

**ANALYSIS OF AMENDED BILL**

Author: Jones-Sawyer Analyst: Funmi Obatolu Bill Number: AB 149  
Related Bills: See Legislative History Telephone: 845-5845 Amended Date: June 26, 2017  
Attorney: Bruce Langston Sponsor: \_\_\_\_\_

**SUBJECT:** Habitat for Humanity Voluntary Tax Contribution Fund

**SUMMARY**

This bill would allow a taxpayer to make a voluntary contribution to the Habitat for Humanity Voluntary Tax Contribution Fund on the state personal income tax return.

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

**RECOMMENDATION – NO POSITION**

**Summary of Amendments**

The June 26, 2017, amendments removed provisions of the bill relating to a nonsubstantive change to the Penal Code, and replaced them with the provisions discussed in this analysis. This is the department’s first analysis of the bill.

**REASON FOR THE BILL**

The reason for this bill is to provide additional funding to Habitat for Humanity in support of building affordable housing in California.

**EFFECTIVE/OPERATIVE DATE**

This bill would be effective January 1, 2018, and operative as of that date. If enacted, the Habitat for Humanity Voluntary Tax Contribution Fund could first appear on the 2017 personal income tax return filed on or after January 1, 2018.

**FEDERAL/STATE LAW**

Current federal tax law provides a check-off to direct \$3 of a taxpayer’s tax liability to the presidential election fund. Designation of the \$3 amount does not affect a taxpayer’s tax liability or refund amount.

Current state tax law allows taxpayers to make contributions of their own monies (not tax liability) on their tax returns to any of the 19 voluntary contribution funds (funds) listed on the 2016 state personal income tax return (return). Each fund provides for the reimbursement of the Franchise Tax Board’s (FTB’s) and the Controller’s actual costs to administer the fund.

Taxpayers contributing to the funds are specifically allowed to deduct those contributions on their state income tax return for the year in which the contribution is made. These contributions may satisfy the requirements under federal law for a charitable contribution deduction.

With the following exceptions, funds remain on the return until they are either repealed or fail to meet their minimum contribution amount:

- The California Seniors Special Fund has no sunset date.
- The California Seniors Special Fund, the California Firefighters Memorial Fund, and the California Peace Officer Memorial Foundation Fund have no annual minimum contribution amount.

Additionally, with the exception of the three funds listed above, each fund's minimum contribution amount is adjusted annually for inflation based on the percentage change in the California Consumer Price Index (also known as CCPI).

The FTB is required to make the following two determinations for each fund by September 1 of each calendar year:

1. The minimum contribution amount required for the fund to remain on the return for the following calendar year, and
2. Whether estimated contributions to the fund will be less than the minimum contribution amount for that calendar year.

If the FTB estimates that contributions to a fund will fail to meet or exceed the minimum contribution amount for a calendar year, that fund is repealed effective January 1 of that calendar year.

If the number of contingent voluntary contribution designations that are eligible to be added to the return is greater than the number of designations removed, the voluntary contribution designations may be queued and added to the return in the order of the date of enactment.

Beginning on January 2, 2017,<sup>1</sup> the following general requirements apply to new or extended voluntary contribution funds:

- The words "voluntary tax contribution" must be included as part of the name of the fund.
- The administering agency's Internet Web site shall report the process for awarding money, the amount of money spent on administration, and an itemization of how program funds were awarded by the agency, including, but not limited to, information regarding recipients of funds. An "administering agency" would mean the state agency or other governmental entity, other than the FTB and the Controller, to which funds are allocated to accomplish the purposes of the voluntary contribution designation.

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<sup>1</sup> Revenue and Taxation Code (R&TC) section 18873.

- In order to continue appearing on the tax return, a voluntary contribution fund must receive a minimum contribution of \$250,000 for the second calendar year after it first appears on the personal income tax return, and each calendar year thereafter.
- The voluntary tax contribution shall remain in effect only until January 1 of the seventh calendar year following the first appearance of the contribution on the personal income tax return, and is repealed as of December 1 of that year.

## **THIS BILL**

This bill would establish the Habitat for Humanity Voluntary Tax Contribution Fund and would allow taxpayers to designate their own funds (not tax liability) for contribution to the fund on their personal income tax returns in full dollar amounts of \$1 or more. Each signatory on a joint return may make the contributions individually. The designations for any taxable year must be made on the initial return for the taxable year and, once made, are irrevocable.

