Franchise Tax Board **SUMMARY ANALYSIS OF AMENDED BILL**

Author:	Muratsuchi & Ridley-Thomas	Analyst:	Jon Feenstra	Bill Number:	AB 461
Related Bills:	See Prior Analysis	Telephone:	845-4870	Amended Date	May 26, 2017
		Attorney:	Bruce Langston	Sponsor:	

SUBJECT: Student Loan Debt Relief

SUMMARY

This bill would, under the Personal Income Tax Law, modify the cancelled or repaid student loans that are excluded from gross income.

RECOMMENDATION – NO POSITION

SUMMARY OF AMENDMENTS

The May 26, 2017, amendments modified the gross income exclusion for canceled or repaid student loans. These amendments resolved the one technical consideration discussed in the department's analysis of the bill as amended April 6, 2017. Except for the "This Bill," "Technical Considerations," "Economic Impact", and "Support/Opposition" sections, the remainder of the department's analysis of the bill as amended on April 6, 2017, still applies. The "Fiscal Impact" section is restated for convenience.

THIS BILL

This bill would, for taxable years beginning on or after January 1, 2017, and before January 1, 2022, exclude from gross income student loan debt that is cancelled or repaid under the Income Contingent Repayment plan, the Pay As You Earn Repayment plan, and the Revised Pay As You Earn Repayment plan that are administered by the U.S. Department of Education.

FISCAL IMPACT

This bill would not impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 461 As Amended May 26, 2017 Assumed Enactment After June 30, 2017		
2017-18	2018-19	2019-20
-$0	-$6,000	-$30,000

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

Revenue Discussion

Income-Contingent Repayment

Under federal law, the earliest point that qualified student debt may be forgiven under this type of repayment plan is 2019, so there would be no revenue impact prior to fiscal year 2018-19. Based on a proration of the Joint Committee on Taxation estimates, it is estimated that the revenue loss to California from this proposal would be approximately $6,000 in fiscal year 2018-19, $30,000 in fiscal year 2019-20, $30,000 in fiscal year 2020-21, and $10,000 in fiscal year 2021-22.

Pay As You Earn

The proposal to exclude from gross income any student loans forgiven under this type of repayment plan would not benefit from this exclusion as the first year students would have debt forgiven under this plan would be in fiscal year 2032-33. To qualify for this type of repayment plan, an individual is required to have a loan disbursement on or after October 1, 2011 and make 20 years of qualifying payments.

Revised Pay As You Earn

The proposal to exclude from gross income any student loans forgiven under this type of repayment plan is more nuanced, but the majority of the impact on state income revenue would begin in fiscal year 2035-36.[1] The U.S. Department of Education finalized the regulation creating this type of repayment plan on October 27, 2015. It was made available to all outstanding student loans that meet certain criteria. Similar to Pay As You Earn, this type of repayment plan also requires 20 years of qualifying payments for undergraduate loans (25 years for graduate) to receive loan forgiveness; however, qualifying payments include payments made under Income-Based Repayment plans and Income-Contingent Repayment plans as well as Pay As You Earn.

[1] Because Revised Pay As You Earn considers payments made under other income driven payment plans as qualified payments some of the revenue impact associated with Revised Pay As You Earn could occur prior to the 2035-36 fiscal year.

- If the taxpayer was participating in Income-Contingent Repayment and switched to Revised Pay As You Earn, the impact of debt forgiveness would occur in 2018-2019.
- If the taxpayer was participating in Income-Based Repayment and switched to Revised Pay As You Earn, the impact of debt forgiveness would occur in 2034-35.
- If the taxpayer was participating in Pay As You Earn and switched to Revised Pay As You Earn, the impact of this proposal would occur in 2031-32.

The new loan forgiveness programs, Pay As You Earn and Revised Pay As You Earn, offered by the U.S. Department of Education have significantly increased the number of individuals participating in loan forgiveness programs and as such the federal government has been raising their projected costs for income driven repayment plans in recent years. Therefore, the proposal's impact on the budget could be significantly larger than the impact for Income-Based Repayment and Income-Contingent Repayment plans when individuals are eligible for loan forgiveness in 2035-36.[2]

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

SUPPORT/OPPOSITION[3]

Support: California Association of Nonprofits.

Opposition: None on file.

LEGISLATIVE STAFF CONTACT

Jon Feenstra	Jame Eiserman	Diane Deatherage
Legislative Analyst, FTB	Revenue Manager, FTB	Legislative Director, FTB
(916) 845-4870	(916) 845-7484	(916) 845-6333
jon.feenstra@ftb.ca.gov	jame.eiserman@ftb.ca.gov	diane.deatherage@ftb.ca.gov

[2] Ibid.
[3] From Assembly Committee on Revenue and Taxation analysis, dated March 24, 2017.