

## Franchise Tax Board

## ANALYSIS OF ORIGINAL BILL

Author: Cooley Analyst: Funmi Obatolu Bill Number: AB 846  
Related Bills: See Legislative History Telephone: 845-5845 Introduced Date: February 16, 2017  
Attorney: Bruce Langston Sponsor: \_\_\_\_\_

**SUBJECT:** California YMCA Youth and Government Voluntary Tax Contribution Fund

### SUMMARY

This bill would allow taxpayers to make voluntary contributions to the California YMCA Youth and Government Voluntary Tax Contribution Fund on their state personal income tax returns.

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

**RECOMMENDATION - NO POSITION**

### REASON FOR THE BILL

The reason for this bill is to allow California taxpayers to empower young people through an important program that motivates and inspires youth to become active citizens in the state.

### EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2018, and operative as of that date. If enacted, the fund would first appear on the 2017 personal income tax return filed on or after January 1, 2018.

### FEDERAL/STATE LAW

Current federal tax law provides a check-off to direct \$3 of a taxpayer's tax liability to the presidential election fund. Designation of the \$3 amount does not affect a taxpayer's tax liability or refund amount.

Current state tax law allows taxpayers to make contributions of their own monies (not tax liability) on their tax returns to any of the 20 voluntary contribution funds (funds) listed on the 2016 state personal income tax return (return). Each fund provides for the reimbursement of the Franchise Tax Board's (FTB's) and the Controller's actual costs to administer the fund.

Taxpayers contributing to the funds are specifically allowed to deduct those contributions on their state income tax return for the year in which the contribution is made. These contributions may satisfy the requirements under federal law for a charitable contribution deduction.

With the following exceptions, funds remain on the return until they are either repealed or fail to meet their minimum contribution amount:

- The California Seniors Special Fund has no sunset date.

- The California Seniors Special Fund, the California Firefighters Memorial Fund, and the California Peace Officer Memorial Foundation Fund have no annual minimum contribution amount.

Additionally, with the exception of the three funds listed above, each fund's minimum contribution amount is adjusted annually for inflation based on the percentage change in the California Consumer Price Index (also known as CCPI).

The FTB is required to make the following two determinations for each fund subject to a minimum contribution requirement, by September 1 of each calendar year:

1. The minimum contribution amount required for the fund to remain on the return for the following calendar year, and
2. Whether estimated contributions to the fund will be less than the minimum contribution amount for that calendar year.

If the FTB estimates that contributions to a fund will fail to meet or exceed the minimum contribution amount for a calendar year, that fund is repealed effective January 1 of that calendar year.

Voluntary contribution funds created or extended on or after January 1, 2017, are subject to the following requirements<sup>1</sup>:

- The words "voluntary tax contribution" shall be included as part of the name of the fund.
- The administering agency's Internet Web site shall report the process for awarding money, the amount of money spent on administration, and an itemization of how program funds were awarded by the agency, including, but not limited to, information regarding recipients of funds. An "administering agency" would mean the state agency or other governmental entity, other than the FTB and the Controller, to which funds are allocated to accomplish the purposes of the voluntary contribution designation.
- In order to continue appearing on the tax return, a voluntary contribution fund must receive a minimum contribution of \$250,000 for the second year after the first appearance on the personal income tax return and each calendar year thereafter.
- The voluntary tax contribution shall remain in effect only until January 1 of the seventh calendar year following the first appearance of the contribution on the personal income tax return, and is repealed as of December 1 of that year.
- Contributions made to the voluntary contribution fund must be continuously appropriated from the fund to the administering agency to be used to accomplish the charitable purpose of the fund.

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<sup>1</sup> Revenue and Taxation Code section 18873.

## **THIS BILL**

This bill would establish the California YMCA Youth and Government Voluntary Tax Contribution Fund (Fund) and would allow taxpayers to designate their own funds (not tax liability) for contribution to the Fund on their personal income tax returns in full dollar amounts of \$1 or more. Each signatory on a joint return may make the contributions individually. The designations for any taxable year must be made on the initial return for the taxable year and, once made, are irrevocable.

In addition this bill would do the following:

- Specify that if payments and credits reported on the return do not exceed the taxpayer's liability, the taxpayer's return would be treated as if no designation had been made.
- Require the FTB to revise the return to include a designation space for the California YMCA Youth and Government Voluntary Tax Contribution Fund. In addition, this bill would require the return's instructions to include information that the contribution may be in the amount of \$1 or more and that the contribution would be used to support the activities of the YMCA Youth and Government Program, the African American Leaders for Tomorrow Program, the Asian Pacific Youth Leadership Project, and the Chicano Latino Youth Leadership Project.
- Allow a charitable contribution deduction on the state income tax return for the year in which a voluntary contribution to the California YMCA Youth and Government Voluntary Tax Contribution Fund is made.
- Allow the voluntary contribution designation to remain on the tax return for up to seven years, subject to estimated contributions meeting or exceeding a minimum contribution amount of \$100,000.

