STATE OF CALIFORNIA
Franchise Tax Board

Summary Analysis of Amended Bill

Author: Salas & Burke	Sponsor:	Bill Number: AB 2008
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Subject: Exclusion/Amounts Provided from Carl Moyer Memorial Air Quality Standards Attainment Program

Summary

This bill would, under both the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), exclude from gross income any amounts received from the Carl Moyer Memorial Air Quality Standards Attainment Program (Carl Moyer Program).

Recommendation – No position.

Summary of Amendments

The March 20, 2018, amendments added a coauthor, certification requirements, and a repeal date, renumbered the sections that would be added to the Revenue and Taxation Code, and specified the treatment of excluded amounts for purposes of determining deductions otherwise allowed and basis. These amendments resolved all the implementation considerations, all but one of the policy concerns as discussed in the department's analysis of the bill as introduced on February 1, 2018, and raised a new implementation consideration. Except for the "This Bill," "Implementation Considerations," "Economic Impact," and "Policy Concerns" sections, the remainder of the department's analysis of the bill as introduced on February 1, 2018, still applies. The "Fiscal Impact" section is restated below for convenience.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2018.

This Bill

This bill, under the PITL and the CTL, would exclude from gross income any amount provided to a taxpayer pursuant to the Carl Moyer Program.

This bill would require the issuing air district to provide to the taxpayer a certification of the monetary amount issued pursuant to the Carl Moyer Program. Upon request of the Franchise Tax Board (FTB), a taxpayer would be required to provide to the FTB a copy of the certification.

This bill would require the issuing air district to provide the FTB annually, on or before January 1, 2020, and each January 1 thereafter, a data file containing the following information relating to the Carl Moyer Program:

- The names and addresses of recipients.
- The social security number, federal tax identification number, or federal employer identification number of recipients.
- The dollar amounts of payments made pursuant to the Carl Moyer Program in the preceding taxable year.

This bill would require that any deduction otherwise allowed for any amount paid or incurred by the taxpayer for which the grant from the Carl Moyer Program is based be reduced by the amount of any grant excluded from gross income.

This bill would require that the amount of any grant received that is excludable from gross income under this section be taken into account in determining the basis of the property to which the grant relates and would reduce the basis by the amount of the grant excluded from gross income.

The bill's provisions would remain in effect until January 1, 2024, and would be repealed as of that date.

Implementation Considerations

The department has identified the following implementation consideration. Department staff is available to work with the author's office to resolve this and other concerns that may be identified.

Because the bill lacks a specified operative date, the exclusion would initially be allowed for the taxable year beginning on or after January 1, 2018. If this is contrary to the author's intent, this bill should be amended.

Fiscal Impact

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

Economic Impact

Revenue Estimate

This bill would result in the following revenue impact

Estimated Revenue Impact of AB 2008 as Amended March 20, 2018
For Taxable Years Beginning On or After January 1, 2018 and before January 1, 2024
Assumed Enactment after June 30, 2018

($ in Millions)

Fiscal Year	Revenue
2018-2019	- $3.7
2019-2020	- $2.3
2020-2021	- $1.4

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

Revenue Discussion

This estimate assumes that affected taxpayers would capitalize assets purchased with grant money awarded under the Carl Moyer Program. If taxpayers expense the assets, there would be no change in their tax liability because the revenue loss from the income exclusion for the grant is offset by an equivalent revenue gain from the deductions that would no longer be allowed.

Based on data from the Air Resources Board on the Carl Moyer Program, the FTB estimates $66 million in grants are allocated annually to projects that replace, repower or purchase new zero- or low-emission vehicles. Using an average tax rate of 5 percent, the estimated loss from the exclusion is $3.3 million annually.

As specified by the provision, the basis of the property would be reduced by the amount of the grant excluded from income. This would decrease the depreciation deduction allowed. Thus, the revenue loss is offset by a revenue gain of $0.3 million to account for the reduction in depreciation resulting in a net revenue loss of $3 million in the 2018 taxable year. The amount of the initial revenue loss and the subsequent revenue gain is dependent upon the asset's useful life and the depreciation method used by the taxpayer. Once the property is fully depreciated, the revenue loss from the income exclusion will be completely offset by the revenue gain from the decrease in depreciation.

The tax-year estimates are converted to fiscal-year estimates, and rounded to arrive at the amounts shown in the above table.

Policy Concerns

This bill would establish an exclusion for which federal law has no counterpart, thus increasing nonconformity.

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