Analysis of Amended Bill

Author: De León & Portantino  Sponsor:  Bill Number: SB 539
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Attorney: Bruce Langston  Related Bills: See Legislative History

Subject: College Access Tax Credit/ Increase Percentage and Allocation Amount

Summary

This bill would, under the Personal Income Tax and the Corporation Tax Law, modify the College Access Tax Credit. This analysis does not address the bill's changes to the provisions of the Insurance Code as these provisions do not impact the department’s programs and operations.

Recommendation – No position.

Summary of Amendments

The May 14, 2018, amendments removed language related to community college student achievement programs and replaced it 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 taxpayers to donate to the College Access Tax Credit by increasing the amount of the credit.

Effective/Operative Date

As a tax levy, this bill would be effective and operative immediately upon enactment.

State Law

State tax law allows a College Access Tax Credit in an amount equal to 50 percent of the amount contributed by a taxpayer to the College Access Tax Credit Fund, as allocated and certified by the California Educational Facilities Authority. The maximum aggregate amount of credit that can be allocated is $500 million.
This Bill

This bill would modify the College Access Tax Credit by increasing the credit percentage from 50 percent to 75 percent of the amount contributed by the taxpayer in each taxable year and increasing the total aggregated credit amount that may be allocated from $500 million to $750 million.

Implementation Considerations

Because the College Access Tax Credit is certified and allocated by the California Educational Facilities Authority, implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

Legislative History

AB 490 (Quirk-Silva, Chapter 527, Statutes of 2017) extended the College Access Tax Credit to taxable years beginning on or after January 1, 2018, and before January 1, 2023.

SB 81 (Committee on Budget and Fiscal Review, Chapter 22, Statutes of 2015) extended the College Access Tax Credit to taxable years beginning on or after January 1, 2017, and before January 1, 2018.

SB 798 (De Leon, Chapter 367, Statutes of 2014) created the College Access Tax Credit.

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 has a corporate tax credit scholarship program known as Step Up for Students. The tax credit allows corporations to receive a dollar-for-dollar tax credit up to the amount of their state income tax liability, after application of other allowable credits, for donations made to a nonprofit scholarship funding organization. The credit is subject to an annual cap.

Illinois, Massachusetts, Michigan, Minnesota, and New York do not provide a credit comparable to the College Access Tax Credit.

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 539 as Amended on May 14, 2018
Assumed Enactment after June 30, 2018

($ in Millions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue*</th>
</tr>
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<tbody>
<tr>
<td>2018-2019</td>
<td>- $2.4</td>
</tr>
<tr>
<td>2019-2020</td>
<td>- $2.1</td>
</tr>
<tr>
<td>2020-2021</td>
<td>- $2.3</td>
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</tbody>
</table>

*The table above shows the impact on income and corporation tax. This bill would require funds to be transferred from the College Access Tax Credit Fund to the General Fund so that the net impact of College Access Tax Credits on the General Fund would be zero.

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 donation data from the California State Treasurer’s office, the 2017 College Access Tax Fund contributions were $6.3 million. The contributions were adjusted to reflect changes in the economy over time, resulting in an estimated $6.7 million in contributions for tax year 2018 under current law. Applying the current credit of 50 percent of contributions results in credit generated of $3.3 million for 2018. After adjusting for S corporations, it is estimated credits generated would be $3.8 million. Based on current College Access Tax Credit data, it is estimated taxpayers would have sufficient tax liability to use $3.8 million in College Access Tax Credits in 2018 under current law.

Taxpayers would claim the credit in lieu of the charitable contributions deduction. The estimate is reduced by approximately $700,000 to account for the offsetting revenue gain for the reduction in charitable contribution deductions. This results in an estimated revenue loss of $3.1 million for the 2018 taxable year under current law.

Using the methodology above for proposed law, it is assumed the increase in credit percentage to 75 percent of contributions would incentivize taxpayers to contribute more to the fund. Due to the timing of enactment, it is assumed an additional 5 percent, or a total of $7 million, in contributions would be contributed in 2018, and 20 percent more each year thereafter. Credits generated at 75 percent of contributions would be $5.3 million for 2018. After adjusting for S corporations, it is estimated the credits generated would be $6 million. It is estimated that taxpayers would use 85 percent, or $5.1 million, of the credits in 2018.
Taxpayers would claim the credit in lieu of the charitable contributions deduction. The estimate is reduced by approximately $700,000 to account for the offsetting revenue gain for the reduction in charitable contributions deductions. This would result in an estimated revenue loss of $4.4 million for the 2018 taxable year. This amount is reduced by the estimated College Access Tax Credits that would be allowed under current law of $3.1 million, resulting in an estimated revenue loss of $1.3 million in 2018 increasing to $2 million in 2019 and $2.2 million in 2020.

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

Support/Opposition

Support: None provided.

Opposition: None provided.

Arguments

Proponents: Some may argue that increasing the College Access Tax Credit will encourage taxpayers to increase their contributions to the fund, thus providing additional funding for California colleges.

Opponents: Some may argue that the potential fiscal impact of increasing available credits would outweigh any additional benefits to the state.

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