STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Kiley

Sponsor:

Bill Number: AB 300

Related Bills: See Legislative History

Amended: March 22, 2021

SUBJECT

Cal Grant K-12 Donation Credit and Grant Income Exclusion

SUMMARY

This bill would create the Cal Grant K-12 program under the Education Code and establish under the Personal Income Tax Law (PITL) and Corporate Income Tax Law (CTL) a credit for contributions to this program and an exclusion from gross income to the recipients of funds from this program.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The March 22, 2021, amendment repealed the original language and added the provisions for the Cal Grant K-12 program under the Education Code, added provisions under the PITL and CTL to create a credit for contributions made to this program, and created an exclusion from gross income, under the PITL, to the recipient of funds received from this program.

This is the department's first analysis of the bill and only addresses the provisions that impact the department.

REASON FOR THE BILL

The reason for this bill is to incentivize individuals and businesses to make donations to scholarship funds.

ANALYSIS

This bill, under the PITL and CTL, would allow a credit against net tax an amount equal to a taxpayer's total qualified contributions made for the taxable year to the scholarship-granting organization administering the Cal Grant K-12 program established by this bill.

For purposes of this bill, a "qualified contribution" means any contribution made to the scholarship-granting organization, as defined, for purposes of the Cal Grant K–12 program.

This bill would not allow this credit to a taxpayer that is a dependent of another individual.

This bill would allow an excess credit to be carried over for three succeeding years.

This bill would require any deduction upon which the credit is based to be reduced by the amount of the credit allowed.

This bill, under the PITL, would exclude from gross income any scholarship payments received by the taxpayer or a dependent of the taxpayer from the Cal Grant K-12 program established by the bill.

This bill states that the Legislature intends to comply with Section 41 of the Revenue and Taxation Code.

Effective/Operative Date

This bill would become effective and operative January 1, 2022, with the PITL and CTL provisions being specifically operative for taxable years beginning on or after January 1, 2022.

Federal/State Law

Existing federal and state laws provide that gross income includes all income from whatever source derived, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded.

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.

Existing federal and state laws provide various tax credits that are used to reduce the taxpayer's tax liability dollar-for-dollar. Generally for California, the credit is taken instead of any deduction otherwise allowable for the same costs. Any deduction allowed for the same costs may be reduced by the amount of the credit claimed for the current tax year. One benefit of allowing tax credits rather than deductions is that tax credits are claimed after taxable income has been calculated and, therefore, do not create differences between the taxable income amounts shown on the federal and state income tax returns.

Implementation Considerations

None identified.

Technical Considerations

None identified.

Policy Considerations

This bill does not limit the amount of the credit that may be taken. Credits that could potentially be quite costly are sometimes limited either on a per-project or per-taxpayer basis. This bill would provide a 100 percent credit, which would be unprecedented.

LEGISLATIVE HISTORY

AB 1249 (Gallagher, et al., 2021/2022) would provide an exclusion from gross income for amounts received in settlement under the order of the United States Bankruptcy Court for the Northern District of California dated June 20, 2020, case number 19-30088, docket number 8053, related to specified wildfires. This bill is currently in the committee process.

AB 1338 (Low, 2021/2022) would provide an exclusion from gross income for amounts received as financial assistance by a taxpayer who is enrolled in a program or research project. This bill is currently in the committee process.

AB 2380 (Choi, 2019/2020) would have excluded survivor benefits and payments received under Survivor Benefit Plans from gross income. AB 2380 did not pass out of the Assembly Revenue and Taxation committee.

SB 1230 (Umberg & Caballero, 2019/2020) would have allowed tax credits related to the Community Development Financial Institutions (CDFI) Grant Program that would have been established by this bill under the Government Code (GC) and administered by the Governor's Office of Business and Economic Development (GO-Biz). AB 1230 did not pass by the constitutional deadline.

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 AB 300 as amended on March 22, 2021
Assumed Enactment after June 30, 2021

($ in Millions)

Fiscal Year	Revenue
2021-2022	-$2.3
2022-2023	-$4.6
2023-2024	-$5.5

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 available Franchise Tax Board data, it is estimated taxpayers would contribute approximately $9 million to the Cal Grant K-12 scholarship fund in the 2022 taxable year. The credit is equal to the amount of qualified contributions made. It is estimated that 65 percent of taxpayers would have sufficient tax liability to claim the credit in the year generated. Of those, it is estimated 80 percent, or $4.5 million, of credit would be used in the year generated and the remainder would be used in the subsequent three years.

To arrive at the offsetting tax effect that would otherwise be allowed under current law, it is estimated that qualified taxpayers would have been able to deduct approximately $9 million of contributions in the 2022 taxable year. Applying an average tax rate of 8 percent would result in an estimated offsetting revenue gain of $700,000.

Combining the two results in an estimated net revenue loss of $4 million in the 2022 taxable year.

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.

LEGISLATIVE CONTACT

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