STATE OF CALIFORNIA
Franchise Tax Board

Revised Analysis

Author: Holden, et al.
Sponsor:
Bill Number: AB 533

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Amended: March 19, 2019, and April 4, 2019

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Related Bills: See Prior Analysis

Subject: Exclusion/Financial Incentives for Participation in Turf Removal/Extends Repeal Date to January 1, 2024

Summary

This bill would, under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), extend until December 1, 2024, the exclusion from gross income of amounts received for participation in a turf removal water conservation program.

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

Summary of Revision

This revised analysis updates the "Economic Impact" section of the department's analysis of the bill as amended March 19, 2019, and April 4, 2019, as a result of newly available data. Except for the "Fiscal Impact," section, the remainder of the department's analysis of the bill as amended March 19, 2019, and April 4, 2019, still applies.

Recommendation – No position.

Revised Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 533 as Amended April 4, 2019
Assumed Enactment after June 30, 2020

Fiscal Year	Revenue
2019-2020	$0
2020-2021	-$150,000
2021-2022	-$100,000

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

Based on NASA data from the Ames Research Center, water agency data, and U.S. Census housing and industry data, it is estimated there are 6.1 million structures, with turf, owned by personal income taxpayers in California. It is further assumed that 60 percent, or 3.7 million, would have access to turf removal rebate programs. However, this percentage could vary depending on whether or not a local water agency's turf removal program is fully funded. Based on research conducted by the Metropolitan Water District of Southern California in 2016, it is assumed that one and one-half percent, or 50,000 taxpayers, would choose to participate in a turf removal program and apply for a rebate.

Based on data from various public utilities located in California, the average residential rebate issued for participation in these programs is approximately $450, resulting in approximately $21 million of rebates paid. Because not all taxpayers understand that rebates, vouchers, or other financial incentives may be taxable, it is assumed that seven percent, or $1.5 million, in rebates would be awarded to residential owners that would know to include the rebates in taxable income and thus benefit from the exclusion. A marginal tax rate of six percent is then applied, resulting in an estimated revenue loss of $90,000 in the 2020 taxable year.

Corporations generally follow financial reporting guidelines and treat financial incentives or rebates as refunds or price reductions, excluding them from taxable income, or decreasing the asset basis by the amount of financial incentive received. It is assumed that there would be no change in the way commercial owners treat rebates.

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

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