STATE OF CALIFORNIA
Franchise Tax Board

Summary Analysis of Amended Bill

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Subject: Attic Vent Closure Credit

Summary

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

Recommendation – No position.

Summary of Amendments

The April 17, 2018, amendments modified the operative date of the credit, limited the credit amount, modified the definition of "qualified expenses," added carryover language, and added provisions to prevent a taxpayer from claiming a deduction on the same expenses used to generate the credit allowed by this bill. As a result of the amendments, all of the department's policy concerns and one of the implementation considerations, discussed in the department's analysis of the bill as amended on March 22, 2018, were resolved and one additional implementation concern was 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" section has been restated 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, 2019, and before January 1, 2024.

This Bill

This bill would, for each taxable year beginning on or after January 1, 2019, and before January 1, 2024, allow a tax credit to a qualified taxpayer that installs an attic vent closure in a residential property in an amount equal to 40 percent of 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 per taxable year and only with regard to one residential property per taxable year.

The bill would define the following:

- "Qualified costs" means amounts paid or incurred for retrofitting materials, and costs of labor either from an approved company or vendor listed on the 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.

The credit may be carried over for up to seven years until exhausted.

No deduction would be allowed for amounts included in the calculation of this credit.

This bill would be repealed by its own terms as of December 1, 2024.

The bill states that for purposes of complying with Section 41, the Legislature finds and declares that the goal of the credits is to prevent future fires generally and residential fires specifically. The effectiveness of the credit shall be measured by the number of taxpayers claiming the credit.

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.

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 for purposes of this credit. If this is contrary to the author's intent, the bill should be amended.

The bill would disallow a deduction for "amounts taken into account in the calculation of the credit." This exclusion would prevent a taxpayer that had large amounts of expenses from deducting the expense, yet would limit the taxpayer to a $500 credit. For example, if a taxpayer spent $5,000 to install an attic vent closure, the taxpayer would have to forgo a deduction of $5,000 in order to get a $500 credit. If the author intends for a deduction otherwise allowed to be reduced by the credit or the expense that generated the credit versus being eliminated, this 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 April 17, 2018
Assumed Enactment after June 30, 2018

($ in Millions)

Fiscal Year	Revenue
2018-2019	- $29
2019-2020	- $75
2020-2021	- $110

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 2019. It is assumed that 1.25 percent, or 145,000 of single-family and 26,000 of multi-family residence owners would pursue an attic vent closure project and have qualified costs in 2019.

Based upon home improvement data, the estimated average cost of a vent closure replacement project for a single-family residence would be $1,100. Applying the credit at 40 percent of costs would result in an average cost of $475 per residence and the credit would be approximately $70 million in taxable year 2019.

Using the same data, the estimated average cost for an attic vent closure project for a multi-family residence would be $7,000. Applying the credit at 40 percent of costs would result in an average cost of $2,800 per residence. Because the maximum credit allowed per taxpayer is limited to $500, the total credit for multi-family residences would be approximately $13 million in taxable year 2019. Total credits for both single- and multi-family residences would be $80 million in taxable year 2019 and would peak to $160 million in taxable year 2023.

It is estimated that 80 percent of total credits generated, or $65 million, would be used in the year generated and the remaining 20 percent would be claimed in the following year.

To arrive at the offsetting tax effect of the expense deduction that would otherwise be allowed under current law, it is estimated that qualified taxpayers would be unable to deduct approximately $458 million in qualified expenses in taxable year 2019. Applying an average tax rate of 5 percent results in an offsetting revenue gain of $18 million. This results in an estimated net revenue loss of $52 million in taxable year 2019.

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

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