



State of California
Franchise Tax Board

Economic and Statistical Research
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The **California**
Capital Asset Sample

**Overview of California's Personal
Income Tax (2006 Taxable Year)**

- 14.4 million resident tax returns
- Resident Tax Liability of \$45.7 billion
- Resident Adjusted Gross Income of \$990 billion
- Net Capital Gains of \$120 billion
- Net Capital Losses of \$2.7 billion
- Gross Capital Gains of \$143 billion
- Gross Capital Losses of \$43 billion
- Capital gains – ranged between 8% to 24% of CA PIT revenue over the last 20 years

Starting Point for Cap Asset Sample: Personal Income Tax (PIT) Sample

- Annual Stratified Random Sample
- We sample about 272,000 returns of the 14.4 million returns
- We used 42 different sampling strata
- We pick up over 620 data elements

Capital Asset Sub-sample

- Identify returns reporting capital gains/losses on IRS form 1040 and Schedule D
- 100% sampling for gains/losses > \$10 million
- 5% sampling for gains/losses < \$100,000
- Six other intermediate strata & sampling rates

Forms Examined to Collect Data for Capital Asset Sample

- Federal forms –
(1040, Sch D, Sch D-1, Form 4684, Form 4797, Form 6252, Form 6781, Form 8824)
- California Forms - Various
- Taxpayer provided statements

Data Elements Captured

- Asset Type (Stocks, Bonds, residential real property, business property, etc.)
- Source (individual or business, type of business)
- Property Description
- Date Acquired/Sold
- Sales Price/Installment Amount
- Depreciation Taken
- Gain/Loss and Type (ordinary vs. capital)
- Tax Form Used to Report Transaction

Coding System

- Select returns for sample using SAS program against the PIT sample records
- Pull return, either Paper or Electronic
- Online coding system, based on Microsoft Access (resulting file is a SQL database)

Timing and Statistics

Coding for Cap Asset Sample for the 2006 tax year:

- Sample planning began late 2006
- Coding started in September 2007
- Completed April 2008
- 9,175 returns and 260,838 transactions

Costs of Doing the Cap Asset Sample

- Over sampling of high gain/loss groups = large coding effort
- Forms and schedules/statements must be closely reviewed when it appears data is missing
- 4,000 hours of coding, 500 hours of review of data, 200 hours of data analysis

Weaknesses of Sample

- Sample not reliable for small subgroups
- Not a longitudinal sample
- Missing data

Examples: Tax Year 2006

20% of “Acquired Date” missing

15% of “Sold Date” missing

11% of “Sales Price” missing

Strengths of Sample

- Availability of difficult-to-obtain detailed transaction level data
- High-degree of accuracy
- Data series goes back 20 years which allows for time series analysis
- Little change in data definitions = highly consistent variables

How Sample has been Used

- Filing Enforcement
- Audit selection
- Analyzing bills
- Revenue forecasting

Exhibit A – Gross Gains

Tax Year	Stocks /a	Other securities	Residential Real Estate /b	Non-Residential Real Estate	Other	Total
1997	32,715	3,823	3,493	2,916	18,781	61,728
1998	37,724	4,883	6,837	2,334	28,826	80,604
1999	66,254	5,075	5,969	4,258	36,481	118,037
2000	113,426	6,235	12,499	2,625	30,562	165,347
2001	42,221	3,967	11,574	5,065	23,151	85,978
2002	31,998	3,583	10,580	4,562	17,229	67,952
2003	29,345	3,300	9,577	6,161	22,640	71,023
2004	39,706	3,156	15,492	6,860	31,460	96,575
2005	53,960	5,385	18,943	10,099	51,844	140,231
2006	\$ 55,770	\$ 7,440	\$ 16,421	\$ 7,958	\$ 55,416	\$ 143,004

