



Bill Analysis

Author: Durazo, et al.

Sponsor:

Bill Number: SB 227

Related Bills: See Legislative
History

Introduced: January 19, 2023

SUBJECT

Gross Income Exclusion – Excluded Workers Program

SUMMARY

This bill would, under the Labor Code (LAB), create the Excluded Workers Program (EWP). Under the Personal Income Tax Law (PITL), this bill would exclude from gross income benefits or payments received from the EWP.

This analysis only addresses the provisions of the bill that would impact the department's programs and operations.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for this bill is to exclude from gross income benefits and payments received from the EWP.

ANALYSIS

Excluded Workers Program

This bill would, under the LAB, create the EWP, which would provide benefits to excluded workers and would be administered by the Employment Development Department upon appropriation by the Legislature. Individuals who are eligible for the program could receive up to 20 weeks of unemployment assistance.

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Gross Income Exclusion

Under the PITL, this bill would, for taxable years beginning on or after January 1, 2025, and before January 1, 2027, exclude from gross income benefits or payments received under the EWP.

For purposes of complying with Section 41 of the Revenue and Taxation Code (RTC), the Franchise Tax Board (FTB) would be required to report to the Legislature no later than June 15, 2026, the following:

- Total number of claims for the exclusion.
- Amount claimed for each exclusion.

The FTB would be required to compile the report in an aggregate or anonymized manner to preserve confidentiality. This reporting would be treated as an exception to the general prohibition against disclosure of tax information.

Effective/Operative Date

This bill would be effective January 1, 2024, and the gross income exclusion would be specifically operative for taxable years beginning on or after January 1, 2025, and before January 1, 2027.

Federal/State Law

Existing federal and state laws provide that gross income includes all income from whatever source derived, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded.

Under current federal law, unemployment compensation received, including state unemployment insurance benefits, are taxable. Under current state law, unemployment compensation is nontaxable for state purposes.

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.

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For purposes of complying with Section 41, this bill would require the FTB to report on the number of claims for the exclusion. However, many taxpayers may not have a filing requirement and will not file a return. In addition, since taxpayers are not required to report excluded income on their return, FTB will not be able to report on the number or amount of exclusions taken.

Technical Considerations

For grammatical consistency, section 17140.6 should be changed to read, "For taxable years beginning on or after January 1, 2025..."

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 2847 (Garcia, et al., 2021/2022), similar to this bill, would have under the LAB, created the Excluded Workers Pilot Program (EWPP). Under the PITL, the benefits and payments received under the EWPP, would have been excluded from gross income. AB 2847 was vetoed by the governor, whose veto message stated in part, "With our state facing lower-than-expected revenues over the first few months of this fiscal year, it is also important to remain disciplined when it comes to spending, particularly spending that is ongoing."

PROGRAM BACKGROUND

Pandemic Unemployment Assistance (PUA)

PUA provided unemployment benefits to individuals who were not typically eligible to receive unemployment benefits. Individuals had to meet specified criteria and provide supporting documentation. The PUA, which was available between February 2, 2020, and September 4, 2021, provided up to 86 weeks of benefits, depending on when the individual was affected. PUA ended on September 4, 2021, and any remaining balances on individual accounts were forfeited.

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.

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ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 227 as introduced on January 19, 2023
 Assumed Enactment after June 30, 2023

(\$ in Millions)

Fiscal Year	Revenue
2023-2024	\$0
2024-2025	\$0
2025-2026	-\$4.3

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

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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