

Author: Patterson et, al. Analyst: Jessica Deitchman Bill Number: AB 831
Related Bills: See Prior Telephone: 845-6310 Amended Date April 25, 2017
Analysis Attorney: Bruce Langston Sponsor: _____

SUBJECT: Microbusiness Compliance Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), allow a tax credit to a microbusiness for costs paid or incurred with regard to compliance with state regulations and law.

RECOMMENDATION – NO POSITION

SUMMARY OF AMENDMENTS

The April 25, 2017, amendments modified the calculation of and eligibility for the credit as discussed below. As a result of the amendments, two of the implementation considerations and one of the policy concerns identified in the department's analysis of the bill as amended March 20, 2017, have been resolved and another implementation consideration was partially resolved. Except for the "This Bill," "Implementation Considerations," "Economic Impact," and "Policy Concerns" sections, the remainder of that analysis still applies. The "Fiscal Impact," section has been restated for convenience.

THIS BILL

For each taxable year beginning on or after January 1, 2017, this bill would, under the PITL and CTL, allow a tax credit to a microbusiness, as defined in 14837 of the Government Code, for costs paid or incurred during the taxable year with regard to compliance with state laws and regulations in an amount equal to either, as elected by the taxpayer:

- One thousand two hundred dollars (\$1,200) or
- \$25 per each person-hour spent on compliance with state laws and regulations, not to exceed one thousand two hundred dollars (\$1,200).

"Compliance with state laws and regulations" means the adherence to laws, regulations, guidelines, and specifications relevant to the taxpayer's business and includes, but is not limited to, preparation for, and the providing of, mandatory training for employees, modification of the business premises, and providing required information regarding employee safety.

Unused credits could be carried over for up to seven years, until exhausted.

The provisions of Section 41¹ would be inapplicable to the credit allowed by this section.

IMPLEMENTATION CONSIDERATIONS

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

This bill uses phrases that are undefined, i.e., "person-hour," and "compliance with state laws and regulations." The absence of definitions to clarify these phrases could lead to disputes with taxpayers and would complicate the administration of this bill. For clarity and ease of administration, it is recommended the bill be amended to clearly define these phrases.

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 the following revenue loss:

Estimated Revenue Impact of AB 831 As Amended on April 25, 2017 Assumed Enactment After June 30, 2017 (\$ in Billions)		
2017-18	2018-19	2019-20
- \$2.3	- \$1.9	- \$2.1

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 data from the US Small Business Administration and Franchise Tax Board, there are an estimated 3 million microbusinesses that would qualify for the credit in 2017. Due to the timing of this bill, it is assumed that 75 percent, or 2.3 million businesses, would claim the

¹ Under Revenue and Taxation Code section 41, legislation that would create a new tax credit is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the credit's effectiveness.

credit in the first year and 100 percent would claim the credit each year thereafter. Based on available research, it is assumed that each eligible business would allocate at least 48 hours per year to state compliance law and regulation activities, resulting in an estimated 110 million person-hours being devoted to these activities. The estimated 110 million person-hours multiplied by a credit of \$25 per hour, results in estimated credit generated of \$2.7 billion in 2017. This estimate assumes that all qualified taxpayers would generate the maximum credit of \$1,200 per year. It is estimated that 60 percent of California taxpayers would have sufficient tax liability to claim the credit in the year generated. Of those, 80 percent, or \$1.3 billion, would use the credit in 2017. The remainder would be utilized over the next two years.

The calendar year estimates are converted to fiscal years and then rounded to arrive at the amounts shown in the above table.

SUPPORT/OPPOSITION²

Support: None provided.

Opposition: California Labor Federation, California Nurses Association/National Nurses United, California Professional Firefighters, California Tax Reform Association.

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.

Because wages paid to employees are deductible under current law and may also be eligible under another provision of state tax law for a wage credit, this bill would allow taxpayers to claim multiple tax benefits for the same item of expense.

Generally, credits are limited as a percentage of amounts paid or incurred. This bill would allow a twenty-five dollar credit per man-hour regardless of the amount of the wage paid.

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² As provided in Assembly Revenue and Taxation Committee analysis dated April 17, 2017.