

**Conference Revenue Package
June 16, 2009**

Revenue Enforcement and Acceleration Provisions	Fiscal Effect (millions of dollars)	
	2009-10	2010-11 and Subsequent years
Conference Open Items		
<p><u>Revenue Agenda Page 4, Issue 4—Financial Institutions Records Match (FIRM).</u> Requires financial institutions to perform quarterly matches of their account records with a file of tax delinquents provided by the Franchise Tax Board in order to identify assets that can be applied to pay the delinquent tax debts. This provision improves collections, but does not change tax liability. Provisions reflect SB 402 (Wolk).</p> <p>Action: Approve Assembly version.</p>	\$27	<p>Increase of \$60 million in 2010-11 and about \$100 million in subsequent years.</p> <p>Action: Adopted Assembly 3-2 Senate 3-2</p>
Additional Proposals		
<p>1) <u>Imposes withholding on independent contractors.</u> Effective January 1, 2010, extends income tax withholding to payments to independent contractors. Requires businesses and government entities to withhold 3 percent of payments by for goods or services to independent contractors that currently require the filing of a federal 1099-MISC. The amount withheld would be credited against the state income tax liability of the contractor, as with wage withholding. This provision accelerates revenue and improves compliance, but does not change tax liabilities. FTB implementation costs of \$25 million in 2009-10 and \$20 million annually thereafter.</p>	\$1,965	<p>Revenue gain of \$130 in 2010-11, minor losses in 2011-12 and 2012-13, then annual increases of about \$300 million per year from increased compliance.</p> <p>Action: Adopted Assembly 3-2 Senate 3-2</p>
<p>2) <u>Requires backup withholding.</u> Generally conforms California to federal income tax backup-withholding rules related to various non-wage payments. Requires a business to withhold 7% of reportable payment of interest, dividends, compensation for services, and other forms of income if the IRS determines a condition for withholding exists (such as significant underreporting of non-wage payments by the recipient on tax returns). Provisions reflect AB 1848 (Ma) of 2008.</p>	26	<p>Ongoing annual revenue gain of about \$26 million.</p> <p>Action: Adopted Assembly 3-2 Senate 3-2</p>

3) <u>Extends sales tax "nexus."</u> Requires out-of-state sellers, such as Amazon, that pay commissions to California firms or residents for sales referrals (often through a website link) to collect sales tax on their sales to California residents. This provision improves compliance, but does not change tax liability.. Existing law requires Californians to pay equivalent use tax on these purchases, but compliance is low. Provisions reflect AB 178 (Skinner).	48	Ongoing annual revenue increase of \$110 million plus growth. Also increases local sales tax revenues Action: Adopted Assembly 3-2 Senate 3-2
4) <u>Requires non-retailers to register with Board of Equalization.</u> Businesses that provide services will be required to register with the board and file annual use tax returns by April 15. The annual use tax return and payment applies to purchases on which sales tax was not collected (generally from out-of-state sellers), excluding vehicles, vessels and aircraft. This provision increases compliance, but does not change tax liabilities. Provision reflects AB 711 (Calderon).	28	Annual revenue gain of \$57 million in 2010-11 and potentially larger amounts in future years if compliance improves further. Also increase local use tax revenues. Action: Adopted Assembly 3-2 Senate 3-2
5) <u>Strengthened definition of abusive tax shelters.</u> Discourages tax avoidance and the use of abusive tax shelters by defining a “potentially abusive tax avoidance transaction” as: (1) a tax shelter; (2) an undisclosed reportable transaction; (3) a listed transaction; (4) an entity, investment plan or arrangement, or other plan or arrangement that has the potential for tax avoidance or evasion, as identified by the Secretary of the Treasury or the Franchise Tax Board; (5) a gross misstatement; or (6) a transaction subject to the noneconomic substance transaction understatement penalty. FTB indicates that the strengthened definition will result in increased penalty assessments. Provisions reflect SB 401 (Wolk).	4	Ongoing annual increases of about \$10 million to \$15 million per year. Action: Adopted Assembly 3-2 Senate 3-2
6) <u>Revocation of licenses for delinquent tax payments.</u> Permits the state to suspend state occupational and professional licenses because of unpaid income tax liabilities. Allows taxpayer to avoid suspension by entering into an installment agreement with FTB. Provisions reflect AB 478 (Eng).	10	Ongoing annual revenue increase of about \$15 million to \$20 million. Action: Adopted Assembly 3-2 Senate 3-2

