

Author: Holden Analyst: Funmi Obatolu Bill Number: AB 586
Related Bills: See Legislative History Telephone: 845-5845 Amended Date: April 20, 2017
Attorney: Bruce Langston Sponsor: _____

SUBJECT: Teacher Professional Development Expense Deduction

SUMMARY

This bill would, under the Personal Income Tax Law, allow a tax deduction for certain teacher professional development expenses.

RECOMMENDATION – NO POSITION

SUMMARY OF AMENDMENTS

The April 20, 2017, amendments removed the bill's provision that would have allowed a tax credit for teacher professional development expenses and modified the provision that would allow a deduction for these expenses. As a result of the amendments, the department's analysis of the bill as amended on March 8, 2017, and March 14, 2017, no longer applies.

This analysis only addresses the provisions of the bill that would impact the department's programs and operations.

REASON FOR THE BILL

The reason for this bill is to strengthen the professional preparation of California's elementary and secondary school educators by supporting individuals that are, or will be, pursuing a clear teaching credential.

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

Deduction from Gross Income

Existing federal and state laws allow for the deduction of certain expenses from gross income when calculating adjusted gross income, such as moving expenses and interest on education loans, certain ordinary and necessary trade and business expenses, losses from the sale or exchange of certain property, contributions for pension, profit-sharing and annuity plans of self-employed individuals, retirement savings, and alimony. Thus, all taxpayers with these types of expenses may take a corresponding deduction, regardless of whether the taxpayer itemizes deductions or uses the standard deduction. These are known as above the line deductions.

Federal law allows eligible educators to deduct up to \$250 of the cost to purchase books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment, and supplementary materials used by the eligible educator in the classroom as an adjustment to gross income. California does not conform to this deduction.

THIS BILL

This bill would allow, for each taxable year beginning on or after January 1, 2018, and before January 1, 2023, “an above the line”¹ deduction in an amount equal to the amount paid or incurred, not to exceed \$2,500, for teacher professional development expenses by a qualified taxpayer during the taxable year.

The bill would define the following phrases:

“Qualified taxpayer” means a taxpayer who meets all of the following requirements:

- Completed a teacher preparation program, or fulfilled the requirements of the early completion option described in Section 44468 of the Education Code, and is in possession of a preliminary general education (multiple or single subject) teaching credential or a preliminary special education teaching credential.
- Enrolled in a program, approved by the Commission on Teacher Credentialing, in order to earn a general education clear credential or an education specialist instruction clear credential.
- Is not otherwise reimbursed for the teacher professional development expenses.

“Teacher professional development expenses” means enrollment fees associated with the completion of a second tier teaching credential program, including, but not limited to, general education induction, general education clear, and clear education specialist induction, approved by the Commission on Teacher Credentialing.

No deduction otherwise allowed would be allowed for any amount paid or incurred for the same expenses allowed as a deduction established by this bill.

The Franchise Tax Board may issue regulations necessary or appropriate to carry out the purposes of the deduction. Any rules, guidelines, or procedures would be exempt from the normal rulemaking requirements of the Administrative Procedures Act.

The deduction would be repealed by its own terms as of December 1, 2023.

¹ A deduction that reduces gross income to arrive at adjusted gross income, before any itemized or standard deduction.

IMPLEMENTATION CONSIDERATIONS

Department staff has identified the following implementation considerations for purposes of a high-level discussion; additional concerns may be identified as the bill moves through the legislative process. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

This bill uses terms that are undefined, i.e., "preliminary general education teaching credential," "preliminary special education teaching credential," "education specialist instruction clear credential program," "general education clear credential," "second tier teaching credential program," "general education induction," "general education clear," and "clear education specialist induction." 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.

The definition of "qualified taxpayer," may be more broadly interpreted than the author intends. For example, "qualified taxpayer" lacks a requirement that the individual in question be employed in a teaching environment.

TECHNICAL CONSIDERATIONS

On page 5, lines 6 and 7, strike out "in the aggregate" for clarity.

LEGISLATIVE HISTORY

SB 807 (Galgiani, 2017/2018) would create a tax credit for certain costs related to specific teacher training programs and provide an income exclusion for certain eligible teachers. SB 807 is currently pending in the Senate Governance and Finance Committee.

SB 413 (Knight, 2013/2014) would have created a personal income tax credit for qualifying science, technology, engineering, or mathematics teachers. SB 413 failed passage out of the Senate Governance and Finance Committee.

OTHER STATES' INFORMATION

Review of *Illinois*, *Massachusetts*, *Michigan*, *Minnesota*, and *New York* laws found no comparable tax deduction. These states were reviewed because of the similarities between California income tax laws and their 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 and implementation considerations are resolved, costs will be identified and an appropriation will be requested, if necessary.

ECONOMIC IMPACT

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB586 As Amended April 20, 2017 Assumed Enactment After June 30, 2017		
2017-18	2018-19	2019-20
- \$100,000	- \$200,000	- \$200,000

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 data from the California Commission on Teacher Credentialing in 2015, there were approximately 2,400 qualified taxpayers that expended \$2,100 a year on qualified expenses. These amounts were adjusted for changes in the economy over time resulting in approximately 3,200 qualified taxpayers in taxable year 2018. The estimate assumes qualified taxpayers would incur the average annual maximum of \$2,500 in qualified teacher professional development expenses each year. Applying an average tax rate of 2.5 percent results in an estimated \$200,000 revenue loss.

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

SUPPORT/OPPOSITION

Support: California Catholic Conference.

Opposition: None provided.

ARGUMENTS

Proponents: Supporters could argue that this bill would strengthen the professional preparation of California's elementary and secondary school educators.

Opponents: Some may argue that the deduction this bill would allow may be overly broad and expensive.

POLICY CONCERNS

This bill would create differences between federal and California tax law, thereby increasing the complexity of California tax return preparation.

LEGISLATIVE STAFF CONTACT

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