



Analysis of Original Bill

Author: Flora	Sponsor:	Bill Number: AB 2727
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Attorney: Bruce Langston	Related Bills: See Legislative History	

Subject: Volunteer Firefighter Expenses Credit

Summary

This bill would, under the Personal Income Tax Law (PITL), allow a tax credit for qualified firefighter expenses.

Recommendation – No position.

Reason for the Bill

The reason for the bill is provide assistance to firefighters by offering a credit for certain unreimbursed work related expenses.

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, 2019, and before January 1, 2028.

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 firefighter expenses.

This Bill

This bill would, under the PITL, for each taxable year beginning on or after January 1, 2019, and before January 1, 2028, allow a credit to a qualified firefighter in an amount equal to 80 percent, not to exceed \$1,500, of the amount paid or incurred during the taxable year for qualified firefighter expenses.

The bill would define the following:

- “Certifying entity” means any fire department, as specified in this bill, and the Department of Forestry and Fire Protection, and any county forestry or firefighting department or unit, to which the qualified firefighter reports.
- “Qualified firefighter expenses” means the amount paid or incurred by a qualified firefighter, for which the qualified firefighter was not reimbursed, for training and equipment that was obtained in order to serve as a qualified firefighter.
- “Qualified firefighter” means either of the following:
 - A volunteer firefighter who is registered as an active firefighting member of any regularly organized volunteer fire department having official recognition, and full or partial support of the government of the county, city, town, or district in the state in which the volunteer fire department is located.
 - A professional firefighter who is employed as a firefighter by the Department of Forestry and Fire Protection, or any county forestry or firefighting department or unit in this state, or any firefighter hired to serve as a firefighter by a fire department of a city, county, city and county, district, or other public or municipal corporation or political subdivision of this state.

In order to be eligible for a tax credit authorized by this bill, the qualified firefighter must do all of the following:

- Submit a request to the certifying entity for certification of both of the following:
 - That the firefighter is a qualified firefighter as provided by this bill.
 - That the equipment for which the qualified firefighter is claiming a credit under this section was obtained in order to serve as a qualified firefighter.
- Retain for his or her records a copy of the certificate issued by the certifying entity.
- Provide a copy of the certification to the Franchise Tax Board upon request.

If the qualified firefighter fails to comply with the above requirements, no credit would be allowed to that qualified firefighter under this section for any taxable year unless the qualified firefighter subsequently complies.

The certifying entity shall do all of the following:

- Certify that the firefighter is a qualified firefighter as provided by this bill.
- Certify that the equipment for which the qualified firefighter is claiming a credit under this bill was obtained in order to serve as a qualified firefighter.
- Provide the qualified firefighter with a copy of the certification to retain for his or her records.

No deduction shall be allowed for that portion of expenses paid or incurred for the taxable year which is equal to the amount of the credit allowed by this bill attributable to those expenses.

No credit may be claimed with respect to any amount for which any other credit has been claimed.

If the qualified firefighter that claims a credit sells, transfers, or otherwise disposes of (either directly or indirectly), any equipment within three years of the taxable year during which he or she first claimed the credit, there shall be added to the net tax of the qualified firefighter for the taxable year of the sale, transfer, or disposition, an amount equal to the total credit claimed multiplied by a fraction, the numerator of which is the remaining term of the three years and the denominator of which is three.

If the credit exceeds the net tax, the excess may be carried over to reduce the next tax for the next three taxable years, until exhausted.

The credit would be repealed on its own terms as of December 1, 2028.

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 whether the \$1,500 limitation applies to the total amount of the credit or the total amount of unreimbursed expenses. To avoid disputes between taxpayers and the department, the bill should be amended to clarify the author's intent.

For clarity, it is recommended the bill be amended to provide the amount of qualified costs in the certification. This bill use a phrase that is undefined, i.e., "fails to comply." 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 clearly define this phrase.

Legislative History

No similar legislation has been identified.

Other States' Information

Florida, Massachusetts, Michigan, and Minnesota laws do not provide a credit comparable to the deduction allowed by this bill. The laws of these states were selected due to their similarities to California's economy, business entity types, and tax laws.

Illinois provides a \$1,000 tax credit per year to a firefighter that has completed a basic training course.

New York provides a \$200 (\$400 for married) credit to active volunteer firefighters or volunteer ambulance workers, as defined.

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 2727 as Introduced February 15, 2018
For Taxable Years Beginning On or After January 1, 2019, and before January 1, 2028
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	- \$13
2019-2020	- \$28
2020-2021	- \$37

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 (BLS), there would be approximately 31,000 career firefighters employed in California in 2019. Using data from the BLS and the US Fire Administration, there would be approximately 21,000 volunteer firefighters in California.

Professional firefighters in California incur an estimated \$250 per year in qualified firefighter expenses. Because volunteer firefighters incur an estimated \$1,800 per year, their average credit would be limited to the maximum credit allowed of \$1,500. Due to the timing of the legislation and the amount of time needed to set up the certification system, the first year of credit generation is reduced by 20 percent. It is assumed 75 percent of the credit would be used in the year generated and the remaining would be used over the subsequent three years. This results in a revenue loss of approximately \$24 million in the 2019 taxable year.

Taxpayer's who sell, transfer, or dispose of equipment within three years of claiming the credit must add back the fraction of the amount claimed. It is estimated that 5 percent of the previous year's credit would be subject to recapture. In addition, the revenue loss is also offset by the tax effect of miscellaneous itemized deductions that would be otherwise allowed under current state law. It is estimated that qualified firefighters would be able to deduct \$2.1 million in firefighter expenses, multiplied by the average tax rate of 6 percent resulting in an estimated offsetting gain of \$130,000 in taxable year 2019. This results in an estimated net revenue loss of \$24 million in taxable year 2019.

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 this bill would support firefighters by offering a credit for unreimbursed expenses directly related to their job.

Opponents: Some may argue that this deduction may be overly narrow and inadvertently exclude other first responders that need assistance.

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