



Bill Analysis

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Bill Number: AB 263

Subject: Tax Expenditures/Add General Provisions

Summary

This bill would, under the Revenue and Taxation Code (R&TC), repeal and replace existing law requiring legislation authorizing a new tax credit to include specific goals, purposes, objectives, and performance measures to instead apply to legislation authorizing a new tax expenditure.

This analysis only addresses the provisions of the bill that impact the department's programs and operations.

Reason for the Bill

The reason for the bill is to provide a standard method for the Legislature to periodically evaluate whether tax expenditures are providing the intended benefit to the State and its taxpayers.

Effective/Operative Date

This bill would be effective and specifically operative for bills introduced on or after January 1, 2020.

Federal/State Law

Existing state and federal laws provide various tax credits and other tax benefits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These benefits are generally designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Under R&TC 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 effectiveness of the credit.

This Bill

This bill would repeal the current Section 41 and replace it with provisions that would require any bill introduced on or after January 1, 2020, that would authorize a new tax expenditure under Part 10 (commencing with Section 17001) of Division 2, or Part 11 (commencing with Section 23001) of Division 2 or both to contain language specifying:

- The specific goals, purposes, and objectives of the tax expenditure.
- Detailed performance measures for the Legislature to use to measure the goals, purposes, and objectives.
- Data collection and reporting requirements that would allow the Legislature to determine whether the tax expenditure is meeting its goals, purposes, and objectives.
- Taxpayer information collected pursuant to this section would be subject to the disclosure provisions of Section 19542 of the R&TC.¹

"Tax expenditure" would be defined as a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state.

Legislative History

SB 1335 (Leno, Chapter 845, Statutes of 2014) required any bill introduced on or after January 1, 2015, that would authorize a new tax credit to contain language specifying certain performance measures.

SB 508 (Wolk, Vetoed 2011) included the same provisions as this bill and would have required a sunset date for newly enacted tax credits. The veto statement indicated that the legislature should examine all its bills, rather than just the sunset date of SB 508, to determine how long they should exist.

SB 1272 (Wolk, Vetoed 2010) included the same provisions as this bill and would have required a sunset date for newly enacted tax credits. The veto statement indicated that the legislature should consider automatically including a sunset after seven years on every new spending entitlement, program expansion and business mandate.

¹ R&TC section 19542 provides that, unless authorized by a provision of law, it is a misdemeanor for a member, agent, or employee of the Franchise Tax Board to disclose information reported on returns, reports, or documents required to be filed under Personal Income Tax Law and Corporation Tax Law.

Other States’ Information

The states surveyed 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.

Review of these states' laws found no objective, performance metric, or reporting requirements comparable to those proposed by this bill.

Fiscal Impact

Because this bill would add requirements for future bills, no departmental costs are associated with this bill.

Economic Impact

Revenue Estimate

This bill, would not impact the state's income or franchise tax revenue.

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.

Appointments

None.

Votes

Location	Date	Yes Votes	No Votes
Concurrence	September 3, 2019	73	0
Senate Floor	August 26, 2019	39	0
Assembly Floor	May 23, 2019	71	1

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