

SUMMARY ANALYSIS OF AMENDED BILL

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|----------------|---------------------------|------------|--------------------------|---------------|-----------------------|
| Author: | <u>Eggman, et al.</u> | Analyst: | <u>Jessica Deitchman</u> | Bill Number: | <u>AB 1577</u> |
| Related Bills: | <u>See Prior Analysis</u> | Telephone: | <u>845-6310</u> | Amended Date: | <u>April 27, 2016</u> |
| | | Attorney: | <u>Bruce Langston</u> | Sponsor | <u></u> |

SUBJECT: Agriculture Product Donations to Food Bank Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), recast the existing Donated Fresh Fruits or Vegetables Credit (Fruits and Vegetables Credit) as an Agriculture Product Donation to Food Bank Credit (Agriculture Product Donation Credit).

This analysis only addresses the provisions of the bill that impact the department’s programs and operations.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The April 27, 2016, amendments modified the provisions of the credit, sunset date, and repeal date. Except for the “Effective/Operative Date,” “This Bill,” and “Economic Impact” sections, the department’s analysis of the bill as introduced January 14, 2016, and amended February 2, 2016, still applies.

EFFECTIVE/OPERATIVE DATE

This bill would become effective on January 1, 2017, and would be operative for qualified donation items that are accepted by a food bank located in California for taxable years beginning on or after January 1, 2017, and before January 1, 2019.

THIS BILL

This bill would, under the PITL and the CTL, recast the existing Fruits and Vegetables Credit as an Agriculture Product Donation Credit.

This Agriculture Product Donation Credit would be allowed to a qualified taxpayer that donates to a food bank located in California, any qualified donation items that are accepted by that food bank.¹

¹ Under Chapter 5 (commencing with Section 58501) of Part 1 of Division 21 of the Food and Agricultural Code.

“Qualified donation item” would mean fresh fruits or fresh vegetables and the following raw agricultural products or processed foods:

- “Fruits,” nuts or vegetables, as defined in Section 42510 of the Food and Agriculture (F & A) Code.
- “Meat food product,” as defined in Section 18665 of the F & A Code.
- “Poultry,” as defined in Section 18675 of the F & A Code.
- “Eggs,” as defined in Section 75027 of the F & A Code.
- “Fish,” as defined in Section 58609 of the F & A Code.

“Qualified donation item” may also be any of the following foods as defined in Section 109935 of the Health and Safety Code:²

- Rice.
- Beans.
- Fruit, nuts, and vegetables in canned, frozen, dried, dehydrated, and 100 percent juice forms.
- Any cheese, milk, yogurt, butter, and dehydrated milk, meeting the requirements of Division 15 (commencing with Section 32501) of the F & A Code.
- Infant formula, subject to Section 114094.5 of the Health and Safety Code.
- Vegetable oil and olive oil.
- Soup, pasta sauce, and salsa.
- Bread and pasta.
- Canned meats and canned seafood.

The definition of “qualified taxpayer” would be expanded to include a person responsible for growing or raising a qualified donation item, or harvesting, packing, or processing a qualified donation item.

The credit allowed by this bill would be required to be claimed on a timely filed original return.

The Franchise Tax Board would continue to report to the Legislature on or before December 1, 2014, and each December 1 thereafter until January 1, 2018, but the report would now include the estimated value of the qualified donated items and the origin of the qualified donation items.

The existing credit’s sunset date and repeal dates would be extended two years.

² Which defines “food as “any article used or intended for use for food, drink, confection, condiment, or chewing gum by man or other animal, or any article used or intended for use as a component of any of the items previously listed.”

This credit's repeal date would be December 1, 2019.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

| Estimated Revenue Impact of AB 1577 As Amended April 27, 2016 Assumed Enactment After June 30, 2016 | | |
|---|-------------|-------------|
| 2016-17 | 2017-18 | 2018-19 |
| - \$350,000 | - \$700,000 | - \$450,000 |

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

Revenue Discussion

Using data on food bank donations it was estimated that qualified taxpayers made \$9 million in wholesale qualified donations in 2014. This amount was reduced by 15 percent to adjust the wholesale price to the estimated inventory cost of \$7.7 million in qualified donations allowed under Section 263A of the Internal Revenue Code as specified in the bill. This estimate assumes a 15 percent difference between the wholesale price and the inventory cost. This difference can vary widely depending on the type of food donated and the producer. The estimate was then adjusted to reflect changes in the economy over time and results in an estimated \$9 million of food donations in 2017. The estimate assumes the expanded credit would increase donations by 10 percent bringing total donations to \$10 million in 2017. Applying the credit rate of 10 percent results in estimated credits generated of \$1 million. Using the current Fruits and Vegetables Credit data, it is estimated that 75 percent of the credit would be used in the year generated and the remaining 25 percent would be used over the next 5 years. Because taxpayers must reduce the deduction for qualified donations by the credit amount, an offsetting gain is applied to account for the decrease in reported deductions. Lastly, the estimate is adjusted to subtract the loss attributable to the current Fruits and Vegetable Credit, resulting in a net \$600,000 loss for taxable year 2017.

The tax year estimates are split between personal income taxpayers and corporate taxpayers, converted to fiscal year estimates, and then rounded to arrive at the amounts shown in the table above.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

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