STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Grove	Sponsor:	Bill Number: SB 1484
	Related Bills: See Legislative History	Introduced: February 18, 2022

SUBJECT

Homeless, Foster, or Former Foster Youth Income Tax Credit for Qualified First-Year Wages

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), provide a tax credit to certain employers that hire employees who are homeless youth, foster youth, or former foster youth.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for this bill is to allow private sector employers to obtain a tax credit for hiring an individual who is a homeless youth, foster youth, or former foster youth.

ANALYSIS

This bill would, under the PITL and CTL, for taxable years beginning on or after January 1, 2023, and before January 1, 2028, allow a credit for qualified first-year wages paid or incurred by a qualified taxpayer during the taxable year to a qualified employee calculated as follows:

- If the qualified employee worked 400 hours or more during the first year of employment, the amount of the credit allowed for the taxable year would be equal to 40 percent of the amount paid or incurred by a qualified taxpayer during the taxable year for qualified first-year wages of qualified employees, not to exceed $2,400 per qualified employee.
- If the qualified employee worked less than 400 hours during the first year of employment, the amount of the credit allowed for the taxable year would be equal to 25 percent of the amount paid or incurred by a qualified taxpayer during the taxable year for qualified wages of qualified employees, not to exceed $2,400 per qualified employee.

The bill would define the following terms and phrases:

- "First year of employment" would mean the first year the qualified employee renders services for the qualified taxpayer and is paid qualified first-year wages by the qualified taxpayer for those services.
- "Foster youth or former foster youth" means an individual who is no older than 26 years of age and who meets, or has ever met, either of the following criteria:
  - Is a dependent child of the court as defined in the Welfare and Institutions Code (WIC).
  - Is a ward of the court as defined in the WIC.
- "Homeless youth" would mean an individual who is no older than 26 years of age and who has been verified as a homeless child or youth, as defined in subsection (2) of Section 725 of the federal McKinney-Vento Homeless Assistance Act (42 U.S.C. Sec. 11434a(2)), by at least one of the following:
  - A homeless services provider, as defined in the Health and Safety Code.
  - The director of a federal TRIO program or Gaining Early Awareness and Readiness for Undergraduate Programs program, or a designee of that director.
  - A financial aid administrator.
- "Qualified employee" would mean an employee hired on or after January 1, 2023 and is either a homeless youth, foster youth, or former foster youth.
- "Qualified first-year wages" would mean qualified wages attributable to service rendered during the one-year period commencing with the date the qualified employee begins work for the qualified taxpayer.
- "Qualified taxpayer" would mean a taxpayer who pays or incurs qualified first-year wages.
- "Qualified wages" would mean wages paid or incurred by the qualified taxpayer during the taxable year to qualified employees.
- "Wages" would mean wages subject to California withholding as provided in the Unemployment Insurance Code.

Credits in excess of the tax liability could be carried over for up to 6 years.

The credit would be in lieu of any other credit or deduction that the qualified taxpayer may otherwise be allowed with respect to amounts taken into account in calculating the credit allowed.

The credit provisions would remain in effect until December 1, 2028, and be repealed as of that date.

For the purposes of complying with Revenue and Taxation Code (RTC) section 41, the Legislature finds and declares the objective of this credit is to expand employment opportunities for homeless, foster, or former foster youth by creating hiring incentives.

The Franchise Tax Board (FTB) would be required to annually publish, for each calendar year from 2024 to 2029, inclusive, the number of taxpayers that are allowed the credit, both for the previous taxable year and cumulatively, on its internet website. This bill would provide an exception to the section 19542 disclosure rules.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2023, and before January 1, 2028.

Federal/State Law

Federal Law

The federal Work Opportunity Tax Credit (WOTC) is a federal income tax credit available to employers who hire and retain veterans and individuals from targeted groups with significant barriers to employment. There is no limit on the number of individuals an employer can hire to qualify to claim the WOTC.

The amount of the WOTC employers may claim varies based on the target group of the individual hired, the wages paid to that individual in the first year of employment, and the number of hours that individual worked. There is a maximum amount of WOTC that can be earned for each targeted group.

For the long-term Temporary Assistance for Needy Families (TANF) target group only, the WOTC is available to employers who hire members of this group for up to a two year period.

- In the first year, the employer may claim a tax credit equal to 40 percent of the first-year wages, up to the maximum tax credit, if the individual works at least 400 hours.
- In the second year, the employer may claim a tax credit equal to 50 percent of the second-year wages, up to the maximum tax credit, if the individual works at least 400 hours.
- For all other target groups, the WOTC is available to employers who hire members of these groups, based on the individual's hours worked and wages earned in the first year.

- If the individual works at least 120 hours, the employer may claim a tax credit equal to 25 percent of the individual's first year wages, up to the maximum tax credit.
- If the individual works at least 400 hours, the employer may claim a tax credit equal to 40 percent of the individual's first year wages, up to the maximum tax credit.

