

## Franchise Tax Board

## ANALYSIS OF ORIGINAL BILL

Author: Maienschein, et al. Analyst: Davi Milam Bill Number: AB 624  
Related Bills: See Legislative History Telephone: 845-2551 Introduced Date: February 14, 2017  
Attorney: Bruce Langston Sponsor: \_\_\_\_\_

**SUBJECT:** School Robotics Club Credit

### SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), create the School Robotics Club Credit.

**RECOMMENDATION - NO POSITION.**

### REASON FOR THE BILL

The reason for the bill is to encourage contributions to support students' interest in science, technology, engineering, mathematics, and robotics so that students may strive for a profession in these fields.

### EFFECTIVE/OPERATIVE DATE

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

### FEDERAL/STATE LAW

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Existing federal and state tax laws allow a taxpayer to claim charitable contributions as an itemized deduction. Deductions are allowed for monetary charitable contributions or gifts of property to: qualified federal, state, or local governments, or to organizations formed for religious, charitable, educational, scientific, or literary purposes, or for the prevention of cruelty to children or animals.

Current state and federal laws lack a comparable credit to the one that would be created by this bill.

### THIS BILL

For each taxable year beginning on or after January 1, 2018, this bill would, under the PITL and the CTL, allow a credit in an amount equal to 50 percent of the qualified amount paid or incurred, up to \$10,000, to a robotics club during the taxable year.

This bill would define the following terms:

- “Qualified amount” would mean the amount paid or incurred for robotics club competition entry fees and associated travel and amounts for acquisition of materials and equipment.
- “Robotics club” would mean a club at a kindergarten or any of grades 1 to 12, inclusive, at a public, charter or private school in California.

Any credit in excess of “net tax” could be carried over to succeeding taxable years until exhausted.

This bill also would prohibit the deduction of any contribution made to a robotics club that would be eligible for credit under the terms of this bill.

### **IMPLEMENTATION CONSIDERATIONS**

Department staff has identified the following implementation considerations for purposes of a high-level discussion; additional concerns may be identified as the bill moves through the legislative process. Department staff is available to work with the author’s office to resolve these and other concerns that may be identified.

This bill lacks administrative details necessary to administer the bill’s provisions. For example, the amount of the credit is unclear. Does the \$10,000 cap apply to the amount of credit per taxable year or the costs eligible for calculating the credit per taxable year? Additionally, it is unclear if the maximum credit for a jointly filed return would be \$20,000. For clarity and ease of administration, it is recommended that the bill be amended.

This bill would allow a credit for qualified expenses that are paid directly by the taxpayer on behalf of a robotics club and amounts contributed directly to the robotics club. If this is inconsistent with the author’s intent, this bill should be amended.

Additionally, to verify that the amounts paid or incurred meet the credit requirements, the author may wish to consider amending the bill to require certification of qualified amounts by the school or “robotics club” that includes the following:

- The school’s name and address.
- The club’s name.
- The taxpayer’s name.
- The amount received and date of receipt.

The defined phrase “qualified amount” uses undefined terms and phrases that could be broadly interpreted. For example:

- “Robotics club entry fees and associated travel” would potentially include amounts paid for a specific student or dependent of the taxpayer participating in robotics club competitions, as well as travel expenses for both the student and parents.
- “Materials and equipment” would potentially include materials and equipment used for purposes other than robotics clubs and competitions.

The use of undefined phrases could lead to disputes with taxpayers and would complicate the administration of this bill. For clarity and ease of administration, it is recommended that the bill be amended.

The definition of “robotics club” uses the undefined term “club” and could be more broadly interpreted than the author intends. To ensure consistency with the author’s intent, the bill should be amended.

## **LEGISLATIVE HISTORY**

AB 2037 (Plescia, 2005/2006), would have allowed a credit for contributions to support a public school’s extracurricular activities. AB 2037 failed to pass by the constitutional deadline.

## **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, Illinois, Massachusetts, Michigan, and New York* laws do not provide a credit comparable to the credit that would be allowed by this bill.

*Minnesota* tax law allows a K-12 Education Credit for qualifying education expenses including fees for enrichment or academic classes taken outside the regular school day and up to \$200 for computer equipment.

## **FISCAL IMPACT**

The department’s costs to implement this bill have yet to be determined. As the bill moves through the legislative process and the implementation concerns are resolved, costs will be identified and an appropriation will be requested, if necessary.

## ECONOMIC IMPACT

### Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 624 As Introduced February 14, 2017 Assumed Enactment After June 30, 2017 (\$ in Millions)		
2017-18	2018-19	2019-20
- \$37	- \$360	- \$470

### Revenue Discussion

Based on data from the California Department of Education on the number of students by grade level, the National Center for Education on school club participation rates, and the average cost of club activities, the total cost of participation in school clubs is estimated to be \$40 million for grades K, 1-5, \$60 million for grades 6-8, and \$950 million for grades 9-12, for a total of approximately \$1.1 billion in qualified club expenses. Applying a credit rate of 50 percent, results in \$550 million of credits generated in taxable year 2018. It is estimated that parents would pay for 70 percent and corporations would sponsor 30 percent of the total cost of participating in club activities. It is assumed that 70 percent, or \$380 million, of the credit would be used in the year generated and the remaining 30 percent would be used over the next several years. Taxpayers may not claim a deduction for the expenses used in the calculation of the credit. In taxable year 2018, an offsetting gain of \$40 million is applied to account for the decrease in reported deductions by both personal income taxpayers and corporations. This results in an estimated revenue loss of \$340 million in taxable year 2018.

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

### SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

### ARGUMENTS

Proponents: Some may say that this bill would provide vital funding to support students' interests in science, technology, engineering, mathematics, and robotics.

Opponents: Some may say that providing a tax incentive to assist with expenses associated with robotics clubs for the state's children would result in revenue losses, which have to be paid for with higher taxes or reductions in services.

## **POLICY CONCERNS**

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review of the effectiveness of a tax benefit by the Legislature.

This bill would allow for an unlimited carryover period. Consequently, the department would be required to retain the carryover on the tax forms indefinitely. Recent credits have been enacted with a carryover period limitation because experience shows credits typically are exhausted within eight years of being earned.

## **LEGISLATIVE STAFF CONTACT**

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