



## **Analysis of Amended Bill**

Author: Lackey

Sponsor:

Bill Number: AB 850

Analyst: Margo Cave

Phone: (916) 845-7475

Amended March 28, 2019, and  
April 11, 2019

Attorney: Shane Hofeling

Related Bills: See Legislative  
History

**Subject:** Social Worker Student Loan Repayment Program Income Exclusion

### **Summary**

This bill would, under the Personal Income Tax Law (PITL) allow, as an exclusion from gross income, any loan repayment award received for certain individuals who obtained a bachelor's or master's degree in social work.

This bill would also make changes to the provisions of the Health and Safety Code establishing the California Social Worker Student Loan Repayment Program.

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 28, 2019, amendments removed provisions of the bill related to the Business and Professions Code and replaced them with the provisions discussed in this analysis.

The April 11, 2019, amendments added language to allow a person with a master's degree in social work to be eligible to receive a loan repayment award. These amendments also reduced the period of time before an applicant would be eligible to receive a loan repayment award from five years to three consecutive years, defined new terms and added language to comply with Section 41.

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

### **Reason for the Bill**

The reason for this bill is to encourage people to become social workers by providing financial assistance with student loan debt.

### **Effective/Operative Date**

This bill would become effective for tax years beginning on or after January 1, 2020. The income exclusion would be contingently operative for taxable years beginning on or after January 1, 2020, subject to the loan repayment program receiving sufficient funding.

### **Federal/State Law**

Existing federal and state laws provide that certain types of income are excluded from gross income, such as amounts received as a gift or inheritance, certain compensation for injuries and sickness, qualified scholarships, educational assistance programs, foster care payments and interest received on certain state or federal obligations.

### **This Bill**

This bill would establish within the Office of Statewide Health Planning and Development (OSHPD), the California Social Worker Student Loan Repayment Program. This program would, upon appropriation, offer loan repayment, for up to 50 percent of the value of the loan, for individuals that meet the following conditions:

- The applicant should receive a student loan to meet the cost associated with obtaining a bachelor's or master's degree in social work.
- Applicant is currently in the third consecutive year of employment as a child welfare social worker with either the state or a county.
- The applicant continues to have repayment obligations on the loan after the conclusion of the three-year employment period.

For taxable years beginning on or after January 1, 2020, this bill would, under the PITL, allow an exclusion from gross income for a loan payment award received to assist with student loans received to obtain a bachelor's or master's degree in social work.

The gross income exclusion for the amount of a loan payment award becomes operative only if the program established under the Health and Safety Code for the California Social Worker Student Loan Repayment Program receives sufficient funding.

### **Implementation Considerations**

The department has identified the following implementation concerns 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.

This bill uses the term “tax credit” to evaluate the effectiveness of the program when the bill would provide an exclusion from gross income. For clarity and ease of administration, it is recommended that the bill be amended.

### **Technical Concerns**

The bill includes reporting requirements in uncodified law. For ease of administration it is recommended that the bill include these requirements in the relevant sections of the Revenue and Taxation Code.

### **Legislative History**

None.

### **Other States’ Information**

*Illinois, Massachusetts, Michigan, Minnesota, and New York* laws do not provide tax benefits comparable to the tax benefits that would be allowed by this bill. The laws of these states were selected due to their similarities to California's economy, business entity types, and tax laws.

### **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 AB 850 as Amended April 11, 2019  
Assumed Enactment after June 30, 2019

<b>Fiscal Year</b>	<b>Revenue</b>
2019-2020	-\$90,000
2020-2021	-\$100,000
2021-2022	-\$60,000

This estimate assumes appropriations would be enacted in 2020 and each year thereafter. It further assumes that the appropriations would fully fund the program.

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 data from the Bureau of Labor Statistics, the Department of Education and the National Association of Social Workers, it is estimated that there would be 3,000 California Child Welfare Social Workers with either a Bachelor's or Master's degree in social work in taxable year 2020. It is estimated that 10 percent, or 300 workers, would have been employed by either the state or a county of California for three or more consecutive years, and of this amount 80 percent, or 240, would have received student aid loans and would remain in repayment after the conclusion of the three years. For each year thereafter, it is estimated that 55 taxpayers would qualify for the exclusion.

Based on student aid data, it is estimated that the remaining student loan principal owed after the three year period would be \$6 million, and 50 percent, or \$3 million, would be repaid under the program and excluded from taxable income 2020. It is estimated that 80 percent or \$2.4 million loan repayments would be processed in the first year and the remaining 20 percent would be processed in the second year. It is further assumed that 100 percent of the loan forgiveness applications would be processed in each of the remaining four years. Applying an average tax rate of six percent results in a revenue loss of \$150,000 in taxable year 2020, \$90,000 in the 2021 taxable year, and approximately \$45,000 each year thereafter.

The estimates are converted to fiscal year estimates and then rounded to arrive at the amount shown in the above table.

### Policy Concerns

Under the federal Public Service Loan Forgiveness program, a person may qualify for complete student loan forgiveness after 10 years or 120 payments. Applicants in this program might also qualify for the federal Public Service Loan Forgiveness program and thus would receive a double benefit.

This bill would create differences between federal and California tax law, thereby increasing the complexity of California tax return preparation.

### Legislative Staff Contact

Margo Cave  
Legislative Analyst, FTB  
(916) 845-7475  
[margo.cave@ftb.ca.gov](mailto:margo.cave@ftb.ca.gov)

Jame Eiserman  
Revenue Manager, FTB  
(916) 845-7484  
[jame.eiserman@ftb.ca.gov](mailto:jame.eiserman@ftb.ca.gov)

Jahna Carlson  
Acting Legislative Director,  
FTB (916) 845-5683  
[Jahna.carlson@ftb.ca.gov](mailto:Jahna.carlson@ftb.ca.gov)