

BILL ANALYSIS

| | | |
|----------------------------------|--------------------|---------------|
| Department, Board, Or Commission | Author | Bill Number |
| Franchise Tax Board | Quirk-Silva | AB 490 |

SUBJECT: College Access Tax Credit – Extend Sunset Date

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), extend the sunset date and add repeal language for the College Access Tax Credit.

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

REASON FOR THE BILL

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

EFFECTIVE/OPERATIVE DATE

This bill would extend the sunset date for the College Access Tax Credit from January 1, 2018, to January 1, 2023, and the repeal date from December 1, 2018, to December 1, 2023.

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 Franchise Tax Board (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The credit will be repealed by its own terms on December 1, 2018.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 extend the sunset date for the College Access Tax Credit from January 1, 2018, to January 1, 2023, and the repeal date from December 1, 2018, to December 1, 2023.

LEGISLATIVE HISTORY

SB 81 (Committee on Budget and Fiscal Review, Chapter 22, Statutes of 2015) extended the College Access Tax Credit to 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

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 490* | | |
|---------------------------------------|---------|---------|
| 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 personal 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 of contributions to the College Access Tax Fund is 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 proposed 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 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 amounts reflected in the above table.

APPOINTMENTS

None.

SUPPORT/OPPOSITION¹

Support: California Catholic Conference.

Opposition: None provided.

VOTES

| | Date | Yes | No |
|----------------|----------|-----|----|
| Concurrence | 09/11/17 | 77 | 0 |
| Senate Floor | 09/06/17 | 39 | 0 |
| Assembly Floor | 05/31/17 | 77 | 0 |

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¹ As provided in the Assembly Revenue and Taxation Committee analysis, dated March 24, 2017.