

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: April 21, 2010
POSITION: Oppose

BILL NUMBER: SB 1272
AUTHOR: L. Wolk

BILL SUMMARY: Income and Corporation Tax: New Tax Credit Requirements

This bill would require that any bills introduced on or after January 1, 2011, which creates a new personal income or corporation tax credit must include:

- 1) Specific goals, purposes, and objectives of the credit.
- 2) Performance measures for the credit.
- 3) Data collection and remittance requirements.
- 4) Language repealing the credit after seven years.

FISCAL SUMMARY

According to the Franchise Tax Board (FTB) this bill would not impact income tax revenues. The FTB has also noted that since this measure adds requirements for future bills, no costs are associated with this particular bill.

COMMENTS

The Department of Finance is opposed to this bill. The practice of reviewing tax credits vis-à-vis defined performance measures to ensure that they are effective in achieving public policy goals, and thus are a high priority use of funds, has merit. This bill sets an uneven standard by sunseting all tax credits but no similar sunset requirement is imposed on new spending entitlements. For tax incentives for economic activity to be successful, investors must have confidence that their tax benefit will offset their investment. If tax incentives sunset after 7 years, only investments that pay off in that time will be incentivized.

Analyst/Principal (0723) C. Angaretis	Date	Program Budget Manager Mark Hill	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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SB 1272

ANALYSIS

A. Programmatic Analysis

Current federal and state 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 generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Current law is silent with regard to requiring tax credit bills to include specific goals, purposes, objectives, performance measures, or a sunset date.

This bill would require bills creating a new income tax credit and introduced on or after January 1, 2011, contain language that would specify:

- The goals, purposes, and objectives the new tax credit will achieve (e.g., a jobs credit that would provide an incentive for a company to hire a certain demographic).
- Detailed performance measures for the Legislature to use to measure whether the tax credit meets the goals, purposes, and objectives in the bill.
- Data collection and reporting requirements that would allow the Legislature to evaluate whether the credit is meeting, failing to meet, or exceeding its goals, purposes, and objectives. This will include baseline data, to be collected and remitted in each year the credit is effective for the Legislature to measure the change in performance indicators, and the specific taxpayers, state agencies, or other entities required to collect and remit data.
- That the credit would cease to be operative seven years after its enactment date and repealed as of January 1 of the year after that operative period.

The FTB has indicated that a sunset date tied to the date of enactment could result in a credit ceasing to be operative in the middle of a tax year.

This bill would become effective on January 1, 2011, and specifically operative for any bill introduced on or after January 1, 2011.

B. Fiscal Analysis

According to the FTB this bill would not impact current income tax revenues. The FTB's has also noted that since this measure adds requirements for future bills, no costs are associated with this particular bill.

Code/Department Agency or Revenue Type	SO LA CO RV	(Fiscal Impact by Fiscal Year)							Fund Code
		PROP 98	FC	2010-2011		2011-2012		2012-2013	
				FC	FC	FC	FC		
1147/Pers Inc Tax	RV	No	-----	No/Minor	Fiscal Impact	-----			0001
1730/FTB	SO	No	-----	No/Minor	Fiscal Impact	-----			0001