Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	De Leon	Analyst:	Narinder Dosanjh	Bill Number:	SB 295
Related Bills:	See Legislative History	Telephone:	845-5275	Introduced Date:	February 23, 2015
		Attorney:	Bruce Langston	Sponsor	

SUBJECT:	College Access Tax Credit

SUMMARY

This bill would, under the Personal Income Tax Law and the Corporation Tax Law, modify the College Access Tax Credit.

RECOMMENDATION

No position.

REASON FOR THE BILL

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

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2014, and before January 1, 2018.

STATE LAW

Current state law allows a tax credit for a specified percentage of cash contributions made to the College Access Credit Fund upon the receipt of certification from the California Educational Facilities Authority (Authority).

The amount of tax credit allowed is calculated as follows:

- 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 maximum aggregate amount of credit that can be allocated and certified by the Authority for each calendar year is $500 million plus any previously unallocated and uncertified amounts. Unused credits can be carried forward to the subsequent six years. This credit precludes any deductions for amounts included in the calculation of the credit.

Board Position:						Executive Officer	Date
	S		NA	X	NP	Selvi Stanislaus	4/16/15
	SA		O		NAR		
	N		OUA				

THIS BILL

This bill would extend by one year, through taxable years beginning before January 1, 2018, the existing College Access Tax Credit. A tax credit rate of 50 percent would be applicable to certified and allocated contributions made during taxable year 2017.

Additionally, this bill would increase the tax credit percentage applicable to allocated and certified contributions made during taxable years 2015 and 2016 by 5 percent, to 60 percent and 55 percent respectively.

The College Access Tax Credit would be modified to repeal on its own terms on December 1, 2018.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

SB 798 (De Leon, Chaptered 367, Statutes of 2014) created the College Access Tax Credit, an income tax credit for cash contributions made to an education special fund with an aggregate credit cap of $500 million per calendar year.

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.

Florida has a corporate tax credit scholarship program known as Step Up for Students. The tax credit allows corporations to receive a dollar-for-dollar tax credit up to the amount of their state income tax liability, after application of other allowable credits, for donations made to a nonprofit scholarship funding organization. The credit is subject to an annual cap as specified. *Florida* does not have a personal income tax.

Illinois, *Massachusetts*, *Michigan*, *Minnesota*, and *New York* do not provide a credit comparable to the credit this bill would allow.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 295* As Introduced February 23, 2015 Assumed Enactment After June 30, 2015 ($ in Millions)		
2015-16	2016-17	2017-18
- $50	- $85	- $65

*The table above shows the impact on income and corporation tax collections. This bill would require funds to be transferred from the College Access Tax Credit 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.

Revenue Discussion:

Based on donation information from the University of California and California State University, there were $1.9 billion in donations made to California colleges in 2011. The 2011 donations were grown using the Department of Finance Consumer Price Index plus Returns Growth Rate. For taxable year 2015, the total donation is estimated to be $2.2 billion.

An internal analysis of taxpayer behavior estimated that approximately 13 percent of current donations to higher education in California would be diverted to the new fund and that new donations in response to the credit would be approximately 22 percent of existing donations. This analysis suggests that there would be qualified donations of approximately $750 million in 2015. This is an increase of approximately $90 million over donations predicted by this model for 2015 under current law due to the increase in the credit percentage for 2015. Because donations were below expectations when the program first became available at the end of 2014, the estimated increase in 2015 donations under this proposal was reduced by 50 percent, to $45 million. This model estimates increased donations compared to current law of approximately $45 million in 2015 and 2016 and $150 million in 2017 (for which there is no credit under current law).

Taxpayers claiming the credit would take it in lieu of the charitable contributions deduction. Adjustments were made to account for the offsetting tax effects of the proposed credit and charitable contributions deduction. The additional qualified donations would generate approximately $33 million of credits for the 2015 taxable year.

Credit utilization is estimated at 85 percent in the year the credit is generated with the remainder being used over the subsequent two years.

The tax year estimates were converted to fiscal year estimates and rounded as reflected in the table above.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Supporters may argue that allowing the credit for an additional year and increasing the credit percentages for 2015 and 2016 would encourage taxpayers to invest in this tax credit thereby allowing the fund to help additional students attend California colleges.

Opponents: Some may argue that extending and increasing this tax credit is unnecessary as California provides other programs for assistance with college expenses.

LEGISLATIVE STAFF CONTACT

Narinder Dosanjh
Legislative Analyst, FTB
(916) 845-5275
narinder.dosanjh@ftb.ca.gov

Jame Eiserman
Revenue Manager, FTB
(916) 845-7484
jame.eiserman@ftb.ca.gov

Gail Hall
Legislative Director, FTB
(916) 845-6333
gail.hall@ftb.ca.gov