Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	S. Horton	Analyst:	Kristina E. North	Bill Number:	AB 357
Related Bills:	See Legislative History	Telephone:	845-6978	Introduced Date:	February 11, 2005
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Veterans' Quality of Life Fund

SUMMARY

This bill would establish the Veterans' Quality of Life Fund for taxpayers to designate a contribution on the personal income tax return.

PURPOSE OF THE BILL

According to the author's office, the intent of this bill is to provide additional funding for the support of veterans' homes.

EFFECTIVE/OPERATIVE DATE

This bill would become effective and operative January 1, 2006, and would apply to tax returns filed on or after that date.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current federal tax law allows each taxpayer to direct $3 of a taxpayer's tax liability to the presidential election fund. Designation of the $3 amount does not affect a taxpayer's tax liability or refund amount.

Current state tax law allows a taxpayer to make contributions of their own funds, not tax liability, to any combination of the 13 voluntary contribution funds listed on the state tax return.

Franchise Tax Board (FTB) and the Controller are reimbursed by each fund for actual costs to administer the fund.

Except for the California Seniors Special Fund, which has no sunset date, the voluntary contribution funds have various sunset dates. The attachment shows both the specific sunset dates for each voluntary contribution fund and the minimum contribution amount each fund must meet to remain on the return. The initial minimum contribution amount is $250,000, which is indexed annually for each fund.

Board Position:			Department Director	Date
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THIS BILL

This bill would fund programs and services of veterans' homes by creating a voluntary contribution designation on the state income tax return.

This bill would establish the Veterans' Quality of Life Fund. This bill would allow taxpayers to designate their own funds, not tax liability, for contribution to the fund on their tax returns in full dollar amounts of $1 or more. Each signatory on a joint return may make the contributions individually. The designations for any taxable year must be made on the initial return for the taxable year and, once made, are irrevocable.

This bill would require FTB to revise the personal income tax return to include a designation space for the fund beginning with the first taxable year another voluntary contribution fund is removed.

Beginning after the second taxable year, this bill would require the fund to meet the $250,000 minimum contribution test. FTB is required to estimate by September 1 of the calendar year after the second taxable year the fund appears on tax returns whether contributions made under this bill will be less than $250,000, as indexed for inflation. The law authorizing designations for this fund would be repealed if contributions made under this bill will be less than the minimum contribution amount.

This bill would allow the voluntary contribution designation to remain on the tax return for five years unless a later enacted statute deletes or extends that date.

This bill would specify that if payments and credits reported on the return do not exceed the taxpayer's liability, then the taxpayer's return shall be treated as if no designation has been made. If no designee were specified, a designated contribution amount would be transferred to the General Fund.

This bill would require the Controller to transfer money designated for this fund by taxpayers from the Personal Income Tax Fund to the Veterans' Quality of Life Fund. Upon appropriation by the Legislature, the moneys from this fund must be allocated to: 1) FTB and the Controller for reimbursement of costs incurred in administering this fund, and 2) the Department of Veteran's Affairs for allocation to veterans' home administrators.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

TECHNICAL CONSIDERATION

Current law provides general requirements for all voluntary contribution funds including allocation of funds made with no designee, pro rata allocation of insufficient funds to multiple designations, and treatment of repealed funds. This bill would unnecessarily repeat these general requirements. If the author is interested in removing the redundant language, FTB staff is available to provide amendments.

LEGISLATIVE HISTORY

AB 214 (Horton, 2004), nearly identical to this bill, would have established the Veterans' Quality of Life Fund to provide additional funding for the support of veterans' homes. The Veterans' Quality of Life Fund language was removed, and the bill AB 214 was later chaptered with a different subject.

PROGRAM BACKGROUND

Thirteen voluntary contribution funds are on the 2004 California personal income tax returns. Total contributions to these funds have varied from approximately $3.4 million in 1989/1990 to approximately $4 million in 2003/2004. The number of individuals contributing, first tabulated in 1993, remains fairly constant at approximately 140,000, or slightly less than 1% of all taxpayers.

OTHER STATES' INFORMATION

Illinois, Massachusetts, Michigan, Minnesota, New York and *Oregon* allow for taxpayer contribution designations on the personal income tax returns. *Florida* does not have a personal income tax but allows contribution designations on the state's motor vehicle registration and renewal forms. Except for *Illinois*, none of these other states provide a voluntary contribution comparable to the one proposed by this bill. *Illinois* allows donations to the Illinois Veterans' Home. *Oregon* allows donations to the Oregon Veterans' Home.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

<u>Revenue Estimate</u>

Based on the discussion below, the revenue loss from this bill is as follows:

Estimated Revenue Impact of 357 Effective Tax Years Beginning On Or After January 1, 2006 Assumed Enactment Date After June 30, 2005		
2005/2006	2006/2007	2007/2008
No impact	a \	a \

a/ losses less than $150,000

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

Revenue Discussion

For this estimate it is assumed that the minimum level contribution of $250,000 is achieved each year that the fund is placed on the return and that an itemized deduction is allowed and claimed for each contribution. By applying an average marginal tax rate of 6%, it is estimated that potential revenue losses total $15,000 ($250,000 x 6% = $15,000). The revenue impact starts with the taxable year the itemized deduction is claimed on the tax return. The loss would be attributable to itemized deductions claimed for the contributions in the taxable year following the contributions.

POLICY CONCERNS

The placement of voluntary contributions on the tax return limits the amount of space available for tax-related items. The inclusion of non-tax related information could ultimately cause the tax form to become three pages, which is unprecedented among other states and the Internal Revenue Service. A three-page return would cause the department to incur significant costs for printing, handling, and storage.

LEGISLATIVE STAFF CONTACT

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