

ANALYSIS OF AMENDED BILL

Author: Linder Analyst: Jessica Deitchman Bill Number: AB 2472
See Legislative
Related Bills: History Telephone: 845-6310 Amended Date: March 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 March 18, 2016, amendments removed provisions of the bill related to Corporation Tax Law and replaced them with the provisions discussed in this analysis. This is the department's first analysis of the bill.

REASON FOR THE BILL

The reason for the bill is to enable more veterans to own much needed service animals by offering a tax credit.

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, 2022.

FEDERAL/STATE LAW

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Under Revenue and Taxation Code section 41, legislation that would create a new tax credit is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the credit's effectiveness.

Current federal and state laws lack a credit comparable to the credit this bill would create.

However, state and federal law does allow expenses directly related to the care of a service animal as a medical deduction on the tax return.

THIS BILL

For each taxable year beginning on or after January 1, 2017, and before January 1, 2022, 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 \$2,000 for a taxable year.

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, including, but not limited to:

- The amount 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 (as determined by the United States Department of Veterans Affairs) and is assisted with that disability by a qualified animal.

The credit may be carried over until exhausted.

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

This bill would remain in effect only until December 1, 2022, as of that date would be repealed.

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

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.

The bill would allow a credit for costs paid or incurred for "ownership and maintenance of a qualified animal" as defined. This phrase may be overly broad and it is unclear what costs would and should be included in the calculation for the credit. The absence of clarity for this term could lead to disputes between taxpayers and the department and would complicate the administration of this credit.

This bill would provide a credit for expenses paid with respect to qualified animals by qualified veterans. The department lacks the expertise in determining if an animal is a qualified animal or if an individual is a qualified disabled veteran. Typically, credits involving areas for which the department lacks expertise are certified by another agency or agencies that possess the relevant expertise. The certification language would specify the responsibilities of both the certifying agency and the taxpayer. To avoid disputes between taxpayer and the department, it is recommended that this bill be amended to include a certifying agency.

LEGISLATIVE HISTORY

No similar legislation has been identified.

OTHER STATES' INFORMATION

Review of *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York* laws found no comparable tax credit. These states were selected and reviewed due to their similarities to California's economy, business entity types, and tax laws.

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 March 18, 2016 Assumed Enactment After June 30, 2016 (\$ In Millions)		
2016-17	2017-18	2018-19
\$0	- \$47.0	- \$50.0

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, approximately 320,000 have service related disabilities with an estimated 12,000 additional California veterans being classified as disabled each year. Of the total population of qualified veterans, it is assumed that all 320,000 veterans 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 55,000, already have a dog. Because this bill does not have 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 1,100 veterans with service related disabilities would acquire a new guide, signal, or service dog each year. Based on a 2010 report by the VHA, 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 at an estimated cost of \$5,000 to \$33,000 per dog. According to the VHA, a small percent of veterans with service related disabilities have their annual maintenance costs paid for by the VHA. However, it is assumed that most qualified disabled veterans would pay for the costs of owning and maintaining the qualified animal at an average expense of \$2,000 per year.

For the assumed 55,000 veterans who currently own a dog, the estimated credit generated would be 50 percent of \$2,000, or \$55 million in 2017. For the estimated 1,100 veterans who would acquire a new dog each year, it is assumed that the first year acquisition and maintenance costs would result in the maximum credit generation of \$2,000, for a total credit generated of \$2.2 million in 2017. For the estimated 25 veterans who would receive a new dog and would only be responsible for the annual maintenance costs for the animal, the estimated credit generated would be 50 percent of \$2,000, or \$25,000 in 2017. This results in a total estimated credit generated of \$57 million in 2017. It is assumed that 80 percent, or \$46 million, of the credit would be used in the year generated and the remaining 20 percent would be used until exhausted. 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 to arrive at the amounts reflected in the above table.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Some may argue that the bill would provide financial assistance to disabled veterans and help them to afford service dogs to assist them with their disabilities.

Opponents: Some may argue that providing a tax credit limited to qualified disabled veterans may be overly narrow and inadvertently exclude other disabled groups in California that need service dogs.

POLICY CONCERNS

This bill would allow for an unlimited carryover period. Consequently, the department would be required to retain the carryover on the tax forms indefinitely. Recent credits have been enacted with a carryover period limitation because experience shows credits typically are exhausted within eight years of being earned.

Because the cost to maintain a service animal may be deductible as a medical expense, this bill would allow taxpayers in certain circumstances to claim multiple tax benefits for the same item of expense.

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