For the second calendar year the California YMCA Youth and Government Voluntary Tax Contribution Fund is on the return, this bill would require contributions to the California YMCA Youth and Government Voluntary Tax Contribution Fund to meet the \$100,000 minimum contribution amount. The FTB would be required to estimate by September 1 of each calendar year after the first calendar year the California YMCA Youth and Government Voluntary Tax Contribution Fund appears on the return whether contributions would equal or exceed the minimum contribution amount.

Beginning with the third calendar year after the fund appears on the return, the FTB would adjust the minimum contribution amount for the fund by September 1 of that year. The minimum contribution amount would adjust according to the California Consumer Price Index (also known as the CCPI).

If the estimated contributions are less than the minimum contribution amount, the law authorizing designations for the California YMCA Youth and Government Voluntary Tax Contribution Fund would become inoperative as of January 1 of that calendar year and repealed as of December 1 of that year.

The FTB would be required to notify the Controller of the amount to be transferred to the California YMCA Youth and Government Voluntary Tax Contribution Fund. Upon appropriation by the Legislature, all amounts transferred to the California YMCA Youth and Government Voluntary Tax Contribution Fund would be allocated in the following order:

- To the FTB, the Controller and the Department of Education for reimbursement of costs incurred in administering the Fund.
- The balance to the State Department of Education for distribution, as specified.

## **IMPLEMENTATION CONSIDERATIONS**

Implementing this bill would not significantly impact the department's program and operations.

## **LEGISLATIVE HISTORY**

SB 1476 (Senate Governance and Finance, Chapter 597, Statutes of 2016) requires voluntary contribution funds created or extended on or after January 1, 2017, to use a specified naming convention and include specified provisions.

AB 233 (Hall, Chapter 228, Statutes of 2012) established the California YMCA Youth and Government Fund on the state income tax return.

SB 803 (Hall, Chapter 379, Statutes of 2012) established the California Youth Leadership Fund on the state personal income tax return.

## **PROGRAM BACKGROUND**

The California YMCA Youth and Government Fund first appeared on the income tax return on the 2013 taxable year income tax return. Contributions to the California YMCA Youth and Government Fund totaled \$72,435 and \$68,225, in 2013 and 2014, respectively. The fund was removed from the income tax return in 2015 because it failed to meet the \$250,000 minimum contribution amount.

## **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.

*Illinois, Massachusetts, Michigan, Minnesota, and New York* allow taxpayer contribution designations on the personal income tax return; however, none of these states provide a voluntary contribution comparable to the one discussed in this bill. *Florida* does not have a personal income tax but allows contribution designations on the state's motor vehicle registration and renewal forms.

## **FISCAL IMPACT**

The 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 846 As Introduced February 16, 2017 Assumed Enactment After June 30, 2017		
2017-18	2018-19	2019-20
\$0	- \$3,000	- \$3,000

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

### **Revenue Discussion**

This bill would add the California YMCA Youth and Government Fund, to the voluntary contribution funds listed on the state's personal income tax return. The estimate assumes that the fund would meet the minimum annual contribution amount of \$100,000, adjusted for inflation as specified.

Approximately 56 percent of taxpayers who contribute to voluntary contribution funds itemize their deductions. It is estimated the average tax rate for these taxpayers is six percent, resulting in an estimated revenue loss of approximately \$3,000 annually.

Contributions would be made in 2018 when the 2017 return is filed. Subsequently, the deduction for such contributions would be claimed on the 2018 return filed by April 15, 2019; therefore, the revenue impact would not occur until fiscal year 2018-19.

### **SUPPORT/OPPOSITION**

Support: None provided.

Opposition: None provided.

### **ARGUMENTS**

Proponents: Some may argue that contributions made to this fund would empower young people and inspire them to become active citizens.

Opponents: Some may argue that taxpayers who are inclined to contribute to this cause would do so absent a tax incentive.

## **POLICY CONCERNS**

The minimum contribution amount of \$100,000, is inconsistent with the general provision requiring a \$250,000 minimum contribution amount for new or extended funds.

## **LEGISLATIVE STAFF CONTACT**

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