



Summary Analysis of Amended Bill

Author: Fong

Sponsor:

Bill Number: AB 2039

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Amended: March 21, 2018

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Related Bills: See Prior Analysis

Subject: California Achieving a Better Life Experience (CalABLE) Contributions Deduction

Summary

This bill would, under the Personal Income Tax Law (PITL), allow a deduction in computing adjusted gross income in an amount equal to the amount contributed to a CalABLE account during the taxable year.

Recommendation – No position.

Summary of Amendments

The March 21, 2018, amendments added a sunset date. Except for the "Effective/Operative Date," and "This Bill" sections, the remainder of the department's analysis of the bill as introduced February 6, 2018, still applies. The "Implementation Considerations," "Fiscal Impact," and "Policy Concerns" sections remain unchanged and are restated below for convenience.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for each taxable year beginning on or after January 1, 2018, and before January 1, 2023.

This Bill

This bill would, for each taxable year beginning on or after January 1, 2018, and before January 1, 2023, allow contributions made during the taxable year by a taxpayer subject to the PITL to a CalABLE account established pursuant to Chapter 15 (commencing with Section 4875) of Division 4.5 of the Welfare and Institutions Code to be deducted in computing an individual's California adjusted gross income.

Implementation Considerations

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

Because the bill fails to specify otherwise, an individual that contributed to multiple CalABLE accounts would be allowed a deduction for 100 percent of their contributions. If this is contrary to the author's intent, this bill should be amended.

The deduction would be limited to individuals, although contributions to a CalABLE account may be made by any person, including business entities. If the author intends to provide a tax benefit to all CalABLE contributors, this bill should be amended.

If this bill is enacted in late September or October of 2018, the department would have developed the tax forms and instructions for the 2018 taxable year. Thus, the department may incur additional costs to develop alternative forms and instructions in the short time frame necessary to ensure they are available for taxpayers to comply with the updated filing requirements as a result of this bill. The author may wish to amend the bill to be operative for taxable years beginning on or after January 1, 2019.

Fiscal Impact

The department's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2039 as Amended March 21, 2018
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	- \$2.1
2019-2020	- \$4.6
2020-2021	- \$5.7

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

Revenue Discussion

CalABLE accounts are not currently available, however the California Treasurer has prepared projections using assumed contributions and income growth. Based on the California Treasurer's CalABLE projections, it is assumed that \$40 million in qualified contributions would be made to CalABLE accounts in 2019. By 2022, the amount of contributions will grow to approximately \$65 million dollars. According to the Government Accountability Office, individuals who set up 529 accounts are significantly wealthier than other individuals. Using an average tax rate of 9 percent results in an estimated revenue loss of \$3.6 million in 2019 and \$6 million in 2022.

The tax-year estimates are converted to fiscal-year estimates, and then rounded to arrive at the amounts reflected in the above table.

Policy Concerns

This bill would potentially provide a double tax benefit for the funds contributed, by allowing an above-the-line deduction for contributions to CalABLE accounts made by an individual, effectively excluding such contributions from state tax in addition to the current law exclusion from gross income for distributions for qualified disability expenses for a designated beneficiary.

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