



STATE OF CALIFORNIA
Franchise Tax Board

TCJA and California

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Outline

- Nature of Conformity in California
- TCJA and Federal Taxes of Californians
- Changes to California Taxes

Type of Conformity

- Date Change, no delegation of powers (except when you must)
- Generally conform to IRC as of 1/1/2015
- Some automatic conformity, e.g., definitions of retirement accounts

Federal Taxes of Californians

Lots of interest in

- SALT Deduction
- Repatriation

State and Local Tax Deduction by Amount of SALT Deduction Claimed – Tax Year 2015

State and Local Tax	Number of Taxpayers Reporting Deduction (Thousands)	Amount of State and Local Taxes (Billions)
\$0- \$5,000	1,418	\$4
\$5,000- \$10,000	1,861	\$14
\$10,000 - \$15,000	1,051	\$13
\$15,000 - \$20,000	532	\$9
\$20,000 - \$30,000	478	\$12
\$30,000 - \$40,000	195	\$7
\$40,000 - \$50,000	102	\$5
\$50,000 - \$75,000	110	\$7
\$75,000 - \$150,000	82	\$8
\$150,000 - \$500,000	42	\$11
\$500,000 - \$1,000,000	7	\$5
More than \$1,000,000	6	\$17
All	5,885	\$110

*Details may not add to totals due to rounding.

Taxpayers with SALT Deductions in Excess of \$10,000 – Tax Year 2015

Adjusted Gross Income Class	Number of Taxpayers Reporting Deduction (Thousands)	Amount of State and Local Tax (Billions)	Amount of State and Local Tax in Excess of \$10,000 (Billions)
Less than \$0	19	\$1	\$0.5
\$0 TO \$99,999	352	\$5	\$2
\$100,000 TO \$249,999	1,582	\$27	\$12
\$250,000 TO \$499,999	456	\$17	\$12
\$500,000 TO \$999,999	128	\$10	\$9
More than \$1,000,000	69	\$33	\$32
TOTAL	2,606	\$93	\$67

*Details may not add to totals due to rounding.

Itemized vs. Standard Deduction and Estimated Change in Tax Liability Under New Federal Tax Law for Taxpayers with SALT Deductions Greater than \$10,000 Limit – Tax Year 2015

Estimated Change In Federal Tax Liability	Taxpayers Itemizing Deductions Under New Law (Thousands)	Taxpayers Switching to Standard Deduction Under New Law With or Without SALT Limit (Thousands)	Taxpayers Switching to Standard Deduction Under New Law that Would Itemize if the SALT Limit was Removed (Thousands)	TOTAL (Thousands)
REDUCTION > \$100	806	352	339	1,497
-\$100 < and < \$100	57	10	15	83
INCREASE > \$100	776	70	181	1,027
TOTAL	1,640	432	535	2,607

*Details may not add to totals due to rounding.

Taxpayers with Estimated Tax Increases Greater than \$100 and Who Would Benefit from Elimination the SALT Deduction Limit (By AGI Class) – Tax Year 2015

Adjusted Gross Income Class	Number of Taxpayers (Thousands)	Amount of Tax Reduction if SALT Limit is Removed (Billions)
Less than \$0	1	\$0.01
\$0 TO \$99,999	132	\$0.1
\$100,000 TO \$249,999	619	\$1
\$250,000 TO \$499,999	113	\$1
\$500,000 TO \$999,999	49	\$1
More than \$1,000,000	43	\$9
TOTAL	957	\$12

*Details may not add to totals due to rounding.

Benefit of Removing SALT Limit from TCJA, All Taxpayers, 2015 Simulation

Adjusted Gross Income Class	Number of Taxpayer (Thousands)	Amount of Tax Reduction If SALT Limit is Removed (Billions)
\$ NEGATIVE	17	\$0.02
\$0 TO \$99,999	275	\$0.2
\$100,000 TO \$249,999	1,248	\$2
\$250,000 TO \$499,999	439	\$3
\$500,000 TO \$999,999	128	\$3
\$1,000,000 TO \$HIGH	69	\$11
TOTAL	2,175	\$19

*Details may not add to totals due to rounding.

Update: Californians Itemizing Deductions

Number of California Taxpayers Taking Standard Deduction on Federal, Itemizing Deductions for State

- 700K in full year TY 2017
- 1.3 million efile by 7/31 in TY 2018

Update: Changes in Federal Liability of Californians

- About $\frac{1}{2}$ of Californians had more federal liability in 2017 than in 2016
- Year to date filings, just under $\frac{1}{4}$ owe more in 2018 than in 2017

Repatriation

- Visions of windfalls on trillions of repatriations.
- Only affects Water's- Edge filers, not Worldwide.
- CA only taxes actual repatriations, not deemed.
- Examined a handful of Corps linked in media to \$950 billion subject to IRC § 965.
- Found that 80% of potential liability would be offset by unused credits.

Changes to California Tax

- Lots of questions about how to fill void created by fed reduction in taxes on wealthy. But didn't really go anywhere.
- More extended discussion in some quarters on Opportunity Zones. Three camps: yes, no, and tailored.
- One legislative package conforming to several TCJA provisions, AB 91 - Loophole Closure and Small Business and Working Families Tax Relief Act of 2019

Conformity Package – Revenue Reductions

- ABLE Accounts, Increased Contributions
- ABLE Accounts, Section 529 Rollovers
- Cancellation of Student Loan Indebtedness, Exclusion for Death and Disability
- Small Business Accounting Method Changes

Conformity Package – Revenue Increases

- Eliminate Net Operating Loss Carrybacks
- Disallow Separate State Elections Under IRC Section 338
- Limit Like-Kind Exchanges to Real Property
- Loss Limitations for Non-Corporate Taxpayers
- Disallowance of FDIC Premiums Deduction
- Limit Deduction for Excessive Employee Remuneration
- Repeal Technical Partnership Termination

Why Raise Money Through Conformity?

- Expand the California Earned Income Tax Credit
- Create a new Young Child Tax Credit

Conformity to Old Federal Law

- New CA Health Care Mandate
Penalty and Income-Based Subsidy Elements