense deductions for the general corporation from transactions with the insurance company with respect to contributed property. Third, under the provisions of AB 263 dividends that flow back to the general corporation would be 80% deductible.

Taken to the extreme, the dividend deduction part of this tax planning opportunity could allow general corporations an 80% deduction for most of their interest, dividends, and some gains. Thus, the future risk to the state revenue could be significant.

The department is working with legislative staff and the insurance industry to solve this problem. Extensive substantive amendments are expected to be made to this bill shortly.

ECONOMIC IMPACT The revenue implications of this bill depend on whether current law is no deduction or a 100% deduction for dividends received from an insurance company subsidiary.

Staff Recommendation: Support if Amended

Status: Assembly Revenue and Taxation Committee

(2)

AB 480 (Ridley-Thomas) As Amended March 15, 2004
SUBJECT: Exclusion/Income Of Qualified Professional Athletic Team Located In Community Redevelopment Plan Area

DIGEST Under this bill, for qualified taxable years beginning on or after January 1, 2004, income of qualified professional athletic teams would be excluded from gross income.

"Qualified professional athletic team" would mean a professional athletic team, as defined under current law, that on or after January 1, 2004, satisfies each of the following conditions:

1. The team is either a new franchise or an existing franchise relocated from another state to a community redevelopment plan area.
2. The team's venue for home competitions is established in, or relocated from, another state to a community redevelopment plan area in this state.
3. The Community Redevelopment Agency responsible for the administration of the community redevelopment plan area has certified that the team's home venue is located within the area.
4. The team engages in public contests of baseball, basketball, football, or hockey.

This bill would be effective January 1, 2004.

COMMENTS This bill would allow a 100% tax exemption for a profit-making entity, which is unprecedented. Also, this bill does not contain a sunset date. Sunset dates generally are provided to allow periodic review of the tax matter by the Legislature.

<u>ECONOMIC IMPACT</u> The revenue impact of this bill would be determined by the number of teams that are newly formed in or relocated from another state to a community redevelopment plan area, and the amount of gross income that is excluded from taxation. The net effect is that qualified teams would not pay any tax in each of the five qualified taxable years beginning with the year of the first athletic contest for profit in its home venue. Although a specific estimate cannot be derived, potential revenue losses would be very significant over time, perhaps on the order of tens of millions of dollars cumulatively over the initial five-year period of the bill. However, because of the 20-year recapture period for teams subsequently leaving the venue, there would be "potential" out-year revenues generated.

Staff Recommendation: Neutral

Status: Senate Revenue and Taxation Committee

(3)

AB 1073 (Dutton) As Amended January 22, 2004
<u>SUBJECT</u>: Exclusion/Death Gratuity Received By A Survivor Of Deceased Member, Former Member Or Person Entering Service Of The U.S. Armed Forces

<u>DIGEST</u> This bill would exclude from tax the death gratuity paid to the survivor of a deceased member of the Armed Forces of the United States. Recently enacted federal legislation (Public Law 108-121) increased the death gratuity amount from $6,000 to $12,000 and excludes the entire amount from gross income. The increase and exclusion are retroactive to deaths occurring after September 10, 2001.

This bill would conform California law to the new federal law by increasing the amount of the death gratuity excludable from gross income from $3,000 to the entire amount of the death gratuity.

This bill would be effective immediately and the bill states that it would be operative beginning with deaths occurring on or after September 11, 2001.

<u>COMMENTS</u> Implementing this bill would not significantly impact the department.

<u>ECONOMIC IMPACT</u> The revenue loss from this bill is estimated to be less than $50,000 annually.

Staff Recommendation: Neutral

Status: Senate Revenue and Taxation Committee

(4)

AB 1799 (Mullin) As Amended April 12, 2004
<u>SUBJECT</u>: California Alzheimer's Disease & Related Disorders Research Fund/Extend Repeal Date To 1/1/2010

<u>DIGEST</u> This bill would extend the sunset date of the Alzheimer's Disease and related Disorders Research Fund to January 1, 2010.

This bill would become effective January 1, 2005.

