



## Summary Analysis of Amended Bill

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Sponsor:

Bill Number: AB 566

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Amended: April 26, 2017

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Related Bills: See Prior Analysis

**Subject:** Community Development Financial Institution Deposits Credit

### Summary

This bill would, under the Insurance Code and the Revenue and Taxation Code, reenact the Community Development Financial Institution Deposits Credit, with modifications.

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 April 26, 2017, amendments replaced provisions related to the extension of the existing Community Development Financial Institution Deposits Credit with provisions that would reenact the credit, with modifications, as discussed below.

The amendments resolved one of the technical considerations discussed in the department's analysis of the bill as amended March 23, 2017. As a result of the amendments, the "Effective/Operative Date," "This Bill," "Technical Considerations," and "Economic Impact" sections have been revised. The remainder of the department's analysis of the bill as amended March 23, 2017, still applies. The "Implementation Considerations" and "Fiscal Impact" sections have been restated for convenience.

### Effective/Operative Date

This bill would be effective January 1, 2018, and specifically operative for taxable years beginning on or after January 1, 2017, and before January 1, 2022.

### This Bill

This bill would, under the Personal Income Tax Law and the Corporation Tax Law, reenact the Community Development Financial Institution Deposits Credit for taxable years beginning on or after January 1, 2017, and before January 1, 2022. This bill would change the repeal date from December 1, 2017. The credit would be repealed by its own terms on December 1, 2022. However, the law proposed for amendment will be repealed by its own terms on December 1, 2017, prior to the effective date of this bill.

This bill also would eliminate the existing exception to the recapture rules that apply when a qualified investment is reduced below \$50,000, and instead would apply the recapture rules to all qualified investments that are withdrawn or reduced before the end of the 60<sup>th</sup> month and not reinvested in another Community Development Financial Institution within 60 days.

### **Implementation Considerations**

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

### **Technical Considerations**

To address an inconsistency, on page 18, line 29, and on page 24, line 9, “or reduction” should be inserted after “withdrawal.”

### **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.

### **Economic Impact**

#### Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 566 as Amended April 26, 2017  
Assumed Enactment after June 30, 2018

(\$ in Millions)

| Fiscal Year | Revenue |
|-------------|---------|
| 2018-2019   | - \$3.3 |
| 2019-2020   | - \$4.5 |
| 2020-2021   | - \$4.7 |

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

Based on investment data reported by the California Organized Investment Network, it is assumed that the \$50 million investment allocation, or \$10 million in credit, available for calendar year 2017 would be carried over to the 2018 calendar year resulting in the total available investment allocation of \$100 million in 2018.

Due to the timing of the enactment, it is assumed that 80 percent, or \$80 million in qualified investments, or \$16 million in credit, would be made in 2018. This estimate assumes the remaining \$20 million in unallocated investment would be carried over to the following year resulting in a total of \$70 million in qualified investments in 2019 and \$50 million in 2020 and 2021.

Based on the same investment data, it is estimated that 45 percent, or \$7.2 million, of the credit generated would be used to offset income and franchise tax and the remaining credit would be used by insurance taxpayers (not included in this estimate). Based on Franchise Tax Board credit usage data, it is estimated that 25 percent, or \$1.8 million, of the credit would be used in the year generated and the remaining 75 percent would be used in the subsequent four years.

After applying a reduction of 5 percent beginning in 2019 for investments that are reduced or withdrawn before the 60-month period and not reinvested within 60 days, the estimated revenue loss is \$1.8 million in 2018 and \$4 million in 2019.

In addition the split between corporate taxpayers and personal income taxpayers used is 90 percent and 10 percent respectively.

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

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