The Consolidated Appropriations Act (CAA), 2021 (PL 116-260) extended the federal WOTC until December 31, 2025, and applies to individuals who begin work for employers after December 31, 2020.

State Law

For taxable years beginning on or after January 1, 2014, and before January 1, 2026, current state law allows a New Employment Credit (NEC) that is available to a qualified taxpayer that hires a qualified full-time employee, has an overall net increase in employment, and pays or incurs qualified wages attributable to work performed by the qualified full-time employee in a designated census tract or former Enterprise Zone. In order to claim the state credit, the qualified taxpayer must receive a tentative credit reservation from the FTB for that qualified full-time employee.

Implementation Considerations

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

The definitions of "Foster youth or former foster youth" and "homeless youth" provide an individual must be no older than 26 years of age. It is not clear if the age requirement is based on the hiring date or if the individual ceases to be a qualified employee at age 26. The author may wish to clarify. We suggest the following language in paragraph (2) of subdivision (b):

"(2) "Foster youth or former foster youth" means an individual who is 26 years of age ***or younger as of the last day of the taxable year*** *and who meets, or has ever met, either of the following criteria: . . ."*

We suggest the following language in paragraph (3) of subdivision (b):

(3) "Homeless youth" means an individual who is 26 years of age ***or younger as of the last day of the taxable year*** *and who has been verified as a homeless child or youth . . . "*

The FTB would be required to annually publish, for each calendar year from 2024 to 2029, inclusive, the number of taxpayers that are allowed the credit, both for the previous taxable year and cumulatively, on its internet website. Income tax returns for calendar year taxpayers may not be filed, with extension, until October 15th, therefore the department would not have the data for the 2023 tax year until approximately June 2025. It is suggested that the bill be amended to specify that the data would first be published beginning in 2025, and annually thereafter, until two years after the sunset date.

Technical Considerations

The definition of "qualified taxpayer" is unnecessary because the requirements of the definition are included in the requirements of the credit generally explained in subdivision (a). The definition of qualified taxpayer could be eliminated.

Policy Considerations

This bill does not limit the amount of the credit that may be taken. Credits are sometimes limited either on a per-project or per-taxpayer basis. The author may wish to add a total credit per qualified taxpayer.

LEGISLATIVE HISTORY

AB 1861(Bryan, 2021/2022) would, under the PITL and the CTL, provide a tax credit to a qualified taxpayer that hires employees who were or are in foster care. AB 1861 is currently in the committee process.

AB 2035 (Villapudua, 2021/2022) would, under the PITL and CTL, amend the existing NEC to expand eligibility to additional industries, expand the definition of a qualified full-time employee, modify the definition of qualified wages, extend the pilot area designation period and make other nonsubstantive changes. AB 2035 is currently in the committee process.

AB 150 (Assembly Committee on Budget, Chapter 82, Statutes of 2021) among other things, established the Homeless Hiring Tax Credit.

AB 1726 (Arambula and Cervantes, 2019/2020) and AB 916 (Quirk-Silva & Arambula, 2017/2018) would have created a tax credit for certain employers that hire employees who are members of a targeted group. AB 1726 did not pass out of the Assembly by the constitutional deadline, and AB 916 did not pass out of the Senate Committee on Appropriations.

PROGRAM BACKGROUND

None noted.

FISCAL IMPACT

This bill would impact the department's systems, resulting in programming and processing revisions. The department's costs to implement this bill have yet to be determined. As the bill continues to move 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 1484 as Introduced on February 18, 2022
Assumed Enactment after June 30, 2022

($ in Millions)

Fiscal Year	Revenue
2022-2023	-$0. 7
2023-2024	-$1.8
2024-2025	-$2.4

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 United States Interagency Council on Homelessness and various additional studies, it is estimated in 2023, there would be approximately 75,000 homeless, foster, or former foster youths no older than 26 and able to seek employment in California. It is estimated that 3 percent, or 2,200, of these qualified youths would be hired for the first time. To determine the estimated credit, four different scenarios of hours worked with an assumed minimum wage of $15 per hour were evaluated. This results in an estimated average credit of $2,100 per qualified employee and a total credit of $4.6 million in the 2023 taxable year.

It is estimated that 85 percent, including the S corporation adjustment, or $3.9 million, would be earned by taxpayers with sufficient tax liability to offset with the credit. Of that amount 60 percent, or $2.3 million, would be claimed in the year generated and the remaining would be claimed in subsequent years.

To arrive at the offsetting tax effect of expense deduction that would otherwise be allowed under current law, it is estimated that qualified taxpayers would be unable to deduct approximately $12 million in qualified expenses in taxable year 2023. Applying an average tax rate of 8 percent, results in an offsetting revenue gain of $900,000. The resulting net revenue loss for taxable year 2023 would be $1.4 million.

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

None noted.

ARGUMENTS

None noted.

LEGISLATIVE CONTACT

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