STATE OF CALIFORNIA
Franchise Tax Board

Summary Analysis of Amended Bill

Author: Cooley, et al.	Sponsor:	Bill Number: AB 296
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Subject: Climate Innovation Voluntary Tax Contribution Account/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 establish 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 July 11, 2019, amendments added a requirement that the Strategic Growth Council (Council) or administering entity notify the Franchise Tax Board (FTB) when the Climate Innovation Fund (Fund) has accrued two million dollars, added a requirement that the provisions would become operative upon such notification to the FTB, and made other clarifying changes. As a result, a portion of the implementation concern discussed in the department's analysis of the bill as amended July 5, 2019, was resolved.

Except for the "Effective/Operative Date," "This Bill," "Implementation Consideration," and "Economic Impact" sections, the remainder of the department's analysis of the bill as amended on July 5, 2019, still applies. The "Fiscal Impact" section has been restated below for convenience.

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.

This Bill

This bill would, under the Public Resources Code, establish the Climate Innovation Act, which would create the Climate Innovation Grant Program (Program) and Fund.

The Program would be administered by the Council or another entity identified by the council that it determines to have the appropriate skills necessary to successfully implement the program. On and after the date on which the Fund has accrued a total of two million dollars, the Program would be required to provide grants, as specified, through a competitive process. The grants could serve as a matching fund for a project.

The Council or administering entity could apply established criteria and policies from existing climate change research programs to develop the Program. On and after the date on which the Fund has accrued a total of two million dollars, the Council or administering entity would be required to do all of the following:

- Develop solicitation and evaluation criteria, as specified, for project proposals and establish the qualifications of grant applicants;
- Develop programming that fosters market facilitation and other efforts that accelerate the adoption and deployment of projects funded by the Fund; and
- Notify the FTB when the Fund has accrued a total of two million dollars.

The Council would be required to submit an annual finance report, as specified, to the Legislature. The Council or administering entity could seek private donations and publicly available moneys for purposes of the program. The Council or administering entity would be required to provide contemporaneous written acknowledgment to a donee for contributions, except for those contributions provided through the personal income tax return, as specified.

Under the PITL, upon notification by the Council that the Fund has accrued to a total of two million dollars, this bill would also establish the Climate Innovation Voluntary Tax Contribution Account (Climate Innovation Account) within the Climate Innovation Fund 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 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, 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 to the Climate Innovation Account would be less than $250,000.

These provisions would remain in effect until January 1 of the seventh calendar year following the first appearance of the Climate Innovation Account on the income tax return.

After seven years or if the estimated contributions are less than $250,000 in any calendar year after the first calendar year the Climate Innovation Account appears on the return, the law authorizing designations for the Climate Innovation Account would become inoperative as of January 1 of that calendar year and be repealed as of December 1 of that year, or January 1, 2031, whichever is earlier.

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

Department staff has identified the following implementation considerations for purposes of a high-level discussion; additional concerns may be identified as the bill moves through the legislative process. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

The bill is silent on a timeframe for meeting the two million dollar amount that would trigger the grant-making process. Additionally, the bill is silent regarding the disposition of contributed amounts if the grant-making trigger amount is unmet. For clarity and to ensure consistency with the author's intent, the author may wish to amend the bill.

Fiscal Impact

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

Economic Impact

Revenue Estimate

This bill, as amended July 11, 2019, would result in a revenue loss, but the timing of the loss is unknown.

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 Voluntary Tax Contribution Account to the voluntary contribution funds listed on the state's personal income tax return once the fund has accrued a total of two million dollars. Once the fund is added to the return it is assumed that the fund 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.

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