In addition, this bill would do the following:

- Specify that if payments and credits reported on the return do not exceed the taxpayer's liability, the taxpayer's return would be treated as if no designation had been made.
- Require the FTB to revise the return to include a designation space for the Habitat for Humanity Voluntary Tax Contribution Fund after another voluntary contribution fund is removed or as soon as space is available. In addition, this bill would require the return's instructions to include information that the contribution may be in the amount of \$1 or more and that the contribution would be used to build affordable housing in California.
- Allow a charitable contribution deduction on the state income tax return for the year in which a voluntary contribution to this fund is made.
- Allow the voluntary contribution designation to remain on the tax return for up to seven years, subject to estimated contributions meeting or exceeding the minimum contribution amount, as specified.
- Specify that contributions must be used to build affordable housing in California.

Beginning with the third calendar year the Habitat for Humanity Voluntary Tax Contribution Fund is on the return, this bill would require contributions to the Habitat for Humanity Voluntary Tax Contribution Fund to meet the \$250,000 minimum contribution amount. The FTB would be required to estimate by September 1 of each calendar year after the first calendar year the Habitat for Humanity Voluntary Tax Contribution Fund appears on the return whether contributions made under this bill would be less than \$250,000.

The law authorizing designations for the Habitat for Humanity Voluntary Tax Contribution Fund would become inoperative as of January 1 of that calendar year and repealed as of December 1 of that year if the estimated contributions are less than the minimum contribution amount.

Beginning with the third calendar year after the fund appears on the return, the FTB would be required to adjust the minimum contribution amount according to the change in the CCPI by September 1 of that calendar year.

The FTB would be required to notify the Controller of the amount to be transferred to the Habitat for Humanity Voluntary Tax Contribution Fund. Amounts transferred to the Habitat for Humanity Voluntary Tax Contribution Fund would be continuously appropriated and allocated in the following order:

- To the FTB and the Controller for reimbursement of costs incurred in administering the Fund.
- The balance to the Department of Housing and Community Development for disbursement to Habitat for Humanity of California, Inc.

## **IMPLEMENTATION CONSIDERATIONS**

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

## **LEGISLATIVE HISTORY**

AB 1765 (Jones-Sawyer, Chapter 354, Statutes of 2014) established the Habitat for Humanity Fund. The Habitat for Humanity Fund first appeared on the 2014 return.

## **PROGRAM BACKGROUND**

The Habitat for Humanity Fund first appeared on the 2014 return and last appeared on the 2015 return because it failed to meet the minimum contribution amount for the 2016 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* does not have a personal income tax but allows contribution designations on the state's motor vehicle registration and renewal forms.

*Illinois, Massachusetts, Michigan, Minnesota and New York* allow for taxpayer contribution designations on the personal income tax return; however, none of these states provide a voluntary contribution comparable to the one discussed in this bill.

## **FISCAL IMPACT**

The 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 AB 149 As Amended June 26, 2017 Assumed Enactment After June 30, 2017		
2017-18	2018-19	2019-20
\$0	- \$8,000	- \$8,000

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

### **Revenue Discussion**

This bill would add the Habitat for Humanity Voluntary Tax Contribution Fund, to the voluntary contribution funds listed on the state's personal income tax return.

The estimate assumes that the fund would meet the \$250,000 minimum contribution amount specified in the bill and that approximately 56 percent of taxpayers who contribute to voluntary contribution funds itemize their deductions. It is estimated the average tax rate for these taxpayers is six percent, resulting in an estimated revenue loss of approximately \$8,000 annually.

Contributions would be made in 2018 when the 2017 return is filed. Subsequently, the deduction for the contribution would be claimed on the 2018 return filed by April 15, 2019; therefore, the revenue impact would not occur until fiscal year 2018-19.

### **SUPPORT/OPPOSITION**

Support: None provided.

Opposition: None provided.

### **ARGUMENTS**

Proponents: Some may argue that contributions made for this cause would provide substantial funding to help low-income families improve their shelter conditions.

Opponents: Some may argue that taxpayers who are inclined to contribute to this cause can do so through other voluntary methods and the consistent addition of new funds on the tax return makes the return a cumbersome document.

## **POLICY CONCERNS**

The requirement for the fund to meet the \$250,000 minimum contribution amount beginning with the third year of its appearance on the return is inconsistent with the provisions of R&TC section 18873.

## **LEGISLATIVE STAFF CONTACT**

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