

SUMMARY ANALYSIS OF AMENDED BILL

Author: Plescica Analyst: Raul Guzman Bill Number: AB 2037
 Related Bills: See Prior Analysis Telephone: 845-4624 Amended Date: May 10, 2006
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Public School Extracurricular Activity Contributions 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 DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended _____.
- FURTHER AMENDMENTS NECESSARY.
- DEPARTMENT POSITION CHANGED TO _____.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED _____ STILL APPLIES.
- OTHER – See comments below.

SUMMARY

This bill would create a credit for contributions made to support a public school’s extracurricular activities.

SUMMARY OF AMENDMENTS

The May 10, 2006, amendments deleted “fees incurred” from being included within the credit base upon which the credit is calculated. The bill as amended revised the “extracurricular activities” definition and replaced it with a new definition; the amendment also added a new definition of “public school.”

As a result of the May 10, 2006, amendments, the “This Bill” portion of the analysis, “Implementation Considerations,” and “Policy Concerns” as introduced February 14, 2006, have been revised. New Economic Impact information is being provided. The remainder of the analysis of the bill as introduced February 14, 2006, still applies.

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| Board Position: | Legislative Director | Date |
| <input type="checkbox"/> S | Brian Putler | 5/22/06 |
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| <input checked="" type="checkbox"/> PENDING | | |

THIS BILL

This bill would provide a credit for contributions made for support of California public school extracurricular activities.

This bill would place the following caps on the amount of credit allowed:

- \$200 for individuals and head of household, a maximum \$150 for married filing separate, and a maximum \$300 for married filing joint taxpayers for taxable years beginning January 1, 2006.
- \$200 for married filing separate taxpayers, and \$400 for married filing joint taxpayers for taxable years beginning January 1, 2007.

“Extracurricular activities” means school sponsored events or activities, including, but not limited to, bands, fencing, athletics, intramural activities, clubs, organizations, and school field trips.

“Public school” means any public school located in this state that provides instruction for kindergarten or any grades of 1 to 12, inclusive.

This bill would include the following restrictions on qualifying contributions:

- The credit would exclude contributions designated for the benefit of a specific student.
- The contributed amount may not be allocated by the school to pay salaries of any kind.
- Contributions made under this bill are meant to augment rather than replace any existing public funding for extracurricular activities.

This bill specifies that unused credits may be carried over for six years if necessary, until the credit is exhausted.

This bill would further provide that a school that receives a contribution would be required to provide the taxpayer with a receipt and make available to the public an annual report on the total amount of contributions received and their use.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author’s office to resolve these and other concerns that may be identified.

This bill would provide a more generous credit to single persons the first year. Married filing joint taxpayers would be allowed a \$300 credit while single taxpayers would be allowed a \$200 credit.

This bill excludes a filing status for qualifying widow(er). Generally, credits are allowed to qualifying widow(er) in the same amount as married filing joint taxpayers. The author may wish to amend the bill to include the “qualifying widow(er)” filing status.

To verify that a contribution meets the credit requirements upon audit, the department would recommend that the recipient school be required to provide a receipt which includes the following information, and that the taxpayer provide such receipt upon request:

- The school's name.
- The taxpayer's name.
- The date and amount of donation.
- A statement that the funds will be used for a qualifying activity or an extracurricular activity.
- A statement that the taxpayer did not designate that the contribution be used for a specific student or a dependent of the taxpayer.

This bill fails to provide any consequence for a school that uses a contribution for salaries, other expenses, or supplement to its budget. The author may wish to amend the bill to include language that would provide consequences for such actions.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, the PIT revenue loss from this bill would be as follows:

| Estimated Revenue Impact of AB 2037 Effective On Or After January 1, 2006 Enactment Assumed After June 30, 2006 (\$ in Millions) | | | |
|---|---------|---------|---------|
| Fiscal Year | 2006-07 | 2007-08 | 2008-09 |
| Revenue Loss | -\$175 | -\$225 | -\$230 |

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

Revenue Discussion

This bill as introduced February 14, 2006, estimated a revenue impact of \$465 million based on 2.2 million parent taxpayers. This number was increased 20% (440,000) to include non-parent contributors. The parent and non-parent contributors totaled 2.6 million.

It was assumed that non-parents would be making contributions that would not benefit a specific student. To this number of non-parent taxpayers was added 25% of parent taxpayers (25% of 2.2 million parents equals 550,000 parents) to reflect the behavior change in which fees may be re-characterized as contributions in order to encourage donations.

An average contribution of \$175 was assumed in the first year, increasing to \$225 in the second year due to the increased amount permitted to joint filers. The number of taxpayers and the

dollar amounts were grown annually by school enrollment growth rates, and by a 3.2% annual inflation rate, respectively. The revenue impact is (440,000 plus 550,000) 990,000 taxpayers times \$175 contribution equals \$175 million impact.

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. If the author's intent is to allow a double benefit, no additional language is needed. However, if the author's intent is to allow only one tax benefit or the other, then additional language is needed.

This bill would only allow individuals to claim the credit; it does not allow other taxpayers or entities to claim the credit. If the author's intent is to only allow the credit to individuals, no additional language is needed.

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review by the Legislature.

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