<u>COMMENTS</u> Implementing this bill would not significantly impact the department.

<u>ECONOMIC IMPACT</u> The revenue loss from this bill is estimated to be less than $50,000 annually.

Staff Recommendation: Neutral

Status: Senate Rules Committee

(5)

AB 1859 (Nakano) As Amended April 12, 2004
<u>SUBJECT</u>: Limited Liability Companies/Certificate Of Cancellation

<u>DIGEST</u> This bill would allow the managers or members of a Limited Liability Company (LLC) that has not yet conducted business to cancel the existence of the LLC by executing a certificate of cancellation.

This bill would allow the Secretary of State (SOS) to file a signed and verified certificate of cancellation without a tax clearance certificate for that LLC from FTB. The SOS would notify FTB of the cancellation. The LLC would not be liable for the $800 annual tax for that taxable year.

<u>COMMENTS</u> Implementing this bill would not significantly impact the department.

<u>ECONOMIC IMPACT</u> The revenue loss from this bill is estimated to be less than $50,000 annually.

Staff Recommendation: Neutral

Status: Senate Judiciary Committee

(6)

AB 1928 (Parra) As Amended March 26, 2004
SUBJECT: California Military Family Relief Fund

DIGEST This bill would create the California Military Family Relief Fund and would allow taxpayers to designate contributions to this fund on their personal income tax (PIT) return. The allocation of monies from this fund would be to provide financial aid for families in this state of persons who are members of the California National Guard.

The California Military Family Relief Fund would not appear on the tax return until another voluntary contribution fund is removed from the PIT return. The fund would remain on the return five years.

This bill would become effective January 1, 2005.

COMMENTS Implementing this bill would not significantly impact the department.

ECONOMIC IMPACT The revenue loss from this bill is estimated to be less than $50,000 annually.

Staff Recommendation: Neutral

Status: Senate Rules Committee

(7)

AB 2106 (Ridley-Thomas) As Amended May 17, 2004
SUBJECT: California Tax Expenditure Accountability Act/Tax Expenditures Report

DIGEST This bill would create a new provision to require Department of Finance (DOF) and Legislative Analyst Office (LAO) to submit to the Legislature a report on tax expenditures currently in effect, including those under the Personal Income Tax Law, the Corporation Tax Law, and the Sales and Use Tax Law.

In addition, DOF would be required to include information in the report, based on information provided by FTB, regarding tax expenditures that are separately identified on returns or claims, to the extent feasible. Specifically:

- the number of tax returns or taxpayers affected by the tax expenditure and
- the distribution of each tax expenditure, as follows:
  - for expenditures available to businesses, by size of the business or industry, by size of total receipts, and by type of business or industry, and
  - for expenditures under the PITL, by adjusted gross income brackets.

This bill also would require LAO to submit to the Senate and Assembly Revenue and Taxation Committees a report containing:

- a summary of any available findings or information regarding the effectiveness of any tax expenditure, and
- the conditions under which individual tax expenditures should be viewed as a successful policy tool.

This bill would require DOF to provide its first tax expenditure report to the Legislature on or before September 15, 2005. LAO would be required to provide its first tax expenditure report to the Legislature on or before October 1, 2005. The reports would then be required in each odd-numbered year thereafter.

This bill would require the Senate and Assembly Revenue and Taxation Committees to review the reports submitted by DOF and LAO for making recommendations for the purpose of the budget and adopting specific goals.

This bill also would require any legislation establishing new tax expenditures or extending existing ones, to include:

- a sunset provision,
- a requirement for an evaluation study that may include submission of information by taxpayers benefiting from the tax expenditure,
- recapture provisions if a taxpayer fails to meet any commitments that are required to qualify for the tax benefit, and
- measurable goals or objectives.

This bill would be effective January 1, 2005.

COMMENTS It is unclear what is intended by the phrase "size of the business or industry." The term "size" could be determined using varying criteria. For instance, size could mean total number of employees, total income, or even gross receipts. Thus, the department would need to make assumptions regarding the size of business, which may or may not reflect the author's intent.

