
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anthony Portantino, Chair
2019 - 2020 Regular Session

SB 934 (Bates) - Corporate taxes: exempt organizations: filing fees

Version: April 29, 2020

Urgency: No

Hearing Date: June 9, 2020

Policy Vote: GOV. & F. 7 - 0

Mandate: No

Consultant: Robert Ingenito

Bill Summary: SB 934 would eliminate (1) the \$25 filing fee for the application for tax-exempt status, and (2) the annual information return filing fee of \$10 for exempt organizations.

Fiscal Impact: The Franchise Tax Board (FTB) estimates that this bill would result in annual General Fund revenue losses of \$600,000 in 2020-21, and \$900,000 in the two subsequent years. This estimate includes both the impact from (1) eliminating the \$25 filing fee submitted with form FTB 3500, and (2) the \$10 fee submitted with FTB Form 199. The department indicates that administrative costs resulting from the bill would be minor and absorbable.

Background: Under current law, a \$25 filing fee must be submitted with a tax-exempt application to reimburse the General Fund for FTB's processing costs. In 2013, a simplified method was enacted that allowed certain types of federal tax-exempt organizations to obtain state exempt status with no fee. In addition to these simplified filings, FTB receives approximately 5,700 tax-exempt applications annually; a portion of them fail to include the application fee, requiring FTB to conduct additional correspondence and tracking. The fee paid with the tax-exempt application is not captured in, or cost effective to add to, FTB's automated accounting systems and thus must be manually tracked.

Additionally under current law, certain tax-exempt nonprofit organizations are required to file an annual information return and pay a \$10 filing fee, with specified exemptions. Rather than filing the two-page information return, these exempt organizations submit basic information electronically and are relieved from paying the filing fee. With the exception of corporations expecting a net operating loss carryback and the Form 199 filing fee, all other state franchise and income tax returns require the tax to be paid by the original due date of the return, without regard to any extension. Additionally, tax-exempt organizations are the only entities required to pay a fee for filing an annual information return.

Proposed Law: This bill would eliminate the fee payable to FTB for both the tax-exempt application and the annual filing fee for all tax-exempt entities.

Staff Comments: FTB indicates that a small portion of annual tax-exempt applications fail to include the application fee, requiring the additional correspondence and tracking. Additionally, as noted above, the \$25 fee paid with the tax-exempt application is not captured in, or cost effective to add to, FTB's automated accounting systems and thus must be manually tracked. General fund recovery fees require additional manual

processing to credit the payments appropriately, which increases the FTB's costs to process the payments. Consequently, the elimination of this fee would streamline the procedures for FTB.

In 2018-19, FTB received approximately 5,700 tax-exempt application forms, and the department expects the number to grow to 6,000 by 2020-21. Since the fee is \$25, the full-year revenue loss from this provision of the bill would be \$150,000.

In tax year 2017, FTB received \$800,000 in filing fees and penalties from roughly 60,000 entities. This amount is expected to be stable through tax year 2022.

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