Franchise Tax Board **SUMMARY ANALYSIS OF AMENDED BILL**

Author:	Linder	Analyst:	Jessica Deitchman	Bill Number:	AB 2472
Related Bills:	None	Telephone:	845-6310	Amended Date:	May 16, 2016 and May 18, 2016
		Attorney:	Bruce Langston	Sponsor:	

SUBJECT: Disabled Animal Service Credit

SUMMARY

This bill would, under the Personal Income Tax Law, allow a credit to certain disabled veterans for the cost of ownership and maintenance of a service animal.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The May 16, 2016, modified the sunset and repeal dates and added a provision making the credit contingent upon an appropriation in a budget measure. The May 18, 2016, amendments reduced the maximum amount of qualified costs. As a result of these amendments, the "Effective/Operative Date," "This Bill," and "Economic Impact," sections of the department's analysis of the bill as amended April 28, 2016, have been revised and a technical consideration has been created. The remainder of the April 28, 2016, analysis still applies. The "Fiscal Impact" section has been restated for convenience.

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, 2017, and before January 1, 2019.

The bill would only be operative for taxable years for which an adjustment factor is specified in any budget measure and in which resources are authorized in any budget measure for the Franchise Tax Board (FTB) to oversee and audit returns associated with the credit.

THIS BILL

For each taxable year beginning on or after January 1, 2017, and before January 1, 2019, this bill would allow a credit in an amount equal to 50 percent of the qualified costs of a qualified disabled veteran, not to exceed $1,500 for a taxable year.

The amount of the credit would be multiplied by the tax credit adjustment factor for the taxable year. Unless otherwise specified in any budget measure, the tax credit adjustment factor for a taxable year beginning on or after January 1, 2016, would be 0 percent.

The credit would only be operative for taxable years for which resources are authorized in any budget measure for the FTB to oversee and audit returns associated with the credit.

The bill would define the following:

"Qualified animal" means a guide dog, signal dog, or service dog.[1]

"Qualified costs" mean the amounts paid or incurred during the taxable year by a qualified disabled veteran for the ownership and maintenance of a qualified animal that is limited to the amounts paid as:

- Local fees for animal licenses,
- Veterinary care and medical-related expenses such as:
  - Vaccinations,
  - Annual check-ups, and
  - Drug prescriptions.
- Pet Insurance coverage expenses,
- Expenses for specialty equipment such as:
  - Vests,
  - Leads, and
  - Harnesses.
- Grooming expenses, and
- Food expenses.

"Qualified disabled veteran" would mean an individual who meets both of the following conditions:

- Has served on active duty with the Armed Forces of the United States and received an honorable discharge for all periods of active service.
- Has a service-connected disability rating of at least 30 percent (as determined by the United States Department of Veterans Affairs) and is assisted with any disability associated with that rating by a qualified animal.

No other credit or deduction would be allowed with respect to the amounts paid or incurred by a qualified disabled veteran for a qualified animal that are taken into account in computing the credit allowed by this bill.

The credit may be carried over for up to seven years if necessary, until the credit is exhausted.

Section 41 would not apply to this bill's tax credit.

This bill would remain in effect until December 1, 2019, and would be repealed as of that date.

[1] As defined in subparagraph (C) of paragraph (6) of subdivision (b) of Section 54.1 of the Civil Code.

TECHNICAL CONSIDERATIONS

For clarity, the phrase “any budget measure” should be replaced with the phrase “the annual Budget Act”.

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 and an appropriation will be requested, if necessary.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2472 As Amended May 18, 2016 Assumed Enactment After June 30, 2016 ($ in Millions)		
2016-17	2017-18	2018-19
$0[2]	-$38.0	-$41.0

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

Based on data from the Veterans Health Administration (VHA), the U.S. Census Bureau, and other sources, it is estimated that there were approximately 1.8 million veterans living in California in 2015. Of those, it is estimated that approximately 270,000 have service related disability ratings of 30 or more. Each year the population of qualified veterans would increase by an estimated 6,000 per year. Of the total population of qualified veterans, it is assumed that all 270,000 would be in need of a guide, signal, or service dog. Based on the above sources, it is estimated that 17 percent of veterans with service related disabilities, or 46,000, already have a dog. Because this bill lacks a certification requirement nor does it specify how the dog would receive its specialized training, all currently owned dogs would qualify for the credit. Based on the same sources, it is estimated that approximately 500 veterans with disability ratings of 30 percent or more would acquire a new guide, signal, or service dog each year.

[2] This fiscal year has no revenue impact because taxpayer’s would file their 2017 tax return in 2018 and it is estimated that these taxpayers would not adjust their 2017 withholdings or estimated tax payments.

Based on a 2010 report by the VHA, it is estimated that approximately 25 dogs are given to veterans with service related disabilities by the VHA or non-profit entities each year and the remaining are purchased by the qualified veteran.

The credit amount is equal to 50 percent of the qualified costs not to exceed $1,500 for a taxable year. Because qualified disabled veterans who currently own a dog incur estimated average qualified costs of $2,000 per year, the average credit per veteran would be approximately $1,000 per year. Therefore, it is assumed that the 46,000 veterans who currently own a dog, would generate credits of $46 million in 2017 (46,000 * $1,000).

For the estimated 500 veterans who would acquire a new dog each year and the estimated 25 veterans who would receive a new dog from the VHA or a non-profit, the estimated credit generated would be based on 50 percent of the estimated average maintenance expenses of $2,000, or $525,000 [(500 + 25) * $1,000] in 2017.

The total estimated credit generated for veteran's that currently own a dog, would acquire a dog, and those that would receive a new dog from the VHA or a nonprofit would be approximately $46 million in 2017. It is assumed that 80 percent, or $37 million, of the credit would be used in the year generated and the remaining 20 percent would be used over the next several years. This amount was then adjusted to reflect changes in the economy over time.

The tax year estimates are converted to fiscal year estimates, and then rounded and reflected in the above table. This estimate assumes funds will be appropriated in the budget each year.

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