Franchise Tax Board **SUMMARY ANALYSIS OF AMENDED BILL**

Author:	Caballero, et al.	Analyst:	Davi Milam	Bill Number:	AB 778
Related Bills:	See Prior Analysis	Telephone:	845-2551	Amended Date	May 2, 2017
		Attorney:	Bruce Langston	Sponsor:	

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 May 2, 2017, amendments added an author and several coauthors, added tax levy language, and replaced provisions related to the extension of the Community Development Financial Institution Deposits Credit with provisions that would reenact the credit, as discussed below.

The amendments resolved one of the technical considerations discussed in the department's analysis of the bill as introduced February 15, 2017. As a result of the amendments, the "Effective/Operative Date," "This Bill," "Technical Considerations," and "Economic Impact" sections have been revised. The "Support/Opposition" section has been updated to reflect current information. The remainder of the department's analysis of the bill as introduced February 15, 2017, still applies. The "Implementation Considerations" and "Fiscal Impact" sections have been restated for convenience.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment, 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. The credit would be repealed by its own terms on December 1, 2022.

This bill would apply recapture rules to all qualified investments that are withdrawn or reduced before the end of the 60th month and not reinvested in another Community Development Financial Institution.

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 15, line 15, and on page 20, line 33, “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 778 As Amended on May 2, 2017 Assumed Enactment After June 30, 2017 ($ in Millions)		
2017-18	2018-19	2019-20
- $1.8	- $3.2	- $3.9

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

Based on investment data reported by the California Organized Investment Network, the average annual certified community development investment eligible for the Community Development Financial Institution Deposits Credit is estimated to be $50 million per year, resulting in a credit generated of $10 million per year. Due to the timing of the enactment, it is assumed that 80 percent, or $40 million in qualified investments would be made in 2017. This estimate assumes the remaining $10 million would be carried over to the following year resulting in $60 million in qualified investments in 2018, and $50 million per year in 2019 through 2021.

Based on the same investment data, it is estimated that 45 percent, or $3.6 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 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 2018 for investments that are reduced or withdrawn before the 60th month period and not reinvested within 60 days, the estimated revenue loss would be approximately $1 million in 2017 and $2.5 million in 2018.

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 years, and then rounded to arrive at the estimates reflected in the above table.

SUPPORT/OPPOSITION[1]

Support: Bankers Small Business of CDC of California.

Opposition: None noted.

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[1] As noted in Assembly Revenue and Taxation Committee analysis dated April 21, 2017.