

## ANALYSIS OF AMENDED BILL

Author: Grayson Analyst: Funmi Obatolu Bill Number: AB 1536  
Related Bills: See Legislative History Telephone: 845-5845 Amended Date: March 30, 2017  
Attorney: Bruce Langston Sponsor: \_\_\_\_\_

**SUBJECT:** Contribution to Technology Education Credential Fund (TEC Fund) Deduction

### SUMMARY

This bill would create the Technology Education Credential Fund (TEC Fund) and allow a deduction under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL) for monetary contributions made to the TEC Fund.

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

### RECOMMENDATION – NO POSITION

#### Summary of Amendments

The March 30, 2017, amendments removed the bill's provisions that would have made a nonsubstantive change to the Education 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 address teacher shortages in Science, Technology, Engineering and Mathematics (STEM) by providing an incentive that will encourage STEM professionals to join the teaching profession.

### EFFECTIVE/OPERATIVE DATE

This bill would become effective and operative January 1, 2018.

### FEDERAL/STATE LAW

#### *Charitable Contribution Deduction*

Existing state and federal laws allow a deduction from income for charitable contributions. Under certain circumstances, an individual is allowed to deduct the fair market value of the property being contributed. An individual can deduct an amount not to exceed 50 percent of federal adjusted gross income (AGI), depending on the type of property given and the type of charitable organization. The charitable contribution deduction for a corporation is limited to the adjusted basis of the property being contributed. In addition, the amount a corporation can deduct for a charitable contribution in a given year is limited to 10 percent of the corporation's net income. A contribution made by either an individual or a business in excess of the percentage limitations may be carried over and deducted in future years.

### ***Above-the-line Deductions***

Existing federal and state laws allow for the deduction of certain expenses, from gross income, when calculating AGI, such as moving expenses and interest on education loans, certain ordinary and necessary trade and business expenses, losses from the sale or exchange of certain property, contributions for pension, profit-sharing and annuity plans of self-employed individuals, retirement savings, and alimony. Thus, all taxpayers with these types of expenses receive the benefit of the deduction, regardless of whether the taxpayer itemizes deductions or uses the standard deduction. These are known as above-the-line deductions.

There are currently no federal or state deductions comparable to the deduction this bill would create.

### **THIS BILL**

This bill would, for taxable years beginning on or after January 1, 2018, establish the TEC Fund and allow a deduction under both the PITL<sup>1</sup> and CTL for monetary contributions made to the TEC Fund.

Any amount allowed as a deduction would be specifically disallowed as a deduction for a charitable contribution.

### **IMPLEMENTATION CONSIDERATIONS**

The department has identified the following implementation concern. Department staff is available to work with the author's office to resolve this and other concerns that may be identified.

The bill is silent on the process for making and verifying a donation to the TEC Fund. For clarity and ease of administration the author may wish to amend the bill to specify that donations must be made to the Commission on Teacher Credentialing (Commission) and require the Commission to provide certification of the donation to the taxpayer and the department

### **LEGISLATIVE HISTORY**

Research of California legislation found no legislation similar to the provisions of this bill.

### **OTHER STATES' INFORMATION**

Review of *Illinois, Massachusetts, Michigan, Minnesota, and New York* laws found no comparable tax credits or deductions. These states were selected and reviewed due to their similarities to California's economy, business entity types, and tax laws.

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<sup>1</sup> Above the line deduction.

## **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 AB 1536 As Amended March 30, 2017 Assumed Enactment After June 30, 2017		
2017-18	2018-19	2019-20
- \$100,000	- \$200,000	- \$200,000

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 charitable contribution data, an estimated \$3 million would be donated to the TEC Fund in the 2018 taxable year. Applying a marginal tax rate of 6 percent results in an estimated revenue loss of \$200,000. The tax year estimates are converted to fiscal year revenue estimates then rounded to arrive at the amounts reflected in the above table.

## **SUPPORT/OPPOSITION**

Support: None provided.

Opposition: None provided.

## **ARGUMENTS**

Proponents: Some may argue that this bill would reduce an existing STEM teacher shortage by providing a tax advantaged funding source for state administered grants to support STEM professionals training to become teachers.

Opponents: Some may argue that taxpayers who are inclined to contribute to this cause would do so absent a tax incentive.

## **POLICY CONCERNS**

This bill would allow individuals an above-the-line deduction for the specified contribution which would be unprecedented.

This bill fails to limit the amount of the deduction that may be taken. Generally, deductions are limited by amount or with respect to necessity. For example, under current law charitable contributions are subject to an income or AGI limitation and a trade or business expense must be ordinary and necessary.

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review of the effectiveness of the deduction by the Legislature.

This bill would create differences between federal and California tax law, thereby increasing the complexity of California tax return preparation.

### **LEGISLATIVE STAFF CONTACT**

Funmi Obatolu,  
Legislative Analyst, FTB  
(916) 845-5845  
[funmi.obatolu@ftb.ca.gov](mailto:funmi.obatolu@ftb.ca.gov)

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

Diane Deatherage  
Legislative Director, FTB  
(916) 845-6333  
[diane.deatherage@ftb.ca.gov](mailto:diane.deatherage@ftb.ca.gov)