

Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author: Mansoor, Norby, et al. Analyst: Scott McFarlane Bill Number: AB 1786

Related Bills: None Telephone: 845-6075 Amended Date: August 13, 2012

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Olympic Prizes and Awards Exemption

SUMMARY

This bill would provide a California income exemption to individuals for the value of any prize or award won by that individual in athletic competition at the Olympic Games.

RECOMMENDATION

No position.

Summary of Amendments

The August 13, 2012, amendments removed language relating to sports fishing licenses and added the language to exempt Olympic prizes and awards from being included in gross income. This is the department's first analysis of the bill.

Summary of Suggested Amendments

If the intent of the bill is to limit the income exemption to prizes and cash awards given by the U.S. Olympic Committee, amendment one is suggested.

REASON FOR THE BILL

The purpose of the bill is to reward Olympic athletes by exempting their Olympic prizes and awards from income tax.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately, and would be specifically operative for prizes and awards received on or after January 1, 2012.

Board Position:	Executive Officer	Date
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ANALYSIS

FEDERAL/STATE LAW

Under federal and state law, gross income generally includes income from all sources, including amounts received as prizes and awards, unless a specific exemption is provided to exclude such amounts from gross income. There is no specific gross-income exemption that excludes Olympic prizes and awards under current federal or state law.

THIS BILL

This bill would provide a California personal income tax exemption to individuals for the value of any prize or award won by that individual in athletic competition in the Olympic Games.

IMPLEMENTATION CONSIDERATIONS

It's unclear whether this bill would limit the income exemption to prizes and awards received from the U.S. Olympic Committee. Because this bill fails to explicitly specify the payor of the prizes and awards that would be exempt, taxpayers who have endorsement or other income that is associated with their Olympic performance may argue that endorsement or other income would also be exempt. Further, the bill uses the term "value" in referring to awards and prizes, yet the U.S. Olympic Committee also provides cash awards to U.S. athletes based upon which level of medal is won, and it is unclear whether the bill's provisions would apply to those cash awards. If it is the author's intent to limit the income exemption to prizes and cash awards received from the U.S. Olympic Committee, then the attached amendment should be made.

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. *Florida* does not impose personal income tax, so a comparison to *Florida* is not relevant. A review of the laws of the remaining states found that none of them currently exempt Olympic prizes or awards from gross income.

FISCAL IMPACT

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

ECONOMIC IMPACT

Estimated Revenue Impact of AB 1786, as Amended August 13, 2012 For Prizes and Awards Received On or After January 1, 2012 Enactment Assumed by September 30, 2012 (\$ in Millions)		
2012-13	2013-14	2014-15
-\$9.6	-\$6.3	-\$6.4

This estimate assumes that the exemption would apply to U.S. Olympic Committee prizes and awards, other prizes and awards, and certain endorsement income.

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

SUPPORT/OPPOSITION

Support: None on file.

Opposition: None on file.

ARGUMENTS

Proponents: Proponents argue that U.S. Olympic medal winners who dedicate their lives to athletic excellence should not be subject to income tax on their hard-earned winnings.

Opponents: Opponents argue that this bill is misguided because due to the number of deductions that could apply to Olympic winnings, the taxes paid on those winnings is likely minimal or zero for the majority of U.S. Olympic athletes, and thus this bill would generally provide tax relief to a small number of high-earning athletes.

LEGISLATIVE STAFF CONTACT

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 1786
As Amended August 13, 2012

AMENDMENT 1

On page 2, line 4, ~~strikeout~~ “prize or award won by the taxpayer in athletic,” and insert:
medal awarded in, or any prize money received from the United States Olympic Committee on
account of,