



## **Bill Analysis**

Author: Wallis

Sponsor:

Bill Number: AB 2312

Related Bills: See Legislative  
History

Amended: March 18, 2024

### **SUBJECT**

Qualified Student Loans Deduction

### **SUMMARY**

This bill would, under the Personal Income Tax Law (PITL), remove the limit on deductions for interest paid on education loans.

### **RECOMMENDATION**

No position.

### **SUMMARY OF AMENDMENTS**

The March 18, 2024, amendments removed provisions of the bill relating to the Sales and Use Tax Law and replaced them with the provisions discussed in this analysis.

### **REASON FOR THE BILL**

The reason for the bill is to allow taxpayers who are paying off student debt to deduct all of the interest paid on qualified education loans during the taxable year.

### **ANALYSIS**

This bill would, under the PITL, for taxable years beginning on or after January 1, 2024, and before January 1, 2029, remove the limitation on the deduction for interest paid on education loans. The bill would also replace references to "qualified higher education expenses" as defined under Internal Revenue Code (IRC) section 221 with "higher education expenses."

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The bill defines "higher education expenses" as expenses of attendance at an institution of higher education provided under IRC section 529(e)(3), which defines qualified higher education expenses, but would not include any tuition expenses for elementary or secondary public, private, or religious schools.

The bill includes Revenue and Taxation Code (RTC) section 41 requirements that would provide that the measurement of effectiveness of the credit would be the number of taxpayers claiming the deduction, the average dollar amounts deducted, and a review of income levels of all individual taxpayers claiming the deduction. The Franchise Tax Board (FTB) would be required to annually report this information to the legislature, to the extent that data is available, no later than December 1, 2025 and annually thereafter.

The RTC section 41 reporting requirements would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

The elimination of the deduction limitation for interest on education loans would be repealed by its own terms on December 1, 2029.

#### *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, 2024, and before January 1, 2029.

#### *Federal/State Law*

Existing federal and state laws allow for the deduction of certain expenses when calculating adjusted gross income (AGI), such as certain ordinary and necessary trade and business expenses, losses from the sale or exchange of certain property, and interest on education loans (also known as student loans). Thus, all taxpayers with this type of expense receive the benefit of the deduction. These are known as "above-the-line" deductions. Under current federal and state law, the "above-the-line" deduction for interest paid on student loans is limited to the lesser of \$2,500 or the amount of student loan interest actually paid for each taxable year. The maximum deduction amount is not indexed for inflation. The deduction is subject to phase-out ratably for individual taxpayers with modified AGI of \$70,000-\$85,000 (\$140,000 - \$170,000 for joint returns). In addition, no deduction is allowed for any amount deducted under any other provisions of law.

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The deduction is not allowed to an individual if that individual is claimed as a dependent on another taxpayer's return for the taxable year. A qualified education loan generally is defined as any indebtedness incurred to pay for the qualified higher education expenses of the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer as of the time the indebtedness was incurred in attending (1) post-secondary educational institutions and certain vocational schools defined by reference to Section 481 of the Higher Education Act of 1965, or (2) institutions conducting internship or residency programs leading to a degree or certificate from an institution of higher education, a hospital, or a health care facility conducting postgraduate training. California law generally conforms with federal law as it relates to the "above-the-line" deduction for interest paid on student loans as of January 1, 2015.

### *Implementation Considerations*

The FTB has identified the following implementation consideration and is available to work with the author's office to resolve this and other considerations that may be identified.

This bill requires the FTB to prepare a report on the performance of the deduction allowed by this bill on or before December 1, 2025. If the author's intent is to be able to review a report that contains complete information for the 2024 taxable year, it is recommended that the report due date be extended later in the year. For instance, the due date for the 2024 personal income tax return is April 15, 2025, with extension individuals may file as late as October 15, 2025. The FTB needs approximately six months to complete return processing and to compile the needed data to prepare a report. As a result, it is recommended that the reporting due date be no earlier than May of 2026 to provide information for the 2024 taxable year. If the reporting due date remains unchanged, the report would include the information available as of six months prior to the date the report is due.

