

ANALYSIS OF AMENDED BILL

Author: Steinorth, et al. Analyst: Narinder Dosanjh Bill Number: AB 976
 See Legislative
 Related Bills: History Telephone: 845-5275 Amended Date: April 16, 2015
 Attorney: Bruce Langston Sponsor _____

SUBJECT:	Pet Adoption Costs Deduction
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SUMMARY

This bill would, under the Personal Income Tax Law, allow a tax deduction for the costs paid or incurred to adopt certain pets from an animal rescue organization.

RECOMMENDATION

No position.

Summary of Amendments

The April 16, 2015, amendments removed provisions of the bill that would have created a voluntary contribution designation for pet adoption, added several coauthors and tax levy language, and modified the pet adoption deduction provision. As a result of the April 16, 2015, amendments, this analysis replaces the department’s analysis of the bill as introduced February 26, 2015.

Summary of Suggested Amendments

An amendment has been suggested to make a minor technical correction.

REASON FOR THE BILL

The reason for this bill is to encourage adoption of shelter or rescue animals to reduce animal overpopulation.

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, 2016, and before January 1, 2021.

FEDERAL/STATE LAW

Existing federal and state laws allow individuals to deduct certain expenses, such as medical expenses, charitable contributions, interest, and taxes, as itemized deductions. Certain other expenses for the production of income and certain employee business expenses are considered miscellaneous itemized deductions and the portion of these deductions that exceed 2 percent of adjusted gross income may be deducted. Neither federal or state law allows a deduction similar to the one this bill would allow.

Board Position:	Executive Officer	Date									
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THIS BILL

This bill would allow a deduction equal to the qualified costs paid or incurred during the taxable year by a taxpayer for the adoption of a qualified pet from a qualified animal rescue organization. The deduction would be claimed as a miscellaneous itemized deduction and would be limited to \$100 per taxable year.

This bill would define the following terms and phrases:

- “Qualified animal rescue organization” means a public animal control agency or shelter, a humane society shelter, or rescue group.
- “Qualified costs” means amounts paid or incurred to a qualified animal rescue organization to adopt a pet, not to exceed one hundred dollars (\$100).
- “Qualified pet” means any of the following animals adopted from a qualified animal rescue organization that is not used by the taxpayer in a trade or business or for the production of income:
 - A Staffordshire Bull Terrier, American Pit Bull Terrier, or American Staffordshire Terrier, or any mixed breed of dog which contains, as an element of its breeding, any of these breeds, which is identifiable by a qualified animal rescue organization as being partially of that breed.
 - A Chihuahua or mixed breed of dog which contains, as an element of its breeding, a Chihuahua breed, which is identifiable by a qualified animal rescue organization as being partially of that breed.
 - A cat.
- “Rescue group” means an organization, exempt from federal income taxation under Internal Revenue Code (IRC) section 501(c)(3), whose primary purpose is to place dogs, cats, or other animals removed from a public animal control agency or shelter, society for the prevention of cruelty to animals shelter, or humane society, or that have been surrendered or relinquished to the rescue group by the previous owner.

This bill would be repealed by its own terms as of December 1, 2021.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms, instructions, and information systems, which could be accomplished during the normal annual update.

TECHNICAL CONSIDERATIONS

An amendment is provided to make minor technical modification.

LEGISLATIVE HISTORY

AB 2326 (Dickinson, 2013/2014) and AB 233 (Smyth, 2009/2010) , similar to this bill, would have allowed taxpayers a miscellaneous itemized deduction, up to \$100 per taxable year, for the qualified costs paid or incurred for the adoption of pets from a qualified animal rescue organization. Both AB 2326 and AB 233 failed passage from the Assembly Appropriations Committee.

OTHER STATES' INFORMATION

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

FISCAL IMPACT

This bill would not impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 976 As Amended April 16, 2015 Assumed Enactment After June 30, 2015		
2016-17	2017-18	2018-19
- \$150,000	- \$200,000	- \$200,000

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 animal adoption data from the California Department of Public Health and the Humane Society, it is estimated that 165,000 qualified pets would be adopted in 2016. This estimate assumes that only 60 percent of adopters would itemize their deductions and that 30 percent of itemizers exceed the 2 percent floor for miscellaneous deductions, so approximately 30,000 taxpayers would take the proposed deduction. Multiplying the population by the maximum pet adoption deduction and applying a marginal tax rate of 6 percent, results in an average revenue loss of \$150,000 per taxable year. The tax year estimates are converted to fiscal year revenue estimates and rounded to arrive at the amounts reflected in the above table.

SUPPORT/OPPOSITION

Support: American Society for the Prevention of Cruelty of Animals (Sponsor), Humane Society of the United States, Sacramento Society for the Prevention of Cruelty of Animals, San Diego Humane Society and SPCA.

Opposition: None on file.

ARGUMENTS

Proponents: Some may say that this bill could encourage individuals and families to adopt pets from local shelters, thereby helping to relieve the pressure on these facilities.

Opponents: Some may argue that taxpayers who are inclined to adopt pets would do so absent a tax incentive.

POLICY CONCERNS

This bill would establish a deduction for which federal law has no counterpart, thus creating a difference between federal and California tax law, thereby increasing the complexity of California tax return preparation.

LEGISLATIVE STAFF CONTACT

Narinder Dosanjh
Legislative Analyst, FTB
(916) 845-5275
narinder.dosanjh@ftb.ca.gov

Jame Eiserman
Revenue Manager, FTB
(916) 845-7484
jame.eiserman@ftb.ca.gov

Gail Hall
Legislative Director, FTB
(916) 845-6333
gail.hall@ftb.ca.gov

Analyst	Narinder Dosanjh
Telephone #	(916) 845-5275
Attorney	Bruce Langston

FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 976
AS AMENDED APRIL 16, 2015

AMENDMENT 1

On page 3, strikeout lines 25 to 27, inclusive, and insert:

(4) "Rescue group" means an organization described in Section 501(c)(3) of the Internal Revenue Code, relating to list of exempt organizations, whose primary purpose is the