

SUMMARY ANALYSIS OF AMENDED BILL

Author: La Malfa Analyst: Kristina E. North Bill Number: AB 1700
 Related Bills: See Prior Analysis Telephone: 845-6978 Amended Date: May 1, 8, and 14, 2007
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Qualified Volunteer Firefighter Expenses Credit

- DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.
- AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended _____.
- FURTHER AMENDMENTS NECESSARY.
- DEPARTMENT POSITION CHANGED TO _____.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 23, 2007, STILL APPLIES.
- OTHER – See comments below.

SUMMARY

This bill would provide a credit for certain expenses incurred by qualified firefighters.

SUMMARY OF AMENDMENTS

This summary includes amendments for May 1, 8, and 14, 2007.

The May 1, 2007, amendments expanded the credit to include professional, as well as volunteer, firefighters. In addition, the amendments would limit the credit amount to 80% of the qualified expenses.

The May 8, 2007, amendments made the following additional changes to the bill: added a certification process, limited the amount of the credit, specified that this credit would not be allowed for the same expenses for which any other credit is claimed, and provided a recapture provision, a sunset date, and a carryover provision.

The May 14, 2007, amendment removed the term “not” from the carryover provision, thus allowing the carryover.

Board Position:	Legislative Director	Date
<input type="checkbox"/> S		
<input type="checkbox"/> SA	Patricie Gau-Johnson	5/17/07
<input type="checkbox"/> N	for Brian Putler	
<input type="checkbox"/> NA		
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<input checked="" type="checkbox"/> PENDING		

As a result of the amendments on May 1, 2007, and May 8, 2007, the implementation considerations and policy concerns provided in the department's analysis of the bill as introduced February 23, 2007, are resolved. The "This Bill" and the "Economic Impact" sections of this analysis are revised to reflect the May 1, 8, and 14, 2007, amendments. Except for the discussion in this analysis, the remainder of the department's analysis of the bill as introduced on February 23, 2007, still applies

POSITION

Pending.

THIS BILL

This bill would provide a personal income tax credit in an amount equal to 80% of the costs paid or incurred, not to exceed \$1,500, for qualified firefighter expenses for each taxable year beginning on or after January 1, 2008.

This bill would define "qualified volunteer firefighter expenses" as unreimbursed amounts paid or incurred for training and equipment by a qualified firefighter as a requirement to serve as a qualified firefighter.

This bill would define "qualified firefighter" as either of the following:

- A volunteer firefighter who is registered as an active firefighting member of any regularly organized volunteer fire department having official recognition, and full or partial support of the government of the county, city, town, or district in which the volunteer fire department is located in this state.
- A professional firefighter who is employed as a firefighter by the California Department of Forestry and Fire Protection, or any county forestry or firefighting department unit, or any firefighter hired to serve as a firefighter by a fire department of a city, county, city and county, district, or other public or municipal corporation or political subdivision.

This bill would require a firefighter to do all of the following:

- Request the certifying entity to certify that the firefighter is a qualified firefighter, as defined, and that the equipment for which the qualified firefighter is claiming a credit was obtained in order to serve as a qualified firefighter;
- Retain a copy of the certificate issued by the certifying agency; and
- Provide a copy of the certification to the Franchise Tax Board upon request. Failure to comply with the requirements would result in disallowance of the credit for any taxable year unless the qualified firefighter subsequently complies.

This bill would define “certifying entity” as the California Department of Forestry and Fire Protection or any city, county, city and county, district, or other public or municipal corporation or political subdivision.

The certifying entity would be required to do all of the following:

- Certify that a firefighter is qualified,
- Certify that the equipment for which the firefighter is claiming this credit was obtained in order to serve as a qualified firefighter; and
- Provide the qualified firefighter with a copy of the certification.

This bill would provide a recapture provision if a qualified firefighter that claims this credit sells, transfers, or otherwise disposes of any equipment within three years of the taxable years the credit is first claimed.

This bill would specify that the statute would remain in effect until December 1, 2018, and as of that date would be repealed unless a later enacted statute deletes or extends that date.

This bill would specify that a deduction or a credit would be disallowed for a portion of the same expenses, whether paid or incurred, for which the credit was allowed.

In addition, this bill would allow any unused credit to be carried over for the next three years or until the credit has been exhausted, whichever occurs first.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Revenue Analysis for AB 1700 – as amended May 14, 2007 Effective Tax Years BOA January 1, 2008 Enactment assumed after June 30, 2007 (\$ in Millions)			
Fiscal Year	2007/2008	2008/2009	2009/2010
Qualified Firefighter Expenses Credit	\$0	-\$5	-\$10

This estimate does not consider any possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

The Employment Development Department's Labor Market data states there were approximately 24,600 career firefighters in California during 2005. According to the United States Fire Administration's Fire Department Census, there are 75,000 volunteer firefighters and 25,000 professional firefighters. Thus, this bill would impact an estimated 100,000 qualified firefighters serving in California in a typical year beginning 2008 (25,000 career + 75,000 volunteer).

According to the National Volunteer Fire Council, the cost to equip and train a volunteer firefighter is approximately \$7,500, split 85%/15% between equipment and training. This analysis assumes half of all qualified firefighters in any given year would view this credit as justification to upgrade their equipment or cover out-of-pocket training expenses. Using the statewide median tax liability of \$350, it is assumed qualified taxpayers would spend up to 75% of their liability on equipment/training needs, or about \$260 per person (75% of \$350). Full participation is expected by the second year, resulting in a projected level of qualified expenses of up to \$13 million annually (100,000 firefighters x 50% incur qualified expenses x \$260 average). Based on this projection, annual credits generated in a typical year would equal \$10.5 million (\$13 million expenses x 80% credit rate).

All generated credits are expected to be exhausted in full each year. In addition, assuming 50% of the firefighters claim itemized deductions instead of the standard deduction, approximately \$6.5 million of itemized deductions would be forgone in favor of the proposed credit (\$13 million x 0.5). This produces an offsetting revenue gain of around \$400,000 (\$6.5 million x 6% tax rate). Thus, the net revenue impact of this credit is around \$10 million (\$10.5 million - \$400,000 = rounded to \$10 million) per year. The estimates in the table above have been converted to fiscal year estimates.

The May 1, 8, and 14, 2007, amendments reduced the credit percentage to 80%, capped the credit at \$1,500 per firefighter, and added career firefighters as qualifying for the credit. The revenue estimate, however, remains unchanged from the original estimate provided in the department's analysis of the bill as introduced February 23, 2007, because most credits generated would be far below the \$1,500 credit cap.

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