Exhibit B – Stock Gains

Year	Business Sale Gains	Trading Gains	Total	Percent Business Sale Gains
1989	2.44	6.42	8.86	28%
1991	2.72	6.24	8.96	30%
1992	1.47	5.83	7.30	20%
1993	3.47	9.50	12.97	27%
1994	3.05	8.71	11.75	26%
1995	5.64	14.89	20.53	27%
1996	8.00	17.10	25.10	32%
1997	9.85	18.07	27.93	35%
1998	14.08	23.65	37.72	37%
1999	28.99	37.25	66.24	44%
2000	51.50	49.10	100.60	51%
2001	18.11	22.66	40.77	44%
2002	9.66	21.53	31.19	31%
2003	11.36	17.47	28.84	39%
2004	17.45	20.62	38.07	46%
2005	26.71	23.13	49.84	54%

/a Business Sale Gains are gains that are either greater than five million dollars or gains for which the ratio of gains over selling price is more than 98%. Trading Gains are the remaining gains.

/b Excludes capital gains distributions
Source: California Franchise Tax Board: Capital Asset Study
Detail may not add to totals due to rounding

Exhibit C – Holding Periods for Business Sale Gains

Year	1 Year or Less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 6 years	6 to 7 years	7 to 8 years	8 to 9 years	More Than 9 Years	Total Gain (\$Million)
1989	7.0%	14.6%	7.7%	24.5%	5.6%	3.2%	5.6%	6.1%	2.7%	22.9%	2,440
1991	4.8%	16.3%	6.7%	12.0%	6.3%	3.6%	9.1%	8.4%	3.0%	29.8%	2,719
1992	13.2%	17.8%	6.8%	8.6%	6.4%	4.8%	6.4%	6.9%	3.1%	26.0%	1,470
1993	7.3%	7.7%	4.7%	24.0%	7.2%	6.5%	7.1%	2.9%	5.8%	26.9%	3,471
1994	6.5%	11.4%	7.3%	9.9%	7.6%	8.0%	6.4%	3.8%	5.6%	33.5%	3,045
1995	5.4%	8.7%	10.8%	8.1%	8.1%	6.0%	4.6%	4.8%	8.5%	34.9%	5,636
1996	5.1%	12.3%	10.9%	7.0%	6.3%	8.3%	4.2%	4.5%	5.0%	36.5%	7,998
1997	7.2%	7.9%	11.1%	7.9%	5.8%	7.8%	4.6%	2.7%	5.0%	40.1%	9,851
1998	8.6%	10.7%	10.0%	8.4%	8.2%	10.4%	5.4%	4.3%	3.6%	30.4%	14,078
1999	3.8%	16.3%	16.3%	15.6%	8.6%	6.3%	4.0%	2.2%	2.5%	24.4%	28,995
2000	4.7%	19.9%	19.3%	14.5%	9.4%	6.3%	3.9%	3.0%	2.3%	16.5%	51,464
2001	3.3%	14.2%	14.7%	14.4%	9.0%	6.5%	4.5%	3.5%	3.4%	26.5%	17,903
2002	3.6%	7.8%	5.5%	10.9%	6.8%	6.8%	10.9%	5.4%	3.9%	38.5%	9,656
2003	6.5%	7.8%	7.6%	11.6%	9.5%	5.7%	6.2%	5.7%	5.7%	33.8%	11,364
2004	1.5%	10.4%	15.6%	9.9%	7.5%	14.6%	9.0%	3.0%	3.8%	24.7%	17,453
2005	1.3%	15.1%	22.0%	8.4%	5.9%	13.1%	6.9%	2.1%	4.0%	21.2%	26,709
	5.6%	12.4%	11.1%	12.2%	7.4%	7.4%	6.2%	4.3%	4.3%	29.1%	

^{1a} Business Sale Gains are gains that are either greater than five million dollars or gains for which the ratio of gains over selling price is more than 98%. Trading Gains are the remaining gains.

^{1b} Excludes capital gains distributions
Source: California Franchise Tax Board: Capital Asset Study
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