

SUBCOMMITTEE NO. 5

Agenda

Senator Denise Moreno Ducheny, Chair
Senator Robert D. Dutton
Senator Alex Padilla



OUTCOMES

Agenda - Part B

Monday, May 24, 2010
1:30 a.m. (or upon adjournment of session)
Room 113

Consultant: Keely Martin Bosler

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Revenues and the Economy

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0100 Legislature

Action.

- Adopted an adjustment to the Legislature’s budget to reduce the Legislature’s budget by the SAL amount, which equates to a \$4.6 million reduction and General Fund savings.
- Adopted technical changes to the budget display to reflect the Legislator’s salary reductions adopted by the Compensation Commission last year. These changes were not reflected in the budget bill, as introduced, by error.

Vote. 3-0

0860 State Board of Equalization

Tax Gap Reduction Measures

1. Agricultural Inspection Station Tax Leads

Action. No action – action taken at prior committee meeting.

2. Use Tax Collection - Voluntary Disclosure Program

Action. Adopted trailer bill language to: (1) extend the existing voluntary line for the sales and use tax on the income tax form, (2) direct BOE to develop a “look-up” table to assist taxpayers in compliance with current law, and (3) make this a mandatory reporting requirement.

This would safeguard \$10 million in state and local revenue that would otherwise be lost and generate an additional \$4 million in state and local revenue in the budget year.

Vote. 2-1 (Dutton)

3. Sales Tax Collection—Out-of-State Internet Retailers

Action. Adopted *placeholder* trailer bill language similar to the language contained in AB 2078 prior to the amendments made on April 27 of this year to require retailers to report certain information on sales made to California residents. Issues to be worked out include privacy issues and if retailers that have a business tax nexus also have nexus under sales tax.

Vote. 2-1 (Dutton)

Other Issues

1. Fuel Tax Swap – Administration

Action. Approve the Finance Letter with the following modifications:

- Reduce the request by 1.5 positions.
- Delay the implementation of two audit positions to the 2011-12 fiscal year.
- Make three of the positions requested in the budget year two-year limited-term.

Vote. 2-1 (Dutton)

2. Cost Recovery Fee

Action. Adopt May Revision proposal less 0.8 position and approve placeholder trailer bill language to be worked out in conference.

Vote. 3-0

1730 Franchise Tax Board

Tax Gap Reduction Measures

1. Financial Institutions Records Match (FIRM)

Action. Adopt trailer bill language similar to the language contained in ABx8 8 to direct FTB to implement the FIRM system and generate \$32 million in General Fund revenues in the budget year.

Vote. 2-1 (Dutton)

2. Abusive Tax Shelters

Action. Adopt trailer bill language similar to the language contained in ABx8 8 (Budget). This will result in a \$5.7 million loss in the budget year.

Vote. 2-1 (Dutton)

3. Professional License Suspension

Action. Adopt trailer bill language similar to the language in ABx8 8 that suspends professional licenses of delinquent taxpayers and generates approximately \$19 million in General Fund revenues.

Vote. 2-1 (Dutton)

Tax Policy Changes

1. Suspend/Reform Corporate Tax Cuts

Action. Adopted suspension for two years of corporate tax cuts listed in table below, which is the same as Governor's proposal with following changes:

- **Eliminate Carrybacks.** Staff recommends that the Subcommittee eliminate the policy of carrybacks enacted as part of the 2008-09 budget package. While this policy does conform to federal policy, there are unique circumstances in California that make this policy problematic. Specifically, the Proposition 98 guarantee that funds K-14 education depends on year-over-year growth in General Fund revenues. However, the premise of carrybacks is that corporations can go back and amend prior tax returns to lower tax liabilities and even trigger tax returns. However, the state has no ability to change the Proposition 98 guarantee retroactively to adjust for the amendments to revenues. Secondly, the carry forward policy allowed by current law essentially gets at the same public policy goal, which is to average a corporation's tax liability over a period of time in order to encourage investments that may take multiple years to recover.
- **Make Elective Single Sales Mandatory.** Staff recommends that the Subcommittee make the elective single sales factor policy mandatory. Allowing corporations to choose the formula they apportion income for tax purposes is not good tax policy and gives a comparative advantage to out-of-state corporations that have high sales, but low property and payroll invested in California. By allowing the corporation to elect the formula it uses to calculate tax owed, the corporation can then choose the calculation that is most advantageous to their situation.

The proposed recommendation and projected revenues are summarized below:

Delay Corporate Tax Cuts Two Additional Years:			
(dollars in millions)	2010-11	2011-12	2012-13
- (1) Suspend Net Operating Losses two additional years and continue with expansion from 10 years to 20 years the amount of time losses can be carried forward. (2) Eliminate ability to carryback losses for two years.	\$1,500	\$400	-\$200
- Delay the ability for corporations to determine income/tax liability attributable to California solely on sales in California and make the determination mandatory and not elective.	235	800	1,000
- Delay the ability of corporations to share credits among similar companies.	315	260	32
Subtotal	\$2,050	\$1,460	\$832

Vote. 2-1 (Dutton)

2. Extend Targeted Income Tax Provisions

Action. Adopted extension for two years temporary PIT tax increases in effect in the 2009 and 2010 tax year for an additional two tax years. The proposed recommendation is summarized below:

Extend PIT Increases Two Additional Years:			
(dollars in millions)	2010-11	2011-12	2012-13
-Extend 0.25 Percent Surcharge	\$1,000	\$1,900	\$800
-Extend Reduced Dependent Credit	430	1,300	850
Subtotal	\$1,430	\$3,200	\$1,650

Vote. 2-1 (Dutton)

3. Vehicle License Fee

Action. Adopted the following actions:

- Extended the VLF increase (0.35 to the General Fund and 0.15 to local law enforcement activities) for another two years through 2012-13.
- Increased the VLF by an additional 0.35 percent to a total of 1.5 percent effective July 1, 2010 and extend through June 30, 2013.
- Continued to dedicate 0.15 of the VLF to local law enforcement through 2012-13. This would be instead of the Governor's proposal, which is to allocate \$502 million General Fund through a continuous appropriation starting in 2011-12.
- Rejected the Governor's Emergency Response Initiative and instead fully fund fire protection with revenues from the VLF.

The proposed recommendation is summarized below:

Vehicle License Fee			
(dollars in millions)	2010-11	2011-12	2012-13
- Extend 0.35 increase for additional two years.	\$0	\$1,200	\$1,200
- Extend 0.15 increase dedicated to law enforcement for an additional two years.	0	500	500
- Raise VLF an additional 0.35 percent for two years	1,200	1,200	1,200
Subtotal	\$1,200	\$2,900	\$2,900

Vote. 2-1 (Dutton)

4. Alcohol Tax

Action. Adopted the following actions:

- Adopted the LAO proposal to increase the alcohol tax to reflect inflation since 1991.

- Rejected the Governor’s red light camera proposal that would fund the courts and instead use these revenues to defray costs related to the courts.

The proposed recommendation is summarized below:

Alcohol Tax	2010-11	2011-12	2012-13
(dollars in millions)			
- Increase excise tax on alcohol to reflect inflation	\$210	\$210	\$210

Vote 2-1 (Dutton)