AMENDED IN SENATE APRIL 18, 2007

# SENATE BILL No. 752

**Introduced by ~~Senators Steinberg and Dutton~~ *Senator Steinberg***
**(Principal coauthors: Senators Florez and Oropeza)**
(Principal coauthors: Assembly Members Berg, Jones, Lieu, and Mendoza)

February 23, 2007

An act to add Title 19 (commencing with Section 99100) to the Government Code, and to add Section 17140.1 to the Revenue and Taxation Code, relating to investment ~~accounts, and making an appropriation therefor.~~ *accounts.*

LEGISLATIVE COUNSEL'S DIGEST

SB 752, as amended, Steinberg. The California Kids Investment and Development Savings (KIDS) Account Act: state-funded investment accounts.

Existing law establishes various programs to provide financial assistance to California children and their families.

This bill would enact the California Kids Investment and Development Savings (KIDS) Account Act that would create in the State Treasury an investment account for every child born in California each year beginning on or after January 1, 2008, and would, *upon appropriation by the Legislature in its Budget Act of 2007,* provide for a one-time deposit by the state to each account in the amount of $500 at the child's birth, as provided. The act would exempt from the personal income tax, as provided, any earnings in a KIDS account and any qualified special purpose distribution amounts, as defined, made from that account, would allow other persons, as provided, to make additional contributions to a KIDS account, and would restrict the purposes for which the funds in the account may be used once the accountholder reaches 18 years of age. The act would additionally require ~~each accountholder to repay, as specified, the amount of initial deposit to the state, specifically, to the Franchise Tax Board.~~ *the Treasurer, in the case of a distribution to an accountholder that is not a qualified special purpose distribution, to withhold the amount of the initial deposit from the distribution amount.*

This bill would require the Treasurer to prescribe rules and regulations to implement the provisions of the act.

~~By requiring the state to make specified contributions to KIDS accounts, this bill would make an appropriation.~~

Vote: ~~2/3~~ *majority*. Appropriation: ~~yes~~ *no*. Fiscal committee: yes. State-mandated local program: no.

*The people of the State of California do enact as follows:*

SECTION 1. Title 19 (commencing with Section 99100) is added to the Government Code, to read:

TITLE 19. THE CALIFORNIA KIDS INVESTMENT AND DEVELOPMENT SAVINGS (KIDS) ACCOUNT ACT

99100. This act shall be known, and may be cited, as the California Kids Investment and Development Savings (KIDS) Account Act.

99101. The Legislature finds and declares all of the following:

(a) Historically, the public sector has played a significant role in the expansion and distribution of wealth. American history is marked by a series of major policy initiatives, such as the Homestead Act and the GI Bill, that have successfully expanded home ownership by individuals. These efforts were based on the assumption that home ownership produces social and economic benefits by creating stakeholders and expanding opportunities for households to accumulate productive assets.

(b) Today, the United States continues this wise policy of encouraging people to accumulate wealth. The federal government spends more than three hundred billion dollars ($300,000,000,000) a year in tax subsidies to reward people who purchase houses, save for college and retirement, and invest in businesses.

(c) Although these policies are effective, more than 90 percent of the tax benefits accrue to households earning more than fifty thousand dollars ($50,000) a year, or roughly the upper-half of America. Rather than penalize wealthy individuals, policies are needed to create opportunities for those without resources to save and accumulate wealth.

(d) Many Americans have no assets in their names. They are disadvantaged from the beginning of their lives in comparison to those children who are born into affluence. Across the country, one-quarter of Caucasian children and one-half of non-Caucasian children grow up in households without any significant savings or resources available for investment. Unfortunately, California families are no exception to this financial insecurity; some 7.8 million California households, or 29 percent, live in "asset poverty," meaning that they would only survive three months at the poverty level were they to lose their income and rely solely on their savings and other assets.

(e) California's asset poverty rate is the fourth worst in the nation and more than twice the state's income poverty rate of 12 percent. In fact, 16.7 percent of California households have zero or negative net worth, and California ranks eighth from the bottom in the number of families with zero net worth.

(f) Home equity is the primary way Americans build wealth. But in the year 2000, only 57.1 percent of California households owned their own homes; only New York and Hawaii had lower rates of home ownership. According to the United States Bureau of Census, 28 percent of Californians do not have a checking or savings account, and only 39 percent of workers participate in an employer-sponsored retirement plan.

(g) Recent pilot programs in California and throughout the nation have proven that low-income people can save if they have incentives and mechanisms encouraging them to do so. In California, more than 5,000 people of modest incomes are saving in matched savings accounts. In Silicon Valley, 1,700 savers with average median incomes of twenty-four thousand dollars ($24,000) have saved over two million three hundred thousand dollars ($2,300,000) in restricted savings accounts. All participants were required to take financial management classes. More than 800 people have used their savings to buy homes, go back to school, and start college funds for their children.

