

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Ackerman Analyst: Darrine Distefano Bill Number: SB 846

Related Bills: See Prior Analysis Telephone: 845-6458 Amended Date: 04-18-2001

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Attorney, Physician, Surgeon, Dentist, or Optometrist Services At No Charge For Nonprofit Charitable Organization 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 introduced February 23, 2001.
- FURTHER AMENDMENTS NECESSARY.
- DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 23, 2001 STILL APPLIES.
- OTHER - See comments below.

## SUMMARY

This bill would allow a credit for free services provided by an attorney, physician, surgeon, dentist, or optometrist on behalf of any nonprofit charitable organization that helps the poor.

## SUMMARY OF AMENDMENT

The April 18, 2001, amendments added optometrists to the list of professions eligible for the credit.

The April 18th amendments did not resolve the concerns identified in the department's analyses of the bill as introduced February 23, 2001, or as amended March 27, 2001. The unresolved implementation and technical concerns are provided below. Except for the change to revenue, the remainder of the department's analyses of the bill as introduced on February 23, 2001, and as amended March 27, 2001, still applies.

## POSITION

Pending.

Board Position:

S       NA       NP  
 SA       O       NAR  
 N       OUA       PENDING

Legislative Director

Date

Brian Putler

04/24/01

## IMPLEMENTATION CONCERNS

This bill uses terms that are undefined, i.e., “physician,” “surgeon,” “poor,” and “fair market value of services.” The absence of definitions to clarify these terms could lead to disputes with taxpayers and would complicate the administration of the credit.

This bill provides a credit for services for, or on behalf of, any “nonprofit charitable organization” that provides services to the poor. Current law allows a deduction for contributions to certain charitable organizations. The author may wish to clarify if this credit is: (1) limited to organizations for which a contribution would also be deductible, (2) extends to other types of nonprofit charitable organizations that provide services to the poor, or (3) applies to both types of organizations.

## **ECONOMIC IMPACT**

This bill would result in 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		
2001-02	2002-03	2003-04
-\$180	-\$255	-\$260

**Note:** Since the fair market value of services can represent subjective judgments, this bill could lead to significant abuse and even larger revenue losses.

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

### Revenue Discussion

The revenue impact for this bill will be determined by the fair market value of uncompensated services provided by specified professionals and their tax liabilities. This analysis assumes that no compensation whatsoever can be received by those professionals for donated services.

### Optometrists

This amendment differs from the amended version dated March 27, 2001, by adding optometrists. The two previous analyses for the bill still apply with respect to the revenue estimate for attorneys, physicians, surgeons, and dentists.

According to the California Optometry Association, there are approximately 5,500-licensed optometrists in California as of March 1, 2001.

For this analysis, it was assumed that the average income tax liability for optometrists who would take the credit would be approximately \$5,000 (average income of \$100,000 x .05 average marginal tax rate). Further, it was assumed that optometrists who participate could greatly reduce or eliminate their tax liability by using this credit, leaving a minimum amount of unused credits to future years.

Based on the incentive effect of allowing a 100% tax credit (despite the loss of compensation), it was assumed that 2.5% of optometrists would reduce or eliminate their state taxes in any given year, generating a revenue loss of \$500,000 annually. Losses were grown by Consumer Price Index (CPI) projections and adjusted for deductions that would have otherwise been allowed under current law (i.e. material costs).

#### **LEGISLATIVE STAFF CONTACT**

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