



Summary Analysis of Amended Bill

Author: Vidak Sponsor: Bill Number: SB 1337
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Attorney: Bruce Langston Related Bills: See Prior Analysis

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 qualified taxpayer a tax credit for qualified wages paid to student interns.

Recommendation – No position.

Summary of Amendments

The May 10, 2018, amendments modified the credit calculation and defined terms, added defined terms, and specified that the credit would be allowed in lieu of any other credit or deduction otherwise available. As a result of the amendments, the implementation considerations and the policy concerns provided in the department's analysis of the bill as amended March 22, 2018, have been resolved. However, a new implementation consideration and a new technical consideration have been identified. Except for the "This Bill," "Implementation Considerations," "Technical Considerations," and "Economic Impact" sections, the remainder of that analysis still applies. The "Fiscal Impact" section has been restated for convenience and the "Support/Opposition" section has been updated to reflect currently available information.

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 first \$2,500 of qualified wages paid or incurred by a qualified taxpayer during the taxable year to a student intern for the first 90 calendar days of employment.

The bill would define the following terms:

- “Qualified taxpayer” has the same meaning as small business defined in the NEC.¹
- “Qualified wages” means those wages that are subject to withholding under Division 6 of the Unemployment Insurance Code.²
- “Student Intern” means an individual who has not been previously employed by the qualified taxpayer in any taxable year and 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 semester or quarter in which he or she is employed by the qualified taxpayer or the semester or quarter prior to employment.

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.

This credit would be required to be taken in lieu of any other credit or deduction that the qualified taxpayer may otherwise claim with respect to the qualified wages of a student intern.

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 concern. Department staff is available to work with the author’s office to resolve this and other concerns that may be identified.

This bill would prohibit a credit or deduction otherwise allowed for all wages paid to a student intern. If the author intends for this prohibition to apply to the first \$2,500 of wages, the bill should be amended.

Technical Considerations

For clarity, it is recommended on page 2, line 23 and page 3, line 21, before “prior” insert “immediately”

¹ Small business as defined in the New Employment Credit, 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.

² Commencing with Section 13000.

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 May 10, 2018
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	- \$60.0
2019-2020	- \$120.0
2020-2021	- \$120.0

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 upon Franchise Tax Board tax data, approximately 80 percent, or 1.7 million, would work for a small business, as specified in the bill.

It is assumed 50 percent, or 840,000, would be new employees. The bill specifies that the taxpayer may claim the credit in lieu of any deductions. As a result, it is assumed that the taxpayer would choose the option that provides that greatest tax benefit. Because the tax benefit of the wage deduction would exceed the value of the credit for a full time student intern, it is assumed that taxpayers would only claim the credit for part-time student interns. Based on data published by the Bureau of Labor Statistics (BLS) is estimated that 70 percent, or 600,000, student interns would work part-time.

Using weekly earnings data for part-time workers from the BLS, each student would earn approximately \$3,000 during the first 90 days of employment. This bill limits the credit to 50 percent of the first \$2,500 of qualified wages which results in \$750 million in credits generated in the 2019 taxable year. After adjusting for S corporation taxpayers, the total credits generated would be \$870 million in 2019.

To arrive at the offsetting deduction that would otherwise be allowed under current law, it is estimated that taxpayers would incur \$7.6 billion in qualified wages for part-time interns. Applying an average tax rate of 7.4 percent results in an offsetting revenue gain of \$550 million in 2019. This results in a net revenue loss of \$320 million. This estimate assumes the taxpayer does not claim any other credits with respect to the “qualified wages” used to compute this credit.

It is estimated that 50 percent of taxpayers would have sufficient tax liability to claim the credit in the year generated. For those taxpayers, 80 percent of the credit, or \$120 million, 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-year estimates and rounded to arrive at the amounts shown in the above table.

Support/Opposition³

Support: California School Boards Association; Warren & Baerg Manufacturing, Inc.; Porterville Unified School District; Dinuba Unified School District; NAF; Mangini Associates Inc.; Corcoran Unified School District; Tulare County Office of Education; and Porterville College.

Opposition: None provided.

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³ As noted in the Senate Committee on Governance and Finance analysis dated May 4, 2018.