



Date: April 26, 2017

To: Members, Assembly Revenue and Taxation Committee

From: Therese Twomey, Fiscal Policy Director

Subject: SUPPORT for AB 1171 (Obernalte and Ridley-Thomas) as amended on April 24, 2017

The California Taxpayers Association and the listed organizations are writing in support of AB 1171, a cleanup measure to remedy an unintended corollary of legislation enacted in 2016 that shortened the tax filing deadline for business partnership returns.

California business partnerships historically have been afforded 30 days following the federal filing deadline to file their California tax returns. This approach allowed businesses to complete their federal returns first, extrapolate relevant state-apportioned income and expenditure data, and make necessary federal-to-state adjustments for purposes of preparing their state returns.

Last year's legislation (AB 1775, Ch. 348, St. 2016) conformed to various original federal deadlines, and by corollary interaction with another provision of law related to extended filing deadlines, caused the elimination of the 30-day period.

AB 1171, sponsored by CalTax, would restore the 30-day period that historically has been established in California to:

- **Prevent untimely filings and penalties.** For more than two decades, the business partnership extended filing date has been set at October 15 (or the following business day if that date falls on a weekend). Last year's legislation had the unintended corollary effect of moving that deadline up by one month to September 15. If AB 1171 is not enacted, taxpayers who are unaware of the earlier filing deadline could be subject to late filing penalties, which currently are 5 percent of the amount of the tax due for every month that the return is late, up to a maximum of 25 percent.

- **Mitigate errors on the tax return.** Business partnership returns are especially complex. Income and deductions must be calculated at the partnership level, then “passed through” and reflected on the appropriate tax forms for each of the partners. The process becomes even more complicated if the partnership is part of another partnership. Without sufficient time to properly calculate and verify numerous adjustments, and report them on a multitude of tax forms and schedules, it is more likely that errors will occur – exposing taxpayers to a variety of penalties, which can be as high as 40 percent.
- **Avoid unnecessary state costs and workload increases.** Tax return errors translate into additional work for both taxpayers and the Franchise Tax Board. If the taxpayer discovers an error after filing a return, the taxpayer must file, and the FTB must review and process, an additional corrected return. In other cases, an error may not be discovered until the agency has expended considerable time and resources as part of an audit.

Last year, FTB requested a \$15 million General Fund augmentation and 180 positions for ongoing tax return processing, filing and compliance workload, noting in its request that when tax issues and challenges remain unresolved “... the result is the taxpayer may not file or pay timely or accurately, and thus these taxpayers enter into our compliance activities that are more expensive to address for the State.”

Good tax policy is grounded in laws that promote and enable reasonable, clear and administrable tax compliance. Ease of compliance facilitates tax administration and lowers enforcement expenditures. AB 1171 is a common-sense measure that reinforces these principles to assist taxpayers and the state avoid unnecessary filing complications and costs.

For these and other reasons, we support this legislation.

California Taxpayers Association
Air Logistics Corporation
Associated General Contractors of California
California Beer and Beverage Distributors
California Building Industry Association
California Business Properties Association
California Chamber of Commerce
California Hotel and Lodging Association
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