



Summary Analysis of Amended Bill

Author: Bradford

Sponsor:

Bill Number: SB 343

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Amended: July 5, 2018

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Related Bills: See Prior Analysis

Subject: Carousel Housing Tract Cleanup Income Exclusion

Summary

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), exclude from gross income qualified amounts received by a taxpayer related to the remediation of the Carousel Housing Tract.

Recommendation – No position.

Summary of Amendments

The July 5, 2018, amendments resolved the department's technical considerations by accepting the amendments suggested in the department's analysis of the bill as amended on September 1, 2017.

The "Economic Impact" section was modified to add current fiscal year information and the impact of the technical amendments. The "Support/Opposition" section was modified to add the support information included in the Assembly Revenue and Taxation Committee analysis dated June 29, 2018. Except for the "Economic Impact" and "Support/Opposition" sections, the remainder of the department's analysis of the bill as amended on September 1, 2017, still applies. The "Fiscal Support" section has been restated below for convenience.

Fiscal Impact

This bill would not significantly impact the department's costs.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 343 as Amended on July 5, 2018
Assumed Enactment after June 30, 2018

The estimate reflects recent federal guidance on the taxability of payments made to taxpayers.¹

(\$ in Millions)

Fiscal Year	Revenue
2017-2018	- \$2.3
2018-2019	- \$4.0
2019-2020	- \$0.4
2020-2021	- \$0.4

For purposes of this estimate, it was assumed that only Carousel Housing Tract residents would participate in the temporary relocation program. 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

Settlement

Based on publicly available information, it is assumed qualified taxpayers would receive settlement proceeds of \$120 million, from Shell Oil Company (Shell) and Dole Food Company Inc. in 2017 and 2018. It is assumed that 50 percent, or \$60 million, would be paid to qualified taxpayers and the remaining \$60 million would pay the attorney fees and other costs. It is assumed that 90 percent, or \$54 million, of the settlement proceeds would be paid to personal income taxpayers and 10 percent, or \$6 million, would be paid to corporate franchise taxpayers.

¹ <https://www.irs.gov/newsroom/irs-explains-tax-treatment-of-settlement-payments-to-some-carson-homeowners>

Personal Income Taxpayers

It is assumed the \$54 million settlement proceeds would be received by personal income taxpayers in 2017 and 2018. It is assumed that 50 percent of the settlement, or \$27 million, would be received in each year.

Under Shell's Temporary Relocation Program, residing owners or tenants of qualified Carousel Housing Tract properties would qualify for either direct pay or reimbursement of expenses associated with their temporary living arrangements due to remediation-related excavation activities.² For those taxpayers who choose the expense reimbursement program, Shell would provide eligible participants with assistance towards temporary living expenses such as lodging, meals, and pet boarding. For purposes of this estimate, it is assumed that Shell would relocate 42 properties each year and each property would include a family of 4 (two adults and two children). Pursuant to the federal guidance dated August 17, 2017, the revenue estimate has been adjusted to account for the per diems that are non-taxable under current law. Based on the revised remedial action plan and recent IRS guidance, it is estimated that the average family would receive approximately \$45,000 in reimbursed expenses that would be excluded from gross income and would incur an additional \$6,500 in unreimbursed expenses that would be treated as an above-the-line deduction.

In addition, it is assumed individuals that received payments prior to the enactment of this bill would have received and/or incurred similar amounts and would amend their returns to exclude income received and/or report unreimbursed expenses related to temporary accommodations. It is assumed that these taxpayers would amend their taxable year 2016 and 2017 returns over the next three years (60 percent in 2018, 30 percent in 2019, and 10 percent in 2020). In total, between the settlement income, the exclusion for reimbursed expenses, and the above-the-line deduction for unreimbursed expenses, it is estimated personal income taxpayers would exclude or deduct approximately \$47 million in 2018. Applying a tax rate of 10 percent to personal income taxpayers results in a revenue loss of \$4.8 million in 2018. The estimated revenue loss would be approximately \$1.1 million in 2019 and \$500,000 each year thereafter for the costs related to the temporary accommodations and relocation.

The tax-year estimates are converted to fiscal-year estimates, and then rounded to arrive at the amounts reflected in the above table. The amounts related to prior year amended returns are accrued back one year.

Corporate Taxpayers

It is assumed the \$6 million settlement proceeds would be received by corporate taxpayers and would be excluded from gross income in 2018. Applying a tax rate of 5 percent results in \$300,000 in revenue loss. It was assumed that these taxpayers would not have a need to participate in the relocation program and as a result, would not receive reimbursement of

² Revised Remedial Action Plan dated September 19, 2014.

expenses associated with their temporary living arrangements due to remediation-related excavation activities. In addition, it is assumed that they would not incur any expense that would not otherwise be deductible as ordinary and necessary.

Support/Opposition³

Support: City of Carson.

Opposition: None provided.

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³ As presented in the Assembly Revenue and Taxation Committee analysis, dated June 29, 2018.