



Bill Analysis

Author: Alanis

Sponsor:

Bill Number: AB 17

Related Bills: See Legislative
History

Introduced December 5, 2022,
and Amended March 2, 2023

SUBJECT

Personal Income Tax Reduction

SUMMARY

This bill would revise the income tax brackets and income tax rates applicable under the Personal Income Tax Law (PITL) for taxable years beginning on or after January 1, 2023, and before January 1, 2028, and would make other nonsubstantive changes.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The March 2, 2023, amendments removed intent language relating to reducing income tax rates for low- and middle-income taxpayers 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 tax relief for low- and middle-income taxpayers.

ANALYSIS

This bill, under the PITL, would revise the income tax brackets and the applicable income tax rates to reduce state income tax for California taxpayers. For certain income tax brackets, the bill would replace the 6% and 8% tax rate with 4%.

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For taxable years beginning on or after January 1, 2023, and before January 1, 2028, this bill would provide the following:

<u>Filing Status</u>	<u>Income Tax Bracket</u>	<u>Tax Rate</u>
Single or Married/Registered Domestic Partner (RDP) Filing Separately:	Taxable income not over \$10,099	1% of taxable income
	Income between \$10,099 and \$23,942	\$100.99 + 2% of amount over \$10,999
	Income between \$23,942 and \$66,295	\$377.85 + 4% of amount over \$23,942
	Taxable income over \$66,295	\$2,918.91 + 9.3% of amount over \$66,295
Married/RDP Filing Jointly or Qualifying Surviving Spouse/RDP:	Taxable income not over \$20,198	1% of taxable income
	Income between \$20,198 and \$47,884	\$201.98 + 2% of amount over \$20,198
	Income between \$47,884 and \$132,590	\$755.70 + 4% of amount over \$47,884
	Taxable income over \$132,590	\$5,837.82 + 9.3% of amount over \$132,590
Head of Household:	Taxable income not over \$20,212	1% of taxable income
	Income between \$20,212 and \$47,887	\$202.12 + 2% of amount over \$20,212
	Income between \$47,887 and \$90,240	\$755.62 + 4% of amount over \$47,887
	Taxable income over \$90,240	\$3,296.80 + 9.3% of amount over \$90,240

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These amounts would be adjusted for inflation in the same manner as the current income tax brackets. The bill provides that the annual inflation adjustment would not apply to taxable years beginning on or after January 1, 2023, and before January 1, 2024. For taxable years beginning on or after January 1, 2028, and before January 1, 2029, the annual inflation adjustment would be based on the preceding taxable year's income tax brackets that would have been in place but for the revisions that would be made under the provisions of this bill.

This bill provides that the Legislature intends to comply with the reporting requirements of Revenue and Taxation Code (RTC) section 41.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2023. The changes to the income tax brackets and rates would be specifically operative for taxable years beginning on or after January 1, 2023, and before January 1, 2028.

Federal/State Law

Federal Law

For each taxable year, existing federal law imposes a personal income tax on most United States (US) citizens and permanent residents, who work in the US, if the taxable income exceeds certain specified amounts. The federal tax rates range from 15% to 39.6%.

State Law

Existing state income tax law imposes nine different personal income tax rates, ranging from 1% to 12.3%. Additionally, there is a 1% Mental Health Tax on the portion of a taxpayer's taxable income that exceeds \$1 million.

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Current law, as adjusted for inflation, provides the following income tax brackets and tax rates:

<u>Filing Status</u>	<u>Income Tax Bracket</u>	<u>Tax Rate</u>
Single or Married/RDP Filing Separately:	Taxable income not over \$10,099	1% of taxable income
	Income between \$10,099 and \$23,942	\$100.99 + 2% of amount over \$10,099
	Income between \$23,942 and \$37,788	\$377.85 + 4% of amount over \$23,942
	Income between \$37,788 and \$52,455	\$931.69 + 6% of amount over \$37,788
	Income between \$52,455 and \$66,295	\$1,811.71 + 8% of amount over \$52,455
	Income between \$66,295 and \$338,639	\$2,918.91 + 9.3% of amount over \$66,295
	Income between \$338,639 and \$406,364	\$28,246.90 + 10.3% of amount over \$338,639
	Income between \$406,364 and \$677,275	\$35,222.58 + 11.3% of amount over \$406,364
	Taxable income over \$677,275	\$65,835.52 + 12.3% of amount over \$677,275

