

Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Steinorth Analyst: Funmi Obatolu Bill Number: AB 292
Related Bills: See Legislative History Telephone: 845-5845 Introduced Date: February 2, 2017
Attorney: Bruce Langston Sponsor: _____

SUBJECT: Pet Adoption Costs Deduction

SUMMARY

This bill would, under the Personal Income Tax Law, allow a tax deduction for the costs paid or incurred to adopt certain pets from an animal rescue organization.

RECOMMENDATION - NO POSITION

REASON FOR THE BILL

The reason for the bill is to encourage adoption of shelter or rescue animals to reduce animal overpopulation.

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, and before January 1, 2023.

FEDERAL/STATE LAW

Itemized Deductions

Existing federal and state laws allow 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 employee business expenses are considered miscellaneous itemized deductions and only the portion that exceeds 2 percent of adjusted gross income may be deducted. Also, itemized deductions may be further limited for high-income taxpayers.

Neither federal nor state law allow a deduction similar to the one that would be provided by this bill.

THIS BILL

For taxable years beginning on or after January 1, 2018, and before January 1, 2023, this bill would allow a deduction equal to the qualified costs paid or incurred during the taxable year by a taxpayer for the adoption of a qualified pet from a qualified animal rescue organization. The deduction would be claimed as a miscellaneous itemized deduction and would be limited to \$100 per taxable year.

This bill would define the following terms and phrases:

- “Qualified animal rescue organization” means a public animal control agency or shelter, a humane society shelter, or rescue group.
- “Qualified costs” means amounts paid or incurred to a qualified animal rescue organization to adopt a pet, not to exceed one hundred dollars (\$100).
- “Qualified pet” means either of the following animals adopted from a qualified animal rescue organization that is not used by the taxpayer in a trade or business or for the production of income:
 - A pet over four years of age, as determined by the qualified animal rescue organization.
 - A cat.
- “Rescue group” means an organization, exempt from federal income taxation under Internal Revenue Code (IRC) section 501(c)(3), whose primary purpose is to place dogs, cats, or other animals removed from a public animal control agency or shelter, society for the prevention of cruelty to animals shelter, or humane society, or that have been surrendered or relinquished to the rescue group by the previous owner.

This bill would be repealed by its own terms as of December 1, 2023.

IMPLEMENTATION CONSIDERATIONS

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

TECHNICAL CONSIDERATIONS*

On page 2, line 12, before “pet”, insert “qualified”.

On page 2, line 22, strikeout “as an organization described in” and insert “under”.

LEGISLATIVE HISTORY

AB 976 (Steinorth, et al, 2015/2016) similar to this bill would have allowed taxpayers a miscellaneous itemized deduction, up to \$100 per taxable year, for the qualified costs paid or incurred for the adoption of pets from a qualified animal rescue organization. AB 976 failed passage from the Senate Appropriations Committee

AB 2326 (Dickinson, et al, 2013/2014) and AB 233 (Smyth, 2009/2010) , similar to this bill, would have allowed taxpayers a miscellaneous itemized deduction, up to \$100 per taxable year, for the qualified costs paid or incurred for the adoption of pets from a qualified animal rescue organization. Both AB 2326 and AB 233 failed passage from the Assembly Appropriations Committee.

OTHER STATES' INFORMATION

Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York laws do not provide a deduction 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.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 292 As Introduced February 2, 2017 Assumed Enactment After June 30, 2017		
2017-18	2018-19	2019-20
n/a	- \$150,000	- \$150,000

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

Based on animal adoption data from the California Department of Public Health and the Humane Society, it is estimated that 150,000 qualified pets (cats, dogs, and other pets) would be adopted in 2018. This amount includes an adjustment (decrease) to reflect that this bill would not apply to pets, other than cats, that are four years of age and under. This estimate assumes that only 60 percent of adopters would itemize their deductions and that 30 percent of itemizers exceed the 2 percent floor for miscellaneous deductions, therefore, it is estimated that approximately 27,000 taxpayers would take the proposed deduction. Multiplying the population by the maximum pet adoption deduction and applying a marginal tax rate of 6 percent, results in an estimated revenue loss of \$150,000 per taxable year. The tax year estimates are then converted to fiscal year revenue estimates and rounded as reflected in the above table.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Some may say that this bill could encourage individuals and families to adopt pets from local shelters, thereby helping to relieve the pressure on these facilities.

Opponents: Some may argue that taxpayers who are inclined to adopt pets would do so absent a tax incentive.

POLICY CONCERNS

This bill would establish a deduction for which federal law has no counterpart, thus creating a difference between federal and California tax law, thereby increasing the complexity of California tax return preparation.

LEGISLATIVE STAFF CONTACT

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