

## ANALYSIS OF AMENDED BILL

Author: Newman & Portantino Analyst: Funmi Obatolu Bill Number: SB 503  
Related Bills: See Legislative History Telephone: 845-5845 Amended Date: March 20, 2017  
Attorney: Bruce Langston Sponsor: \_\_\_\_\_

**SUBJECT:** Keep Arts in Schools Voluntary Tax Contribution Fund

### SUMMARY

Under the Personal Income Tax Law (PITL), this bill would rename the Keep Arts in Schools Fund as the Keep Arts in Schools Voluntary Tax Contribution Fund and would extend the repeal date of the fund.

### RECOMMENDATION – NO POSITION

#### Summary of Amendments

The March 20, 2017, amendments added an author, removed provisions of the bill relating to a nonsubstantive change to the personal income tax law, and replaced them with the provisions discussed in this analysis. This is the department's first analysis of the bill.

### REASON FOR THE BILL

The reason for the bill is to encourage additional contributions to the California Arts Council; that encourages artistic awareness, promotes the employment of artists, and assists independent local groups in developing their own art programs through prizes and direct grants awarded to individuals and organizations.

### EFFECTIVE/OPERATIVE DATE

This bill would be effective on January 1, 2018, and would allow the Fund to remain on tax returns filed on or after that date through the 2024 taxable year if the minimum contribution amount is met.

### STATE LAW

Current state tax law allows taxpayers to make contributions of their own monies (not tax liability) on their tax returns to any of the 19 voluntary contribution funds listed on the 2016 state personal income tax return. Each fund provides for the reimbursement of the Franchise Tax Board's (FTB) and the State Controller's Office (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 returns for the year in which the contribution is made. These contributions may satisfy the requirements under federal law for a charitable contribution deduction.

Generally, funds remain on the tax return until repealed or the fund fails to meet its minimum contribution amount. The Keep Arts in Schools Fund is currently set to be repealed on December 1, 2019, and is subject to a minimum contribution amount that is adjusted annually for inflation.

The FTB is required to determine by September 1 of each year whether estimated contributions to the funds 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, the fund is repealed effective for taxable years beginning on or after 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>:

- “Voluntary tax contribution” must be included in the name of the fund.
- In order to continue appearing on the tax return, a voluntary contribution fund must, beginning with the second calendar year after the fund first appears on the tax return, annually receive a minimum contribution of \$250,000.
- Voluntary contribution fund statutes must include language limiting the fund’s appearance on the return to no longer than eight years and automatically repealing the fund on December 1 of the eighth year of appearance.
- The administering agency, other than the FTB or the Controller, must report specified information regarding fund monies on the agency’s Web site.
- 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.

## **THIS BILL**

This bill would rename the Keep Arts in Schools Fund as the Keep Arts in Schools Voluntary Tax Contribution Fund and extend the sunset date for the renamed Keep Arts in School Voluntary Tax Fund from December 1, 2018, to December 1, 2025.<sup>2</sup>

This bill would remove the provisions that are already included in the general provisions for voluntary contribution funds.<sup>3</sup>

## **IMPLEMENTATION CONSIDERATIONS**

Implementing this bill would not significantly impact the department’s programs and operations.

---

<sup>1</sup> Revenue and Taxation Code (R&TC) section 18873.

<sup>2</sup> The operative and repeal dates assumes the fund meets the annual minimum contribution.

<sup>3</sup> R&TC section 18871.

## LEGISLATIVE HISTORY

SB 1476 (Senate Governance and Finance Committee, Chapter 597, Statutes of 2016) added general requirements applicable to voluntary contribution funds added or extended on or after January 2, 2017.

SB 571 (Liu, et al., Chapter 430, Statutes of 2013) established the Keep Arts in Schools Fund voluntary contribution. The Keep Arts in School Fund first appeared on the 2013 return.

SB 1076 (Price, Chapter 319, Statutes of 2010) established the Arts Council Fund that appeared on the 2010 and 2011 returns as a voluntary contribution designation.

## PROGRAM BACKGROUND

The Arts Council Fund, the predecessor to the Keep Arts in Schools Fund, first appeared on the 2010 return and last appeared on the 2011 return because it failed to meet the minimum contribution amount for the 2012 calendar year. The Keep Art in School fund first appeared on the 2013 return and received the following total annual contributions:

2014	2015	2016 <sup>4</sup>
\$256,421	\$263,880	\$270,138

## OTHER STATES' INFORMATION

The states surveyed include *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 for taxpayer contribution designations on the returns; however, none of these states provide a voluntary contribution comparable to the one discussed in this bill.

## FISCAL IMPACT

This bill would not significantly impact the department's costs.

---

<sup>4</sup> Minimum contribution amount was \$258,568.

## **ECONOMIC IMPACT**

### **Revenue Estimate**

This bill would result in the following revenue losses: or gross state product that could result from this bill.

Estimated Revenue Impact of SB 503 As Amended March 20, 2017 Assumed Enactment After June 30, 2017		
2017-18	2018-19	2019-20
n/a	- \$9,000	- \$9,000

This analysis does not account for changes in employment, personal income.

### **Revenue Discussion**

This bill would extend the repeal date for the Keeping Arts in Schools Voluntary Tax Contribution Fund listed on the state's personal income tax return. The estimate assumes that the funds will meet the minimum contribution each year. The minimum contribution amount for the Keep Arts in Schools Voluntary Tax Contribution Fund, is \$258,568 in 2017.

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.

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 \$9,000 annually.

### **SUPPORT/OPPOSITION**

Support: None provided.

Opposition: None provided.

### **ARGUMENTS**

Proponents: Some may argue that extending assistance to the Arts Council with supplemental contributions would increase arts education programming and support for arts programs in rural and underserved urban areas.

Opponents: Some may argue that taxpayers who are inclined to contribute to this cause can do so through other voluntary methods and the consistent addition of funds on the tax return increases the perception of the tax return as a more cumbersome document.

### **LEGISLATIVE STAFF CONTACT**

Funmi Obatolu  
Legislative Analyst, FTB  
(916) 845-5845  
[funmi.obatolu@ftb.ca.gov](mailto:funmi.obatolu@ftb.ca.gov)

Jame Eiserman  
Revenue Manager, FTB  
(916) 845-7484  
[jame.eiserman@ftb.ca.gov](mailto:jame.eiserman@ftb.ca.gov)

Diane Deatherage  
Legislative Director, FTB  
(916) 845-6333  
[diane.deatherage@ftb.ca.gov](mailto:diane.deatherage@ftb.ca.gov)