

## BILL ANALYSIS

Department, Board, Or Commission	Author	Bill Number
<b>Franchise Tax Board</b>	<b>De Leon</b>	<b>SB 284</b>

### SUBJECT

College Access Tax Credit

### SUMMARY

This bill would establish an income tax credit under the Personal Income Tax Law and Corporation Income Tax Law for cash contributions made to the College Access Tax Credit Fund (Fund) with an aggregate credit cap of \$500 million per calendar year.

### REASON FOR THE BILL

The reason for the bill is to help rebuild the state's investment in education via a new tax credit for contributions to a special fund that would be used to provide additional Cal Grants to eligible students.

### EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2014, and specifically operative for taxable years beginning on or after January 1, 2014, and before January 1, 2017. The credit would be repealed by its own terms on December 1, 2017.

This bill would become operative only if SB 285<sup>1</sup> is enacted and takes effect on or before January 1, 2014.

### ANALYSIS

#### FEDERAL/STATE LAW

Existing state and federal 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.

Currently, neither federal nor state law provides a credit for contributions to an education special fund.

Federal and state law provides that a contribution made to a state government fund, like an educational special fund, is considered a charitable contribution.

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<sup>1</sup> SB 285 was ordered to engrossing and enrolling on September 9, 2013.

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Existing federal and state laws allow individuals to deduct certain expenses, such as medical expenses, charitable contributions, interest, and taxes, as itemized deductions. Also, itemized deductions may be further limited for high-income taxpayers.

Current federal and state law allows a corporation and S-corporation to deduct charitable contributions limited to 10 percent of the taxpayer's net income. Contributions in excess of 10 percent may be carried over to the following five succeeding taxable years.

### THIS BILL

This bill would create the Fund as a special fund in the state treasury. Taxpayers, upon receipt of certification from the California Educational Facilities Authority, would be allowed a tax credit for a specified percentage of cash contributions made to the Fund. Unused credits could be carried forward to the subsequent six years. The maximum aggregate amount of credit that could be allocated and certified by the Authority for each calendar year would be \$500 million plus any previously unallocated and uncertified amounts.

The credit amount would be calculated as:

- 60 percent of the amount contributed that is certified and allocated for the 2014 taxable year.
- 55 percent of the amount contributed that is certified and allocated for the 2015 taxable year.
- 50 percent of the amount contributed that is certified and allocated for the 2016 taxable year.

The Authority would be required to do all of the following:

- Allocate and certify the income or franchise tax credit to taxpayers during the period that begins on January 1, 2014, and ends on December 31, 2016.
- Establish a procedure for taxpayers to contribute to the Fund and obtain certification for the credit.
- Certify the contribution amounts eligible for the credit within 45 days following receipt of the contribution.
- Provide to the FTB a copy of each credit certificate issued by March 1 of the calendar year immediately following the year of issue.

The bill would preclude any deductions for amounts included in the calculation of the credit.

Amounts contributed to the Fund would first be allocated to reimburse the General Fund for the aggregate amount of the credit allowed, then, upon appropriation by the Legislature, be allocated to the FTB, the Authority, the State Controller, and the Student Aid Commission to reimburse all administrative costs incurred in connection with this credit and to the Student Aid Commission for the purpose of awarding Cal Grants.

**LEGISLATIVE HISTORY**

SB 1356 (De Leon, 2011/2012) similar to this bill, would have created an income tax credit for cash contributions made to an education special fund with an aggregate credit cap of \$100 million per calendar year. SB 1356 was held in the Assembly Appropriations Committee.

AB 1262 (Haynes, 2005/2006) would have created a 75 percent credit for donations to a nonprofit organization that provides scholarships to elementary and secondary school students. AB 1262 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.

**FISCAL IMPACT**

This bill would require changes to the tax forms and instruction booklets. As a result, this bill would impact the department's printing, processing, and storage costs. These, but costs are absorbable.

**ECONOMIC IMPACT**

Revenue Estimate

Estimated Revenue Impact of SB 284*		
Assumed Enactment After June 30, 2013		
(\$ in Millions)		
2013-14	2014-15	2015-16
- \$190	- \$360	- \$330

\*The table above shows the impact on income and corporation tax collections. This bill would require funds to be transferred from the Fund to the General Fund so that the net impact of College Access Tax Credits on the General Fund would be zero.

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

**APPOINTMENTS**

None.

**SUPPORT/OPPOSITION<sup>2</sup>**

Support: California Community College Association of Student Trustees, California Competes, California State Student Association, Los Angeles Area Chamber of Commerce, Los Angeles Community College District, NAACP California, National Council of La Raza, Public Advocates Inc., Southern California College Access Network, Student Senate for California Community Colleges, The Campaign for College Opportunity, The Institute for College Access & Success, University of California Student Association, Young Invincibles.

Opposition: None provided.

**VOTES**

Concurrence	09/10/13	Y: 37	N: 0
Assembly Floor	09/09/13	Y: 76	N: 1
Senate Floor	05/28/13	Y: 39	N: 0

**LEGISLATIVE STAFF CONTACT**

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<sup>2</sup> As reported in the Assembly Committee on Revenue and Taxation's Analysis dated August 9, 2013, at <[http://www.leginfo.ca.gov/pub/13-14/bill/sen/sb\\_0251-0300/sb\\_284\\_cfa\\_20130809\\_160147\\_asm\\_comm.html](http://www.leginfo.ca.gov/pub/13-14/bill/sen/sb_0251-0300/sb_284_cfa_20130809_160147_asm_comm.html)> [as of August 26, 2013].