

Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Quirk-Silva Analyst: Jessica Deitchman Bill Number: AB 490
Related Bills: See Legislative History Telephone: 845-6310 Introduced Date: February 13, 2017
Attorney: Bruce Langston Sponsor: _____

SUBJECT: College Access Tax Credit – Remove Repeal Date/Make the Credit Permanent

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), remove the sunset date for the College Access Tax Credit making the credit permanent.

RECOMMENDATION - NO POSITION

REASON FOR THE BILL

The reason for the bill is to make the College Access Tax Credit permanent to help further the education of students in California.

EFFECTIVE/OPERATIVE DATE

This bill would become effective January 1, 2018, and operative for taxable years beginning on or after January 1, 2018.

STATE LAW

For taxable years beginning on or after January 1, 2017, and before January 1, 2018, current state tax law allows a College Access Tax Credit, in an amount equal to 50 percent of the amount contributed by a taxpayer to the College Access Tax Credit Fund, as allocated and certified by the California Educational Facilities Authority (Authority). The maximum aggregate amount of credit that could be allocated and certified by the Authority is be \$500 million.

Taxpayers are precluded from taking a deduction for amounts included in the calculation of the credit. Any unused credits may be carried forward for up to six years.

The College Access Tax Credit may reduce tax below tentative minimum tax under both the PITL and the CTL.

The College Access Tax Credit Fund has a special fund in the State Treasury. Amounts contributed to the College Access Tax Credit Fund would be allocated in the following order:

- To reimburse the General Fund for the aggregate amount of the credit allowed. The allocated funds would be considered General Fund revenues for purposes of Sections 8 and 8.5 of Article XVI of the California Constitution.
- Upon appropriation by the Legislature, to reimburse the Department of Insurance, the FTB, the Authority, the State Controller, and the Student Aid Commission for all administrative costs incurred in connection with this credit.
- To the Student Aid Commission for the purpose of awarding Cal Grants to students.

The credit will be repealed by its own terms on December 1, 2018.

THIS BILL

This bill would remove the sunset date for the College Access Tax Credit, and allow it to be operative indefinitely for taxable years beginning on or after January 1, 2018.

The maximum aggregate amount of the credit that could be allocated, over the lifetime of the credit, would remain unchanged at \$500 million.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

LEGISLATIVE HISTORY

SB 81 (Committee on Budget and Fiscal Review, Chapter 22, Statutes of 2015) extended the College Access Tax Credit to apply for taxable years beginning on or after January 1, 2017 and before January 1, 2018.

SB 798 (De Leon, Chapter 367, Statutes of 2014) created the College Access Tax Credit, an income tax credit for cash contributions made to an education special fund with an aggregate credit cap of \$500 million per 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 has a corporate tax credit scholarship program known as Step Up for Students. The tax credit allows corporations to receive a dollar-for-dollar tax credit up to the amount of their state income tax liability, after application of other allowable credits, for donations made to a nonprofit scholarship funding organization. The credit is subject to an annual cap.

Illinois, Massachusetts, Michigan, Minnesota, and New York do not provide a credit comparable to the College Access Tax Credit.

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 and an appropriation will be requested, if necessary.

ECONOMIC IMPACT

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 490* As Introduced on February 13, 2017 Assumed Enactment After June 30, 2017 (\$ in Millions)		
2017-18	2018-19	2019-20
-\$1.6	-\$3.5	-\$4.5

*The table above shows the impact on income and corporation tax. This bill would require funds to be transferred from the College Access Tax Credit Fund to the General Fund so that the net impact of College Access Tax Credits on the General Fund would be zero.

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 donation data from the California State Treasurer's office, the three-year average contributions to the College Access Tax Credit Fund were approximately \$10 million. The contribution amounts were adjusted to reflect changes in the economy over time, resulting in an estimated \$11 million in contributions for tax year 2018. The credit is 50 percent of the contributions, or \$5.5 million for 2018.

Taxpayers would claim the credit in lieu of the charitable contributions deduction. The estimate is reduced by approximately \$1 million to account for the offsetting tax effects of the credit on the charitable contributions deduction. This would result in an estimated revenue loss of \$4.5 million for the 2018 taxable year

Although this credit could be used to reduce tax below tentative minimum tax, not all of the generated credit would be used in the year generated. It is estimated that 60 percent would be used in the year generated and the remainder used over the subsequent two years.

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

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Supporters may argue that allowing the credit indefinitely, until the cap is reached, would encourage taxpayers to invest in this tax credit, thereby allowing the fund to help additional students attend California colleges.

Opponents: Some may argue that extending this tax credit indefinitely is unnecessary as California provides other programs for assistance with college expenses.

POLICY CONCERNS

This bill repeals the sunset date. Sunset dates generally are provided to allow periodic review of the effectiveness of the credit by the Legislature.

LEGISLATIVE STAFF CONTACT

Jessica Deitchman
Legislative Analyst, FTB
(916) 845-6310
jessica.deitchman@ftb.ca.gov

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

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