

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Pescetti Analyst: Kristina E. North Bill Number: AB 1625

Related Bills: See Prior Analysis Telephone: 845-6978 Amended Date: January 17, 2002

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Public School Extracurricular Activity Fees Credit/Donation to Charitable Organizations for Private School Scholarships to Low-Income Children Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended January 7, 2002.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED January 7, 2002, STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would create two credits related to education:

- ◆ One for contributions to a public school to support its extracurricular activities; and
- ◆ One for donations to a nonprofit charitable organization that provides private school scholarships to low-income children.

SUMMARY OF AMENDMENTS

The January 17, 2002, amendments resolved the implementation concern regarding the calculation of the credits by establishing the credit amounts as 50% of the taxpayer's fees or contributions. The amendments also clarified the definition of "qualified school" in the second credit to include any school for handicapped students. The remainder of the department's analysis of the bill as amended January 7, 2002, still applies. The remaining implementation considerations are restated below.

POSITION

Pending.

Board Position:

_____ S _____ NA _____ NP
_____ SA _____ O _____ NAR
_____ N _____ OUA PENDING

Legislative Director

Date

Jana Howard for BP

02/19/02

Extracurricular Activities Credit

IMPLEMENTATION CONSIDERATIONS

The department has identified the following concerns:

- ◆ To verify that the donation meets the credit requirements, it would be helpful if the recipient school were required to include the following information on the receipt:

(1) The school's name;

(2) The taxpayer's name;

(3) The date and amount of donation;

(4) A statement that the money will be used for the school's extracurricular activities; and

(5) A statement that the taxpayer did not designate that the money be used for a specific student or a dependent of the taxpayer.

The bill should require the taxpayer to provide the receipt upon the department's request.

- ◆ Since "public school" is not defined, it could be interpreted to include all public schools ranging from elementary school to college. It would be helpful if the bill were amended to clarify the author's intent.

Low-Income Children Tuition Credit

IMPLEMENTATION CONSIDERATIONS

The department has identified the following concerns:

- ◆ The department does not have the expertise to determine what constitutes a hearing impairment, visual impairment, preschool delay, or speech or language impairment. It would be helpful if another entity with the necessary expertise were required to certify that the individual student or students receiving the scholarship at the school meet the specified criteria.

- ◆ To verify that the donation meets the credit requirements, the department would need the receipt to include:

(1) The school's name;

(2) The taxpayer's name;

(3) The date and amount of donation;

(4) A statement that the taxpayer did not designate that the money be used for a specific student or a dependent of the taxpayer; and

(5) That the student and school met the criteria of being handicapped or teaching the handicapped.

The taxpayer should be required to provide the receipt upon the department's request. Without this information, the department would not be able to verify that the credit requirements have been met.

- ◆ The author may wish to consider changing the requirement that the school tuition organization allow the student to attend any qualified school of “their parents’ choice” to “their parents’ or guardian’s choice” in the event the student is not in the care of one or both of his or her parents. Additionally, in the event that the student is in the care or custody of one parent, it is not clear if both parents must agree on which school the student should attend.
- ◆ The requirement that the school tuition organization must allocate at least 90% of its annual revenue to low income, handicapped children for educational scholarships or tuition grants would be impossible to audit. The bill allows the 90% allocation criteria to be deferred indefinitely. Therefore, an organization would never have to meet these criteria.
- ◆ This bill requires that the school tuition organization provide educational scholarships or tuition grants without limiting availability to only students of one school. It is unclear how the department would verify this requirement.

TECHNICAL CONSIDERATION

This bill uses the phrase “educational scholarships or tuition grants” and the term “scholarship” as if interchangeable throughout the bill. Additionally, the terms “students” and “children” appear to be used interchangeably. To reduce potential confusion, the author may wish to use consistent terms throughout the bill.

Since this bill would allow a credit regardless of whether the qualified school was for handicapped students, it appears the definition for “handicapped student” is unnecessary.

FISCAL IMPACT

If the implementation considerations addressed in this analysis are resolved, the department’s costs are expected to be minor.

ECONOMIC IMPACT

Revenue Estimate

Revenue losses from this bill are projected to be in the following orders of magnitude:

Estimated Revenue Impact of AB 1625 As Amended January 17, 2002 Enactment Assumed After June 30, 2002 (In \$Millions - Rounded)			
Fiscal Years	2002/2003	2003/2004	2004/2005
A) Extracurricular Activities Cr.	-\$65	-\$71	-\$81
B) Low-Income Children Tuition Cr.	-\$35	-\$39	-\$44
TOTAL	-\$100	-\$110	-\$125

Any possible changes in employment, personal income, or gross state product that might result from this proposal are not taken into account.

Revenue Discussion

Revenue losses would be determined by the number of taxpayers making payments to any public California school for extracurricular activities and/or cash contributions during a taxable year to any school tuition organization to allow low-income or handicapped children to attend nongovernmental K-12 schools in this state.

This bill would permit taxpayers to significantly reduce their state tax liability through contributions made for specified purposes. Many taxpayers will redirect cash contributions normally made and claimed as deductions to take advantage of these credits. Other taxpayers will start making contributions.

Assumptions regarding taxpayer participation rates and average contribution amounts would be less than those applied under the prior version of this bill.

Extracurricular Activities Credit

According to data from the California Department of Education, enrollment in all California public schools was over 8 million during the school year 1999/2000. To estimate the magnitude of potential revenue losses, it was assumed that 3% of students (gradually growing to 4% in the 2004/2005 year) would have the equivalent number of taxpayers making payments of \$500 (on average) during the school year for students' participation in qualified extracurricular activities. The number of contributors was grown annually by public school enrollment growth rates.

Qualified Children Tuition Credit

According to Franchise Tax Board data, the total number of cash contributors (individuals and businesses) was over 4.3 million for tax year 1998.

It was assumed that the number of taxpayers claiming this credit would be equal to 3% of existing contributors during the first taxable year (gradually growing to 4% in the 2004/2005 and years thereafter) contributing \$500 per taxable year on average.

The deduction offset was also considered in both credit projections. It was assumed that 75% of credit claimants would redirect their normal contributions to receive enhanced tax benefits.

ARGUMENTS/POLICY CONCERNS

- ◆ With regard to the Extracurricular Activities Credit, conflicting tax policies come into play whenever a credit is provided for an item that is already deductible. Generally contributions to public schools and charitable organizations are deductible. This bill would have the effect of providing a double benefit by creating a credit and allowing the full amount to be deducted.
- ◆ This bill does not contain a sunset date for either credit. Sunset dates generally are provided to allow periodic review by the Legislature.

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