ECONOMIC IMPACT This bill would not impact state income tax revenue.

Staff Recommendation: Neutral

Status: Assembly 3rd reading

(8)

AB 2203 (Chu) As Amended May 26, 2004
SUBJECT: Tax Amnesty

DIGEST This bill would create an amnesty program for personal income tax law (PITL) and corporation tax law (CTL) to be administered by FTB. The bill also would create an amnesty program for the Sales and Use Tax law that would be administered by the Board of Equalization (BOE).

For purposes of the PITL and CTL amnesty program, this bill would create an amnesty program for certain taxpayers that meet the following criteria:

- failed to file income tax returns,
- underreported income on a previously filed income tax return, or
- failed to pay any taxes previously assessed.

The amnesty filing timeframe would be February 1, 2005 - March 31, 2005, or during any other 2-month period ending no later than June 30, 2005.

This bill would also make the following changes:

- A permanent 2% increase to the current PIT and corporation underpayment interest rates on a going forward basis upon the conclusion of the amnesty program that would apply to all taxpayers.
- A repeal of the current interest netting provisions.
- Increase the current accuracy related penalty for a taxable year that would be eligible for amnesty from 20% to 50% of the understatement for any assessment issued after the close of amnesty.
- Two new interest "penalties" equal to 1) 50% of the existing unpaid interest amount on any tax year for a taxpayer that failed to take advantage of amnesty, and 2) 50% of the unpaid interest subsequently assessed on deficiency amounts where the taxpayer could have but failed to take part in amnesty.
- A requirement that FTB publish quarterly on the Internet a list of the ten largest corporate tax delinquencies and ten largest PIT delinquencies.

This bill would be effective on January 1, 2005. The amnesty program would apply to taxable years beginning before January 1, 2003, only.

COMMENTS Implementing this bill would have a significant impact on the department. To ensure that the amnesty program will be adequately funded, staff has requested that the author include an appropriation in the bill.

ECONOMIC IMPACT

Estimated Revenue Impact of AB2203 For Tax Reporting Periods Ending On or Before January 1, 2003 Fiscal Year (In Millions)				
	2004-05	**2005-06**	**2006-07**	**2007-08**
Total Gross Revenue	$595	$70	$55	$40
Collections Absent Amnesty Attributable To Amnesty Participants	-$410	-$85	-$45	-$20
Total Net Revenue	$185	-$15	$10	$20

Fiscal Impact FTB has formulated a preliminary implementation plan for AB 2203. As a result, the department costs have been calculated and are estimated to be approximately $10.2 million. This amount includes costs resulting from increased customer service contact and notices, publicity costs necessary to the success of amnesty, and modifications to the basic processing functions and department systems.

Absent funding in the 2004/2005 budget or a DOF approval of a deficiency for the 2004/2005 fiscal year, it is unclear how the department would pay for the additional costs it would incur to administer an amnesty program.

Staff Recommendation: Neutral if Amended

Status: Assembly 2nd reading

(9)

AB 2346 (Corbett) As Amended March 26, 2004
SUBJECT: California Police Activities League Fund

DIGEST This bill would create the California Police Activities League Fund and would allow taxpayers to designate contributions to this fund on their PIT return.

The California Police Activities League Fund would not appear on the tax return until another voluntary contribution fund is removed from the PIT return. The fund would remain on the return five years.
This bill would become effective January 1, 2005.

COMMENTS Implementing this bill would not significantly impact the department.

ECONOMIC IMPACT The revenue loss from this bill is estimated to be less than $50,000 annually.

Staff Recommendation: Neutral

Status: Senate Rules Committee

(10)

AB 2398 (Maze) **As Amended May 17, 2004**
SUBJECT: Targeted Tax Areas/Credits/Department of Housing & Community Development Approve Expansion of No More Than 15%

DIGEST This bill would require the Department of Housing and Community Development (DHCD) to approve expansion of the existing Targeted Tax Area (TTA) by no more than 15%, if that department determines the increased area meets the necessary criteria to be a TTA. The criteria include unemployment, income levels, poverty levels, and percentages of people receiving Aid to Families with Dependent Children, based on the 1995-96 Cash Grant Caseload Movement and Expenditures Report. This bill would remove the reference to the Technology Trade and Commerce Agency (TTCA) and insert DHCD as the designating authority for TTAs.

