

ANALYSIS OF AMENDED BILL

Committee on Jobs,
Economic Develop.,
and the Economy

Author:	<u>and the Economy</u>	Analyst:	<u>Jessica Deitchman</u>	Bill Number:	<u>AB 1716</u>
Related Bills:	<u>See Legislative History</u>	Telephone:	<u>845-6310</u>	Introduced and Amended Dates:	<u>March 15, April 17, and May 4, 2017</u>
		Attorney:	<u>Bruce Langston</u>	Sponsor:	<u></u>

SUBJECT: CA Competes Credit - Extend Sunset Date

SUMMARY

This bill would, under the Personal Income Tax Law and Corporation Tax Law, extend the sunset date of the California Competes Tax Credit (CA Competes Credit).

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

RECOMMENDATION – NO POSITION

Summary of Amendments

The April 17, 2017, amendments removed provisions modifying the definition of small business in the CA Competes Credit. The May 4, 2017, amendments removed provisions of the Revenue & Taxation Code related to sales and use tax and made a technical correction.

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

REASON FOR THE BILL

The reason for the bill is to encourage business growth in California by extending the CA Competes Credit as administered by Governor's Office of Business and Economic Development (GO-Biz).

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective and operative immediately upon enactment, extending the credit through taxable years ending before January 1, 2030.

STATE LAW

For taxable years beginning on or after January 1, 2014, and before January 1, 2025, current state law allows a CA Competes Credit, administered by GO-Biz. 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.

The CA Competes Credit is allocated by GO-Biz for fiscal years 2013-14 through and including 2017-18. The amount of credit that may be allocated is the sum of all of the following:

- \$30 Million for the 2013-14 fiscal year, \$150 Million for the 2014-15 fiscal year, and \$200 Million for each fiscal year from 2015-16 through 2017-18, inclusive.
- The unallocated amount of credit, if any, from the preceding fiscal year.
- The amount of any previously unallocated credits that have been recaptured.
- The amount estimated by the Director of Finance, in consultation with the Franchise Tax Board (FTB) and the State Board of Equalization, to be necessary to limit the aggregate of the estimate amount of exemptions claimed pursuant to Section 6377.1 and of the amounts estimated to be claimed pursuant to Section 17059.2, 17053.73, 23626, and 23689 to no more than \$750 million for either the current fiscal year or the next fiscal year.

Upon approval of the written agreement by the Committee, GO-Biz is required to inform the FTB of the terms and conditions of the written agreement. Under current law, except for small businesses, as specified, the FTB is required to review 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. The FTB may limit the review of small taxpayers' books and records to those the FTB deems appropriate or necessary in the best interest of the state. The FTB is required to notify GO-Biz if a possible breach of the agreement has occurred and provide detailed information regarding the basis of the possible breach.

THIS BILL

This bill would extend GO-Biz's existing authority to allocate CA Competes Credits through the 2029–30 fiscal year, and would extend the CA Competes Credit to taxable years beginning before January 1, 2030.

The bill's provisions would be repealed by its own terms on December 1, 2030.

IMPLEMENTATION CONSIDERATIONS

Because this credit is allocated and administered by GO-Biz, the department could make any necessary changes to the forms and systems during the normal annual update.

LEGISLATIVE HISTORY

AB 2055 (Gipson, 2015/2016) would have modified the allocation provisions administered by GO-Biz. AB 2055 failed to pass by the constitutional deadline.

AB 961 (Gallagher, 2015/2016) would have modified the amount of funding for the California Competes Tax Credit. AB 961 failed to pass by the constitutional deadline.

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

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, created a New Hiring Tax Credit, established the California Competes Tax Credit Committee, and created the California Competes Tax Credit.

OTHER STATES' INFORMATION

Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York laws do not provide a credit comparable to the CA Competes Credit. The laws of these states were selected due to their similarities to California's economy, business entity types, and tax laws.

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 a revenue loss. In accordance with the bill's provisions, 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.

Revenue Discussion:

The amount and timing of the California Competes Credit is subject to the written agreements between GO-Biz and the taxpayer. Staff defers to the DOF for the estimated revenue loss for this credit.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Some may argue that the CA Competes Credit should be extended because the credit has been shown to encourage business in California and thus, boost the economy.

Opponents: Some may argue that the state's economic outlook has improved to the point that the CA competes credit is no longer necessary.

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