



## Analysis of Original Bill

Author: Chen	Sponsor:	Bill Number: AB 3128
Analyst: Jessica Deitchman	Phone: (916) 845-6310	Introduced: February 16, 2018
Attorney: Bruce Langston	Related Bills: See Legislative History	

**Subject:** Disabled Veteran Service Dog Credit

### Summary

This bill would, under the Personal Income Tax Law (PITL), allow a credit to certain disabled veterans for the cost of ownership and maintenance of a service dog.

**Recommendation – No position.**

### Reason for the Bill

The reason for the bill is to enable more veterans to own much needed service dogs by offering a tax credit.

### Effective/Operative Date

As a tax levy, this bill would be operative immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2019, and before January 1, 2022.

### 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 credit comparable to the credit this bill would create.

However, state and federal law does allow expenses directly related to the care of a service animal (which would include expenses for a service dog) as a medical deduction on the tax return.

## **This Bill**

This bill would, under the PITL, for taxable years beginning on or after January 1, 2019, and before January 1, 2022, allow to a qualified disabled veteran a credit against the costs associated with owning a service dog in an amount equal to 50 percent of the qualified disabled veteran's qualified costs, not to exceed \$1,500 during the taxable year.

The bill would define the following terms and phrases:

- “Qualified costs” means the amounts paid or incurred during the taxable year by a qualified disabled veteran for the ownership and maintenance of a service dog that is limited to the amounts paid for:
  - Local fees for service dog licenses
  - Veterinary care and medical-related expenses including vaccinations, annual checkups, and drug prescriptions
  - pet insurance coverage expenses
  - Specialty equipment expenses including vests, leads and harnesses
  - Grooming expenses
  - Food expenses
- “Qualified disabled veteran” means an individual who meets both of the following conditions:
  - Has served on active duty with the Armed Forces for the United States and received an honorable discharge for all periods of active service.
  - Has a service-connected disability rating of at least 30 percent, as determined by the United States Department of Veterans Affairs, and is assisted with any disability associated with that rating by a service dog.
- “Service dog” means a service dog, as defined in clause (iii) of subparagraph (C) of paragraph (6) of subdivision (b) of Section 54.1 of the Civil Code.

Credits in excess of the net tax may be carried over to reduce the net tax for the following taxable year.

The bill states that it is the intent of the Legislature to comply with Section 41.

The bill's provisions would remain in effect until and be repealed as of, December 1, 2022.

## **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 qualified costs. To avoid disputes between taxpayers and the department, the bill should be amended to clarify the author's intent.

Typically, credits involving areas for which the department lacks expertise are certified by another agency or agencies that possess the relevant expertise. The certification language would specify the responsibilities of both the certifying agency and the taxpayer. It is recommended that this bill be amended to include a certifying agency.

For clarity and consistency with existing credit language, subdivision (a) needs to be amended to add the language “against the “net tax,” as defined in Section 17039”.

### **Legislative History**

AB 2472 (Linder, 2015/2016) would have allowed a tax credit equal to 50 percent of the qualified costs of a qualified disabled veteran, paid or incurred for the ownership and maintenance of a qualified animal, not to exceed \$1,500. AB 2472 failed to pass out of the house of origin by the constitutional deadline.

### **Other States' Information**

Review of *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York* laws found no comparable tax credit. These states were selected and reviewed 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 3128 as Introduced February 16, 2018  
For Taxable Years Beginning On or After January 1, 2019, and Before January 1, 2022  
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	- \$26
2019-2020	- \$55
2020-2021	- \$60

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 U.S. Department of Veterans Affairs (VA), there were approximately 1.7 million veterans living in California in 2017. VA disability compensation data for the same year shows that 270,000 disabled veterans in California have a service-connected disability rating of 30 percent or more.

Each year, the population of qualified veterans is estimated to increase by 14,000 people. Of the total population of currently qualified veterans, it is assumed that all 270,000 could qualify for a service dog. Based on the above sources, it is estimated that 20 percent of veterans with service-connected disabilities, or 55,000, already own a dog. Because this bill lacks a certification requirement and also lacks a requirement on how long the dog would receive its specialized training, all currently owned dogs would qualify for the credit. It is estimated that approximately 1,400 veterans with disability ratings of 30 percent or more would acquire a new service dog each year.

Based on a 2010 report by the Veteran's Health Administration (VHA) and other research, it is estimated that veterinary service benefits for approximately 30 dogs are provided to veterans with service-connected disabilities each year. Because qualified disabled veterans incur estimated average qualified costs of \$2,000 per year, the average credit per veteran would be \$1,000. Thus, the 55,000 veterans who currently own a dog, would generate credits totaling \$55 million in 2019. For the estimated 1,400 veterans who would acquire a new dog each year and the estimated 30 veterans who would receive a subsidy from the VHA, the estimated credit generated would be \$1.4 million in 2019. It is assumed that 80 percent of the credit, or \$46 million, would be used in the year generated and 20 percent in the following year.

The tax-year estimates were converted to fiscal-year estimates, and then rounded to arrive at the amounts shown in the above table.

## Support/Opposition

Support: None provided.

Opposition: None provided.

## Arguments

Proponents: Some may argue that the bill would provide financial assistance to disabled veterans and help them to afford service dogs to assist them with their disabilities.

Opponents: Some may argue that providing a tax credit limited to qualified disabled veterans may be overly narrow and inadvertently exclude other disabled groups in California that need service dogs.

## Policy Concerns

Because the cost to maintain a service dog may be deductible as a medical expense, this bill could allow taxpayers in certain circumstances to claim multiple tax benefits for the same item of expense.

## Legislative Staff Contact

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

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

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