STATE OF CALIFORNIA
Franchise Tax Board

Analysis of Amended Bill

Author: Gaines and Berryhill	Sponsor:	Bill Number: SB 995
Analyst: Toni Arnold	Phone: (916) 845-4743	Amended: March 21, 2018, and April 5, 2018
Attorney: Bruce Langston	Related Bills: See Legislative History	

Subject: Standard Deduction/Increase Beginning on or After January 1, 2018 with Supplement

Summary

This bill would, under the Personal Income Tax Law (PITL), increase the amount of the standard deduction.

Recommendation – No position.

Summary of Amendments

The April 5, 2018, amendments added a coauthor and made several nonsubstantive technical amendments.

The March 21, 2018, amendments removed legislative intent language related to personal income tax law definitions and added 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 provide tax relief and make residing in California more affordable.

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, 2018.

Federal/State Law

Existing federal and state laws allow taxpayers who do not elect to itemize their deductions for the taxable year, to deduct from adjusted gross income a basic standard deduction amount in calculating their taxable income.

Both federal and state laws provide annual indexing of the standard deduction amounts.

The 2017 state standard deduction for taxpayers using the single or married filing separate filing status is $4,236; and the deduction is $8,472 for taxpayers filing as married filing joint, head of household, or surviving spouse.

This Bill

This bill would for each taxable year beginning on or after January 1, 2018, supplement the standard deduction by the following amounts:

- $1,500 for taxpayers using the single or married filing separate filing status, and
- $3,000 for taxpayers filling as married filing joint, head of household, or surviving spouse

Implementation Considerations

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

Legislative History

SB 891 (Gaines, 2015/2016) would have increased the standard deduction by 25 percent, and adjusted the standard deduction annually. SB 891 failed to pass out of the Senate Governance and Finance Committee by the constitutional deadline.

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, and *Michigan* tax laws lack a standard deduction.

Minnesota tax law generally allows the same standard deduction as federal law.

New York tax law allows a standard deduction. For the 2017 tax year, the standard deduction is $8,000 for single or married filing separate, $11,200 for head of household, and $16,050 for married filing joint and surviving spouse.

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 995 as Amended April 5, 2018
For Taxable Years Beginning On or After January 1, 2018
Assumed Enactment after June 30, 2018

($ in Millions)

Fiscal Year	Revenue
2018-2019	- $1,100
2019-2020	- $750
2020-2021	- $750

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

Using the Franchise Tax Board's Personal Income Tax micro-simulation model, the tax liability was recalculated using the standard deduction amounts proposed in this bill. This results in a revenue loss of approximately $700 million in the 2018 taxable year.

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

Support/Opposition

Support: None provided.

Opposition: None provided.

Arguments

Proponents: Some may say that this bill would reduce the tax burden on California's working families, and thereby enhance the state's economy.

Opponents: Some may argue this bill would be overly broad and could be an expensive way to provide tax relief.

Legislative Staff Contact

Toni Arnold
Legislative Analyst, FTB
(916) 845-4743
toni.arnold@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