Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Nguyen, et al.	Analyst:	Scott McFarlane	Bill Number:	SB 150
Related Bills:	See Prior Analysis	Telephone:	845-6075	Amended Date:	June 22, 2015
		Attorney:	Bruce Langston	Sponsor	

SUBJECT:	Student Loan Forgiveness Debt Relief

SUMMARY

This bill would provide an exclusion from gross income for student loans that are forgiven when the borrower is unable to complete a program of study because a school closes or does something wrong.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The June 22, 2015, amendments added a coauthor and expanded eligibility for this bill's proposed exclusion from income for forgiven student loans.

As a result of the amendments, the "This Bill" and "Economic Impact" sections of the department's analysis of this bill as amended June 4, 2015, are revised, as provided below. The remainder of the department's analysis of this bill as amended June 4, 2015, still applies, and the "Fiscal Impact" section is restated for convenience.

THIS BILL

This bill would provide an exclusion from California gross income for income that would otherwise result from a forgiven student loan of an eligible individual.

A student loan would mean either of the following:

1. Any loan made by a qualified lender to an individual to assist the individual in attending an educational organization that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.
2. Any student obligation note or other debt evidencing a loan to any individual for the purpose of attending a for-profit higher education company or for the purpose of consolidating or refinancing a loan used to attend a for-profit higher education company, which is either a guaranteed student loan, an educational loan, or a loan eligible for consolidation or refinancing under Part B of Title IV of the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1071 et seq.).

Board Position:						Legislative Director	Date
______	S	______	NA	X	NP	Gail Hall	6/30/15
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______	N	______	OUA	______			

An individual would be an eligible individual for a taxable year if any of the following apply during the taxable year:

1. The individual is granted a discharge pursuant to the agreement between ECMC Group, Inc., Zenith Education Group, and the Consumer Financial Protection Bureau concerning the purchase of certain assets of Corinthian Colleges, Inc., dated February 2, 2015;
2. The individual is granted a discharge pursuant to Paragraph 23 of the William D. Ford Federal Direct Loan Program Borrower's Rights and Responsibilities Statement[1] because of either of the following:
    - The individual could not complete a program of study because the school closed; or
    - The individual successfully asserts that the school did something wrong or failed to do something that it should have done; or
3. The individual attended a Corinthian Colleges, Inc., school on or before May 1, 2015, is granted a discharge of any student loan made in connection with attending that school, and that discharge is not excludable from gross income as a result of the reasons listed in 1 or 2, above.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact of SB 150 As Amended June 22, 2015 Assumed Enactment After June 30, 2015		
2015-16	2016-17	2017-18
- $34,000,000	- $100,000	- $100,000

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

[1] Paragraph 23 of the William D. Ford Federal Direct Loan Program Borrower's Rights and Responsibilities Statement, as of the date of this analysis, provides that a student loan will be discharged (i.e., forgiven) if a student dies, becomes totally and permanently disabled, is unable to complete a program of study because of a school closure, has a loan in their name that was falsely certified as a result of a crime of identity theft, or if the school did not pay a refund of the student's loan money that it was required to pay under federal regulations.

Revenue Discussion

Based on data from the Consumer Financial Protection Bureau and other research, it is estimated that California borrowers would have approximately $1.3 billion of student loans forgiven in 2015 because a school closes or does something wrong. This estimate accounts for an unusually large number of school closures in 2015.[2]

It is estimated that 30 percent of those forgiven student loans would be attributable to borrowers who are insolvent, thus excludable from income under current law. Of the remaining forgiven student loans, it is assumed that borrowers eligible for this bill's exclusion would have an average tax rate of 4 percent, resulting in an estimated $34 million revenue loss for the 2015 tax year. The tax-year estimates are converted to fiscal-year estimates and rounded, as shown in the table above.

The June 22, 2015, amendments do not affect the estimated revenue impact of this bill as previously amended on June 4, 2015, because that prior estimate assumed this bill's exclusion would apply to any student who has a student loan forgiven in connection with attending a Corinthian Colleges, Inc., school on or before May 1, 2015.

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[2] The 2015 estimated loss is significantly higher than losses estimated for subsequent years because of the closure of all of the campuses of for-profit Corinthian Colleges, Inc., which is expected to result in an unusually large amount of student loans being forgiven in 2015. If there are subsequent closures of other large schools that impact borrowers in this state, this bill would result in substantial additional revenue losses as a result of such closures.