



Summary Analysis of Amended Bill

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Sponsor:

Bill Number: AB 2577

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Amended: April 9, 2018

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Related Bills: See Prior Analysis

Subject: Labor Organization Dues Deduction

Summary

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

Recommendation – No position.

Summary of Amendments

The April 9, 2018, amendments added a sunset and repeal date, and clarified that an itemized deduction would be unavailable to those taxpayers that claim this deduction for the same specified member dues paid or incurred. As a result of the amendments, the implementation consideration and policy concerns provided in the department's analysis of the bill as introduced February 15, 2018, have been resolved. Except for the "Effective/Operative Date," "This Bill," "Implementation Considerations," "Economic Impact," and "Policy Concerns" sections, the remainder of that analysis still applies. The "Fiscal Impact" section has 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, under the PITL, for each taxable year beginning on or after January 1, 2018, and before January 1, 2023, allow as a deduction from gross income, 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.

Any amount allowed as a deduction pursuant to this section shall not be allowed as an itemized deduction under Section 63 of the Internal Revenue Code.

This section shall remain in effect until December 1, 2023, and as of that date is repealed.

Implementation Considerations

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

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 April 9, 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	- \$220
2019-2020	- \$150
2020-2021	- \$160

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. To arrive at the offsetting tax effect of miscellaneous itemized deduction that would otherwise be allowed under current law, it is estimated that qualified taxpayers would be able to deduct approximately \$230 million in member dues, multiplied by the average tax rate of 6 percent, results in an estimated offsetting gain of \$14 million in taxable year 2018. This results in an estimated net revenue loss of \$140 million in taxable year 2018.

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

Support/Opposition

Support: None provided.

Opposition: None provided.

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