STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	**05/28/99**	Bill No:	**AB 1080**
Tax:	**Tax on Insurers**	Author:	**Villaraigosa, et al**
Board Position:		Related Bills:	**AB 145 (Neutral)**

BILL SUMMARY:

This bill would create an insurance tax credit for insurance companies that contributes to an eligible community development corporation.

ANALYSIS:

Current Law:

Under Section 12201 of the Revenue and Taxation Code, an annual tax of 2.35% is imposed on the gross premiums, minus the return premiums, of insurers doing business in this state.

In the case of insurers transacting title insurance, a tax of 2.35% is imposed on all income except interest and dividends, rents from real property, profits from the sale of investments, and income from investments.

These taxes are imposed on insurers and their property in lieu of all other state, county, and municipal taxes and licenses, including income taxes.

Under current law, Section 12206 of the Revenue and Taxation Code authorizes insurance companies that invest in low-income housing to compete for a gross premiums tax credit granted by the California Tax Credit Allocation Committee. The tax credit is also available under the Personal Income Tax Law and the Bank and Corporation Tax Law, but the tax credit for the 1999 calendar year is limited to an aggregate of $50 million under all three tax laws combined. Also, for each year thereafter, the aggregate tax credit is limited to $35 million per calendar year.

Proposed Law:

This bill would add Section 12207 to the California Tax on Insurers Law to allow a credit against the amount of insurance tax in an amount equal to 50% of a contribution approved by the California Tax Credit Allocation Committee contributed by a taxpayer to an eligible community development corporation for either of the following:

1. The development, renovation, or expansion of a community facility, or
2. The operation of programs that primarily benefit low-income persons.

The credit would apply to years beginning on or after January 1, 2000, and before January 1, 2008. While this proposed section would sunset, any unused credit in excess of the tax owed could be carried over to reduce the insurance tax liability for the succeeding 10 years.

The California Tax Credit Allocation Committee would be required to establish criteria for the award of tax credit certificates to eligible community development corporations. Applications for tax credit certificates would be submitted by eligible community development corporations and they would provide the certificate to the taxpayer identified in its application upon receipt of the contribution. The minimum annual contribution for which a tax credit would apply would be $25,000 and the aggregate credit allocated in any year to one taxpayer could not exceed $500,000 (which would translate into a $1 million contribution).

The aggregate community investment tax credit dollar amount proposed to be made available by the California Tax Credit Allocation Committee under both the insurance tax law and state income tax law (including Personal Income Tax Law and the Bank and Corporation Tax Law) by this bill would be $30 million annually for each calendar year beginning January 1, 2000 but before January 1, 2008.

COMMENTS:

1. Sponsor and purpose. This bill is sponsored by the Local Initiative Support Corporation and is intended to encourage investments in community facilities located in low-income areas and in programs intended to benefit low-income persons.
2. The Board does not foresee any administrative problems with this measure. The Board of Equalization, the State Controller, and the Department of Insurance share administrative responsibility for the insurance tax program. Section 28 of Article XIII of the California Constitution states that the Board shall assess taxes under the insurance tax law. Upon recommendation from the Department of Insurance, the Board also issues deficiency assessments in cases of underpayment of the tax by an insurer. The Office of the Controller has the responsibility to collect the tax and issue refunds. Audit verification work is the responsibility of the Department of Insurance.

   As the law is currently administered, the Department of Insurance would be responsible for the verification of the tax credit. The tax credit proposed by this measure would not impact the Board's current functions under the insurance tax law.

3. Related legislation. Assembly Bill 145 (Vincent) would add Section 12209 to the California Tax on Insurers Law to allow a credit against the amount of insurance tax in an amount equal to 20% of the amount of each qualified deposit made by a taxpayer during the year into a community development financial institution (CDFI). "CDFI" would mean a private financial institution located in this state that is certified by the California Organized Investment Network (COIN), or its successor, that has community development as its primary mission, and that lends in urban, rural, or reservation-based communities in this state. AB 145 would simply make the current income tax credit available under the Tax on Insurers Law.

COST ESTIMATE:

The administrative costs associated with this bill would be absorbable. These costs would include informing, advising, and answering inquires from the public, and training Board staff.

REVENUE ESTIMATE:

This measure would authorize an aggregate tax credit available under the insurance tax law and income tax law of up to $30 million annually.

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This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.