STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

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SUBJECT

Climate Innovation Voluntary Tax Contribution Account

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

Not applicable.

REASON FOR THE BILL

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

ANALYSIS

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

The Program would be administered by the Strategic Growth Council (Council) established by the bill, or another entity identified by the Council that it determines has the appropriate skills necessary to successfully implement the Program. On and after the date on which the Fund has accrued a total of$2,000,000, 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 $2,000,000, 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 Franchise Tax Board (FTB) when the Fund has accrued a total of $2,000,000.

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$2,000,000, 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 Climate Innovation Account 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.

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- 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.

Effective/Operative Date

This bill would be effective on January 1, 2021, and operative as of that date. The Climate Innovation Voluntary Tax Contribution Account could first appear on the 2020 return filed on or after January 1, 2021.

Federal/State Law

Federal Law

No provision comparable in federal law.

State Law

Current state tax law allows taxpayers to make monetary contributions to any of the 21 voluntary contribution funds listed on the 2019 personal income tax return.

Taxpayers contributing to specified voluntary contribution funds are 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 FTB is generally 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.

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 $2,000,000 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.

Technical Considerations

None noted.

Policy Concerns

None noted.

LEGISLATIVE HISTORY

AB 296 (Cooley, et al., 2019/2020) similar to this bill, would have allowed a taxpayer to make a voluntary contribution to the Climate Innovation Voluntary Tax Contribution Account on their state personal income tax return. AB 296 was vetoed by the Governor, whose veto message stated in part, "this bill creates a redundant, and potentially conflicting, grant program that overlaps with several existing programs at multiple agencies including the Strategic Growth Council. At this juncture, we should maximize resources with our existing programs rather than create redundancies."

AB 984 (Lackey, Chapter 445, Statutes of 2019) created the Suicide Prevention Voluntary Tax Contribution Fund.

SB 309 (Rubio, Chapter 325, Statutes of 2019) allowed the California Senior Citizen Advocacy Voluntary Tax Contribution Fund to remain on the tax return indefinitely.

SB 637 (McGuire, Chapter 327, Statutes of 2019) modified provisions of the Animal Homelessness and Cruelty Voluntary Contribution Fund.

PROGRAM BACKGROUND

None noted.

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 SB 1329 as Introduced February 21, 2020
Assumed Enactment after June 30, 2020

Fiscal Year	Revenue
2020-2021	$0
2021-2022	-$5,000
2022-2023	-$5,000

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 establish the Climate Innovation Account. The estimate assumes, the fund would have $2,000,000 and taxpayers would be able to make voluntary contributions via their 2021 tax return. It is assumed that this fund would receive $250,000 in contributions each year.

Approximately 35 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 $5,000 annually per fund. Contributions would be made when taxpayers file their 2020 return in April of 2021. Subsequently, the deduction for the contribution would be claimed on the 2021 return filed by April 15, 2022; therefore, the revenue impact would not occur until fiscal year 2021-2022.

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

LEGAL IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

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