Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Levine, et al.	Analyst:	Diane Deatherage	Bill Number:	ABX2 4
Related Bills:	See Legislative History	Telephone:	845-4783	Introduced Date:	July 16, 2015
		Attorney:	Bruce Langston	Sponsor	

SUBJECT:	Repeal Exclusion for In-Home Supportive Services Supplementary Payments

SUMMARY

Under the Personal Income Tax Law, this bill would repeal the existing exclusion from gross income applicable to In-Home Supportive Services (IHSS) supplementary payments.

This bill would also repeal the support services sales tax under the Sales and Use Tax Law and establish a new managed care organization provider tax under the Welfare and Institutions Code. These changes do not affect the department and are not discussed in this analysis.

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

RECOMMENDATION

No position.

REASON FOR THE BILL

The reason for the bill is to create a flat managed care organization tax that will provide a stable stream of revenue to fund critical public programs.

EFFECTIVE/OPERATIVE DATE

This bill would become effective on the 91st day following adjournment of the special session and specifically operative for IHSS payments received after June 30, 2016.

FEDERAL/STATE LAW

Gross income means all income from whatever source derived, unless specifically excluded by law.[1]

Existing California law allows an exclusion from gross income for IHSS supplementary payments received by IHSS providers.

[1] Revenue and Taxation Code section 17071.

Board Position:						Executive Officer	Date
	S		NA	X	NP	Selvi Stanislaus	8/31/15
	SA		O		NAR		
	N		OUA				

BACKGROUND

The supplementary payment is equal to the IHSS sales tax, plus any Social Security and Medicare payroll withholdings that are increased due to the supplementary payment. The supplementary payment restores an IHSS provider's wages, and the income exclusion prevents an IHSS provider from being taxed twice on the same income.

THIS BILL

This bill would provide that the exclusion from gross income applicable to IHSS supplementary payments would remain in effect only until July 1, 2016, and the statute that provides that exclusion[2] would be repealed as of January 1, 2017.

IMPLEMENTATION CONSIDERATIONS

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

LEGISLATIVE HISTORY

AB 1612 (Assembly Committee on Budget, Chapter 725, Statutes of 2010), among other things, established IHSS supplementary payments and excluded those payments from gross income.

SB 852 (Senate Committee on Budget and Fiscal Review, 2009/2010) was substantially similar to AB 1612. SB 852 failed to pass out of the Assembly by the constitutional deadline.

OTHER STATES' INFORMATION

Review of *Illinois, Massachusetts, Michigan*, *Minnesota*, and *New York* laws found no income exclusion comparable to the exclusion this bill would eliminate. The laws of these states were selected due to their similarities to California's economy, business entity types, and tax laws.

FISCAL IMPACT

This bill would not impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would not impact state income or franchise tax revenue.

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

---

[2] Revenue and Taxation Code section 17131.9.

Revenue Discussion

Because this bill would repeal the payments subject to the income exclusion in addition to repealing the exclusion, there would be no impact on state income or franchise tax revenue.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Supporters could argue that the existing mechanism for funding IHSS is outdated and cumbersome and should be replaced.

Opponents: Opponents could argue that a new mechanism for funding IHSS is unnecessary as the existing funding mechanism remains effective and stable.

LEGISLATIVE STAFF CONTACT

Diane Deatherage
Legislative Analyst, FTB
(916) 845-4783
diane.deatherage@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