STATE OF CALIFORNIA
Franchise Tax Board

Summary Analysis of Amended Bill

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Subject: Minimum Franchise Tax/Reduce for Corporations

Summary

This bill would, under the Corporation Tax Law (CTL), modify the minimum franchise tax for corporations having less than $15 million in gross receipts but retain the $800 minimum annual tax for limited liability companies (not classified as corporations for tax purposes) and certain partnerships, (i.e., limited partnerships and limited liability partnerships) taxed under the Personal Income Tax Law (PITL).

Recommendation – No position.

Summary of Amendments

The June 24, 2019, amendments added a sunset date and, in off-code language, added reporting requirements. The April 24, 2019, amendments resolved the previously identified implementation consideration. Except for the "Effective/Operative Date," "This Bill," "Implementation Considerations," and the "Fiscal Impact" sections, the remainder of the department's analysis of the bill as amended April 24, 2019, still applies. The "Economic Impact" and "Policy Concerns" sections have been restated for convenience.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2020, and before January 1, 2025.

This Bill

For taxable years beginning on or after January 1, 2020, and before January 1, 2025, this bill would modify the minimum franchise tax imposed on corporations, based on gross receipts during the taxable year, as shown below and recast the cross references in the annual tax provisions to retain the $800 minimum for entities subject to the annual tax.

The minimum franchise tax would be determined as follows:

Gross receipts less than $2,500,000	Gross receipts of $2,500,000 or more but less than $7,500,000	Gross receipts of $7,500,000 or more but less than $15,000,000	Gross receipts of $15,000,000 or more
$200	$400	$600	$800

Implementation Considerations

Implementing this bill to satisfy reporting requirements would require some changes to existing tax forms, tax form instructions and information systems, which could be accomplished during the department's normal annual update.

Fiscal Impact

Staff estimates a cost of approximately $385,000 in fiscal year 2019-2020 and ongoing costs of $374,000 in fiscal year 2020-2021, $7,000 in fiscal year 2021-2022, and $4,000 in fiscal years 2022-2023 and 2023-2024 to develop, program, and test revisions to existing systems for this bill. The department will pursue a budget change proposal if necessary.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 349 as Amended June 24, 2019
Assumed Enactment after June 30, 2019

($ in Millions)

Fiscal Year	**Revenue**
2019-2020	-$120
2020-2021	-$320
2021-2022	-$340

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

This bill would specify that the amount of minimum franchise tax would be determined in accordance with the taxpayer's "gross receipts." Based on data from the Franchise Tax Board for tax years 2013-2016, it is estimated that in taxable year 2020 approximately 580,000 corporations would be impacted by the changes to the amount of the minimum franchise tax as proposed in this bill.

The estimated revenue loss from the proposed changes to the minimum franchise tax for C and S corporations would be approximately $315 million in the 2020 taxable year. This consists of minimum franchise tax that would no longer be paid, offset by measured tax. C and S corporate taxpayers must pay the measured tax only if it is more than the minimum franchise tax.

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

Policy Concerns

This bill would provide a tax benefit for corporations under the CTL that would be unavailable to other business entities under the PITL, such as limited partnerships, limited liability companies not classified as corporations, limited liability partnerships, charitable organizations, regulated investment companies, real estate investment trusts, real estate mortgage investment conduits, financial asset securitization investment trusts, and qualified Subchapter S subsidiaries. Thus, this bill would provide differing treatment based solely on classification.

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