

Date of Hearing: August 11, 2020

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Lorena Gonzalez, Chair
SB 934 (Bates) – As Amended June 18, 2020

Policy Committee: Revenue and Taxation Vote: 9 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill eliminates two fees charged by the Franchise Tax Board (FTB) on certain tax-exempt organizations: the \$25 tax-exempt application fee and a \$10 annual information return fee.

FISCAL EFFECT:

Annual General Fund (GF) revenue loss of approximately \$600,000 in 2020-21 and \$900,000 each year thereafter. FTB would not incur additional administrative costs and may gain administrative efficiencies.

COMMENTS:

- 1) **The tax-exempt application fee.** An organization may apply for tax-exempt status at the state level by submitting a tax-exempt application to FTB along with a \$25 application fee to reimburse the General Fund for FTB's administrative costs. This state application, which is separate from any federal application and fee to the Internal Revenue Services (IRS) for federal tax-exempt status, is not always required because of recent statutory changes. Specifically, AB 1173 (Bocanegra), Chapter 536, Statutes of 2013, created a new streamlined process for certain types of organizations that receive tax-exempt status at the federal level.
- 2) **The information filing return fee.** Some (but not all) tax-exempt organizations must file an annual "informational" return to FTB and pay a \$10 filing fee. Other entities, such as taxable corporations do not need to pay a similar fee when they file an income tax return, and smaller nonprofit, organizations (with annual gross receipts of less than \$50,000) may use a simpler electronic filing option that does not require a \$10 fee.
- 3) **Manual processing.** While many of FTB's systems and processes are automated, FTB must manually track General Fund recovery fees in order to credit the payments appropriately. FTB's analysis of this bill notes that with the \$25 application fee, if the taxpayer makes a mistake and does not pay the fee, FTB must correspond with the taxpayer and manually track progress in recouping the fee.
- 4) **Purpose.** According to the author, this bill will save nonprofits money and make tax administration more efficient by eliminating outdated and unnecessary fees. The FTB is a sponsor of this legislation.

Analysis Prepared by: Luke Reidenbach / APPR. / (916) 319-2081