



## Summary Analysis of Amended Bill

Author: Flora

Sponsor:

Bill Number: AB 2727

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Amended: April 10, 2018

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Related Bills: See Prior Analysis

**Subject:** 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.**

### Summary of Amendments

The April 10, 2018, amendments modified the operative and repeal dates, the calculations of the credit, and the maximum allowable credit. As a result of the amendments, the implementation consideration provided in the department's analysis of the bill as introduced on February 15, 2018, has been resolved and two new implementation considerations have been identified. Except for the "Effective/Operative Date," "This Bill," "Implementation Considerations," and "Economic Impact" sections, the remainder of that analysis still applies. The "Fiscal Impact" section is restated below for convenience. The "Support/Opposition" section has been updated to reflect currently available information.

### 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, 2024.

### This Bill

This bill would, under the PITL, for each taxable year beginning on or after January 1, 2019, and before January 1, 2024, allow a tax credit to a qualified firefighter not to exceed \$1,500 in an amount determined as follows:

- 35 percent of the amount paid or incurred during the taxable year for qualified firefighter expenses by a qualified firefighter that is a professional firefighter.
- 80 percent of the amount paid or incurred during the taxable year for qualified firefighter expenses by a qualified firefighter that is a volunteer firefighter.

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 this 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 would be required to 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 would 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 net tax for the next three taxable years, until exhausted.

The credit would remain in effect until December 1, 2024, and be repealed by its own terms as of that date.

### **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.

This bill use a phrase that is undefined, i.e., "fails to comply." The absence of definition to clarify this phrase 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.

For clarity, it is recommended the bill be amended to require the amount of qualified costs be included in the certification.

### **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 Amended April 10, 2018  
For Taxable Years Beginning On or After January 1, 2019, and Before January 1, 2024  
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	- \$11
2019-2020	- \$24
2020-2021	- \$30

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 in 2019. Professional firefighters in California incur an estimated \$310 per year in qualified firefighter expenses. Applying the 35 percent specified in the bill results in a \$110 credit per year. Volunteer firefighters incur an estimated \$2,200 per year. Applying the 80 percent specified in the bill results in \$1,800 per year, however 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 credit in 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 \$20 million in the 2019 taxable year.

Taxpayers who sell, transfer, or dispose of equipment within three years of claiming the credit must add back the fraction of the amount claimed prior to the equipment being sold, transferred or disposed of. 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 law. It is estimated that qualified firefighters would be able to deduct \$1.8 million in firefighter expenses, multiplied by the average tax rate of 6 percent resulting in an estimated offsetting gain of \$100,000 in taxable year 2019. This results in an estimated net revenue loss of \$19 million in taxable year 2019.

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

### **Support/Opposition<sup>1</sup>**

Support: Rural County Representatives of California (Sponsor).

Opposition: None provided.

### **Legislative Staff Contact**

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<sup>1</sup> As noted in the Assembly Revenue and Taxation Committee's analysis dated March 29, 2018.