



Analysis of Original Bill

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| Author: Choi | Sponsor: | Bill Number: AB 2414 |
| Analyst: Jessica Deitchman | Phone: (916) 845-6310 | Introduced: February 14, 2018 |
| Attorney: Bruce Langston | Related Bills: See Legislative History | |

Subject: Attic Vent Closure Credit

Summary

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), allow a credit equal to the amount paid or incurred to install an attic vent closure.

Recommendation – No position.

Reason for the Bill

The reason for the bill is to encourage California residents to make their properties more fire safe by offering a credit for them to install attic vent closures.

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, 2018.

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.

Current federal and state laws lack a comparable credit for the installation of attic vent closures.

This Bill

This bill would, for each taxable year beginning on or after January 1, 2018, allow a tax credit to a qualified taxpayer that installs an attic vent closure in a residential property in an amount equal to the costs paid or incurred by the qualified taxpayer during the taxable year for the installation.

“Qualified taxpayer” would mean an owner of residential property located in this state. A taxpayer who owns a proportional share of a residential property located in this state may claim the credit allowed based upon the taxpayer’s share of the qualified costs.

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 uses terms that are undefined, i.e., “qualified costs,” “attic vent closure,” and “residential property.” The absence of definitions to clarify these terms could lead to disputes with taxpayers and would complicate the administration of this bill. For clarity and ease of administration, it is recommended that the bill be amended to define these terms.

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. The author’s office may want to consider amending this bill to include a certifying agency.

Legislative History

No similar legislation has been identified.

Other States’ Information

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California’s economy, business entity types, and tax laws. No similar tax credits were identified.

Fiscal Impact

This bill would require some changes to the existing tax forms and instructions, and information systems. As the bill continues to move 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 2414 as Introduced February 14, 2018
For Taxable Years Beginning On or After January 1, 2018
Assumed Enactment after June 30, 2018

(\$ in Millions)

| Fiscal Year | Revenue |
|-------------|---------|
| 2018-2019 | - \$950 |
| 2019-2020 | - \$850 |
| 2020-2021 | - \$900 |

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

Revenue Discussion

Based on data from the US Census Bureau, it is estimated that there would be approximately 14 million single-family and multi-family residences in California in 2018. It is assumed that 1.25 percent of single-family and multi-family residence owners would replace their attic vents. Based on industry related data of one attic vent per 150 square feet of attic space, the number of attic vents in the average single family residence to be replace is estimated to be 12 and 60 for the average multi-family residence. Based upon available home improvement data, the average cost of a vent closure replacement project would be \$4,000, resulting in approximately \$800 million in qualified expenses in taxable year 2018, increasing to \$1.4 billion in taxable year 2024. Applying a credit percent of 100 percent results in approximately \$800 million in credit generated for taxable year 2018. The estimate assumes that 75 percent, or \$620 million, would be used in the year generated and the remaining 20 percent would go unused. It is estimated that the amount claimed would increase to \$1.1 billion by taxable year 2024.

The tax-year estimates are converted to fiscal-year estimates and then rounded to arrive at the figures in the above table.

Support/Opposition

Support: None provided.

Opposition: None provided.

Arguments

Proponents: Some may argue that providing a tax credit will incentivize California home owners to seal up their attics which would lead to less damage from fires.

Opponents: Some may argue that a tax credit limited to attic vent closures may be overly narrow and inadvertently exclude other fire safety improvements that would benefit from a state tax subsidy.

Policy Concerns

Conflicting tax policies result when a credit is provided for an item that could be deductible as a business expense or is depreciable (double tax benefit).

This bill fails to limit the amount of the credit that may be taken. Credits that could potentially be quite costly are sometimes limited either on a per-project or per-taxpayer basis. This bill would provide a 100 percent credit which would be unprecedented.

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review of the effectiveness of the credit by the Legislature.

This bill lacks carryover language. As a result, any unused credit would be lost if the taxpayer is unable to use the entire credit amount in the year claimed. The author may wish to add language allowing a limited carryover period.

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