This bill would become effective January 1, 2005.

COMMENTS Implementing this bill would not significantly impact the department's programs and operations.

ECONOMIC IMPACT The expansion of the geographic boundaries up to 15% would produce potential additional revenue losses. For this analysis, it is assumed a proportionate relationship exists between size of a TTA and amount of tax incentives allowed. A proportionate loss in revenue assumes the 15% expansion would occur over a five-year period at an expansion rate of 3% per year starting in 2006 (delay based on a strict approval/allocation process). This produces an insignificant revenue impact of under $150,000 annually for the following five years

Staff Recommendation: Neutral

Status: Assembly 3rd reading

(11)

AB 2480 (Campbell) **As Amended April 15, 2004**
SUBJECT: Mandatory e-file/Repeal And Add Penalty Provision

DIGEST This bill would delay imposition of the new penalty for income tax practitioners that fail to e-file returns to be operative for returns filed on or after January 1, 2005.

As an urgency measure this bill would be effective and operative upon enactment.

COMMENTS Current law gives FTB authority to assess a $50 penalty for each tax return a tax preparer is required to e-file but fails to do so. However, the law exempts a tax preparer from the penalty if the taxpayer elects not to have his or her tax return e-filed. Consequently, receipt of a paper tax return arguably indicates the election of the taxpayer not to e-file, thus arguably rendering the penalty ineffective.

ECONOMIC IMPACT This bill would not impact state income tax revenue.

Staff Recommendation: Neutral

Status: Assembly 2nd reading

(12)

AB 2722 (Laird) As Amended May 20, 2004
SUBJECT: Natural Heritage Preservation Tax Credit/State Entity Property Acquisitions/Bond Funds/FTB Provide Information Regarding Credits Claimed

DIGEST This bill would modify the Natural Heritage Preservation tax credit as follows:

- allow the Wildlife Conservation Board (WCB) to award credits in any fiscal year providing the General Fund (GF) is reimbursed for an equal amount,
- allow bond funds to be used as a reimbursement mechanism for the GF,
- require FTB to report to the WCB the amount of the tax credit claimed for purposes of reimbursing the GF.

This bill would be effective and operative January 1, 2005.

COMMENTS Implementing this bill would not significantly impact the department.

ECONOMIC IMPACT Since this bill requires the GF to be reimbursed for any tax credits awarded this bill would not impact the state's income tax revenue.

Staff Recommendation: Neutral

Status: Assembly 2nd reading

(13)

AB 2868 (Nunez) As Amended May 20, 2004
SUBJECT: Refund Anticipation Loan Act

DIGEST The bill would require businesses that issue refund anticipation loans (RALs) to:

- Register with the Department of Corporations,
- Display fee schedules,
- Conform to advertising restrictions,
- Provide written notice informing taxpayers of direct deposit of refund (DDR) options, and
- File an annual report with the Commissioner of Corporations.

Further, the bill would prohibit businesses from:

- Misrepresenting the RAL,
- Facilitating an RAL in which the fee being charged is different than the posted fee, or
- Arranging for a creditor to take a security interest in property other than the taxpayer's refund for purposes of securing payment of the RAL.

This bill would define "refund anticipation loan" as a loan that is secured by or that the creditor arranges to be repaid directly or indirectly from the proceeds of the taxpayer's income tax refund or tax credits.

This bill would be operative beginning January 1, 2006.

COMMENTS Implementing this bill would not significantly impact the department.

ECONOMIC IMPACT This bill would not impact state income tax revenue.

Staff Recommendation: Neutral

Status: Assembly 2nd reading

(14)

AB 2886 (Corbett) As Amended April 1, 2004
SUBJECT: Drug Abuse Resistance Education Fund

DIGEST This bill would create the Drug Abuse Resistance Education (D.A.R.E.) Fund and would allow taxpayers to designate contributions to this fund on their PIT return.

