

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Assembly Revenue and Taxation Committee Analyst: Scott McFarlane Bill Number: AB 242
Related Bills: See Legislative History Telephone: 845-6075 Amended Date: March 14, 2011
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Conformity To Federal Health-Care Reform

SUMMARY

This bill would conform to seven provisions of the 2010 federal health-care reform acts.

SUMMARY OF AMENDMENTS

The March 14, 2011, amendments removed a provision that would conform to the federal self-employment deduction rules for the additional hospital insurance tax, added a provision that would conform to the federal law that allows small employers to offer Exchange-participating health plans through cafeteria plans, and would make other technical modifications.

RECOMMENDATION AND SUPPORTING ARGUMENTS

No position.

PURPOSE OF THE BILL

The general purpose of conforming to changes in federal law is to simplify both the preparation of California income tax returns and the administration of California income tax laws.

Board Position:
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Legislative Director Date

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately. The operative dates of conformity to the seven provisions of the Patient Protection and Affordable Care Act (PPACA) would be as follows:

	Act Section	Description	Operative Date
1	PPACA 9023	Exclusion of grants provided in lieu of therapeutic discovery project credits	For any federal grant made in any year (Federal law authorized grants to be made on and after March 23, 2010)
2	PPACA 10908	Health professional's student loan repayment program exclusion and student loan forgiveness exclusion	For amounts received on or after January 1, 2010
3	PPACA 10909	Adoption assistance exclusion increase	For taxable years beginning on or after January 1, 2010
4	PPACA 9021	Indian tribal government health benefits exclusion	For benefits/coverage provided after March 23, 2010
5	PPACA 9022	Safe harbor for small employer cafeteria plans	For taxable years beginning on or after January 1, 2011
6	PPACA 1515	Small employer cafeteria plans to allow Exchange-participating health plans	For taxable years beginning on or after January 1, 2014
7	PPACA 10108	Free Choice Voucher exclusion and deduction	For vouchers provided on or after January 1, 2014

ANALYSIS

FEDERAL/STATE LAW

See the Franchise Tax Board's (FTB's) report titled "[Summary of March, 2010, Federal Health Care Acts](#)" for a detailed discussion of federal and state laws affected by this bill.

THIS BILL

This bill would conform to the following seven provisions of the PPACA:

	Act Section	Description
1	PPACA 9023	Exclusion of grants provided in lieu of therapeutic discovery project credits
2	PPACA 10908	Health professional's student loan repayment program exclusion and student loan forgiveness exclusion
3	PPACA 10909	Adoption assistance exclusion increase
4	PPACA 9021	Indian tribal government health benefits exclusion
5	PPACA 9022	Safe harbor for small employer cafeteria plans
6	PPACA 1515	Small employer cafeteria plans to allow Exchange-participating health plans
7	PPACA 10108	Free Choice Voucher exclusion and deduction

LEGISLATIVE HISTORY

AB 36 (Perea, Blumenfield, and Padilla, 2011/2012) would conform to the federal health-care reform exclusion and deduction for the medical care expenses of a child under 27. That bill passed the Assembly on March 3, 2011, and is currently in the Senate Appropriations Committee.

AB 1178 (Portantino, 2009/2010) would have conformed to certain provisions of the health-care reform acts. That bill failed to pass the Senate Appropriations Committee.

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. *Illinois, Michigan, and New York* automatically conform each year to the Internal Revenue Code (IRC); thus, these states automatically conform to the health-care reform IRC provisions.

Massachusetts, Minnesota, and Florida conform to the IRC as of a specified date, similar to California. *Massachusetts* conforms to the IRC as amended through January 1, 2005, and *Minnesota* conforms to the IRC as amended through March 18, 2010; thus, neither state conforms to the health-care reform IRC provisions. *Florida* conforms to the IRC as of January 1, 2010; however, *Florida* imposes corporate income tax, but does not impose personal income tax. Thus, to the extent that they would affect corporate tax, *Florida* does not conform to the health-care reform IRC provisions.

FISCAL IMPACT

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

ECONOMIC IMPACT

	Act Section	Description	2010/11	2011/12	2012/13	2013/14
1	PPACA 9023	Exclusion of grants provided in lieu of therapeutic discovery project credits	-\$2,100,000	-\$500,000	-\$310,000	-\$160,000
2	PPACA 10908	Health professional's student loan repayment program exclusion and student loan forgiveness exclusion	-\$400,000	-\$500,000	-\$350,000	-\$350,000
3	PPACA 10909	Adoption assistance exclusion increase	-\$1,500,000	-\$1,200,000	No Impact	No Impact
4	PPACA 9021	Indian tribal government health benefits exclusion	-\$50,000	-\$150,000	-\$80,000	-\$80,000
5	PPACA 9022	Safe harbor for small employer cafeteria plans	Negligible Loss	Negligible Loss	Negligible Loss	Negligible Loss
6	PPACA 1515	Small employer cafeteria plans to allow Exchange-participating health plans	No Impact	No Impact	Negligible Loss	Negligible Loss
7	PPACA 10108	Free Choice Voucher exclusion and deduction	No Impact	No Impact	No Impact	-\$55,000,000
Totals			-\$4,050,000	-\$2,350,000	-\$740,000	-\$55,590,000

SUPPORT/OPPOSITION

Support: California Society of Enrolled Agents.

Opposition: None on file.

ARGUMENTS

Pro: This bill would make health insurance more affordable for many Californians and would provide incentives for small businesses to offer health benefits to their employees.

Con: This bill would not conform to all of the federal health-care reform provisions that were added to the IRC; thus, significant differences between federal and California law would remain.

LEGISLATIVE STAFF CONTACT

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