Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	DeSaulnier	Analyst:	Brian Werking	Bill Number:	SB 1571
Related Bills:	See Legislative History	Telephone:	845-5103	Introduced Date:	February 24, 2012
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: School Supplies For Homeless Children Fund

SUMMARY

This bill would allow a taxpayer to make a voluntary contribution to the School Supplies for Homeless Children Fund (Fund) on the state personal income tax return.

RECOMMENDATION

No position.

REASON FOR THE BILL

It appears from the language of the bill that the purpose is to provide additional funding for the Kindergarten to College non-profit benefit corporation and to provide school supplies to homeless children.

EFFECTIVE/OPERATIVE DATE

This bill would be effective on January 1, 2013. If another fund is removed from the return, the Fund could first appear on the 2012 personal income tax return filed on or after January 1, 2013.

ANALYSIS

FEDERAL/STATE LAW

Current federal tax law provides a check-off to direct $3 of a taxpayer's tax liability to the Presidential Campaign Fund. Designation of the $3 amount does not affect a taxpayer's tax liability or refund amount.

Current state tax law allows taxpayers to make contributions of their own funds (not tax liability) on their tax returns to any of the 18 voluntary contribution funds (VCFs) listed on the 2011 state personal income tax return (return).

Taxpayers contributing to the VCFs are allowed to take an itemized deduction on their federal and state income tax returns for the year in which the voluntary contribution is made.

Board Position:			Executive Officer	Date
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With the following exceptions, VCFs remain on the return until they are either repealed or fail to meet their minimum contribution amount:

- Except for the California Seniors Special Fund, which has no sunset date, each VCF has a specific sunset date.
- Except for the California Seniors Special Fund, the California Firefighters Memorial Fund, and the California Peace Officer Memorial Foundation Fund, each VCF must meet an initial minimum contribution amount of $250,000.
- Except for the California Fund for Senior Citizens, each of the remaining VCF minimum contribution amounts is adjusted annually for inflation.

The annual inflation adjustment is based on the percentage change in the California Consumer Price Index. The Franchise Tax Board (FTB) is required to make the following two determinations for each VCF by September 1 of each calendar year:

1. The minimum contribution amount required for the VCF to remain on the return for the following calendar year, and
2. Whether estimated contributions to the VCF will be less than the minimum contribution amount for that calendar year.

If the FTB estimates that a VCF will fail to meet or exceed the minimum contribution amount for a calendar year, that VCF is repealed effective January 1 of that calendar year.

Current state law provides that if the number of contingent voluntary contribution designations[1] that are eligible to be added to the personal income tax return is greater than the number of designations removed, then the voluntary contribution designations may be queued and added to the return in order of the date of enactment.

<u>THIS BILL</u>

This bill would establish the School Supplies for Homeless Children Fund and would allow taxpayers to designate their own funds (not tax liability) for contribution to the Fund on their returns in full dollar amounts of $1 or more. Each signatory on a joint return may make the contributions individually. The designations for any taxable year must be made on the initial return for the taxable year and, once made, are irrevocable.

This bill would require the FTB to revise the return to include a designation space for the Fund beginning with the first taxable year that another VCF is removed. This designation could be added to the 2012 return filed on or after January 1, 2013.

[1] A contingent voluntary contribution designation is a voluntary contribution designation that contains specific language stating that it may not be added to the return until another voluntary contribution designation is removed from the return.

For the second taxable year the Fund is on the return, this bill would require the Fund to meet the $250,000 minimum contribution test. The FTB would be required to estimate by September 1 of each subsequent calendar year after the first taxable year the Fund appears on the tax return that contributions made to the Fund would meet or exceed the $250,000 minimum contribution (as indexed for inflation). The law authorizing designations for this Fund would be repealed if contributions made under this bill are estimated to be less than the minimum contribution amount.

This bill would allow the voluntary contribution designation to remain on the tax return for up to five years unless a later enacted statute deletes or extends that date.

Beginning with the third calendar year after the Fund appears on the return, the FTB would adjust the minimum contribution amount for the Fund by September 1 of that year. The minimum contribution amount would adjust according to the California Consumer Price Index (also known as the CCPI), as specified.

This bill would specify that if payments and credits reported on the return do not exceed the taxpayer's liability, then the taxpayer's return shall be treated as if no designation has been made. If no designee is specified, a designated contribution amount would be transferred to the General Fund.

This bill would require the Controller to transfer money designated for this Fund by taxpayers from the Personal Income Tax Fund to the School Supplies for Homeless Children Fund. Upon appropriation by the Legislature, money would be transferred from this Fund to the State Controller's Office and the FTB for reimbursement of the costs associated with administering this fund. The remaining funds would be transferred to K to College, a California nonprofit public benefit corporation, to provide school supplies to homeless children. This bill would allow the taxpayer to take an itemized deduction on their federal and state income tax returns for the year in which the voluntary contribution is made.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concern. Department staff is available to work with the author's office to resolve this concern. .

This bill would allow the Legislature to allocate funds directly to a non-governmental entity. Typically voluntary contribution fund monies are allocated to a state agency for purposes of overseeing the expenditure of the funds. Without an allocation to a state agency, there may be obstacles that prevent the funds from reaching the K to College organization. The author may wish to add language that would allocate the funds to a state agency that would be responsible for administering the funds to the K to College organization, such as the Department of Social Services.

LEGISLATIVE HISTORY

AB 233 (Hall, 2011/2012) would allow taxpayers to make voluntary contributions to the California YMCA Youth and Government Fund on their state personal income tax returns. This bill is currently in the Senate Governance and Finance Committee.

AB 1589 (Huffman, et al., 2011/2012) would allow a taxpayer to contribute to the California State Parks Protection Fund on the personal income tax return in an amount equivalent to the cost of an annual state park access pass (parks pass), for which the taxpayer would receive a parks pass valid for the following calendar year. This bill was passed out of the Assembly Water, Parks and Wildlife Committee by a 12-0 vote and has been referred to the Assembly Revenue and Taxation Committee for Hearing on May 07, 2012.

SB 803 (DeSaulnier, 2011/2012) would allow taxpayers to make voluntary contributions to the California Youth Leadership Fund on their state personal income tax returns. This bill is currently in the Assembly.

OTHER STATES' INFORMATION

The states surveyed include: *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 allows taxpayers to designate personal funds on their personal income tax return to the Assistance to the Homeless Fund.

Massachusetts, Michigan, Minnesota, and New York allow for taxpayer contribution designations on the personal income tax return; however, none of these states provide a voluntary contribution comparable to the one discussed in this bill.

FISCAL IMPACT

This bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update without cost to the department.

ECONOMIC IMPACT

<u>Revenue Estimate</u>

This bill would result in the following revenue losses:

Estimated Revenue Impact of SB 1571 For Contributions Made On or After January 1, 2013 Enactment Assumed After June 30, 2012		
2012-13	2013-14	2014-15
N/A	-$20,000	-$20,000

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

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Some would advocate that assisting homeless children to obtain school supplies would increase their chances of succeeding in their education, which could help break the cycle of poverty.

Opponents: Some may argue that taxpayers who are inclined to contribute to this cause can do so through other voluntary methods and the consistent addition of new funds on the tax return makes the return a cumbersome document.

LEGISLATIVE STAFF CONTACT

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