STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Portantino	Sponsor:	Bill Number: SB 457
	Related Bills: See Legislative History	Amended: June 21, 2022

SUBJECT

Registered Vehicles Credit

SUMMARY

Under the Personal Income Tax Law (PITL), this bill would, create a credit in the amount of $2500 for each household member that exceeds the number of registered vehicles, not to exceed $7500.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The June 21, 2022, amendments removed coauthors, added a sunset date, and added Section 41 reporting requirements.

These amendments resolved some of the policy considerations discussed in the department's analysis of the bill as amended on May 26, 2022, however an additional implementation and technical consideration was identified. Several implementation, policy and technical considerations remain.

REASON FOR THE BILL

The reason for this bill is to incentivize a taxpayer to give up a vehicle or reward people for not using a vehicle.

ANALYSIS

Under the PITL, this bill would, for taxable years beginning on or after January 1, 2023, and before January 1, 2028, allow a credit in the amount of $2500 for each household member that exceeds the number of registered vehicles, not to exceed $7500.

The bill defines the following terms:

"Household member" is defined as either of the following with respect to a single tax return:

- A taxpayer.
- A person who is at least 16 years of age and claimed as a dependent.

"Registered vehicle" is defined as a vehicle that was registered in any state to a household member, or an entity in which a household member holds a controlling interest, for at least six months of the taxable year for which this credit is claimed.

"Vehicle" means a device by which a person or property may be propelled, moved, or drawn upon a highway, excluding a device moved exclusively by human power or used exclusively upon station rails or tracks. In addition, an electric bicycle is not considered a vehicle for purposes of this bill.

"Electric bicycle" is defined as a bicycle equipped with fully operable pedals and an electric motor of less than 750 watts.

A taxpayer would be able to claim this credit on a return in the form determined by the Franchise Tax Board (FTB).

For purposes of complying with Revenue and Taxation Code (RTC) section 41, the FTB would be required to provide a written report to the Legislature, as specified, on or before January 15 of the year following the taxable year relevant to the report. The report would include the following:

- The number of taxpayers claiming the credit.
- The average credit amount on tax returns claiming the credit.

The credit would be repealed by its own terms on December 1, 2028.

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 December 1, 2028.

Federal/State Law

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.

Under RTC section 41, legislation that would create a new tax expenditure, which includes a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the tax benefit.

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.

This bill uses undefined terms, such as, "controlling interest." The absence of definitions to clarify this term could lead to disputes with taxpayers. For clarity, it is recommended that the bill be amended.

The term "household" is defined, however it is still unclear who could claim the credit in different scenarios, for example:

- Would a dependent who files their own return and drives the parent's car get the credit?
- How would the credit be claimed for joint owners of cars who live at different addresses?
- Would a vehicle that is registered as "planned not to operate" be considered a vehicle, for purposes of this bill?

The definition of "vehicle" is broad and would include trailers, tractors, and other vehicles within the broad definition. If that is contrary to the author's intent, the bill should be amended.

The bill is unclear on how and at what point in time the FTB would verify a vehicle was registered to a household member, particularly for vehicles registered out of state. To assist with credit validation, it is recommended that the bill be amended to allow the Department of Motor Vehicles to share relevant information with the FTB. Without a specified date of comparison, it would be difficult to know what data should be shared and whether the taxpayer qualified for the credit.

This bill would require the department to provide a report on the use of this credit by January 15 following the taxable year relevant to the report. Assuming that date means the first report must be provided by January 15, 2024, the department would not have complete data on the 2023 taxable year available until after July 2025. The author may wish to amend the bill to change the due date of the report to allow the department to collect the necessary data and specify whether the report should be provided annually.

Technical Considerations

The FTB has general authority to determine the form and manner of the tax return. For this reason, subdivision (d) can be deleted.

For clarification, it is recommended to make the following changes:

- In subdivision (a) after ($2500) remove the term “for” and replace it with “per.”
- In subdivision (b), after ($7500) add “per taxpayer, per taxable year.”
- In (c)(2) remove, “with respect to a single return,” as it is not necessary.

In (c)(2)(B) add, “under paragraph (1) of subdivision (d) of Section 17054 on the taxpayer’s California individual income tax return” after the term “dependent.”

In (e)(3)(B) add, “while the credit is operative.” after the phrase, “following the taxable year relevant to the report.”

Policy Considerations

The bill allows the credit to be claimed each taxable year if the criteria are met each year even if the taxpayer has the same number of registered vehicles as in the prior year. If that is contrary to the author's intent, the bill should be amended.

The definition of "registered vehicle" includes vehicles registered to an entity in which the household member holds a controlling interest. This may limit the credit for households that own small businesses. If that is contrary to the author's intent, the bill should be amended.

This bill does not have carryover language. As a result, any unused credit would be lost if the taxpayer is unable to use the entire credit amount in the year claimed. The author may wish to add language allowing a limited carryover period.

LEGISLATIVE HISTORY

AB 1341 (Calderon, 2017/2018), would have under the PITL, allowed a qualified taxpayer a credit for the purchase or lease of a new electric vehicle, and a deduction for the purchase of a used near-zero or zero-emission vehicle. AB 1341 did not pass out of the Assembly 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 SB457 as Amended June 21, 2022
Assumed Enactment after June 30, 2022

($ in Millions)

Fiscal Year	Revenue
2022-2023	-$700
2023-2024	-$1,200
2024-2025	-$1,200

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.

LEGAL IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

The June 29, 2022, Assembly Revenue and Taxation Committee analysis listed the following support and opposition.

Support

Getaround Inc., a Delaware Corporation, and Move La, a Project of Community Partners.

Opposition

California Teachers Association.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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