



## Bill Analysis

Author: Fong

Sponsor:

Bill Number: AB 509

Related Bills: See Legislative  
History

Amended: April 5, 2023

### SUBJECT

Gross Income Exclusion: Employer Student Loan Assistance

### SUMMARY

This bill, under the Personal Income Tax Law, would allow a gross income exclusion for qualified education loan payments made by an employer on an employee's behalf, remove an obsolete provision, and make other nonsubstantive, technical changes.

### RECOMMENDATION

No position.

### SUMMARY OF AMENDMENTS

The April 5, 2023, amendments changed the operative date of the provision.

### REASON FOR THE BILL

The reason for this bill is to assist taxpayers with student loan debt by making education loan payments made by an employer on behalf of their employee tax-free to the employee.

### ANALYSIS

This bill would expand the gross income exclusion for employer-provided educational assistance to include qualified education loan payments paid or incurred by an employer to an employee or lender for principal or interest on the employee's qualified education loan, as defined by Internal Revenue Code (IRC) section 221, relating to interest on education loans. This bill would apply to payments made by an employer beginning on or after January 1, 2024, and before January 1, 2026. The exclusion would be limited to \$5,250 per calendar year.

This bill provides that the exclusion would be for payments on qualified education loans incurred by the employee for education of the employee, and not loans incurred by the employee for education of the employee's spouse or dependent.

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For purposes of complying with Revenue and Taxation Code (RTC) section 41, the effectiveness of the income exclusion would be measured by the decrease in student loan defaults and increase in timely repayment of student loans by Californians.

*Effective/Operative Date*

As a tax levy, this bill would be effective immediately upon enactment and operative for payments made by an employer beginning on and after January 1, 2024, and before January 1, 2026.

*Federal/State Law*

*Federal Law*

Existing federal law, (IRC section 127) provides an exclusion of up to \$5,250 per year from gross income of an employee, for educational assistance furnished pursuant to an educational assistance program by an employer, for expenses incurred by, or on behalf of, an employee for education of the employee. In December 2020, the definition of educational assistance was amended to include, in the case of payments made before January 1, 2026, the payment by an employer of principal or interest on any qualified education loan incurred by the employee for education of the employee.

*State Law*

California has a stand-alone law that provides an exclusion for employer-provided educational benefits that is similar to IRC section 127. Under this provision, state law excludes from an employee's gross income amounts paid by their employer for educational assistance, to the employee, pursuant to an educational assistance program up to \$5,250 per calendar year. California does not conform to the expanded federal definition of educational assistance, and, therefore, does not include qualified education loan payments in the definition of educational assistance as explained above.

*Implementation Considerations*

None noted.

*Technical Considerations*

None noted.

*Policy Considerations*

None noted.

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**LEGISLATIVE HISTORY**

AB 511 (Alquist, Chapter 107, Statutes of 2000), among other things, added amounts paid or incurred by an employer for an employee to take graduate level courses as payments that may be excluded, up to \$5,250 per calendar year, from the employee’s gross income. This exclusion applies to any course or education taken at the graduate level beginning on or after January 1, 2000.

AB 1729 (Voepel, et al., 2021/2022) would have provided a gross income exclusion for employer education loan payments made on an employee’s behalf. AB 1729 did not pass out of Assembly Appropriations Committee.

AB 2478 (Voepel, et al., 2017/2018) would have provided a gross income exclusion for employer education loan payments made on an employee’s behalf. AB 2478 did not pass out of the Assembly Appropriations Committee.

**PROGRAM BACKGROUND**

None noted.

**FISCAL IMPACT**

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 AB 509 as amended April 5, 2023  
Assumed Enactment after June 30, 2023

(\$ in Millions)

<b>Fiscal Year</b>	<b>Revenue</b>
2023-2024	-\$90
2024-2025	-\$160
2025-2026	-\$70

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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## **LEGAL IMPACT**

None noted.

## **APPOINTMENTS**

None noted.

## **SUPPORT/OPPOSITION**

### *Support*

As per the April 28, 2023, Assembly Revenue and Taxation Committee analysis, the following organizations are in support of AB 509:

- California Builders Alliance
- Sacramento Regional Builders Exchange

As per the May 15, 2023, Assembly Appropriations Committee analysis, the following organizations are in support of AB 509:

- Howard Jarvis Taxpayers Association and business associations

### *Opposition*

As per the May 15, 2023, Assembly Appropriations Committee analysis, the following organization is in opposition of AB 509:

- California Tax Reform Association

## **ARGUMENTS**

To be determined.

## **LEGISLATIVE CONTACT**

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