Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	DeVore	Analyst:	Angela Raygoza	Bill Number:	AB 726
Related Bills:	None	Telephone:	845-7814	Introduced Date:	February 22, 2007
		Attorney:	Doug Powers	Sponsor:	

SUBJECT: Qualified Travel Costs Credit/Charitable & Voluntary In-Person Services to Elderly & Other Persons Unable To Leave Home

SUMMARY

This bill would provide an income tax credit for travel costs incurred as a result of providing charitable and voluntary in-person services.

PURPOSE OF THE BILL

According to the author's office, the purpose of the bill is to provide relief from rising gas prices for individuals who provide charitable and voluntary services to the elderly and other individuals who are homebound.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment, and by its terms operative for taxable years beginning on or after January 1, 2008.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal law, which California conforms to, does not allow a deduction for the value of services that a taxpayer provides to charity. A taxpayer providing services to a charity is allowed a deduction for unreimbursed expenses (other than travel expenses) incurred in performing those services for a charity. A taxpayer that uses his or her car may deduct actual expenses for gas and oil. In lieu of actual expenses for gas and oil, a taxpayer is allowed to use a standard mileage rate of $.14 per mile. Parking fees and tolls are also deductible.

Current federal and state tax laws provide various tax credits designed to provide tax relief for taxpayers that incur certain expenses (e.g., child and dependent care credits) or to influence business practices and decisions or to achieve social goals.

Board Position:			Department Director	Date
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THIS BILL

This bill would provide a nonrefundable tax credit for the costs paid or incurred for qualified travel in connection with providing charitable and voluntary in-person services to the elderly and other individual's who are unable to leave their homes. The amount of the credit may not exceed $0.205 per mile. The credit would be available for taxable years beginning on or after January 1, 2008.

This bill would define the following terms:

- "Qualified taxpayer" means an individual who provides charitable and voluntary in-person services to the elderly and other individuals who are unable to leave their homes.
- "Qualified travel" means the number of miles accrued in a qualified individual's own vehicle in connection with the provision of charitable and voluntary in-person services to the elderly and other individuals who are unable to leave their homes.

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.

The bill uses terms that are undefined, for example, "charitable and voluntary in-person services," "elderly," "individuals who are unable to leave their homes," and "qualified individual's own vehicle." The absence of definitions to clarify these terms could lead to disputes with taxpayers and would complicate the administration of this credit. The author may wish to amend the bill to provide a clear definition of the terms.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota,* and *New York.* These states were selected due to their similarities to California's economy, business entity types, and tax laws. These states lack a credit comparable to the credit this bill would allow.

TECHNICAL CONSIDERATIONS

Amendments 1 & 2 have been provided to correct technical errors.

FISCAL IMPACT

The department's costs to administer this bill will be determined once the implementation considerations described above have been resolved, but are expected to be minor.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Estimated Revenue Impact of AB 726 Operative for Tax Years BOA 1/1/2008 Assumed Enactment Date After 6/30/2007 ($ in Millions)		
2007/08	2008/09	2009/10
-$10	-$100	-$85

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

Revenue Discussion

The revenue loss is the amount of charitable travel credits that would be used to reduce taxpayer liabilities.

Review of US Census Bureau data indicates there are approximately 4 million Californians with a long-term disability of six months or more of which approximately 1.2 million age 16 and older have difficulty “going outside the home alone to shop or visit a doctor’s office.” In addition to these 1.2 million individuals, there are disabled individuals living in care facilities, disabled individuals under age 16, and individuals with short-term difficulties. It is estimated that these additional individuals would increase the number of homebound individuals from 1.2 million to about 2 million.

Research indicates that some of these 2 million homebound individuals receive frequent charitable and voluntary in-person services while others receive infrequent charitable and voluntary in-person services. Additionally, in certain situations, a single volunteer may provide services to multiple homebound individuals. If each homebound individual is provided charitable and voluntary in-person services an average of once per week and the average miles traveled by volunteers to provide these services is 12 miles each time, approximately $256 million available credits per year would be generated. (2 million homebound individuals x 12 miles x 52 weeks x $.205 per mile = $256 million)

It is estimated that approximately $77 million of the $256 million available credits would be utilized to reduce personal income tax liability beginning on or after January 1, 2008. ($256 million credits generated per year x 30% usage of credit = $77 million). The estimate is increased to $85 million to account for the lack of specificity regarding the meaning of “services” for purposes of this proposed credit. ($77 million utilized credits x 110% credit increase = $85 million)

Estimates have been converted to reflect fiscal year cash flows. It is assumed that less than 12% of effected taxpayers will adjust their 2008 tax year withholding and estimated tax payments during the 2007/08 fiscal year. ($85 million x 12% = $10 million) The remaining 88% of tax year 2008 is included in fiscal year 2008/09. Additionally, it is assumed that 30% of effected taxpayers will adjust their 2009 tax year withholding and estimated payments during the 2008/09 fiscal year. Therefore fiscal year 2008/09 includes 88% of tax year 2008 impact along with 30% of tax year 2009 impact ($85 million x 118% = $100 million). Beginning with fiscal year 2009/10 the revenue loss from this credit should be approximately $85 million per year. Fiscal year 2009/10 includes 70% of tax year 2009 plus 30% of tax year 2010 impact ($85 million x 100% = $85 million).

This estimate assumes charitable services include services provided to family members. While this bill does not require the charitable and voluntary in-person services be provided to Californians, travel to provide services outside California would be insignificant to this estimate.

POLICY CONCERNS

This bill allows a credit for expenses up to 20.5 cents per mile, in addition to allowing charitable deductions for these same expenses. The author may wish to amend the language of the bill providing that any deduction otherwise allowable for these expenses is reduced by the amount of the credit.

This bill lacks a carryover provision. As a result, a taxpayer who fails to use the entire credit amount in the year in which it was earned would lose any excess credit that remained. Recent credits have been enacted with a carryover period limitation because experience shows credits typically are exhausted within eight years of being earned. The author may wish to add language allowing a limited carryover period within eight years.

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

LEGISLATIVE STAFF CONTACT

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 726
As Introduced February 22, 2007

AMENDMENT 1

On page 1, strike out lines 5-7, and insert:

"tax", as defined by Section 17039, for costs paid or incurred for qualified travel by a qualified taxpayer during the taxable year, not to exceed an amount specified in subdivision (b).

AMENDMENT 2

On page 2, line 1, after "($.205)" delete:

"cents"