



## **Summary Analysis of Amended Bill**

Author: Hertzberg, et al.

Sponsor:

Bill Number: SB 63

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Amended: July 1, 2019

Attorney: Shane Hofeling

Related Bills: See Prior Analysis

**Subject:** Student Loan Debt Relief

### **Summary**

This bill would, under the Personal Income Tax Law, provide an exclusion from gross income for student loans that are forgiven when the borrower is unable to complete a program of study because a school closes or does something wrong.

**Recommendation – No position.**

### **Summary of Amendments**

The July 1, 2019, amendments, in off-code language, added department reporting requirements, which created a new implementation consideration.

Except for the “This Bill” and “Implementation Considerations” sections, the remainder of the department’s analysis of the bill as introduced January 7, 2019, and amended April 22, 2019, still applies. The “Fiscal Impact” and “Economic Impact” sections have been restated for convenience.

### **This Bill**

This bill would, for taxable years beginning on and after January 1, 2019, and before January 1, 2024, provide an exclusion from California gross income for income that would otherwise result from a forgiven student loan of an eligible individual.

A student loan would mean any student obligation note or other debt evidencing a loan to any individual for the purpose of attending a for-profit higher education company or for the purpose of consolidating or refinancing a loan used to attend a for-profit higher education company, which is either a guaranteed student loan, an educational loan, or a loan eligible for consolidation or refinancing under Part B of Title IV of the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1071 et seq.).

An individual would be eligible for the exclusion for a taxable year if any of the following apply during the taxable year, the individual:

- Is granted a discharge of any student loan pursuant to a discharge agreement.
- Is granted a discharge of any student loan pursuant to:
  - Subdivision (c) of Section 685.206 of Title 34 of the Code of Federal Regulations, as it read January 1, 2019, because the individual successfully asserts that the school did something wrong or failed to do something that it should have done; or
  - Paragraph (1) of subdivision (a) of Section 685.214 of Title 34 of the Code of Federal Regulations, as it read January 1, 2019, because the individual could not complete a program of study due to the school closing.
- Attended a Brightwood College school on or before December 5, 2018, is granted a discharge of any student loan made in connection with attending that school that is otherwise ineligible for discharge.
- Attended a location of The Art Institute of California and is granted a discharge of any student loan made in connection with attending that school that is otherwise ineligible for discharge.

Off-code language requires the Legislative Analyst's Office (LAO) to prepare and make available a report on the effectiveness of this tax exclusion. In addition, for purposes of this reporting, the LAO may request any data from the Franchise Tax Board (FTB), and the FTB must provide the requested data.

This bill would remain in effect until December 1, 2024, and be repealed as of that date.

### **Implementation Considerations**

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

This bill provides that the "Legislative Analyst" shall prepare and make available a report on the effectiveness of this bill, and that the "Legislative Analyst" may request information from the FTB. To avoid any confusion, consider amending any Legislative Analyst reference within the bill to the LAO.

This bill lacks the administrative details necessary to implement the bill. The bill directs the FTB to provide any data as requested by the Legislative Analyst Office. The FTB is prohibited from disclosing any confidential taxpayer information unless an exception to the general disclosure law specifically authorizes the disclosure, and is also prohibited from disclosing any federal tax information without authorization from the Internal Revenue Service. The author might want to amend SEC. 2 (c)(2) of the bill

language to specify that, "The FTB shall provide any data requested by the Legislative Analyst pursuant to this subdivision, as allowed under the Revenue and Taxation Code.

Implementing this bill would require some changes to existing tax forms, tax form instructions, and information systems, which could be accomplished during the normal annual update.

### **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 63 as Amended July 1, 2019  
Assumed Enactment after June 30, 2019

<b>Fiscal Year</b>	<b>Revenue</b>
2019-2020	-\$450,000
2020-2021	-\$500,000
2021-2022	-\$300,000

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

Based on data from the Department of Education and other research, it is estimated that California borrowers would have approximately \$25 million of student loans forgiven in 2019 because a school closes or does something wrong.

Because California law currently allows an exclusion from gross income for discharges of indebtedness occurring on or after January 1, 2015, and before January 1, 2020, it is estimated that eight percent of the 2019 discharges would be subject to the provisions of this proposal and the remainder would be excluded under current law.

It is estimated that 20 percent of those forgiven student loans would be attributable to borrowers who are insolvent, thus excludable from income under current law. Of the remaining forgiven student loans, it is assumed that borrowers eligible for this bill's exclusion would have an average tax rate of 3 percent, resulting in an estimated \$50,000 revenue loss for the 2019 tax year,<sup>1</sup> increasing to \$700,000 in the 2020 tax year and decreasing each year thereafter.

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

### **Legislative Staff Contact**

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<sup>1</sup> If there are subsequent closures of larger schools that impact borrowers in this state before January 1, 2024, this bill could result in substantial additional revenue losses as a result of such closures.