Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Rod Pacheco	Analyst:	Kristina E. North	Bill Number:	AB 1221
Related Bills:	See Legislative History	Telephone:	845-6978	Amended Date:	March 27, 2001
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Charitable Contributions Deduction/Nonitemizers

SUMMARY

This bill would allow individuals who do not itemize their deductions to claim charitable contribution deductions.

SUMMARY OF AMENDMENTS

The March 27, 2001, amendments:

- Specify that the $100 threshold would be deducted before the 50% calculation;
- Add a repeal date; and
- Require the Franchise Tax Board (FTB) to add this deduction to all applicable forms, including the Forms 540A and 540EZ.

This is the department's first analysis on this bill.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to encourage more charitable contributions by taxpayers.

EFFECTIVE/OPERATIVE DATE

This bill is a tax levy and would be effective immediately upon enactment. The deduction would apply to taxable years beginning on or after January 1, 2001, and before January 1, 2006.

POSITION

Pending.

ANALYSIS

Board Position:			Department Director	Date
____ S	____ NA	____ NP	Alan Hunter for GHG	04/26/01
____ SA	____ O	____ NAR		
____ N	____ OUA	X PENDING		

FEDERAL/STATE LAWS

Current federal and state tax laws allow a taxpayer to subtract the greater of the standard deduction or his or her itemized deductions from adjusted gross income (AGI) to calculate taxable income.

Current federal and state tax laws allow a taxpayer to include charitable contributions in itemized deductions. Charitable deductions are allowed for monetary contributions or gifts of property to federal, state, or local governments; or to organizations formed for religious, charitable, educational, scientific, or literary purposes; or for the prevention of cruelty to children or animals. Contributions to an organization of war veterans also are deductible.

Current federal and state tax laws place limitations on charitable contributions. The limitations vary from 20%, 30%, or 50%, depending on the individual's AGI and the amount of contributions made, the types of organizations that receive the donations, and the type of property donated. If an individual's charitable contributions are limited, the excess may be carried over for five years.

THIS BILL

This bill would allow an individual taxpayer claiming the standard deduction also to deduct 50% of charitable contributions over $100. The allowed contribution must otherwise qualify as a charitable contribution under current law. **This bill** specifies that the $100 threshold would be deducted before application of the 50% limitation.

This bill would provide a repeal date of December 1, 2006.

This bill would require FTB to add this deduction to all applicable tax forms. This bill specifies that this requirement would expressly include the Form 540 and the Form 540EZ.

IMPLEMENTATION CONSIDERATIONS

The department would need to add two additional lines on all tax returns and programming would be required to capture additional data. Increased pre-filing and post-filing questions would result in increased contacts from taxpayers regarding this new deduction.

TECHNICAL CONSIDERATION

This bill would require revision of all applicable forms "including Form 540EZ"; however, Form 540EZ no longer exists.

LEGISLATIVE HISTORY

AB 2603 (Strickland, 1999/2000) was similar to this bill and failed passage out of the Assembly Revenue and Taxation Committee.

OTHER STATES' INFORMATION

Review of **Florida, Illinois, Massachusetts, Michigan, Minnesota,** and **New York** did not find a similar deduction. These states were chosen for similarities to California's population or state tax laws.

FISCAL IMPACT

It is estimated that this bill would cost the department approximately $904,000 to implement, with ongoing annual costs of approximately $680,000.

ECONOMIC IMPACT

Tax Revenue Estimate

This bill is estimated to result in personal income tax revenue losses as shown in the following table.

Fiscal Year Cash Flow Taxable Years Beginning After December 31, 2000 Enactment Assumed After June 30, 2001 $ Millions		
2001/2002	2002/2003	2003/2004
-$36	-$34	-$35

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Tax Revenue Discussion

The revenue impact for this bill would be determined by: 1) the number of individuals who do not itemize their deductions and make direct charitable contributions; 2) the individuals' contribution amounts; 3) and the average marginal tax rate applicable to the deduction amounts.

This estimate was developed in the following steps using information from prior state law, which allowed contribution deductions to taxpayers claiming the standard deduction. First, based on the 1986 FTB Annual Report, there were approximately 7.3 million taxpayers claiming the standard deduction, of which 3.2 million reported charitable contributions, or approximately 45% of the total. The average contribution amount was approximately $500. Second, for this analysis, it was assumed that the average contribution amount would be $650. Third, by using the department's personal income tax model, an average deduction amount of $275 ($650 - $100 multiplied by 50% as stated in the bill) was imputed for **all** of these individuals, generating approximately $70 million in potential revenue loss for tax year 2001. This number was adjusted upward by 5% to account for incentive effects, yielding approximately $74 million for tax year 2001. Fourth, it was anticipated that based on prior state experience, 45% of these individuals would make charitable contributions, generating a total revenue loss under this bill of approximately $33 million ($74 million x .45) for tax year 2001. The 2001/2002 impact is slightly higher due to reduced estimated tax payments by some of the individuals claiming the standard deduction.

POLICY CONCERN

Under previous federal and state law, taxpayers that did not itemize were allowed to deduct charitable contributions. For taxable years beginning in 1987, federal law eliminated the charitable contribution deduction for nonitemizing taxpayers. California's personal income tax law largely conformed to these changes. The department has since encouraged continued federal conformity to simplify the tax reporting process and reduce taxpayer confusion. This bill would conflict with that general tax policy by creating differences between state and federal tax law.

LEGISLATIVE STAFF CONTACT

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