



## Summary Analysis of Amended Bill

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Sponsor:

Bill Number: AB 2414

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Amended: March 22, 2018

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Related Bills: See Prior Analysis

**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.**

### Summary of Amendments

The March 22, 2018, amendments made changes to the definitions provided in the bill language. As a result of the amendments, one of the department's policy concerns, and two of the implementation considerations, discussed in the department's analysis of the bill as introduced on February 14, 2018, were resolved and two additional implementation concerns were identified. Except for the "Effective/Operative Date," "This Bill," "Implementation Considerations," "Economic Impact," and "Policy Concerns" sections, the remainder of the department's analysis of the bill as introduced on February 14, 2018, still applies. The "Fiscal Impact" and "Support/Opposition" sections have been restated below for convenience.

### Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for each taxable year beginning on or after January 1, 2018, and before January 1, 2023.

### This Bill

This bill would, for each taxable year beginning on or after January 1, 2018, and before January 1, 2023, allow a tax credit to a qualified taxpayer that installs an attic vent closure in a residential property in an amount equal to the qualified costs paid or incurred by the qualified taxpayer during the taxable year for the installation.

The credit allowed to a qualified taxpayer for a taxable year would be limited to \$500 and only with regard to one residential property.

The bill would define the following:

- “Qualified costs” include, but are not limited to, amounts paid or incurred for retrofitting materials, and costs of labor either from an approved company or vendor listed on the California Department of Forestry and Fire Protection’s Internet Web site or for the purchase and installation by the qualified taxpayer of one-eighth inch mesh to protect embers from entering through attic vents.
- “Qualified taxpayer” means 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.
- “Residential property” means any building containing not more than one unit that is intended for human habitation.

This bill would be repealed by its own terms as of December 1, 2023.

### **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 definition of “qualified costs” uses the undefined term “include, but not limited to.” The absence of a definition 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.

It is unclear if the definition provided for “residential property” is limited to a detached single family dwelling. As a result, dwellings that have more than one family per building (for example, a duplex) would be considered a residential property. If this is contrary to the author’s intent, the bill should be amended.

### **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.

### **Economic Impact**

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2414 as Amended March 22, 2018  
For Taxable Years Beginning On or After January 1, 2018 and Before January 1, 2023  
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	-\$120
2019-2020	-\$120
2020-2021	-\$130

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 pursuant to Control Section 35.50(e) of the 2012-13 Budget Act.

### 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, or 171,000, of single family and multi-family residence owners would pursue an attic vent closure project and have qualified costs. Based upon available home improvement data, the estimated 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 \$1.2 billion in taxable year 2022. Applying a maximum credit allowed per taxpayer of \$500, results in approximately \$85 million in credit generated for taxable year 2018. The estimate assumes that 80 percent, or \$70 million, would be used in the year generated and the remaining 20 percent would go unused. It is further estimated that the amount of credit claimed would peak at \$140 million in taxable year 2022.

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.

### 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).

Generally credits are allowed as a percentage of the creditable cost. This bill would provide a 100 percent credit which would be unprecedented.

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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