



Analysis of Original Bill

Author: Gray	Sponsor:	Bill Number: AB 2577
Analyst: Jessica Deitchman	Phone: (916) 845-6310	Introduced: February 15, 2018
Attorney: Bruce Langston	Related Bills: See Legislative History	

Subject: Labor Organizer Dues Deduction

Summary

This bill would, under the Personal Income Tax Law (PITL), allow a deduction in an amount equal to the amount paid or incurred for member's dues paid by a taxpayer to specified labor organizations.

Recommendation – No position.

Reason for the Bill

The reason for the bill to allow taxpayer the opportunity to deduct their membership dues to a labor organization from their gross income, for purposes of calculating their adjusted gross income (AGI).

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

For federal and state law purposes, if a taxpayer's itemized deductions are more than the standard deduction, a taxpayer can use the itemized deductions.

The recent enactment of federal Public Law 115-97,¹ among other things, suspends for taxable years beginning on or after January 1, 2018, and before January 1, 2026, the deduction for miscellaneous itemized deductions subject to the two-percent floor.

¹ Section 11045(a) of Public Law 115-97 (otherwise known as the Tax Cuts and Jobs Act of 2017) added subsection (g) to Internal Revenue Code section 67, and suspended the deduction of any miscellaneous itemized deductions subject to the 2 percent of AGI floor for taxable years beginning on or after January 1, 2018, and before January 1, 2026.

Existing state law allows 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 unreimbursed employee business expenses are considered miscellaneous itemized deductions, and the portion that exceeds 2 percent of adjusted gross income (AGI) may be deducted. Also, itemized deductions may be further limited for high-income taxpayers.

This Bill

This bill would, under the PITL, for each taxable year beginning on or after January 1, 2018, allow as a deduction an amount equal to the amount paid or incurred during the taxable year by a taxpayer for member dues to a labor organization that is exempt from taxes pursuant to Section 23701a.

This deduction would provide an "above-the-line" deduction from adjusted gross income, not subject to the miscellaneous itemized deduction threshold of 2 percent of adjusted gross income.

Implementation Considerations

The department has identified the following implementation concern. Department staff is available to work with the author's office to resolve this and other concerns that may be identified.

This bill would allow taxpayers a deduction of union dues paid in calculating their AGI. Current state law already allows taxpayers to deduct their union dues paid as a miscellaneous itemized deduction (subject to the 2 percent limitation). It is unclear if taxpayers should get both the adjustment to AGI and the miscellaneous itemized deduction. It is recommended the bill be amended to specify the author's intent.

Legislative History

Research of California legislation found no legislation that would have established an "above-the-line" deduction for union dues similar to this bill.

Other States' Information

Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York laws do not provide an "above-the-line" deduction comparable to the deduction this bill would allow. The laws of these states were selected 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.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss

Estimated Revenue Impact of AB 2577 as Amended on February 15, 2018
For Taxable Years Beginning On or After January 1, 2018
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	- \$250
2019-2020	- \$170
2020-2021	- \$180

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 Bureau of Labor Statistics and the California Labor Federation, it is estimated that there would be 2.9 million members who paid member dues to labor organizations in California in 2018. This estimate assumes that members of labor organizations would pay an average of \$800 per year in member dues. This results in approximately \$2.4 billion in member dues paid in taxable year 2018. Applying an average tax rate of 6 percent, results in an estimated revenue loss of \$150 million for taxable year 2018.

The tax-year estimates are converted to fiscal-year revenue estimates, rounded and reflected in the above table.

Support/Opposition

Support: None provided.

Opposition: None provided.

Arguments

Proponents: Some may argue that allowing union dues to be deducted “above-the-line” would reduce the tax burden on lower- and middle-income taxpayers that are more likely to be obligated to pay union dues.

Opponents: Some may argue that allowing union dues as a deduction is in effect a state subsidy of union activity.

Policy Concerns

This bill would provide a tax benefit for union dues, as specified, that would not be provided to other unreimbursed business expenses.

This bill would allow taxpayers in certain circumstances to claim multiple tax benefits for the same item of expense.

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

Legislative Staff Contact

Jessica Deitchman
Legislative Analyst, FTB
(916) 845-6310
jessica.deitchman@ftb.ca.gov

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

Diane Deatherage
Legislative Director, FTB
(916) 845-6333
diane.deatherage@ftb.ca.gov