The D.A.R.E. Fund would not appear on the tax return until another voluntary contribution fund is removed from the PIT return. The fund would remain in effect only until January 1 of the fifth taxable year following its first appearance on the tax return.

This bill would become effective January 1, 2005.

COMMENTS Implementing this bill would not significantly impact the department.

ECONOMIC IMPACT The net revenue impact of this bill would be negligible.

Staff Recommendation: Neutral

Status: Senate Rules Committee

(15)

AB 2952 (Mountjoy) As Amended May 24, 2004
SUBJECT: Exemption/Income Of Spouse Of Member Of Armed Forces Who Dies While In Active Service

DIGEST Under this bill, the first fifty thousand dollars of income of a qualified surviving spouse of a member of the Armed Forces, who was killed during a terrorist or military action directed at the United States, would be exempt from income taxes for the taxable year of the member's death and the three succeeding taxable years.

This bill would be effective immediately and apply to taxable years beginning on or after January 1, 2004.

COMMENTS This bill refers to the first fifty thousand dollars of income but it is not clear if that would be gross income or taxable income.

ECONOMIC IMPACT

Fiscal Year	2004-2005	2005-2006	2006-2007
Exemption of spouse income	Losses not exceeding $10,000	Losses not exceeding $10,000	Losses not exceeding $10,000

Staff Recommendation: Neutral

Status: Assembly 2nd reading

(16)

SB 246 (Escutia) As Amended May 10, 2004
SUBJECT: Court Ordered Debt/Allows Superior Court To Refer Delinquent Amounts To FTB For Collection

DIGEST This bill would explicitly allow California superior courts to refer delinquent fines, penalties, and restitution directly to FTB for collection.

This bill also would repeal the sunset date of the existing court ordered debt collection program; thus, making the program permanent.

This bill would be effective and operative beginning January 1, 2005.

COMMENTS Implementing this bill would not significantly impact the department.

ECONOMIC IMPACT By allowing superior courts to refer court-ordered debts directly to the department, this bill would result in a more expedient case referral process. As a result, collection of the debts may accelerate accordingly. However, since these debts collected are disbursed to the county or state fund originally owed, this bill would have no impact on the GF.

Staff Recommendation: Neutral

Status: Assembly Judiciary Committee

(17)

SB 615 (Cedillo) As Amended April 1, 2004
SUBJECT: California Law Compatible With The Federal Servicemembers Civil Relief Act

DIGEST This bill would make California law compatible with the Servicemembers Civil Relief Act (SCRA) (PL 108-189) enacted December 19, 2003. It would provide expressly that:

- the military compensation of a servicemember not domiciled in this state may not be used to increase the tax liability imposed on other income earned by that servicemember or that servicemember's spouse.
- the running of the statute of limitations is suspended for the period of a servicemember's military service.
- the rate of interest is limited to a maximum of 6% per year on any underpayment incurred before the servicemember enters military service.
- a servicemember not domiciled in this state does not become a resident of this state by reason of being present in this state solely in compliance with military orders.
- military compensation of a servicemember not domiciled in this state is not income for services performed or from sources within this state.
- Native American servicemembers whose legal residence or domicile is a federal Indian reservation are treated as living on the federal Indian reservation and the compensation for military service is deemed to be income derived wholly from federal Indian reservation sources.

As a tax levy, this bill would be effective immediately. However, consistent with the federal SCRA, this bill specifically provides that it would apply to any taxable year for which the statute of limitations for making assessments or allowing a claim for refund or credit has not expired as of December 19, 2003.

<u>COMMENTS</u> This federal law applies to returns currently being filed for the 2003 and prior tax years as well as to all future tax years. It is urgent that state law be amended to be compatible with the SCRA so that FTB can implement this change. Otherwise taxpayers will have to wait for a court of appeal decision declaring the California statute unconstitutional, which would be a certain outcome. Waiting for a court decision would require impacted taxpayers to file amended returns or to ignore California law under color of federal law, all of which would result in additional customer service and processing costs for the department. This bill would avoid those additional administrative costs.

