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## SENATE COMMITTEE ON GOVERNANCE AND FINANCE

Senator Mike McGuire, Chair  
2021 - 2022 Regular

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**Bill No:** SB 610  
**Author:** Grove  
**Version:** 4/5/21 Amended  
**Consultant:** Deitchman

**Hearing Date:** 5/6/21  
**Tax Levy:** Yes  
**Fiscal:** Yes

### ***PERSONAL INCOME TAX: CREDIT: VIRTUAL LEARNING COSTS: DEPENDENT OF THE TAXPAYER***

*Creates a tax credit equal to 50 percent of qualified virtual learning costs — up to \$2,250 — for each qualified dependent.*

#### **Background**

**Tax expenditures.** California law allows various income tax credits, deductions, exemptions, and exclusions. The Legislature enacts such tax incentives either to compensate taxpayers for incurring certain expenses, such as child adoption, or to influence certain behavior, such as charitable giving. The Legislature uses tax incentives to encourage taxpayers to do something that but for the tax credit, they would otherwise not do. The Department of Finance is required annually to publish a list of state tax expenditures, currently totaling around \$74.8 billion per year.

**COVID-19 pandemic.** The COVID-19 pandemic, also known as the coronavirus pandemic, is an ongoing, widespread outbreak of the disease caused by a strain of the coronavirus. This severe, acute respiratory syndrome was first identified in Wuhan, China in late December 2019. The first cases in the United States occurred in early 2020 and the first California case was confirmed in late January. To control the spread of the disease, California, and other states, issued mandatory “stay-at-home” orders. This pandemic left thousands out of work and struggling to pay for necessities, and businesses struggling to stay in business. California’s unemployment was 10.1 percent in 2020 and total nonfarm jobs decreased by 1,350,500 (a 7.7 percent decrease) from March 2020 to March 2021.

**Virtual Learning.** In March of 2020, California schools closed their doors to in person learning as COVID-19 began to spread across the state. School districts and parents had to adapt quickly to a virtual learning format for school aged children. According to a 2020 back-to-school survey from Deloitte, 38 percent of shoppers indicated high financial concern over the ability to pay school-related expenses due to virtual learning. Some of the biggest financial impacts to parents come from technology and additional school supplies. The same study by Deloitte noted that only 43 percent of parents felt their children were ready for the next grade and 51 percent of parent increased spending on virtual learning tools to help their children keep up.

The author wants to help parents offset the associated costs of virtual learning by creating an income tax credit equal to a share of these costs.

#### **Proposed Law**

Senate Bill 610 allows a Personal Income Tax credit equal to 50 percent of the amount paid or incurred by a qualified taxpayer during the taxable year for qualified costs related to virtual learning for qualified dependents, not to exceed \$2,250 for each qualified dependent for any taxable year. SB 610 allows the credit beginning in the 2021 taxable year, and ending in the 2025 taxable year. SB 610 allows an unused credit to be carried over for up to seven years.

The bill defines “qualified costs” as those directly related to the virtual learning for a qualified dependent including:

- Tutoring services;
- Special needs services;
- Books and supplies; and
- Computer equipment, including related software, internet services and other equipment.

The measure only allows the credit for virtual learning costs incurred for an elementary or secondary school student. The bill only allows the credit for taxpayers with adjusted gross income below specified thresholds in the taxable year in which they claim the credit:

- In the case of spouses filing a joint return, heads of household, and surviving spouses, \$150,000 or less for that taxable year.
- For all other individuals, \$75,000 or less for that taxable year.

The bill also makes a legislative finding stating its intent to comply with Section 41 of the Revenue and Taxation Code.

### **State Revenue Impact**

Pending.

### **Comments**

1. Purpose of the bill. According to the author, “SB 610 will provide much needed tax relief geared to parents and guardians who are paying more out of pocket for virtual education. This tax credit will ensure our students have the tools to continue their education without parents fearing whether they will have enough income to accommodate their student’s evolving virtual classroom. This important bill will provide financial relief to families for virtual learning expenses for their students who are attending elementary or secondary school remotely. Specifically, the bill provides a tax credit capped at the amount of \$2,250 for tutoring services, special needs services, books and supplies, computer equipment including related software, and internet services. SB 610 will help parents who have had to adjust to the difficult challenges faced by our children during the government shutdown of K-12 schools over the last year.”

2. Revenue loss. Existing tax law provides various credits, deductions, exclusions, and exemptions for taxpayers. Since the Legislature enacts these items to accomplish some governmental purpose, which has a cost — in the form of foregone revenues — state law refers to them as “tax expenditures.” SB 610 seeks to compensate income-eligible taxpayers who incurred unexpected costs to facilitate virtual learning for students, but as a result, will result in less revenue for the General Fund. Without General Fund moneys, the government has less funding to pay for important public services such as education and public safety. As a result, the

state will have to reduce spending or increase taxes to match the foregone revenue. The Committee may wish to consider whether SB 610 is worth the spending cuts or tax increases.

3. Who else qualifies? SB 610 would allow a credit for virtual learning costs into the 2025 taxable year. It's likely that this date will be well after children have returned to regular school after the COVID-19 pandemic and would only be available for those parents that either homeschool or choose to keep their kids in a virtual learning, which would have been expenses they would have incurred anyway. The committee may wish to consider whether a shorter sunset may be appropriate.

4. Section 41? In 2014, the Legislature enacted SB 1335 (Leno), which added Section 41 to the Revenue and Taxation Code to require introduced legislative bills enacting tax credits to contain:

- Specific goals, purposes, and objectives that the tax credit will achieve.
- Detailed performance indicators for the Legislature to use when measuring whether the tax credit met its specific goals, purposes, and objectives.
- Data collection requirements to enable the Legislature to determine whether the tax credit is meeting, failing to meet, or exceeding its goals, purposes, and objectives. The requirements shall include specific data and baseline data to be collected and remitted in each year the credit is effective, and the specific taxpayers, state agencies, or other entities required to collect and remit data.

SB 610 contains a sunset, but does not contain the above information designed to compel sufficient information to measure the performance of the bill's tax benefits. As such, it may be difficult for a future Legislature to determine the effect of the measure.

5. The American Rescue Act of 2021. This federal act was signed into law by President Biden on March 11, 2021, which provided billions of dollars in aid to states and local governments. The Act requires funds to be used for specifically enumerated types of expenditures, and additionally contains language stating that funds cannot be used to cut state taxes either directly or indirectly:

*“A State or territory shall not use the funds provided under this section or transferred pursuant to section 603(c)(4) to either directly or indirectly offset a reduction in the net tax revenue of such State or territory resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase.”*

The Department of Treasury has yet to provide clear guidance regarding whether a state will lose funds allocated for aid if it enacts tax expenditures which result in a loss of revenue, like SB 691. The Committee may wish to consider the risk of losing federal aid funds resulting from enacting new tax expenditures.

### **Support and Opposition** (5/3/21)

Support: Barstow Kiwanis Club; Barstow Unified School District; Boys & Girls Club - High Desert; Boys & Girls Clubs of the Sequoias; Boys and Girls Club of Kern County; Egusd Parent

Coalition; Howard Jarvis Taxpayers Association; Lucerne Valley School District; Oro Grande School District; WUSD Parent Coalition; 417 Individuals

Opposition: None submitted

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