STATE OF CALIFORNIA
Franchise Tax Board

Summary Analysis of Amended Bill

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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 August 20, 2018, amendments added language to clarify the operative date and increased the amount of the annual credit allocation for calendar years 2018 and thereafter. As a result of the amendments, the "Effective/Operative Date," "This Bill," and "Economic Impact" sections provided in the department's analysis of the bill as amended May 14, 2018, have been revised. The "Fiscal Impact" section has been updated and the "Implementation Considerations" section has been included below for convenience. The remainder of that analysis still applies.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment. The increased credit percentage amount would be specifically operative for taxable years beginning on or after January 1, 2018.

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 beginning on or after January 1, 2018, and before January 1, 2023, and increasing the total annual credit amount that may be allocated to $1 billion for each calendar year beginning with 2018.

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.

Fiscal Impact

This 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 SB 539 as Amended on August 20, 2018
Assumed Enactment after June 30, 2018

($ in Millions)

Fiscal Year	Revenue*
2018-2019	- $2.4
2019-2020	- $2.1
2020-2021	- $2.3

*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.

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