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

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Stocks ($)</th>
<th>Other securities ($)</th>
<th>Residential Real Estate ($)</th>
<th>Non-Residential Real Estate ($)</th>
<th>Other ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>34,715</td>
<td>3,023</td>
<td>3,493</td>
<td>2,916</td>
<td>18,781</td>
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<td>5,065</td>
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<td>2002</td>
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<td>4,542</td>
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<td>2003</td>
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<td>6,161</td>
<td>22,640</td>
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<td>2004</td>
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<td>2006</td>
<td>$ 55,779</td>
<td>$ 7,440</td>
<td>$ 16,421</td>
<td>$ 7,250</td>
<td>$ 55,416</td>
<td>$ 143,064</td>
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## Exhibit B – Stock Gains

<table>
<thead>
<tr>
<th>Year</th>
<th>Business Sales Gains ($)</th>
<th>Trading Gains ($)</th>
<th>Total ($)</th>
<th>Percent Business Sale Gains (%)</th>
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<tbody>
<tr>
<td>1989</td>
<td>2.44</td>
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<td>23.71</td>
<td>23.13</td>
<td>46.84</td>
<td>54%</td>
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</table>

**Notes:**
- Business Sale Gains are gains that are greater than five million dollars or gains for which the ratio of gains over selling price is more than 30%.
- Trading Gains are the remaining gains.
- Percent Business Sale Gains are calculated based on the total gains for each year.

Source: California Franchise Tax Board; Capital Gain Study

Details may not add to total due to rounding.
## Exhibit C – Holding Periods for Business Sale Gains

<table>
<thead>
<tr>
<th>Year</th>
<th>1 Year or Less</th>
<th>1 to 2 years</th>
<th>2 to 3 years</th>
<th>3 to 4 years</th>
<th>4 to 5 years</th>
<th>5 to 6 years</th>
<th>6 to 7 years</th>
<th>7 to 8 years</th>
<th>8 to 9 years</th>
<th>More Than 9 Years</th>
<th>Total Gain (BILLIONS)</th>
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<tbody>
<tr>
<td>1989</td>
<td>2.9%</td>
<td>9.6%</td>
<td>7.7%</td>
<td>24.5%</td>
<td>9.0%</td>
<td>3.0%</td>
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<tr>
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<td>16.5%</td>
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<td>5.3%</td>
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<td>8.4%</td>
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<td>9.5%</td>
<td>5.7%</td>
<td>6.3%</td>
<td>3.7%</td>
<td>5.7%</td>
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<td>11.374</td>
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<td>7.4%</td>
<td>7.4%</td>
<td>6.2%</td>
<td>4.3%</td>
<td>4.3%</td>
<td>25.2%</td>
<td></td>
</tr>
</tbody>
</table>

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