



## **Bill Analysis**

Author: Grove

Sponsor:

Bill Number: SB 1484

Related Bills: See Legislative  
History

Amended: May 9, 2022, &  
June 13, 2022

### **SUBJECT**

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 foster youth or former foster youth.

### **RECOMMENDATION**

No position.

### **SUMMARY OF AMENDMENTS**

The May 9, 2022, amendments updated the definition of a qualified employee to remove homeless youth, removed the definition of homeless youth, and established a maximum credit of \$2,400.

The June 13, 2022, amendments clarified the maximum credit of \$2,400 is per qualified employee, clarified the definition of foster youth or former foster youth and made other technical changes.

### **REASON FOR THE BILL**

The reason for this bill is to allow employers to obtain a tax credit for hiring an individual who is a 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, not to exceed \$2,400 per 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.

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- 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.

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 as of the last day of the taxable year 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), or
  - Is a ward of the court as defined in the WIC.
- "Qualified employee" would mean an employee hired on or after January 1, 2023, and is either a 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 six 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 foster or former foster youth by creating hiring incentives.

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The Franchise Tax Board (FTB) would be required to annually publish, for each calendar year from 2025 to 2030, 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 for the information published on FTB's internet website.

#### *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 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.

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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 economic development area. 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*

None Noted.

### *Technical Considerations*

None Noted.

### *Policy Considerations*

None noted.

## **LEGISLATIVE HISTORY**

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

AB 1861 (Bryan and Davies, 2021/2022) would have, 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 did not advance out of the Assembly.

AB 2035 (Villapudua, 2021/2022) would have, 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 did not advance out of the Assembly.

AB 1726 (Arambula, 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.

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SB 1349 (Caballero and Villapudua, 2021/2022) would, under the PITL and CTL, modify the existing NEC to remove the requirement that work be performed in a designated census tract or economic development area, remove all requirements relating to those designated areas, modify the definition of a qualified full-time employee, expand the credit to previously excluded employers and make other technical nonsubstantive changes. SB 1349 is currently in the committee process.

## PROGRAM BACKGROUND

None noted.

## FISCAL IMPACT

The provisions of the bill would impact the department's systems, resulting in programming, processing and form revisions as well as the need for taxpayer outreach. Staff estimates the cost to implement these provisions to be approximately \$182,000 for fiscal year 2023-2024 and \$145,000 for fiscal year 2024-2025.

## ECONOMIC IMPACT

### *Revenue Estimate*

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1484 as Amended on June 13, 2022  
Assumed Enactment after June 30, 2022

(\$ in Millions)

Fiscal Year	Revenue
2022-2023	-\$0.5
2023-2024	-\$1.4
2024-2025	-\$1.9

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.

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### *Revenue Discussion*

Based on data from various studies, it is estimated in 2023, there would be approximately 60,000 foster or former foster youths no older than 26 able to seek employment in California. It is estimated that 3 percent, or 1,800, 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 \$3.7 million in the 2023 taxable year.

It is estimated that 85 percent, including the S corporation adjustment, or roughly \$3 million, would be earned by taxpayers with sufficient tax liability to offset with the credit. Of that amount 60 percent, or \$1.8 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 \$9.7 million in qualified expenses in taxable year 2023. Applying an average tax rate of approximately 8 percent, results in an offsetting revenue gain of \$780,000. The resulting net revenue loss for taxable year 2023 would be \$1.1 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**

The Assembly Revenue and Taxation Committee analyses, dated June 17, 2022, lists the following registered support and opposition to the bill:

#### *Support*

The Alliance: Defending the Cause of Kids & Families

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### *Opposition*

California Teachers Association

## **ARGUMENTS**

The Assembly Revenue and Taxation Committee analysis, dated June 17, 2022, lists the following arguments in support and opposition to the bill:

### *Proponents*

This bill is supported by The Alliance: Defending the Cause of Kids & Families, which notes, in part:

It is widely understood that one way to end the cycle of homelessness and dysfunction is to have a stable job. Employment leads to greater self-sufficiency and discipline, reduces the time youth spend on the streets, teaches key job and social skills, and provides the income stability necessary to find and maintain housing. Together, these factors reduce the likelihood that a youth will become stuck in a cycle of poverty, homelessness, and dependency on public benefits and services.

### *Opponents*

This bill is opposed by the California Teachers Association (CTA), which notes, in part:

While we understand [this bill] is well intended, CTA does not support this approach, as it would reduce overall funding for education. Despite having the 5th largest economy in the nation, California continues to rank near the bottom of the states in the nation in per-pupil funding. According to the Education Law Center's Making the Grade report, California was ranked 30th in per-pupil expenditures, adjusted for regional cost differences for the 2019 fiscal year (the most recent data available). CTA believes that Prop 98 should be protected from reductions through the creation of new or expanding existing tax expenditures.

## **LEGISLATIVE CONTACT**

[FTBLegislativeServices@ftb.ca.gov](mailto:FTBLegislativeServices@ftb.ca.gov)