



## **Bill Analysis**

Author: Portantino & Wilk, et al.

Sponsor:

Bill Number: SB 457

Related Bills: See Legislative History

Amended: May 26, 2022

### **SUBJECT**

Registered Vehicles Credit

### **SUMMARY**

Under the Personal Income Tax Law (PITL), this bill would, create a credit in the amount of \$2500 for each household member that exceeds the number of registered vehicles, not to exceed \$7500.

### **RECOMMENDATION**

No position.

### **SUMMARY OF AMENDMENTS**

The May 26, 2022, amendments removed the provisions of the bill related to the Education Code and Government Code and replaced them with the provision discussed in this analysis.

This is the department's first analysis of the bill.

### **REASON FOR THE BILL**

The reason for this bill is to incentivize a taxpayer to give up a vehicle or reward people for not using a vehicle.

### **ANALYSIS**

Under the PITL, this bill would, for taxable years beginning on or after January 1, 2023, create a credit in the amount of \$2500 for each household member that exceeds the number of registered vehicles, not to exceed \$7500.

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The bill defines the following terms:

“Household member” is defined as either of the following with respect to a single tax return:

- A taxpayer.
- A person who is at least 16 years of age and claimed as a dependent.

“Registered vehicle” is defined as a vehicle that was registered in any state to a household member, or an entity in which a household member holds a controlling interest, for at least six months of the taxable year for which this credit is claimed.

“Vehicle” means a device by which a person or property may be propelled, moved, or drawn upon a highway, excluding a device moved exclusively by human power or used exclusively upon station rails or tracks. In addition, an electric bicycle is not considered a vehicle for purposes of this bill.

“Electric bicycle” is defined as a bicycle equipped with fully operable pedals and an electric motor of less than 750 watts.

A taxpayer would be able to claim this credit on a return in the form determined by the Franchise Tax Board (FTB).

The bill states that for purposes of complying with Revenue and Taxation Code (RTC) section 41, the goal of the bill is to incentivize a taxpayer to give up a vehicle or reward people for not using a vehicle.

#### *Effective/Operative Date*

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2023.

#### *Federal/State Law*

Existing federal and state laws provide various tax credits that are used to reduce the taxpayer’s tax liability dollar-for-dollar. Generally for California, the credit is taken instead of any deduction otherwise allowable for the same costs. Any deduction allowed for the same costs may be reduced by the amount of the credit claimed for the current tax year. One benefit of allowing tax credits rather than deductions is that tax credits are claimed after taxable income has been calculated and, therefore, do not create differences between the taxable income amounts shown on the federal and state income tax returns.

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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.

This bill uses undefined terms, such as, "controlling interest." The absence of definitions to clarify this term could lead to disputes with taxpayers. For clarity, it is recommended that the bill be amended.

The term "household" is defined, however it is still unclear who could claim the credit in different scenarios, for example:

- Would a dependent who files their own return and drives the parent's car get the credit?
- How would the credit be claimed for joint owners of cars who live at different addresses?
- Would a vehicle that is registered as "planned not to operate" be considered a vehicle, for purposes of this bill?

The definition of "vehicle" is broad and would include trailers, tractors, and other vehicles within the broad definition. If that is contrary to the author's intent, the bill should be amended.

The bill is unclear on how and at what point in time the FTB would verify a vehicle was registered to a household member, particularly for vehicles registered out of state. To assist with credit validation, it is recommended that the bill be amended to allow the Department of Motor Vehicles to share relevant information with the FTB. Without a specified date of comparison, it would be difficult to know what data should be shared and whether the taxpayer qualified for the credit.

### *Technical Considerations*

The FTB has general authority to determine the form and manner of the tax return. For this reason, subdivision (d) can be deleted.

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For clarification, it is recommended to make the following changes:

- In subdivision (a) after (\$2500) remove the term “for” and replace it with “per.”
- In subdivision (b), after (\$7500) add “per taxpayer, per taxable year.”
- In (c)(2) remove, “with respect to a single return,” as it is not necessary.
- In (c)(2)(B) add, “under paragraph (1) of subdivision (d) of Section 17054 of the Revenue and Taxation Code on the taxpayer’s California individual income tax return ”after the term “dependent.”

### *Policy Considerations*

This bill does not have a sunset date, which is generally provided to allow periodic review of the effectiveness of income tax law changes by the Legislature.

Under RTC section 41, legislation that would create a new tax expenditure, including a credit, is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the tax benefit. The author may wish to amend the bill to include these goals, purposes, objectives, and performance measures.

The bill allows the credit to be claimed each taxable year if the criteria are met each year even if the taxpayer has the same number of registered vehicles as in the prior year. If that is contrary to the author's intent, the bill should be amended.

The definition of "registered vehicle" includes vehicles registered to an entity in which the household member holds a controlling interest. This may limit the credit for households that own small businesses. If that is contrary to the author's intent, the bill should be amended.

This bill does not have carryover language. As a result, any unused credit would be lost if the taxpayer is unable to use the entire credit amount in the year claimed. The author may wish to add language allowing a limited carryover period.

### **LEGISLATIVE HISTORY**

AB 1341 (Calderon, 2017/2018), would have under the PITL, allowed a qualified taxpayer a credit for the purchase or lease of a new electric vehicle, and a deduction for the purchase of a used near-zero or zero-emission vehicle. AB 1341 did not pass out of the Assembly by the constitutional deadline.

### **PROGRAM BACKGROUND**

None noted.

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**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.

**ECONOMIC IMPACT**

*Revenue Estimate*

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB457 as Amended May 26, 2022  
 Assumed Enactment after June 30, 2022

(\$ in Millions)

<b>Fiscal Year</b>	<b>Revenue</b>
2022-2023	-\$700
2023-2024	-\$1,200
2024-2025	-\$1,200

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**

[FTBLegislativeServices@ftb.ca.gov](mailto:FTBLegislativeServices@ftb.ca.gov)