



Summary Analysis of Amended Bill

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Sponsor:

Bill Number: AB 3128

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Amended: April 10, 2018

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Related Bills: See Prior Analysis

Subject: Disabled Veteran Service Dog Credit

Summary

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

Recommendation – No position.

Summary of Amendments

The April 10, 2018, amendments modified the sunset date, specified that the credit would be allowed in lieu of a deduction, and made other technical changes. As a result of the amendments, one of the implementation considerations and the policy concerns listed in the department's analysis of the bill as introduced February 16, 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 provided for convenience.

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, 2029.

This Bill

This bill would, under the PITL, for taxable years beginning on or after January 1, 2019, and before January 1, 2029, allow to a qualified disabled veteran a credit for qualified costs 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 amount 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 prescription.

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- 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 United States Armed Forces 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 guide dog, or signal dog, as defined in 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.

This credit would be allowed in lieu of any deduction otherwise allowed.

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

The credit would be repealed by its own terms as of December 1, 2029.

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.

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.

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Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 3128 as Amended April 10, 2018
For Taxable Years Beginning On or After January 1, 2019
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue
2018-2019	-\$34
2019-2020	-\$65
2020-2021	-\$75

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-related disability rating of 30 percent or more.

Each year, the population of qualified veterans would increase by an estimated 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 26 percent of veterans with service-related disabilities, or 70,000, already own a service, guide, or signal dog. Because this bill lacks a certification requirement, nor does it specify how long the dog would receive its specialized training, all currently owned dogs would qualify for the credit. It is estimated that approximately 1,800 veterans with disability ratings of 30 percent or more would acquire a new service, guide, or signal 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-related 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, 70,000 veterans who currently own a service, guide or signal dog, would generate credits totaling \$70 million in 2019. For the estimated 1,800 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 \$1.8 million in 2019. It is assumed that 80 percent of the credit, or \$58 million, would be used in the year generated and 20 percent in the following year.

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The revenue loss is offset by the tax effect of itemized deductions for medical expenses that would otherwise be allowed under current law. It is estimated that qualified disabled veterans would be able to deduct \$8.9 million in medical expenses, multiplied by the average tax rate of 4 percent resulting in an estimated offsetting gain of \$350,000 in the 2019 taxable year. This results in an estimated net revenue loss of \$58 million in the 2019 taxable year.

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

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