(h) While the need to broaden asset ownership is great, the promise is even greater. Financial education is taken more seriously when people, including kids, have an account of their own, with real money, to make investment decisions. If we are to witness a gradual increase of the "investor class" or ownership society, it is imperative that children and adults become comfortable with private savings accounts. The accounts would also be a perfect catalyst and centerpiece for building the financial literacy of all young Californians.

(i) Individuals who own assets not only have brighter economic prospects but also are better, happier, and more productive citizens. New research confirms that when families, including very poor families, own assets, they are more likely to stay married, work harder, enjoy better physical and mental health, make educational plans for their children, feel more confident about, and in control of, their futures, take better care of their property, and be involved in community and political affairs. The future of California and its economy is better off with more savers, investors, and owners.

(j) California can certainly learn from history. Nearly one-quarter of United States adults today have a legacy of asset ownership directly traceable to the Homestead Act and the GI Bill, once dubbed "the magic carpet of the middle class," that have returned to the nation seven dollars ($7) for every one dollar ($1) invested.

(k) The ~~Kids~~ *KIDS* Account Act would create an investment account for every child born in California each year and ~~would provide for a one-time deposit by the state in each KIDS account in the amount of five hundred dollars ($500) at birth. At just over two hundred seventy million dollars ($270,000,000) a year, this relatively small investment, less than one-half of 1 percent of the state's $100 billion budget, would transform the life chances of young~~ *has the potential to transform the life chances of young* Californians for whom these accounts would become a birthright.

(*l*) The KIDS Account Act will be the Homestead Act of the 21st Century. Instead of democratizing access to land, it will democratize access to financial assets.

(m) The state, financial institutions, community organizations, and faith-based organizations could provide financial education training for the families to ensure that families make sound investments with the account.

99102. (a) There is hereby established in the State Treasury the California Kids Investment and Development Savings (KIDS) Account for every child born in California on or after January 1, 2008.

(b) ~~The~~ *Upon appropriation by the Legislature in its Budget Act of 2007, the* state shall deposit an amount of five hundred dollars ($500) to the account of each child, at his or her birth.

(c) ~~In addition to the initial deposit, a~~ *A* child, his or her parents, legal guardians, grandparents, local organizations, corporations, or others may make a voluntary contribution to the child's account.

(d) An individual who is 18 years or older may withdraw funds from the account for the following purposes:

(1) Pay for his or her postsecondary education, career technical education, or training.

(2) Buy his or her first home.

(3) Fund his or her retirement account.

(e) (1) A KIDS account shall be exempt from taxation under Part 10 (commencing with Section 17001) of Division 2 of the Revenue and Taxation Code.

(2) Except as otherwise provided, any amount paid or distributed out of a KIDS account shall be included in the amount of gross income of the accountholder.

(f) The Treasurer shall prescribe rules and regulations to implement provisions of this section.

99103. Notwithstanding any other provision of law, the funds in a KIDS account shall not be taken into account for purposes of determining the eligibility of an individual for a state ~~or a federal~~ program intended to provide assistance to low-income people.

SEC. 2. Section 17140.1 is added to the Revenue and Taxation Code, to read:

17140.1. (a) For each taxable year beginning on or after January 1, 2008, except as otherwise provided in subdivision (b), the gross income of an accountholder of a California Kids Investment and Development Savings (KIDS) Account shall not include any of the following:

(1) Any earnings in the KIDS account.

(2) Any contribution to the KIDS account.

(3) Any qualified special purpose distribution amount.

(b) (1) Notwithstanding subdivision (a), in the case of any distribution from a KIDS account that is not a qualified special purpose distribution, both of the following apply:

(A) Any earnings in that account shall be includable in the gross income of the accountholder for the taxable year in which the distribution is made~~, in the manner provided for by Section 72 of the Internal Revenue Code, as modified by Section 17085, to the~~ *to the* extent not excluded from gross income under this part, and shall be subject to a 10-percent penalty.

(B) An amount equal to the amount of initial deposit made by the state to the account, as provided for in Section 99102, shall be ~~paid to the Franchise Tax Board by the accountholder for the taxable year in which the nonqualified distribution occurred.~~ *withheld by the Treasurer from the distribution amount.*

(2) The value of the account, any earnings in that account, and investment in the account shall be computed as of the close of the calendar year in which the taxable year begins.

(c) No deduction is allowed under this part or Part 11 (commencing with Section 23001) of Division 2 for a contribution to a KIDS account.

(d) For purposes of this section, all of the following definitions apply:

(1) "Accountholder" means a child who is born in the State of California on or after January 1, 2008.

(2) "KIDS account" means an investment account, as described in Title 19 (commencing with Section 99100) of the Government Code.

(3) "Qualified special purpose distribution" means any payment or distribution to an accountholder of a KIDS account that is used by the accountholder for one of the qualified purposes, as defined in subdivision (d) of Section 99102.

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