STATE OF CALIFORNIA
Franchise Tax Board

Analysis of Amended Bill

Author: Cooley, et al.	Sponsor:	Bill Number: AB 296
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Subject: Climate Innovation Voluntary Tax Contribution Account/Modify Climate Innovation Act

Summary

Under the Personal Income Tax Law (PITL), this bill would allow a taxpayer to make a voluntary contribution to the Climate Innovation Voluntary Tax Contribution Account on their state personal income tax return.

This bill would also modify provisions of the Climate Innovation Act under the Public Resources Code.

This analysis only addresses the provisions of the bill that impact the department's programs and operations.

Recommendation – No position.

Summary of Amendments

The March 20, 2019, amendments added a coauthor, modified provisions of the Climate Innovation Act and added provisions that would establish the Climate Innovation Voluntary Tax Contribution Account on the state personal income tax return.

This is the department's first analysis of the bill.

Reason for the Bill

The reason for this bill is to provide grants for the research and development of new climate innovation and technologies.

Effective/Operative Date

This bill would be effective on January 1, 2020, and operative as of that date. The Climate Innovation Voluntary Tax Contribution Account could first appear on the 2019 return filed on or after January 1, 2020.

State Law

Current state tax law allows taxpayers to make monetary contributions to any of the 27 voluntary contribution funds listed on the 2018 personal income tax return.

Taxpayers contributing to any of the funds are specifically allowed to deduct those contributions on their state income tax return for the year in which the contribution is made.

Generally, funds remain on the return until they are either repealed or fail to meet a minimum contribution amount:

The Franchise Tax Board (FTB) is required to make the following determinations for each fund by September 1 of each calendar year, beginning on the second calendar year the fund appears on the tax return:

1. The minimum contribution amount required for the fund to remain on the return for the following calendar year, and
2. Whether estimated contributions to the fund 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that contributions to a fund will fail to meet the minimum contribution amount for a calendar year, that fund is repealed effective January 1 of that calendar year.

The following general requirements apply to new or extended voluntary contribution funds:

- The words "voluntary tax contribution" must be included as part of the name of the fund.
- The administering agency's Internet Web site shall report specific data related to the usage of the amounts received via voluntary contribution.
- A voluntary contribution fund must receive a minimum contribution of $250,000 for the second calendar year after it first appears on the tax return, and each calendar year thereafter, to remain on the tax return.

A voluntary tax contribution would remain in effect only until January 1 of the seventh calendar year following the first appearance of the contribution on the tax return, and be repealed as of December 1 of that year.

This Bill

This bill would, under the PITL, establish the Climate Innovation Voluntary Tax Contribution Account (Climate Innovation Account) and allow taxpayers to make designated contributions to the Climate Innovation Account on their personal income tax returns in full dollar amounts of $1 or more. Each signatory on a joint return may make the contribution individually. The designations for any taxable year must be made on the initial return for the taxable year and, once made, are irrevocable.

In addition, this bill would do the following;

- Specify that if payments and credits reported on the return do not exceed the taxpayer's liability, the taxpayer's return would be treated as if no designation had been made.
- Require the FTB after another voluntary contribution fund is removed or as soon as space is available to revise the form of the return to include a designation space for the Climate Innovation Account. In addition, this bill would require the return's instructions to include information that the contribution may be in the amount of $1 or more and that the contribution would be used to fund grants for the development and research of new innovation and technologies as specified in the Climate Innovation Act.
- Allow a charitable contribution deduction on the state income tax return for the year in which a contribution is made.
- Allow the voluntary contribution designation to remain on the tax return through the 2026 taxable year, subject to the annual estimated contribution meeting or exceeding $250,000 for each year after the first calendar year the designation appears on the tax return.
- Require the FTB, to estimate by September 1 of each calendar year after the first calendar year the Climate Innovation Account appears on the return whether contributions made under this bill would be less than $250,000.
- If the estimated contributions are less than $250,000, the law authorizing designations for the Climate Innovation Account would become inoperative as of January 1 of that calendar year and repealed as of December 1 of that year.

The FTB would be required to notify the Controller of the amount to be transferred to the Climate Innovation Account. Amounts transferred to the Climate Innovation Account would be continuously appropriated and allocated as follows:

- To the FTB, and the Controller for reimbursement of all costs incurred in connection with their duties, and
- The balance to the Climate Innovation Fund.

Implementation Considerations

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 984 (Lackey, 2019/2020) would create the Suicide Prevention Voluntary Tax Contribution Fund. AB 984 is currently scheduled for hearing on April 22, 2019, by the Assembly Revenue & Taxation Committee.

SB 309 (Rubio, 2019/2020) would allow the California Senior Citizen Advocacy Voluntary Tax Contribution Fund to remain on the tax return indefinitely. SB 309 is currently in the Senate Appropriations Committee.

SB 637 (McGuire, 2019/2020) would modify provisions of the Animal Homelessness and Cruelty Voluntary Contribution Fund. SB 637 is currently scheduled for hearing on April 22, 2019, by the Senate Appropriations Committee.

AB 2096 (Frazier, Chapter 276, Statutes of 2018) created the Organ and Tissue Donor Registry Voluntary Tax Contribution Fund.

AB 2944 (Jones-Sawyer, Chapter 441, Statutes of 2018) created the School Not Prisons Voluntary Tax Contribution Fund.

SB 1363 (Moorlach, Chapter 359, Statutes of 2018) created the National Alliance on Mental Illness Voluntary Tax Contribution Fund.

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 does not have a personal income tax but allows contribution designations on the state's motor vehicle registration and renewal forms.

Illinois, *Massachusetts*, *Michigan*, *Minnesota* and *New York* allow for taxpayer contribution designations on the personal income tax return; 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.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 296 as Amended March 20, 2019
Assumed Enactment after June 30, 2019

Fiscal Year	Revenue
2019-2020	-$0
2020-2021	-$8,000
2021-2022	-$8,000

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

This bill would add the Climate Innovation Account to the voluntary contribution funds listed on the state's personal income tax return. The estimate assumes that the Climate Innovation Account would receive $250,000 in contributions each year.

Approximately 56 percent of taxpayers who contribute to voluntary contribution funds itemize their deductions. It is estimated that the average tax rate for these taxpayers is 6 percent, resulting in an estimated revenue loss of approximately $8,000 annually.

Contributions would be made in 2020 when the 2019 return is filed. Subsequently, the deduction for the contribution would be claimed on the 2020 return filed by April 15, 2021; therefore, the revenue impact would not occur until fiscal year 2020-2021.

The tax year estimates are converted to fiscal year revenue estimates and rounded to arrive at the amounts reflected in the above table.

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