

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Runner Analyst: Kristina North Bill Number: AB 13X

Related Bills: See Legislative History Telephone: 845-6978 Introduced Date: January 19, 1999

Attorney: Doug Bramhall Sponsor: _____

SUBJECT: Teacher's Classroom Supplies Deduction

SUMMARY

Under the Personal Income Tax Law (PITL), this bill would allow a deduction for 100% of costs paid or incurred by a teacher for classroom supplies used in teaching grades K-12 at any school in this state.

EFFECTIVE DATE

This bill would apply to taxable years beginning on or after January 1, 1999.

LEGISLATIVE HISTORY

AB 336 (1997/1998); AB 1401 (93/94); AB 2365 (89/90)

SPECIFIC FINDINGS

Current federal and state laws do not specifically allow a tax deduction for classroom expenses paid or incurred by a teacher. However, an individual may deduct unreimbursed expenses for materials donated directly to a school or school district as a charitable contribution, if they retain no control over how the materials are used. In addition, employees (including teachers) may claim a miscellaneous deduction for ordinary and necessary employee business expenses to the extent that the aggregate of these deductions exceeds 2% of their adjusted gross income (AGI).

This bill would allow a deduction equal to costs paid or incurred by a teacher, for classroom supplies used in connection with teaching grades K-12 at any California school, public or private.

This bill would provide that the 2% floor on miscellaneous itemized deductions would not apply to this deduction.

Policy Considerations

This deduction would add an additional adjustment between California and federal tax law, increasing the complexity of filing taxes for a taxpayer.

Implementation Considerations

The following implementation concerns have been identified. Department staff is available to assist in resolving these and any other issues that may be identified.

Board Position:	Department Director	Date
_____ S		
_____ SA		
_____ N		
_____ NA		
_____ O		
_____ OUA		
_____ NP		
_____ NAR		
_____ X PENDING	Gerald Goldberg	3/9/1999

- ◆ It is unclear if this deduction would apply to both credentialed and noncredentialed teachers, such as student teachers and administrators. It also is unclear if both full-time and part-time teachers may claim the deduction.
- ◆ The bill does not limit the deduction to costs which are unreimbursed. Accordingly, a teacher could expend personal funds, be reimbursed by his or her school and claim a deduction.
- ◆ "Supplies" is not defined. Additionally, this bill does not specify how long the supplies must be "used in connection with" the educational institution. Thus, a teacher could purchase a computer and use it in the classroom for only a short period (a day, a week, a semester), claim the deduction and cease to use the equipment at the institution.
- ◆ This bill would apply to public and private schools, including vocational and technical schools. However, it is unclear if the author intended that home schools also would qualify.
- ◆ Revenue and Taxation Code (R&TC) section 17056 conforms to Internal Revenue Code Section 67, except as provided, regarding the 2% floor on miscellaneous deductions. To prevent confusion and maintain the current form and scheme of existing state law, the author may wish to modify Section 17056 to exclude this deduction from the 2% floor.

FISCAL IMPACT

Departmental Costs

If the bill is amended to resolve the implementation concerns, the department's costs should be minimal.

Tax Revenue Estimate

Based on the data and assumptions discussed below, the revenue losses from this bill are estimated to be as follows:

Estimated Revenue Impact of AB 13X As Introduced January 19, 1999 Taxable Years Assumed After 12/31/98 and Enactment After 6/30/99 (In \$Millions)			
Fiscal Years	1999/2000	2000/2001	2001/2002
Revenue Impact (Rounded)	(3)	(3)	(3)

The estimates above assume this bill would apply to unreimbursed expenses only. Any possible changes in employment, personal income, or gross state product that might result from this bill are not taken into account.

Tax Revenue Discussion

Revenue losses would depend on the amount of additional qualifying expenses claimed as miscellaneous itemized deductions (without 2% limit) and the marginal tax rates of claimants.

According to California Department of Education, the number of teachers (full-time equivalent) for grades K-12 was nearly 256,000 in California public schools and more than 41,000 for private schools (with six or more students) during the school year 1997/98. This total number (297,000) was expanded 2% annually to project the number of teachers in 1999 and subsequent years.

Under current law, teachers may deduct their unreimbursed class supplies expenses as miscellaneous deductions (subject to a 2% of AGI limitation) by itemizing their deductions.

It is assumed that 80% of teachers would incur qualified expenses and that an average deduction would be \$300 claimed by teachers itemizing their deductions (over 120,000 teachers). (Based on departmental data for tax year 1996, approximately 49% of taxpayers filing tax returns with incomes between \$20,000 - \$90,000 AGI (used as a proxy for teachers) claim itemized deductions.) This assumes some portion of expenses are currently being deducted. The revenue losses would be on the order of \$3 million per calendar year by applying a 7% average marginal tax rate.

The 1999/00 fiscal year estimate includes all of the 1999 impact plus 10% of the 2000 impact to allow for reduced estimated tax payments for some taxpayers.

BOARD POSITION

Pending.