Summary Analysis of Amended Bill

Author: Canella, et al. Sponsor: Bill Number: SB 920
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Attorney: Bruce Langston Related Bills: See Prior Analysis

Subject: Limited Liability Partnerships & Foreign Limited Liability Partnerships/ Architects, Engineers & Land Surveyors

Summary

This bill, under the Business and Professions, and Corporations Codes, would extend the sunset date on provisions allowing architects, engineers, and land surveyors to organize and operate as limited liability partnerships (LLPs) and foreign LLPs.

This analysis only addresses those provisions of the bill that would impact the department’s operations.

Recommendation – No position.

Summary of Amendments

The April 2, 2018, amendments added coauthors and made other nonsubstantive changes.

The April 30, 2018, amendments reinstated a sunset date, and resolved the policy concern identified in the department’s analysis of the bill as introduced January 23, 2018.

Except for the “This Bill” and “Policy Concerns” sections, the remainder of the department’s analysis of the bill as introduced January 23, 2018, still applies. The “Fiscal Impact” and “Economic Impact” sections have been restated for convenience.

Effective/Operative Date

This bill would be effective January 1, 2019, and operative as of that date.

This Bill

This bill would extend the sunset date from January 1, 2019, to January 1, 2026, on provisions allowing architects, engineers, and land surveyors that meet specified liability insurance requirements to organize and operate as registered and foreign LLPs through that date. In addition, these provisions would be repealed on January 1, 2026, unless another statute is enacted before January 1, 2026, that deletes or extends that date.
Fiscal Impact

This bill would not impact the department’s costs.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 920 as Amended April 30, 2018
For Taxable Years Beginning On or After January 1, 2019, and Before January 1, 2026
Assumed Enactment after June 30, 2018

($ in Millions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue</th>
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</thead>
<tbody>
<tr>
<td>2018-2019</td>
<td>- $1.6</td>
</tr>
<tr>
<td>2019-2020</td>
<td>- $2.9</td>
</tr>
<tr>
<td>2020-2021</td>
<td>- $3.2</td>
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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 revenue loss is estimated by taking the amount of tax that would be owed by the existing LLPs under this bill less the tax the same LLPs would owe after they convert to C corporations and S corporations under current law.

It is estimated that there would be 650 architecture, engineering, and land survey LLPs in 2019 affected by this bill. It is assumed that all 650 LLPs would continue to operate as LLPs if this bill were enacted and the amount of tax owed by these LLPs and their partners is estimated to be $4.8 million in 2019.

If this bill is not enacted, it is assumed that the LLPs would switch to either a C corporation or an S corporation and the estimated amount of tax owed by the C corporations, S corporations, and S corporation shareholders would be $7.5 million.

The net impact of this bill is the difference between the tax due by allowing architects, engineers, and land surveyors to continue to operate as LLPs and the tax due under current law. This results in a net estimated loss of approximately $2.7 million in 2019.
The tax-year estimates are converted to fiscal years and rounded to arrive at the amounts shown in the above table.

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