<u>ECONOMIC IMPACT</u> Federal law changes will reduce state personal income tax baseline revenue in the range of $1 million annually. Making California law compatible with the federal law will have no incremental impact.

Staff Recommendation: Support

Status: Assembly Appropriations Committee

(18)

SB 1162 (Machado) As Amended May 3, 2004
<u>SUBJECT</u>: California Military Family Relief Fund

<u>DIGEST</u> This bill would create the California Military Family Relief Fund and would allow taxpayers to designate contributions to this fund on their PIT return.

This bill would require FTB to revise the PIT return to include a designation space for the fund. It is the intent of the Legislature that the 2004 PIT return include the designation space. The fund would remain in effect only until January 1 of the fifth taxable year following its first appearance on the tax return.

This bill would become effective January 1, 2005, and would apply to tax returns filed on or after that date.

<u>COMMENTS</u> Implementing this bill would not significantly impact the department.

<u>ECONOMIC IMPACT</u> The net revenue impact of this bill would be negligible.

Staff Recommendation: Neutral

Status: Assembly Desk

(19)

SB 1354 (Escutia) As Amended May 17, 2004
<u>SUBJECT</u>: Credit Carryovers/Aggregate Amount May Not Reduce "Net Tax" For The Taxable Year By More Than 50%

<u>DIGEST</u> This bill would limit application of all credits that have carryover provisions, except the Low Income Housing Credit, to 50% of "net tax" or "tax." This limitation would apply to both credits carried forward from prior years and credit amounts allowed during the 2004 and 2005 taxable years. The carryover period for any credit limited by this bill would be extended by two years.

As a tax levy, this bill would become effective immediately upon enactment. The bill specifies that it would be operative for taxable years beginning on or after January 1, 2004, and before January 1, 2006.

<u>COMMENTS</u> Implementing this bill would require the following: 1) additional lines on the tax forms and additional instructions, 2) return processing, including manual verification of the credit computation, 3) information systems (programming), 4) possible increased storage space, and 5) increased public assistance. All of these changes result in additional costs described below under "Fiscal Impact."

<u>ECONOMIC IMPACT</u>

Estimated Cash Flow Revenue Effects of SB 1354 05/17/2004
Enactment Assumed After June 30, 2004
[$ In Millions]

	2004-05	2005-06	2006-07	2007-08
PIT	$62	$18	-$20	-$15
Corp	$358	$271	-$64	-$30
Total	$420	$289	-$84	-$45

<u>FISCAL IMPACT</u> Department costs would be approximately $1.8 million in fiscal year 2004/05 and approximately $ 1 million for fiscal year 2005/06. These costs include increased expenses for printing related to revising existing forms and instructions, return processing, storage of forms, programming changes to information systems, and manual verification of the accuracy of the credits allowed.

Staff Recommendation: Neutral if Amended

Status: Senate 3rd reading

(20)

SB 1534 (Johnson) As Amended May 6, 2004
<u>SUBJECT</u>: Allow Taxpayers With Income Less Than Specified Amounts To use Form 540 2EZ

<u>DIGEST</u> This bill would require FTB to make available to certain taxpayers the option of using Form 540 2EZ to file their income tax return. To qualify for this filing option, the taxpayer's income would have to be under the following income thresholds:

- a single person with *total income* for the taxable year of $100,000 or less; or
- a married couple filing a joint return with *total income* for the taxable year of $200,000 or less.

This bill would require the LAO, in consultation with FTB, to conduct a study on the impact of the revised Form 540 2EZ tax form and report to the Legislature by January 1, 2008.

This bill would be effective and operative on January 1, 2005, and apply to taxable years beginning or after that date.

<u>COMMENTS</u> Requiring a specific form to be made available as a filing option for certain taxpayers would reduce FTB's flexibility in developing new forms or revising existing forms. Currently, form changes occur for a variety of reasons, including legislative changes, FTB program requirements, or taxpayer and tax preparer suggestions. In addition, allowing additional taxpayers to use the Form 540 2EZ would run counter to FTB's strategic plan by expanding a paper filing option when the department's strategic goal is to encourage taxpayers to e-file.

