

# SUMMARY ANALYSIS OF AMENDED BILL

Author: Jones-Sawyer, et al. Analyst: Narinder Dosanjh Bill Number: AB 337  
 Related Bills: See Prior Analysis Telephone: 845-5275 Amended Date: May 21, 2015  
 Attorney: Bruce Langston Sponsor \_\_\_\_\_

<b>SUBJECT:</b>	Teacher’s Unreimbursed Instructional Materials & Classroom Supplies
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**SUMMARY**

This bill would, under the Personal Income Tax Law, create a tax credit for certain education-related expenses.

**RECOMMENDATION**

No position.

**SUMMARY OF AMENDMENTS**

The May 21, 2015, amendments modified the effective/operative date, resolved previous implementation considerations, created additional implementation considerations and technical considerations, and added reporting requirements for the Franchise Tax Board (FTB). As a result of the amendments, the “Effective/Operative Date,” “This Bill,” “Implementation Considerations,” “Technical Considerations,” and “Economic Impact” sections, have been revised. The remainder of the department’s analysis of the bill as introduced February 13, 2015, still applies. The “Fiscal Impact” section is restated for convenience.

**EFFECTIVE/OPERATIVE DATE**

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2016, and before January 1, 2021.

**THIS BILL**

For each taxable year beginning on or after January 1, 2016, and before January 1, 2021, this bill would create a tax credit in an amount equal to the amount paid or incurred by a qualified teacher during the taxable year for instructional materials and classroom supplies, not to exceed \$250 per qualified teacher or \$500 for two qualified teachers who are married to each other and filing a joint return.

Board Position:	Legislative Director	Date
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For the purpose of determining this credit, the following definitions would apply:

- “Instructional materials and classroom supplies” means books, supplies, computer equipment, including related software, services, and other equipment, and supplementary materials used in the classroom, including, but not limited to, supplies for courses in health and physical education, the amount paid or incurred for which is otherwise deductible under Section 162 of the Internal Revenue Code<sup>1</sup> and not reimbursed.
- “Qualified teacher” means a teacher who meets all of the following requirements:
  - A. The teacher has worked at least 900 hours in the school year beginning immediately prior to the taxable year as a teacher, in a school offering instruction in kindergarten or any of grades 1 to 12, inclusive, in California at a public or charter school.
  - B. The teacher is primarily engaged in the duty of imparting knowledge to pupils by teaching, instructing, or lecturing.
  - C. The teacher customarily and regularly exercises discretion and independent judgment in performing the duties of a teacher.
  - D. The teacher was not employed as a qualified teacher prior to 2015-16 school year.
  - E. The teacher has not been a qualified teacher for more than three consecutive school years.
- “School year” means the fiscal year or the academic year.

This bill would require the qualified teacher to obtain a certificate from the school certifying that the teacher has worked at least 900 hours during the school year and upon request, provide a copy of the certificate to the FTB.

Any unused credit may be carried over to reduce tax for the following five years if necessary, until the credit is exhausted.

The FTB may prescribe rules, guidelines or procedures necessary or appropriate to carry out the purpose of the credit. These rules, guidelines, or procedures would be exempt from the normal rulemaking requirements of the Administrative Procedures Act.

Pursuant to Section 412 of the Revenue and Taxation Code, the FTB would be required by January 1, 2020, to provide a report to the Legislature of the number of taxpayers allowed this tax credit for each taxable years beginning on and after January 1, 2016, and before January 2019.

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<sup>1</sup> Internal Revenue Code section 162-Trade or Business Expenses.

<sup>2</sup> Revenue and Taxation Code section 41 requires any bill introduced on or after January 1, 2015, that creates a new tax credit to contain language specifying goals, purposes, objectives, performance measures, and data collection and reporting requirements.

This credit would be repealed by its own terms as of December 1, 2020.

### **IMPLEMENTATION CONSIDERATIONS**

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

This bill contains conflicting subdivisions. Section 17052.7(b)(2)(A), would allow teachers to claim the credit if they worked at least 900 hours in the school year beginning immediately prior to the taxable year while section 17052.7(b)(2)(D) would not allow the teachers to claim the credit if they were employed as a qualified teacher prior to 2015-16 year. It is recommended that "beginning immediately prior to the taxable year" be removed from the qualified teacher requirements.

### **TECHNICAL CONSIDERATIONS**

On page 4, line 17, the year "2020" should be changed to "2021" since the credit would be extended to on and before January 1, 2021.

The language on page 5, lines 9-11 requires the FTB to "measure the estimated number of qualified teachers described in subdivision (b) against the number of qualified teachers that are allowed the credit." If the author's intent is to make a comparison, we recommend the following amendment:

On page 5, line 9, strike "measure" and insert "compare".

### **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 will result in the following revenue loss:

Estimated Revenue Impact of AB337 As Amended May 21, 2015 Assumed Enactment After June 30, 2015 (\$ in Millions)		
2016-17	2017-18	2018-19
-\$3.0	-\$5.9	-\$8.5

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

## Revenue Discussion

Data from the California Department of Education indicates that approximately 16,000 individuals become public and charter school teachers each year. The data also indicates that there is a 20 percent attrition rate; therefore the number of teachers was reduced for the second and third years to reflect the attrition.

Data from the National Center for Education Statistics states that teachers in California public and charter schools spend an average of \$715 each year on school supplies. Therefore, it is estimated that qualified teachers would be eligible for the entire \$250 credit, for a total credit generated of \$4 million in tax year 2016. This amount is then grown to compute future taxable year amounts.

For purposes of this estimate, it is expected that 75 percent of the credit, or \$3 million, would be used in the year generated and the remainder would be utilized over the next five years.

The tax year estimates are converted to fiscal year totals and rounded to arrive at the amounts reflected in the table above.

## SUPPORT/OPPOSITION<sup>3</sup>

Support: California Association of Private School Organizations, California Catholic Conference, Los Angeles County Office of Education.

Opposition: American Federation of State, County and Municipal Employees, AFL-CIO, California Tax Reform Association, California Teachers Association.

## LEGISLATIVE STAFF CONTACT

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<sup>3</sup> As noted in the Assembly, Revenue and Taxation Committee analysis dated May 15, 2015.