



State of California
Franchise Tax Board

ECONOMIC AND STATISTICAL RESEARCH
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California Income Tax Expenditures

California's Tax Expenditure Reports

- | | |
|------------------------------|---|
| ▪ Department of Finance | All expenditures over \$5 millions |
| ▪ Legislative Analyst Office | Periodically advises the Legislature |
| ▪ Board of Equalization | Sales, fuel and property tax expenditures |
| ▪ Franchise Tax Board | Income tax expenditures |

Franchise Tax Board's Tax Expenditure Report

- 100 pages long, cost of about ½ of a personnel year
- 75 income tax expenditures
- Contents
 - Tables summarizing fiscal impact of all income tax expenditures
 - Discussion on the concept of tax expenditures
 - Analysis of each expenditure, including;
 - ✓ description
 - ✓ cost
 - ✓ number of taxpayers benefiting from the expenditure
 - ✓ how those beneficiaries are distributed among income class
 - ✓ Discussion of policy motivation for the expenditure item.

Strengths of California's Tax Expenditure Report

Summary Tables

Figure 1: Estimates of State Revenue Loss for Nonconformity Items

Compendium of Individual Income Tax Provisions
(In \$ Millions - Rounded)

Item Number	Page	Nonconformity Items	Calendar Year 2006	Fiscal Year 2008/09	Fiscal Year 2009/10	Fiscal Year 2010/11
1	12	Exclusion of Social Security Benefits	1,800	2,100	2,100	2,100
2	14	Research and Development Expenses Credit	1,500	1,300	900	1,100
3	17	Dependent Exemption Credit in Excess of Personal Exemption Credit	1,300	800	0	750
4	18	Water's-Edge Election	700	750	650	600
5	20	Special Treatment for Economically Depressed Areas	450	370	400	470

Strengths of California's Tax Expenditure Report

Topical Index

Figure 3: Tax Expenditures by Topic

Topic	Item	Page
I. Expenditures Benefiting Children		
A. Bolstering Income for Families		
1. Dependent Exemption Credit in Excess of Personal Exemption Credit	N 3	17
2. Exclusion of Foster Care Payments	C 35	93
3. Head of Household and Qualifying Widower Filing Status	C 12	71
4. Joint Custody Head of Household Credit	N 23	44
5. Qualified Senior Head of Household Credit	N 30	50
B. Assistance for Non-Biological Parents		
1. Child Adoption Expenses Credit	N 22	43
2. Exclusion of Foster Care Payments	C 35	93
3. Qualified Senior Head of Household Credit	N 30	50
C. Subsidizing Single Parents		
1. Head of Household and Qualifying Widower Filing Status	C 12	71
D. Child Care Subsidies		
1. Employer Childcare Credits	N 20	41
2. Exclusion of Employee Child and Dependent Care Benefits	C 28	87
3. Child and Dependent Care Expenses Credit	N 8	27

Strengths of California's Tax Expenditure Report

Distribution Analysis

Impact of Exclusion of Social Security Income that is Reported on Federal Tax Returns: 2006

Adjusted Gross Income Class	Number of Returns Reporting Exclusion (Thousands)	Amount of Exclusion Claimed (Millions)	Tax Impact of Exclusion (Millions)
Less Than \$10,000	10.4	\$94.8	\$1.0
\$10,000 to \$19,999	53.3	\$142.5	\$2.0
\$20,000 to \$49,999	625.0	\$4,810.0	\$182.8
\$50,000 to \$99,999	422.1	\$5,985.4	\$359.1
\$100,000 to \$199,999	187.4	\$2,925.6	\$218.8
More Than \$199,999	106.2	\$2,045.6	\$136.4
Total	1,404.4	\$16,003.8	\$900.0

Source: 2006 Personal Income Tax Sample and microsimulation model
Detail may not add to total due to rounding

Strengths of California's Tax Expenditure Report

Conceptual Discussion

Cannot measure actual effectiveness, but do discuss why an expenditure may or may not be effective.

Example: **Research and Development Credit**

- Discuss reasons for the federal credit and why a state credit may cause an over subsidy of R&D spending.
- Potential windfalls.
- Reasons to want R&D occurring in California.
- Only one fourth of credit gets used to offset taxes.

Final Points

Room for Improvement

- Include expenditure costs within Topical index
- Provide empirical measures regarding effectiveness

Uses

- Basis for Legislative Hearings
- Basis for list of "Revenue Raisers"

Effectiveness Limited

- 2/3rd vote requirement for any tax increase
- List of expenditure items keeps growing
 - ✓ New housing credit
 - ✓ Jobs credit
 - ✓ Movie credit
 - ✓ Elective single sales factor
- Positive influence
 - ✓ Credits limited in dollar cost and sunset
 - ✓ Expenditures reduced or removed

Visit California Franchise Tax Board's Tax Expenditure Report at:

www.ftb.ca.gov/aboutftb/taxExp08.pdf

Visit California Department of Finance's Tax Expenditure Report at:

http://www.dof.ca.gov/research/documents/Tax_Expenditure_Rpt_08-09-w.pdf

Visit California Legislative Analyst's Most Recent Recommendation for Tax Expenditure Eliminations in a report at:

http://www.lao.ca.gov/2009/tax/revenues_0209/revenues_020609.pdf

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