

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Patterson, et al. Analyst: Narinder Dosanjh Bill Number: AB 2519
Related Bills: See Legislative History Telephone: 845-5275 Introduced Date: February 21, 2014
Amended Date: April 24, 2014
Attorney: Bruce Langston Sponsor: _____

SUBJECT: Tuition Paid for Education & Training at Vocational Institution Credit

SUMMARY

This bill would, under the Personal Income Tax law, provide a tax credit in an amount equal to 50 percent of the tuition paid or incurred for certain education or training at a Vocational Institution.

RECOMMENDATION

No position.

Summary of Amendments

The bill as introduced on February 21, 2014, would create a tax credit for certain education or training costs.

The April 24, 2014, amendments made technical changes to the provisions of the bill. This is the department's first analysis of the bill.

REASON FOR THE BILL

The reason for this bill is to encourage individuals to acquire the skills necessary to obtain gainful employment via an income tax credit to offset the cost of attending a vocational institution.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2014.

ANALYSIS

FEDERAL/STATE LAW

Existing federal and state laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Board Position:

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Executive Officer

Date

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Current federal law provides two types of education-related tax credits: the American Opportunity Credit and the Lifetime Learning Credit. The American Opportunity Credit allows a taxpayer, who pays the tuition, a credit of 100 percent for the first \$2,000 of qualified tuition and related expenses, and a 25 percent credit for the next \$2,000 of qualifying expenses, for a total tax credit of \$2,500 each year per student. Up to 40 percent of the tax credit is refundable. The tax credit is phased out for a taxpayer with modified adjusted gross income between \$80,000 and \$90,000 for a single filer and between \$160,000 and \$180,000 for a joint filer. The tax credit is limited to an eligible student's first four years of postsecondary education.

The Lifetime Learning Credit allows a taxpayer a nonrefundable credit of 20 percent of the first \$10,000 of qualified tuition for a total of up to \$2,000 per taxable year. The tax credit is phased out for a taxpayer with modified adjusted gross income between \$53,000 and \$63,000 for a single filer and between \$107,000 and \$127,000 for a joint filer. There is no limit to the number of taxable years that the tax credit may be claimed.

Current state law does not provide any education-related tax credits.

THIS BILL

For taxable years beginning on or after January 1, 2014, this bill would provide a personal income tax credit equal to 50 percent of the tuition paid or incurred, during the taxable year, by a taxpayer for education and training obtained by the taxpayer or a dependent of the taxpayer at a vocational institution for job training and career advancement studies. Any unused portion of the credit may be carried over for up to eight years, until the credit is exhausted.

This bill would define "vocational institution" as a private postsecondary institution that grants only certificates or associate degrees and in which students are taught job-specific skills in a variety of fields, including, but not limited to, the fields of pharmacy technician or automotive technician.

IMPLEMENTATION CONSIDERATIONS

This bill uses phrases that are undefined, i.e., "career advancement studies", "job training", and "job-specific skills". The absence of definitions to clarify these phrases could lead to disputes with taxpayers and would complicate the administration of this credit.

LEGISLATIVE HISTORY

AB 1441 (Beall, 2011/2012) similar to this bill, would have created a tax credit for qualified costs at the University of California or the California State University. AB 1441 was held in the Assembly Revenue and Taxation Committee.

AB 1079 (Beall, 2011/2012), similar to this bill, would have created a tax credit for qualified costs at the University of California or the California State University. AB 1079 was held in the Assembly Revenue and Taxation 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.

New York provides a college tuition expenses tax credit of up to \$400 per student, per year; however, none of these states provide a tax credit comparable to the one discussed in this bill.

FISCAL IMPACT

The costs to administer this bill have yet to be determined. As the bill continues to move through the legislative process, costs will be identified and an appropriation will be requested, if necessary.

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact of AB 2519 As Amended April 24, 2014 Assumed Enactment After June 30, 2014 (\$ in Millions)		
2014-15	2015-16	2016-17
- \$390	- \$400	- \$490

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: Some could argue that this bill would improve access to vocational based post-high school training and provide more highly skilled candidates to the state's employers.

Opponents: Some could argue that limiting a tax credit to tuition for vocational education could be overly narrow especially in light of the recent increases in tuition for the state's college and university systems.

POLICY CONCERNS

This bill fails to limit the aggregate amount of the credit that may be taken. Credits that could potentially be quite costly are sometimes limited to a specified aggregate amount per taxable year. This bill would provide a tax credit of up to 50 percent of the specified costs paid or incurred during the taxable year for tuition costs which could result in a significantly large annual tax credit amount.

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review of a credit's effectiveness by the Legislature.

Taxpayers that defer money into college savings plans, such as 529 plans, could potentially get a double benefit of tax deferral and this tax credit. Typically tax credits are allowed in lieu of any other benefit allowed for the same item of expense.

LEGISLATIVE STAFF CONTACT

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