Date of Hearing: May 17, 2023

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Chris Holden, Chair

AB 509 (Vince Fong) – As Amended April 5, 2023

Policy Committee: Revenue and Taxation Vote: 11 - 0

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

SUMMARY:

This bill expands the definition of "educational assistance," excluded from gross income of an employee under the Personal Income Tax Law, to include a payment made by an employer on or after January 1, 2024, and before January 1, 2026, to cover interest on education loans incurred by the employee for their own education.

This bill declares the goal of the expanded exclusion and how the exclusion's effectiveness must be measured.

FISCAL EFFECT:

- 1) General Fund (GF) revenue loss of approximately \$90 million in fiscal year (FY) 2023-24, \$160 million in FY 2024-25, and \$70 million in FY 2025-26.
- 2) GF costs of an unknown, but potentially absorbable, amount to the Franchise Tax Board to administer the expanded exclusion.

COMMENTS:

- 1) **Purpose.** The author notes "Student loan debt is on the rise and continues to climb as residents struggle to endure California's worsening affordability crisis." The author asserts exempting employer student loan assistance from an employee's taxable state income "will boost the economy, increase consumer spending, and help more Californians plan for their financial future."
- 2) **Support and Opposition.** This bill is sponsored by the California State Council of Society for Human Resource Management, which argues this bill "provides a workable solution to enlist employers to help discharge their employee's existing student loan debt" that "could be implemented immediately" with "no questions about its legality." This bill is also supported by the Howard Jarvis Taxpayers Association and business associations.
 - This bill is opposed by the California Tax Reform Association, which argues "in all likelihood the individuals who are able to obtain jobs with employers capable of making these repayments are likely to be those already receiving higher incomes than their counterparts who do not have access to the same educational opportunities."
- 3) **Educational Assistance Exclusion.** Existing federal law provides a gross income exclusion of up to \$5,250 per year for "educational assistance" provided by an employer to an

employee. In December 2020, the federal definition of educational assistance was expanded to include payments by an employer, made before January 1, 2026, of principal or interest on any qualified education loan incurred by the employee for their own education. California law does not automatically conform to federal law, but a standalone law provides a similar exclusion for employer-provided education benefits. However, existing state law's definition of "educational assistance" does not include student loan payments made by an employer.

This bill conforms to federal law in that regard for employer-funded student loan payments made beginning 2024 through 2026, thus providing a tax benefit to those employer's employees. Although federal conformity eases tax administration for both the government and taxpayer, expanding the income exclusion would also provide a tax benefit to Californians with an employer willing to help cover their student loan debt, at the expense of other Californians without such jobs.

4) **Prior Legislation.** AB 1729 (Voepel), of the 2021-22 Legislative Session, was virtually identical to this bill. AB 1729 was held on this committee's suspense file.

AB 152 (Voepel), of the 2019-20 Legislative Session, was substantially similar to this bill, except AB 152 would have allowed a direct gross income exclusion and was not limited to loan payments for an employee's own education. AB 152 was held on this committee's suspense file.

AB 2478 (Voepel), of the 2017-18 Legislative Session, was substantially similar to AB 152. AB 2478 was held on this committee's suspense file.

Analysis Prepared by: Irene Ho / APPR. / (916) 319-2081