



## **Summary Analysis of Amended Bill**

Author: Voepel, et al.

Sponsor:

Bill Number: AB 2478

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Amended: April 26, 2018

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Related Bills: See Prior Analysis

**Subject:** Gross Income Exclusion – Student Loan Assistance

### **Summary**

This bill would, under the Personal Income Tax Law, allow an employee to exclude from gross income the principal or interest on qualified education loans paid or incurred by the employer on the employee's behalf.

**Recommendation – No position.**

### **Summary of Amendments**

The April 26, 2018, amendments modified the bill's specified operative date. Except for the "Effective/Operative Date," "This Bill," and "Economic Impact" sections, the remainder of the department's analysis of the bill as introduced on February 14, 2018, still applies. The "Implementation Considerations," "Fiscal Impact," and "Policy Concerns" sections have been restated below for convenience.

### **Effective/Operative Date**

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for payment made by employers beginning on and after January 1, 2018, and before January 1, 2023.

### **This Bill**

This bill would provide an exclusion from gross income of an employee, up to \$5,250 per calendar year, for amounts paid or incurred by the employer beginning on and after January 1, 2018, and before January 1, 2023, to the employee or to a lender, of principal or interest on any qualified education loan, defined by Internal Revenue Code section 221, relating to interest on education loans, incurred by the employee.

### **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.

It is unclear whether the bill's exclusion from income would be subject to the existing \$5,250 annual limit or its own \$5,250 limit. To avoid disputes between taxpayers and the department, this bill should be amended.

The exclusion from income would apply to payments on specified educational indebtedness for the education of the taxpayer (employee), their spouse, or their dependent. If this is contrary to the author's intent, this bill should be amended.

If this bill is enacted in late September or October of 2018, the department would have developed the 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 reporting requirement.

### **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 2478 as Amended April 26, 2018  
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	- \$38.0
2019-2020	- \$26.0
2020-2021	- \$27.0

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

Based on data from the Department of Education, Consumer Financial Protection Bureau, and other sources, it is estimated that Californians hold an estimated \$180 billion in student loan debt, making the average student loan outstanding approximately \$33,000 in taxable year 2018. Using data for current interest deductions on student loans from the Franchise Tax Board's Personal Income Tax sample, there will be an estimated \$3.4 billion in student loan repayments in the 2018 taxable year. Based on available literature, it is assumed that 10 percent of repayments, or \$340 million, would be paid by employers and excluded from income pursuant to this bill resulting from the education indebtedness of the employee, their spouse, or their dependent. This revenue estimate assumed a new annual income exclusion

limit of \$5,250 for payment of principal and interest paid for by an employer as proposed by this bill. Assuming an effective tax rate of 7 percent, the bill would result in a revenue loss of approximately \$24 million for the 2018 taxable year.

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

### **Policy Concerns**

This bill would establish an income exclusion for which federal law has no counterpart, thus increasing nonconformity.

The exclusion would be allowed for expenses paid or incurred on loans for education at an institution located either inside or outside California.

An employee located outside this state could benefit from this exclusion, thereby extending the benefit beyond the borders of California. Clarification is necessary if this is contrary to the author's intent.

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