### *Technical Considerations*

For consistency of terminology and to limit taxpayer confusion the following changes are recommended: In SEC. 1., Section 17201.8(a), replace "221 (a)" with "221".

IRC 529(e)(3) defines "qualified higher education expenses." For clarity, it is recommended to strike out "the expenses of attendance at an institution of higher education, as provided" and insert "qualified higher education expenses, as defined".

California conforms to IRC section 221 as of the specified date of January 1, 2015, and as a result does not conform to IRC section 529(c)(7). For clarity, it is recommended that the second sentence of subdivision (c) be deleted.

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Similarly, because California conforms to the IRC as of January 1, 2015, the modifications to IRC section 529(c)(3) that have occurred since that date would not apply as the bill is currently drafted. If that is contrary to the author's intent, the bill should be amended.

### *Policy Considerations*

For purposes of state income tax law, AGI is defined by cross reference to the IRC as gross income, which includes all income from whatever source derived, minus specific deductions. This bill would create differences between federal and California AGI, by removing the federal deduction limitation, thereby increasing the complexity of California tax return preparation.

### **LEGISLATIVE HISTORY**

AB 704 (Mayes, 2021/2022) would have eliminated the maximum limit for deduction for interest paid by the taxpayer during the taxable year on a qualified education loan. This bill would have also modified California's conformity to the deduction for interest paid on a qualified education loan to pay for "higher education expenses" instead of "qualified higher education expenses." This bill would have defined "higher education expenses" to mean the expenses of attendance at an institution of higher education as defined by IRC section 529(e)(3), relating to qualified higher education expenses, but would not have included expenses of enrollment or attendance at an elementary or secondary public, private, or religious school. This bill did not pass by the constitutional deadline.

SB 477 (Wickowski, 2019/2020) would have, for specified taxpayers, replaced the deduction for interest paid on a qualified education loan with a credit for interest paid on a qualified education loan. The credit would have been limited to \$2,000 for joint filers, and \$1,000 for individuals, and would have been unavailable for joint filers with adjusted gross income (AGI) of \$200,000 and individuals with AGI of \$100,000. This bill did not pass by the constitutional deadline.

AB 755 (Ridley-Thomas, 2015/2016), as introduced, would have increased the limit on the deduction for interest paid by the taxable year on a qualified education loan from \$2,500 to \$4,000. Therefore, this bill would have caused California to no longer conform to federal income tax law on the \$2,500 limitation on interest paid on a qualified education loan. This bill did not pass by the constitutional deadline.

### **PROGRAM BACKGROUND**

None noted.

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**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 2312 as Amended on March 18, 2024  
Assumed Enactment after June 30, 2024

(\$ in Millions)

<b>Fiscal Year</b>	<b>Revenue</b>
2024-2025	-\$15
2025-2026	-\$9.6
2026-2027	-\$9.7

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**

*Support*

None on file.

*Opposition*

According to the April 5, 2024 analysis of AB 2312 by the Assembly Committee on Revenue and Taxation, the California Tax Reform Association opposes the bill.

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## **ARGUMENTS**

### *Proponents*

None on file.

### *Opponents*

According to the April 5, 2024 analysis of AB 2312 by the Assembly Committee on Revenue and Taxation, the California Tax Reform Association provided the following argument opposing the bill:

In eliminating the deduction limit for interest paid on education loans, higher income individuals who make enough revenue to itemize their taxes will disproportionately benefit over their lower-income counterparts, whose incomes are too low to do so. In addition, elimination of this cap would benefit these higher income earners regardless of what type of degree they held, whether they went to a public or private university, and whether they work in a specialized or public service field.

## **LEGISLATIVE CONTACT**

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