



STATE OF CALIFORNIA
Franchise Tax Board

Analysis of Amended Bill

Author: Brough

Sponsor:

Bill Number: AB 2205

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Amended: March 15, 2018

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Related Bills: See Legislative
History

Subject: Transportation Improvement Fee Personal Property Tax Deduction

Summary

This bill would, under the Personal Income Tax Law (PITL), provide that the Transportation Improvement Fee (Transportation Fee) would be an allowable deduction, if it is determined that it is a personal property tax under federal income tax law.

Recommendation – No position.

Summary of Amendments

The March 15, 2018, amendments removed provisions that would have made technical changes to the PITL related to depreciation and replaced them 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 clarify that the Transportation Fee imposed may be deducted by individuals as an itemized deduction.

Effective/Operative Date

This bill would become effective and operative January 1, 2019.

Federal/State Law

Existing federal and state laws allow individuals to deduct certain expenses, such as medical expenses, charitable contributions, interest, and taxes, as itemized deductions. Federal law limits the amount of deduction for taxes for individuals. Also, state law may limit itemized deductions for high-income taxpayers.

Federal law allows state and local personal property taxes as an itemized deduction for individuals. Generally, existing state law for individuals conforms to this provision as of January 1, 2015.

Recently enacted state law imposes the Transportation Fee, a supplemental charge for the research, planning, construction, improvement, maintenance, and operation of public streets and highways.¹ The Transportation Fee is based on the value of the vehicle, ranging from \$25 to \$175 per vehicle. The Transportation Fee is paid with vehicle registration, vehicle registration renewal, and vehicle registration transfer fees.

This Bill

This bill would, under the PITL, allow the Transportation Fee to be deducted by individuals as an itemized deduction, if it is determined that it is a personal property tax under federal income tax law.

Implementation Considerations

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

This bill uses the undefined phrase, "To the extent that the transportation improvement fee is a personal property tax." The absence of a definition to clarify this phrase could lead to disputes with taxpayers and would complicate the administration of this bill. If the author intends for the fee to be deductible for state purposes, this bill should be amended to specify that the fee is a personal property tax.

Technical Considerations

Section 17201.1 needs to be amended where the term "licensee" appears, as it should be "license."

Legislative History

SB 1 (Beall, Chapter 5, Statutes of 2017) imposed the Transportation Fee. The fee is based on the value of the vehicle.

Other States' Information

The states surveyed include *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. These states allow a deduction for state personal property taxes.

¹ SB 1 (Beall, Chapter 5, Statutes of 2017).

Fiscal Impact

The department’s costs to implement this bill have yet to be determined. As the bill moves through the legislative process and the implementation concern is resolved, costs will be identified.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2205 as Amended March 15, 2018
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	\$0
2019-2020	- \$18
2020-2021	- \$18

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

SB 1 chaptered in 2017 created the Transportation Fee. The analysis published by the Senate Appropriations Committee for SB 1 estimates approximately \$1.5 billion in Transportation Fees would be collected in 2019. This estimate assumes the Transportation Fee would meet the Internal Revenue Code definition of a personal property tax. Based upon Franchise Tax Board tax data, it is estimated 20 percent of taxpayers would claim itemized deductions totaling \$300 million in the 2019 taxable year. Applying an average tax rate of 6 percent, results in an estimated revenue loss of \$18 million for taxable year 2019.

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

Support/Opposition

Support: None provided.

Opposition: None provided.

Arguments

Proponents: Some may argue that the recently enacted Transportation Fee is in effect an additional tax on personal property and should be deductible.

Opponents: Some may argue that allowing the Transportation Fee as an itemized deduction would benefit higher income taxpayers at the expense of lower income taxpayers that are unable to itemize their deductions.

Policy Concerns

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review of the effectiveness of a tax benefit by the Legislature.

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