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<u>Filing Status</u>	<u>Income Tax Bracket</u>	<u>Tax Rate</u>
Married/RDP Filing Jointly or Qualifying Surviving Spouse/RDP:	Taxable income not over \$20,198	1% of taxable income
	Income between \$20,198 and \$47,884	\$201.98 + 2% of amount over \$20,198
	Income between \$47,884 and \$75,576	\$755.70 + 4% of amount over \$47,884
	Income between \$75,576 and \$104,910	\$1,863.38 + 6% of amount over \$75,576
	Income between \$104,910 and \$132,590	\$3,623.42 + 8% of amount over \$104,910
	Income between \$132,590 and \$677,278	\$5,837.82 + 9.3% of amount over \$132,590
	Income between \$677,278 and \$812,728	\$56,493.80 + 10.3% of amount over \$677,278
	Income between \$812,728 and \$1,354,550	\$70,445.15 + 11.3% of amount over \$812,728
	Taxable income over \$1,354,550	\$131,617.04 + 12.3% of amount over \$1,354,550

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<u>Filing Status</u>	<u>Income Tax Bracket</u>	<u>Tax Rate</u>
Head of Household:	Taxable income not over \$20,212	1% of taxable income
	Income between \$20,212 and \$47,887	\$202.12 + 2% of amount over \$20,212
	Income between \$47,887 and \$61,730	\$755.62 + 4% of amount over \$47,887
	Income between \$61,730 and \$76,397	\$1,309.34 + 6% of amount over \$61,730
	Income between \$76,397 and \$90,240	2,189.36 + 8% of amount over \$76,397
	Income between \$90,240 and \$460,547	3,296.80 + 9.3% of amount over \$90,240
	Income between \$460,547 and \$552,658	37,735.35 + 10.3% of amount over \$460,547
	Income between \$552,658 and \$921,095	47,222.78 + 11.3% of amount over \$552,658
	Taxable income over \$921,095	\$88,856.16 + 12.3% of amount over \$921,095

Under RTC section 41, legislation that would create a new tax expenditure, which includes a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the tax benefit.

Implementation Considerations

None noted.

Technical Considerations

The department has identified the following technical considerations and is available to work with the author's office to resolve these and other considerations that may be identified.

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While amending RTC section 17041, consider deleting obsolete sections 17041(a)(2) and 17041(c)(2), relating to taxable years beginning on or after January 1, 2009, and before January 1, 2011, and renumbering the remaining code sections accordingly.

There are several cross-references throughout the RTC to subdivision (h) of section 17041. These would also require updating due to the renumbering made to this subdivision by this bill.

In subdivision (h)(3), consider replacing "proceeding" with "preceding."

In subdivision (i)(3), consider deleting the second "was".

Policy Considerations

Under RTC section 41, legislation that would create a new tax expenditure, which includes a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the tax benefit. The author may wish to amend the bill to include these goals, purposes, objectives, and performance measures.

LEGISLATIVE HISTORY

AB 1066 (Patterson, 2023/2024), AB 1527 (Zbur, 2023/2024), and SB 93 (Nguyen, 2023/2024) are "spot" bills that state the intent of the Legislature is to enact legislation relating to taxation. AB 1066 and AB 1527 are in the Assembly pending referral, and SB 93 is in the Senate currently in the committee process.

PROGRAM BACKGROUND

None noted.

FISCAL IMPACT

This bill would impact the department's systems, resulting in programming and processing revisions, and form revisions as well as the need for taxpayer outreach, however the department's costs to implement this bill have yet to be determined. As the bill continues to move through the legislative process, costs will be determined.

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ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 17 as Amended March 2, 2023
 Assumed Enactment after June 30, 2023

(\$ in Billions)

Fiscal Year	Revenue
2023-2024	-\$8.5
2024-2025	-\$6.0
2025-2026	-\$6.0

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 output from the Franchise Tax Board’s Personal Income Tax micro-simulation model, it is determined that the estimated revenue loss for taxable year 2023 would be \$5.2 billion, for taxable year 2024 it would be \$5.7 billion, and for taxable year 2025 it would be \$6.0 billion if the proposed amendments of the bill are enacted.

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

LEGAL IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

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ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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