



STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Wallis

Sponsor:

Bill Number: AB 2312

Related Bills: See Legislative
History

Amended: May 7, 2024

SUBJECT

Qualified Student Loans Deduction

SUMMARY

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

RECOMMENDATION

No position—The Franchise Tax Board (FTB) has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

The May 7, 2024, amendments resolved all implementation and technical considerations discussed in the FTB's analysis of the bill as amended March 18, 2024. However, the previously included policy consideration remains.

The amendments would:

- Modify the definition of "qualified education expenses."
- Increase the limitation for deduction of interest for qualified higher education expenses from \$2,500 to \$5,000.
- Modify the FTB annual reporting date beginning December 1, 2025, to June 30, 2026.

REASON FOR THE BILL

The reason for the bill is to allow taxpayers who are paying off student debt to deduct up to \$5,000 of interest 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, increase the limitation on the deduction for interest paid on education loans from \$2,500 to \$5,000. The bill would define "qualified higher education expenses" in accordance with Internal Revenue Code (IRC) section 529(e)(3) rather than the definition in IRC section 221(d)(2).

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 FTB would be required to annually report this information to the legislature, to the extent that data is available, no later than June 30, 2026, 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The deduction for interest on education loans would be repealed by its own terms on December 1, 2029.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.

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

None noted.

Technical Considerations

None noted.

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 modifying the deduction limitation and basing the limitation on a measure that is different than under federal law, 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 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.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

The FTB'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 May 7, 2024
Assumed Enactment after June 30, 2024

(\$ in Millions)

| Fiscal Year | Revenue |
|--------------------|----------------|
| 2024-2025 | -\$11.0 |
| 2025-2026 | -\$7.3 |
| 2026-2027 | -\$7.5 |

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.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Assembly Committee on Revenue and Taxation 04-26-24

Support:

California Dental Association; California Association of Realtors; Howard Jarvis Taxpayer's Association.

Opposition:

California Tax Reform Association

ARGUMENTS

Proponents:

Assembly Revenue and Taxation analysis dated 04-26-24.

California Dental Association

For the Class of 2023, the average dental graduate student debt is \$296,500 and specialists accrue even more debt. Interest on large student debt amounts create a large repayment burden, which impedes on newly graduated dentists' ability to open their own practice, buy a home, or save for retirement.

Opponents:

Assembly Appropriations analysis dated 05-07-24.

California Tax Reform Association

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

FTBLegislativeServices@ftb.ca.gov