Current state law allows the department to design forms that ease taxpayer compliance. FTB is committed to simplifying the ways Californians file their returns and pay their taxes while minimizing the cost of processing returns. The department has an ongoing history of easing the administrative filing burdens on taxpayers and helping individuals file their tax returns faster and economically. The department is constantly improving filing systems, which includes forms. For example, the department has added programs like free Internet filing, electronic filing, and Telefile; offered simpler paper returns like the Form 540 2EZ; and provided a variety of scanning options. Department staff is available to explore ideas for simpler forms, new forms, and other methods of filing.

To specify statutorily income thresholds for specific tax forms and to require reporting of dividends, interest, and other income not already included on Form 540 2EZ, FTB would need to add additional lines to the Form 540 2EZ. This change would result in substantially increasing the number of pages of the tax tables and the instruction booklet. In addition, since the bill does not differentiate between residents and nonresidents, additional lines and computations would be necessary to determine California-source income. See Fiscal Impact, below regarding department costs.

ECONOMIC IMPACT This bill would not impact personal income tax revenue.

Staff Recommendation: Oppose

Status: Assembly Policy Committee

(21)

SB 1689 (Poochigian) As Amended April 12, 2004
SUBJECT: Exclusion/Reparation Payments/Armenian Genocide

DIGEST This bill would exclude from gross income any payments, including related interest, made in settlement of persecution during the Ottoman Turkish Empire received by an eligible individual or by the individual's heir or estate.

The bill would define "eligible individual" as a person who was persecuted on the basis of race or religion by the regime that was in control of the Ottoman Turkish Empire from 1915 through 1923.

This bill would be effective January 1, 2005, and operative for amounts received on or after January 1, 2005.

COMMENTS Implementing this bill would not significantly impact the department.

ECONOMIC IMPACT To date, no restitution payments have been made. As a result, it is not possible to develop a reliable revenue estimate at this time. A number of uncertainties exist, including the amount of future eligible payments; the number of qualified taxable California recipients; and the total earnings for which the exclusion would apply. However, for every 1,000 taxpayers receiving an average tax benefit of $500, the revenue loss would be $500,000 per taxable year.

Staff Recommendation: Neutral

Status: Senate 3rd reading

(22)

SB 1713 (Machado) As Amended April 13, 2004
SUBJECT: Conformity To The Military Family Tax Relief Act Of 2003 (MFTRA)

DIGEST This bill contains the following provisions to conform California law to recent changes in federal law:

1. Exclusion of Gain on Sale of a Principal Residence by a Member of the Uniformed Services or the Foreign Service.
2. Exclusion from Gross Income of Certain Death Gratuity Payments.
3. Exclusion for Amounts Received Under Department of Defense Homeowners Assistance Program.
4. Expansion of Combat Zone Filing Rules to Contingency Operations.
5. Modification of Membership Requirements for Exemption from Tax for Certain Veterans' Organizations.
6. Clarification of Treatment of Certain Dependent Care Assistance Programs Provided to Members of the Uniformed Services of the United States.
7. Treatment of Service Academy Appointments as Scholarships for Purposes of Qualified Tuition Programs and Coverdell Education Savings Accounts.
8. Suspension of Tax-Exempt Status of Terrorist Organizations.
9. Above-the-Line Deduction for Overnight Travel Expenses of National Guard and Reserve Members.
10. Extension of Certain Tax Relief Provisions to Astronauts.

This bill would be effective immediately and apply as specified in each provision.

COMMENTS Implementing this bill would not significantly impact the department.

ECONOMIC IMPACT

ESTIMATED REVENUE IMPACT OF CONFORMITY TO P.L. 108-121,
THE "MILITARY FAMILY TAX RELIEF ACT OF 2003,"
AS ENACTED NOVEMBER 11, 2003
[Millions of Dollars]

	Fiscal Years		
	2003-04	2004-05	2005-06
Total	-4.5	-2.8	-2.8

Staff Recommendation: Neutral

Status: Senate 2nd reading