Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Oropeza	Analyst:	Deborah Barrett	Bill Number:	SB 323
Related Bills:	See Prior Analysis	Telephone:	845-4301	Amended Date:	April 15, 2009
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Qualified Tuition Program Deposits/FTB Revise PIT Returns To Allow Taxpayers To Designate Amount In Excess of Tax Liability To Be Deposited In Taxpayer's Qualified Tuition Program

____ 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 ____________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 25, 2009, STILL APPLIES.

____ OTHER – See comments below.

SUMMARY

This bill would allow taxpayers to direct an amount in excess of their tax liability to a Qualified Tuition Program (QTP) account.

Provisions impacting the administration of the Scholarshare Investment Board (SIB) do not impact Franchise Tax Board (FTB) and are not discussed in this analysis.

SUMMARY OF AMENDMENTS

The April 15, 2009, amendments would do the following:

- Substitute the routing and account number of a QTP for the account number and named beneficiary as required to be shown on the tax return.
- Resolve a Technical Consideration identified in the department's analysis of the bill as introduced February 25, 2009, and
- Provide that the Scholarshare Investment Board shall approve any reimbursements to FTB authorized under the bill's provisions.

Board Position:			Asst. Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Patrice Gau-Johnson	04/17/09
____ N	____ OUA	X PENDING		

The "This Bill" discussion has been revised and the "Technical Consideration" removed. The "Implementation Considerations"," Fiscal Impact", and "Economic Impact" discussions are repeated below for convenience. The remainder of the department's analysis of the bill as introduced February 25, 2009, still applies.

POSITION

Pending.

THIS BILL

This bill would allow taxpayers to designate on their personal income tax return an amount in excess of tax liability be deposited into a QTP, as defined. The designation is only allowed in full dollar amounts in excess of $1 and is limited to one QTP account per return.

This bill would require FTB to revise the form of the return to include the amount of the designation and the routing and account numbers of the QTP.

This bill would specify that if the tax payments on a tax return are not enough to cover both the tax liability and the amount designated for the QTP, the tax return will be treated as though the designation had not been made.

This bill would provide that if a taxpayer makes a contribution to a voluntary contribution fund, and designates an amount to a QTP, and the amount in excess of tax liability is less than the total amount designated, the amount in excess of the tax liability shall be allocated among the designees on a pro rata basis.

The bill would require the California Scholarshare Investment Board to reimburse FTB for any costs incurred to implement and maintain the bill's provisions through an interagency agreement. The Scholarshare Investment Board must approve any reimbursements authorized under the agreement. The total costs reimbursed by the Scholarshare Investment Board shall not exceed $475,000.

This bill's provisions would remain in effect until December 31, 2014, and as of that date would be repealed unless a later enacted statute would be enacted before December 31, 2014, that would delete or extend that date.

IMPLEMENTATION CONSIDERATIONS

This bill would require the department to modify existing tax forms and instruction booklets and make changes to the computer systems, which could be accomplished during normal annual updates but could require additional funding as described below under Fiscal Impact. Additionally, this bill would require FTB to enter into a Memorandum of Understanding with the Scholarshare Investment Board. Fiscal impacts are discussed below.

FISCAL IMPACT

Implementation of this bill could require changes to existing tax forms and electronic applications, which could result in the current tax return expanding to three pages. If the forms increase to three pages, the department would incur costs of over $2 million for revising the forms and instructions, printing, systems changes, processing, and storage. This bill would require the development of an additional form that would also impact departmental printing, processing, and storage costs. This bill would also require additional administrative and system programming costs to manage the transfer of funds to entities designated by the taxpayer. The additional costs will be identified and, if it exceeds the amount of reimbursement prescribed in the bill, an appropriation would be requested as the bill moves through the legislative process.

ECONOMIC IMPACT

Based on data and assumptions discussed below, this bill would result in the following revenue losses under the personal income tax law:

Estimated Revenue Impact for SB 323 – As Introduced 2/25/09 Enactment Assumed After June 30, 2009 For Designations Made On Tax Returns Filed On Or After January 1, 2010			
Fiscal Year	2009-10	2010-11	2011-12
Revenue Loss	N/A	-$10,000	-$10,000

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

The revenue impact of this bill is dependent on the extent taxpayers would realize a reduction in taxable interest income as a result of depositing a refund into a QTP account rather than a taxable interest-bearing account.

It is unknown how many taxpayers who receive refunds also have an established QTP account. In 2007, 4.8 million taxpayers received refunds totaling $3.3 billion. The average tax refund was approximately $690 ($3.3 billion in refunds divided by 4.8 million taxpayers). If one in every 100 taxpayers receiving a refund were to designate the refund to be directly deposited into an established qualified tuition account, deposits would total approximately $33 million (4.8 million taxpayers divide by 100 x $690). Absent this bill, it is assumed that these deposits to qualified tuition accounts would not occur. Assuming half of the $33 million would otherwise be deposited in taxable accounts by the end of June each year, applying a 2 percent interest rate would derive interest income of approximately $165,000 ($33 million x ½ x 2% x 6/12 months). Applying a marginal tax rate of 6.25 percent would result in a revenue loss of approximately $10,000 annually starting in fiscal year 2010-11.

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