

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 02/20)

Fiscal Year 2021-22	Business Unit 7730	Department Franchise Tax Board	Priority No. 4
Budget Request Name 7730-005-BCP-2021-GB		Program 6280	Subprogram 6280010/6280019

Budget Request Description
 SB 1447 – Main Street Small Business Tax Credit

Budget Request Summary

The Franchise Tax Board (FTB) is requesting funding of \$377,000 General Fund and 4.0 positions for 2021-22 and \$189,000 General Fund and 4.0 positions for 2022-23 (ending December 31, 2022). These resources will be used to administer provisions of Senate Bill (SB) 1447 (Chapter 41, Statute 2020) that was recently chaptered.

Requires Legislation <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. **Project Approval Document:**

Approval Date:

If proposal affects another department, does other department concur with proposal? Yes No

Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Maisha Coleman	Date 12/22/2020	Reviewed By Tiphonie Weiss	Date 12/22/2020
Department Director Selvi Stan...	Date 12/22/2020	Agency Secretary	Date

Pending Board Approval

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

PPBA	Date submitted to the Legislature
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A. Budget Request Summary

The Franchise Tax Board (FTB) is requesting funding of \$377,000 General Fund and 4.0 positions for 2021-22 and \$189,000 General Fund and 4.0 positions for 2022-23 (ending December 31, 2022) to administer provisions of Senate Bill (SB) 1447 (Chapter 41, Statute 2020) that was recently chaptered.

B. Background/History

The Governor signed SB 1447 into law and FTB is required to implement areas of the new tax law provisions. This bill creates a small business hiring credit fund. The fund will allow small business employers to reserve a credit that can be applied against qualified sales, use, or income taxes.

The California Department of Tax and Fee Administration (CDTFA) will administer the tentative credit reservation process and allocate the credit. FTB will be responsible for managing, processing, and ensuring the tax credit under the Personal Income Tax (PIT) law and/or the Corporations Tax law is claimed accurately.

Beginning January 1, 2020, a small business employer could receive a tentative credit reservation equal to \$1,000 for each net increase in qualified employees. The credit must be reserved between December 1st and January 15, 2021 before January 1, 2021 and shall not exceed \$100,000 for any qualified small business.

This bill is new and a Workload History is not available. The requested resources in this proposal are for the Audit Division. The below Resource History is for the division's Federal and State Special Audit Section (3 positions) and Personal Income Tax and Residency Audit Central Office (1 position):

Resource History (Dollars in thousands)

Federal and State Special Audit Section

Program Budget	2015-16	2016-17	2017-18	2018-19	2019-20*
Authorized Expenditures	12,569	13,461	14,125	15,332	16,271
Actual Expenditures	12,698	13,665	14,117	14,416	12,790
Revenues					
Authorized Positions	165.0	176.0	176.0	178.0	177.0
Filled Positions	157.0	1615	160.8	153.0	143.1
Vacancies	8.0	14.5	15.2	25.0	33.9

*2019-20 is up to fiscal month 11 and will be updated once FTB's year-end accounting process closes.

Analysis of Problem

Personal Income Tax and Residency Audit Central Office

Program Budget	2015-16	2016-17	2017-18	2018-19	2019-20*
Authorized Expenditures	4,040	4,176	5,508	5,602	6,396
Actual Expenditures	3,837	3,831	5,141	5,922	6,487
Revenues					
Authorized Positions	36.0	35.0	45.0	43.0	47.0
Filled Positions	32.5	30.5	38.7	43.7	47.9
Vacancies	3.5	4.5	6.3	-0.7	-0.9

*2019-20 is up to fiscal month 11 and will be updated once FTB's year-end accounting process closes.

C. State Level Consideration

This proposal supports FTB's mission to help taxpayers file tax returns timely, accurately and pay the correct amount to fund services important to Californians and the strategic plan goals for Taxpayer Centric Service, Effective Enforcement, Strong Organization and Operational Excellence.

D. Justification

This proposal will provide the resources and funding necessary to administer the mandated Main Street Small Business Tax Credit. To claim the credit the claimant must file a timely return. It is estimated that 30 percent of those that apply for the credit will receive the credit and apply the credit to income tax due. This equates to an estimated 16,800 returns claiming the credit. Resources are necessary for managing the portion of these returns that need to be audited.

In order to ensure timely audits, processed returns and accurate refunds are issued, FTB is requesting three Tax Technicians and one Program Specialist I. The below chart depicts the workload information for the claims FTB's Audit Division will manage:

Total reservations received	56,000
Total claimants ¹	16,800
Total audits ²	672
Hours required per audit	7
Total number of audit hours:	4,704
Positions required for 1.5 Years	3

¹Represents 30 percent of reservations. ²Represents 4 percent of claimants

FTB is not able to redirect resources to address this workload. FTB positions, including vacancies, have a body of work associated to it. Redirecting a position would leave FTB without the needed resources to perform mission critical work.

Analysis of Problem

E. Outcomes and Accountability

It is the responsibility of FTB to administer the provisions of SB 1447 related to processing associated credit claims. The auditing of claims will be handled under the direction of the Audit Division Chief. Fiscal oversight is the responsibility of the Chief Financial Officer

F. Analysis of All Feasible Alternatives

Alternative #1: Approve \$377,000 General Fund and 4.0 positions for 2021-22 and \$189,000 General Fund and 4.0 positions for 2022-23.

The funding request will provide the needed resources for FTB to comply with the mandates enacted in SB 1447.

Alternative #2: Do nothing

Failure to receive the funding and resources will result in unnecessary and significant risks in implementing SB 1447. In addition it will affect FTB's ability to timely process tax returns and payments and may cause taxpayers to have their refunds delayed.

G. Implementation Plan

- June 2021 – all documentation to establish positions are prepared and approved by the FTB Budget Officer and forwarded to Department of Finance (DOF).
- June 2021 – DOF notifies FTB of position approval.
- July 2021 – Positions are established and FTB begins hiring.

H. Supplemental Information

None.

I. Recommendation

FTB recommends Alternative #1: Approve \$377,000 General Fund and 4.0 positions for 2021-22 and \$189,000 General Fund and 4 positions for 2022-23.

This will ensure the Administration and the Legislature adheres to the commitment of assisting California's small businesses by infusing current relief into the economy.

BCP Fiscal Detail Sheet

BCP Title:

BR Name:

Budget Request Summary

Personal Services