



Summary Analysis of Amended Bill

Author: Canella

Sponsor:

Bill Number: SB 1417

Analyst: Raj Lawrence

Phone: (916) 845-7774

Amended: May 2, 2018

Attorney: Bruce Langston

Related Bills: See Prior Analysis

Subject: Minimum Franchise Tax/Reduce for Corporations

Summary

This bill would, under the Corporation Tax Law, modify the minimum franchise tax for corporations having less than \$15 million in gross receipts and under the Personal Income Tax Law retain the \$800 minimum annual tax.

Recommendation – No position.

Summary of Suggested Amendments

The May 2, 2018, amendments replaced the previously undefined term “gross revenue” with “gross receipts,” modified cross references to retain the \$800 annual tax for specified entities, and made several technical changes.

As a result of the amendments, the department’s implementation concerns have been resolved and a new implementation consideration has been identified. Except for the “This Bill,” “Implementation Considerations,” and “Economic Impact” sections, the remainder of the department’s analysis of the bill as introduced on February 16, 2018, still applies. The “Fiscal Impact” section has been restated below for convenience.

This Bill

For taxable years beginning on or after January 1, 2019, this bill would modify the minimum franchise tax imposed on corporations based on gross receipts as shown below and recast the cross references in the annual tax provisions to retain the \$800 minimum for entities subject to the annual tax. The minimum franchise tax would be determined as follows:

<u>Gross receipts less than \$2,500,000</u>	<u>Gross receipts of \$2,500,000 or more but less than \$7,500,000</u>	<u>Gross receipts of \$7,500,000 or more but less than \$15,000,000</u>	<u>Gross receipts of \$15,000,000 or more</u>
\$200	\$400	\$600	\$800

Implementation Considerations

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

Corporations subject to the reduced minimum franchise tax would still be required to pay the measured tax (determined based on net income) if the measured tax exceeds the minimum franchise tax. For example, a taxpayer with net income in excess of approximately \$9,040 would have a measured tax of approximately \$800 ($\$9,039 \times 8.84\% = \799) and would be required to pay the higher amount regardless of their gross receipts. If this is contrary to the author's intent, this bill should be amended.

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 SB 1417 as Amended May 2, 2018
For Taxable Years Beginning On or After January 1, 2019
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	- \$120
2019-2020	- \$320
2020-2021	- \$330

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

The provisions of this bill specify that the amount of minimum franchise tax would be determined in accordance with the taxpayer's "gross receipts." Based on data from the Franchise Tax Board for tax years 2012-2015, it is estimated that in taxable year 2019 approximately 600,000 corporations would be impacted by the changes to the amount of the minimum franchise tax as proposed in this bill.

The estimated revenue loss from the proposed changes to the minimum franchise tax for C and S corporations would be approximately \$310 million in the 2019 taxable year. This consists of minimum franchise tax that would no longer be paid offset by measured tax. C and S corporation taxpayers must pay the measured tax only if it is more than the minimum franchise tax.

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

Legislative Staff Contact

Raj Lawrence
Legislative Analyst, FTB
(916) 845-7774
raj.lawrence@ftb.ca.gov

Jame Eiserman
Revenue Manager, FTB
(916) 845-7484
jame.eiserman@ftb.ca.gov

Diane Deatherage
Legislative Director, FTB
(916) 845-6333
diane.deatherage@ftb.ca.gov