

BILL ANALYSIS

Department, Board, Or Commission Franchise Tax Board	Authors Nestande, Garrick, Gordon, Jeffries, and Harman	Bill Number/Version Date AB 1677 (E-08/28/12)
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SUBJECT

Exempt Organization Annual Filing Requirement

SUMMARY

This bill would increase the general filing-requirement threshold of the California exempt organization annual information return from \$25,000 of average annual gross receipts to \$50,000 of such receipts.

REASON FOR BILL

The purpose of the bill is to relieve small exempt organizations from the requirement to annually file two-page information returns.

EFFECTIVE/OPERATIVE DATE

If enacted during the 2012 legislative session, this bill would be effective on January 1, 2013, and would be operative for taxable years beginning on or after January 1, 2012.

ANALYSIS

STATE/FEDERAL LAW

Federal law generally requires exempt organizations to file an annual information return unless their gross receipts for the taxable year are normally not more than \$50,000.

An exempt organization that is not required to file an annual information return by virtue of its gross receipts being under the \$50,000 filing threshold is instead generally required to electronically submit limited basic information on a federal *e-Postcard*.

These requirements do not generally apply to churches, their integrated auxiliaries, conventions or associations of churches, the exclusive religious activity of any religious order, and certain governmental and political organizations.

California Law

California law generally requires exempt organizations to file a two-page annual information return and pay a ten-dollar filing fee unless their gross receipts for the taxable year are normally not more than \$25,000.

Gail Hall, FTB Contact Person (916) 845-6333 (Office)	Executive Officer Selvi Stanislaus	Date 08/29/12
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An exempt organization that is not required to file an annual information return by virtue of its gross receipts being under the \$25,000 filing threshold is instead generally required to electronically submit, at no cost, limited basic information on a California *e-Postcard*.

Similar to federal law, these requirements do not generally apply to churches, their integrated auxiliaries, conventions or associations of churches, the exclusive religious activity of any religious order, and certain governmental and political organizations.

THIS BILL

This bill would increase the gross-receipts filing threshold for the exempt-organization two-page annual information return and ten-dollar fee from normally not more than \$25,000 of gross receipts to normally not more than \$50,000 of gross receipts. (This change would make the general California exempt-organization filing threshold the same as the current federal threshold.)

An exempt organization that would not be required to file an annual information return by virtue of its gross receipts being under the \$50,000 filing threshold would instead generally be required to electronically submit, at no cost, limited basic information on a California *e-Postcard*.¹

This bill would not make any change to the filing-requirement exception that generally applies to churches, their integrated auxiliaries, conventions or associations of churches, the exclusive religious activity of any religious order, and certain governmental and political organizations.

This bill is estimated to annually impact approximately 10,000 exempt organizations.

LEGISLATIVE HISTORY

None.

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. A review of the laws of these states found that *Florida, Illinois, Massachusetts* and *Michigan* require exempt organizations to apply for tax exempt status, but do not require annual returns unless organizations have unrelated business taxable income (UBTI).

¹ An exempt organization that has unrelated business taxable income of more than \$1,000 for the year would be required to file Form 199, regardless of the amount of its annual gross receipts.

Minnesota requires exempt organizations to apply for tax exempt status and file annual returns only if such organizations have UBTI. If an organization has no tax liability, the organization is required to file a copy of the federal exempt organization annual return, federal Form 990, Return of Organization Exempt from Tax.

New York requires exempt organizations to apply for tax exempt status, but does not require annual returns unless organizations have UBTI of more than \$1,000.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Impact

Estimated Revenue Impact of AB 1677 For Taxable Years Beginning On or After January 1, 2012 Assumed Enactment After June 30, 2012		
2012-13	2013-14	2014-15
-\$90,000	-\$100,000	-\$100,000

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

SUPPORT/OPPOSITION

Support: Navy League
 Blindness Support Services, Inc.
 Coachella Valley Rescue Mission
 Historical Society of Morro Bay
 General Patton Memorial Museum, Inc.

Opposition: None on file.

APPOINTMENTS

None.

VOTES

Concurrence	08/22/12	Y: 79	N: 0
Assembly Floor	04/26/12	Y: 74	N: 0
Senate Floor	08/20/12	Y: 36	N: 0

LEGISLATIVE STAFF CONTACT

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