

Date of Hearing: May 15, 2024

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
AB 1860 (Bauer-Kahan) – As Introduced January 18, 2024

Policy Committee: Revenue and Taxation

Vote: 7 - 0

Urgency: No

State Mandated Local Program: No

Reimbursable: No

SUMMARY:

This bill excludes from gross income, under the Personal Income Tax (PIT) Law, the discharge of student loan debt and medical debt.

Specifically, this bill:

- 1) Excludes, for taxable years beginning on or after January 1, 2024, and before January 1, 2029, qualified discharge of indebtedness income from gross income. “Qualified discharge of indebtedness income” means income that would otherwise be realized from the discharge of student loan debt or medical debt by a 501(c)(3) nonprofit organization.
- 2) Declares the goals and performance indicators for the new exclusion and requires, by December 1, 2029, the Legislative Analyst’s Office (LAO) to submit a report with specified exclusion data to the Legislature.

FISCAL EFFECT:

- 1) Annual General Fund (GF) revenue loss of an unknown, but potentially significant, amount. The Franchise Tax Board (FTB) notes it does not know how many taxpayers may have debt forgiven by a nonprofit organization, nor the amount of such debt. However, FTB assumes approximately \$4 million in GF revenue loss for every \$50 million of qualified discharged debt (applying an average tax rate of 7.5%). By decreasing PIT revenue, this bill also likely decreases Proposition 98 GF spending by approximately 40% of the revenue loss (the exact amount depends on the specific amount of the annual Proposition 98 guarantee).
- 2) Costs of an unknown, but likely absorbable, amount to FTB to administer the exclusion.
- 3) Costs of an unknown, but likely absorbable, amount to the LAO to prepare the report. However, this committee sees a wide array of bills that require the LAO to measure different tax expenditures. Generally, a request to prepare an individual report would not generate significant new workload for the LAO. But, taken together, these proposals strain the ability of the LAO fulfill other existing or future legislative mandates and requests, as the LAO’s budget is subject to the Legislature’s constitutional spending cap.

According to the LAO, the GF faces a structural deficit in the tens of billions of dollars over the next several fiscal years.

COMMENTS:

- 1) **Purpose.** According to the author, “Non-profits are doing incredible work to forgive debt for our most vulnerable constituents. AB 1860 will ensure that when student and medical debt is forgiven, instead of facing a high tax burden, individuals are able to experience the full impact of that forgiveness.” This bill is supported by labor organizations, health organizations, and a community college district.
- 2) **Tax Treatment of Forgiven Debt.** Existing federal and state law generally consider forgiven debt to be taxable income, regardless of the type of debt or how the debt came to be. RIP Medical Debt is a 501(c)(3) that provides charitable aid by purchasing and forgiving the medical debt of low-income individuals. The organization works with partnering entities to purchase bundles of debt, often for pennies on the dollar, similar to a debt collector, but does not pursue the debtor for collection. For example, in 2016, the organization collaborated with John Oliver to forgive \$15 million of medical debt. However, RIP Medical Debt does not record the cancelled amount as a forgiven debt, but as a gift representative of the organization’s charitable mission. Under federal and state law, gross income does not include the value of a gift.

This bill provides that medical debt and student loan debt discharged by a 501(c)(3) non-profit organization is excluded from gross income, regardless of how the discharge is recorded. Implementation considerations noted in the Assembly Revenue and Taxation Committee’s analysis of this bill include defining “medical debt” to ensure consistent application of the exclusion and “whether this bill is necessary or if it could add confusion to the existing treatment of forgiven loans,” especially in light of AB 111 (Committee on Budget), Chapter 5, Statutes of 2023, which conformed state law to the federal American Rescue Plan Act’s exclusion of forgiven or discharged student loan debt from gross income.

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