



Analysis of Amended Bill

Author: Vidak	Sponsor:	Bill Number: SB 1337
Analyst: Jessica Deitchman	Phone: (916) 845-6310	Introduced: February 16, 2018 Amended: March 22, 2018
Attorney: Bruce Langston	Related Bills: See Legislative History	

Subject: Small Business Student Intern Credit

Summary

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), allow a tax credit to certain small businesses for wages paid to student interns.

Recommendation – No position.

Summary of Amendments

The March 22, 2018, amendments modified a definition for purposes of the tax credit provisions as introduced on February 16, 2018, and discussed below.

This is the department's first analysis of the bill.

Reason for the Bill

The reason for the bill is to encourage taxpayers to hire and pay student interns by offering a tax credit.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for each taxable year beginning on or after January 1, 2019, and before January 1, 2024.

Federal/State Law

Existing federal and state 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.

Current state law allows a New Employment Credit (NEC) that is available to a qualified taxpayer that hires a qualified full-time employee, has an overall net increase in employment, and pays or incurs qualified wages attributable to work performed by the qualified full-time employee in a designated census tract or former Enterprise Zone. The qualified taxpayer must receive a tentative credit reservation from the Franchise Tax Board for that qualified full-time employee.

This Bill

This bill would, under the PITL and CTL, for each taxable year beginning on or after January 1, 2019, and before January 1, 2024, allow a credit equal to 50 percent of the amount paid or incurred by a small business during the taxable year for wages paid to a student intern for the first 90 calendar days of employment.

The bill would define the following terms:

- “Small Business” has the same meaning as defined in the NEC.¹
- “Student Intern” means an individual who is either of the following:
 - Enrolled in high school.
 - Enrolled at an accredited community college, or at a public or private college or university, and taking six or more credits during the current semester or quarter or the previous semester or quarter.

Credits in excess of the net tax may be carried over to reduce the net tax for up to five succeeding years until the credit is exhausted.

The bill states the Legislature’s intent to comply with Section 41.

This section would remain in effect until December 1, 2024, and be repealed as of that date.

Implementation Considerations

The department has identified the following implementation concerns. Department staff is available to work with the author’s office to resolve these and other concerns that may be identified.

¹ Small business as defined in the NEC, Revenue & Taxation Code section 23626(b)(14), generally means a trade or business that has aggregate gross receipts, less returns and allowances reportable to this state of less than \$2,000,000 during the previous taxable year as specified.

This term “first 90 days of employment” is undefined. Absent a definition, the term could be broadly interpreted and may lead to disputes between the department and taxpayers. For example, an employer could generate multiple credits for the same student intern by terminating and rehiring on a 90-day cycle. If this is contrary to the author’s intent, the bill should be amended to clearly define this term.

The bill would provide a definition for a student intern that they must be enrolled in high school or currently enrolled at an accredited community college, or at a public or private university and taking at least 6 credits during a defined period of time. However, it is unclear if those requirements should only be met at the time of hire or need to be maintained for the entire time the credit is claimed. It is recommended the bill be amended to clarify the author’s intent.

Legislative History

AB 1904 (Cervantes, 2017/2018) would create a tax credit equal to \$1,000 for each registered apprentice. AB 1904 is currently in the Assembly.

AB 361 (Cervantes, 2017/2018) would have created a tax credit in an amount equal to \$1,000 for each registered apprentice. AB 361 failed to pass by the constitutional deadline.

AB 151 (Rodriguez, 2015/2016) would have created a tax credit in an amount equal to \$2,000 for each registered apprentice. AB 151 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.

Review of *Florida, Illinois, Massachusetts, and Michigan* laws found no comparable tax credits.

Minnesota offers employers a credit up to 40 percent (with a maximum credit of \$2,000 per qualifying student) of the compensation they paid to a student intern who is receiving post-secondary academic credit for the work. To qualify for this credit, employers must be certified by the educational institution in which the student is enrolled.

New York provides a tax credit to certain employers for hiring certain students and paying them at least minimum wage. The credit is equal to minimum wage multiplied by the applicable tax rate.

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.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1337 as Amended on March 22, 2018
For Taxable Years Beginning On or After January 1, 2019 and Before January 1, 2024
Assumed Enactment after June 30, 2018

(\$ in Billions)

Fiscal Year	Revenue
2018-2019	- \$1.0
2019-2020	- \$2.1
2020-2021	- \$2.4

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

Revenue Discussion

Based on data from the United States Census Bureau, it is estimated there would be 2.1 million eligible student interns in 2019. Based on FTB tax data, approximately 80 percent, or 1.7 million, would work for a small business, as specified in the bill.

Using weekly earnings data for full-time and part-time workers from the Bureau of Labor Statistics, each student would earn approximately \$5,000 during the first 90 days of employment, or \$8.4 billion. Applying the 50 percent credit percentage results in total credits generated of \$4.2 billion. It is estimated that 55 percent of taxpayers would have sufficient tax liability to claim the credit in the year generated. For those taxpayers, 80 percent, or \$1.8 billion, of the credit would be used in the 2019 taxable year. The remaining credits would be utilized over the next two years.

The tax-year estimates are converted to fiscal years and then rounded to arrive at the amounts shown in the above table.

Support/Opposition

Support: None provided.

Opposition: None provided.

Arguments

Proponents: Some may argue that this bill would encourage the hiring of student interns and therefore increase the knowledge of the future workforce.

Opponents: Some may argue that the credit is overly broad and should be targeted to individuals that face economic or hiring challenges.

Policy Concerns

This bill could allow taxpayers in certain circumstances to claim multiple tax benefits for the same wages paid.

This credit would be allowed for wages paid or incurred either inside or outside California.

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