

**ANALYSIS OF AMENDED BILL**

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|---|---------------------------------|-------------------------------------|
| Author: <u>Wiener</u>                         | Analyst: <u>Janet Jennings</u>  | Bill Number: <u>SB 421</u>          |
| Related Bills: <u>See Legislative History</u> | Telephone: <u>845-3495</u>      | Amended Date: <u>March 30, 2017</u> |
|   | Attorney: <u>Bruce Langston</u> | Sponsor: _____                      |

**SUBJECT:** Local Vehicle License Fee/FTB & DMV Develop Reporting Process That Enables DMV to Report to FTB Data to Prepare Estimate of Revenue Loss. FTB Report to DMV Amount of Revenue Loss Incurred by the State Due to Deductibility of Fee

**SUMMARY**

This bill would require the Franchise Tax Board (FTB) to report to the Department of Motor Vehicles (DMV) the estimated revenue loss resulting from deductions taken by residents of a county or a city and county due to the passage of a local vehicle assessment.

This analysis does not address the bill's changes to the provisions of the Revenue and Taxation Code relating to the imposition of local assessments as these provisions do not impact the department's programs and operations.

**RECOMMENDATION – NO POSITION**

**Summary of Amendments**

The March 30, 2017, amendments removed the bill's provision modifying the Penal Code and replaced it with the provisions discussed in this analysis. This is the department's first analysis of the bill.

**REASON FOR THE BILL**

The reason for the bill is to provide an additional mechanism for any county, including a city and county, for increasing funding for public services.

**EFFECTIVE/OPERATIVE DATE**

This bill would become effective January 1, 2018, and operative as specified when approved by a board of supervisors for a county or city and county.

**FEDERAL/STATE LAW**

Existing federal and state laws allow individuals to deduct certain expenses, such as medical expenses, charitable contributions, mortgage interest, and certain state or local taxes paid as itemized deductions. A vehicle license fee (VLF) imposed by a state or local entity is considered a personal property tax that can be deductible as an itemized deduction. For business entities, the VLF can be deducted as a business expense for vehicles used in the business.

## **THIS BILL**

This bill would repeal provisions of the Revenue and Taxation Code that authorizes the Board of Supervisors of the City and County of San Francisco to impose on its residents by ordinance, a voter-approved local vehicle licensing fee and enact similar provisions authorizing a county, including a city and county, to, upon approval by a majority of the board of supervisors, impose on its residents a local vehicle licensing fee.

Among other requirements, the Board of Supervisors of a county imposing a local vehicle licensing fee would be required to transmit a certified copy of the approved ordinance to the FTB.

This bill would require that the FTB report to the DMV an estimate of the revenue loss to the state for the prior year resulting from deductions taken under the Personal Income Tax Law and the Corporation Tax Law for taxes paid or incurred as a result of the assessment. The report would be due on or before January 1 of the year following the year during which an assessment is imposed, and annually thereafter. The DMV and the FTB would be required to develop a reporting process that enables the DMV to provide to the FTB in a timely manner the data necessary for the FTB to prepare the annual estimated revenue loss.

On or before January 1 of the second year that follows a year, or portion of a year, in which an assessment is imposed, and annually thereafter, the FTB would be required to report to the DMV a revision of the reported estimated revenue loss using actual filing and returns.

Revisions to previous estimates made by the FTB on or after January 1 following the inoperation or repeal of a local assessment would be required to be reported to the Controller instead of the DMV.

## **IMPLEMENTATION CONSIDERATIONS**

Implementing this bill would not significantly impact the department's programs or operations.

### **Technical Considerations**

For consistency on page 6, line 37 after "enacted," delete "tax" and insert "assessment".

## **LEGISLATIVE HISTORY**

SB 1492 (Leno, Chapter 838, Statutes of 2012) required the FTB to report to the DMV the estimated revenue loss as a result of deductions taken by residents of the City and County of San Francisco due to the passage of a voter-approved local vehicle assessment.

SB 223 (Leno, Vetoed, 2011/2012) was similar to SB 1492. In his veto message, Governor Brown stated a broader revenue solution to the state's fiscal crisis should be pursued instead of an approach limited to one city.

SB 10 (Leno, 2009/2010) was similar to SB 1492. SB 10 failed to pass out of the Assembly.

AB 1590 (Leno, 2007/2008) was similar to SB 1492. AB 1590 was held in the Senate Revenue and Taxation Committee.

AB 799 (Leno, Vetoed, 2005/2006) was similar to SB 1492. AB 799 was vetoed by Governor Schwarzenegger who viewed it as an unfair burden on motorists.

AB 1208 (Yee, Vetoed, 2005/2006) was similar to SB 1492. AB 1208 was vetoed by Governor Schwarzenegger who indicated that he believed fees should only be added with voter approval.

AB 1187 (Leno, 2003/2004) was similar to SB 1492. AB 1187 failed passage out of the Assembly Appropriations Committee.

### **OTHER STATES' INFORMATION**

The states reviewed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws. No comparable statutes with respect to a local vehicle license fee were found.

### **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**

Under this bill, the FTB would identify the amount of the estimated General Fund loss due to the additional VLF deductions. If the appropriation authority in this bill provides for the reimbursement of the General Fund from the Vehicle Assessment Fund in the same fiscal year revenue loss is incurred by the state, there would be no revenue impact to the General Fund.

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

### **SUPPORT/OPPOSITION**

Support: None on file.

Opposition: None on file.

### **ARGUMENTS**

Proponents: Some people could say that placing the option to increase fees in the hands of local government allows the citizens to determine the priority and importance of local services that would be funded by the additional fees.

Opponents: Some people could say it is inequitable for a county, including a city and county, to assess fees on residents when nonresidents use the roads and bridges that the fees may be designated to support.

### **LEGAL IMPACT**

This bill would impose a local tax upon approval of an ordinance by a majority of the board of supervisors. The California Constitution, Article XIII, A, Section 4, requires a local tax to be approved by a two-thirds vote of the qualified electors.

### **LEGISLATIVE STAFF CONTACT**

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