

Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Mathis Analyst: Davi Milam Bill Number: AB 942
Related Bills: See Legislative History Telephone: 845-2551 Introduced Date: February 16, 2017
Attorney: Bruce Langston Sponsor: _____

SUBJECT: Veterinary Costs Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), create the Veterinary Costs Credit.

RECOMMENDATION - NO POSITION.

REASON FOR THE BILL

The reason for this bill is to provide financial relief to those taxpayers incurring veterinary costs.

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, 2017, and before January 1, 2023.

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 state and federal laws lack a comparable credit to the one that would be created by this bill.

THIS BILL

For each taxable year beginning on or after January 1, 2017, and before January 1, 2023, this bill would, under the PITL, allow a credit in an amount equal to 50 percent of the amount paid or incurred by a taxpayer for qualified veterinary costs, not to exceed two thousand dollars (\$2,000).

This bill would define the following terms and phrases:

- “Pet” means a domesticated cat or dog owned by the taxpayer.
- “Qualified veterinary costs” means the amount paid or incurred for medical-related expenses, including, but not limited to, vaccinations, annual check-ups, surgeries, and drug prescriptions.

Unused credits could be carried over for seven years or until exhausted.

This bill would be repealed by its own terms on December 1, 2023. However, any unused credit could continue to be carried forward, for seven years, until the credit is exhausted.

Revenue and Taxation Code (R&TC) section 41 would not apply to the credit allowed by this section.¹

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 lacks administrative details necessary to administer the bill's provisions. For example, it is unclear whether the \$2,000 cap would apply to the amount of credit per taxable year, the costs eligible for credit per taxable year, or the amount of credit per pet per taxable year. For clarity and ease of administration, it is recommended that the bill be amended.

The defined phrase "Qualified veterinary costs" uses the undefined phrase "medical-related expenses" and could be interpreted to include amounts other than those paid to a veterinarian. Additionally, because the bill fails to specify otherwise, expenses reimbursed by pet insurance would be eligible for credit. To avoid potential conflicts between taxpayers and the department, it is recommended that the bill be amended.

TECHNICAL CONSIDERATIONS

The language that would allow the credit to be carried over after it has been repealed is unnecessary because existing state law provides this general rule.

LEGISLATIVE HISTORY

AB 373 (Leach, 2001/2002) would have allowed a deduction for veterinary services for an adopted animal. AB 373 failed to pass by the constitutional deadline.

SB 430 (Vincent, 2001/2002) would have allowed a credit for spaying or neutering an adopted animal. SB 430 failed to pass by the constitutional deadline.

¹ Under R&TC section 41, legislation that would create a new tax credit is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the credit's effectiveness.

OTHER STATES' INFORMATION

Illinois, Massachusetts, Michigan, Minnesota, and New York laws do not provide a credit comparable to the credit allowed by this bill. The laws of these states were selected due to their similarities to California's economy 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 and an appropriation will be requested, if necessary.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 942 As Introduced February 16, 2017 Assumed Enactment After June 30, 2017 (\$ in Billions)		
2017-18	2018-19	2019-20
- \$7.5	- \$5.3	- \$5.8

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 American Society for the Prevention of Cruelty to Animals and the pet supply industry, it is estimated that Californians will spend \$16 billion on medical-related costs for their dogs and cats in 2017. The credit is limited to 50 percent of costs or \$8 billion. It is estimated that 60 percent of California taxpayers would have sufficient liability to claim the credit in the year generated. Of those, 98 percent, or \$4.7 billion, would use the credit in 2017. The remainder would be utilized over the next two years.

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

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Some may say that the financial incentive provided by this bill would encourage taxpayers to obtain needed veterinary services for their pets.

Opponents: Some may argue that the financial incentive this bill would allow would be overly broad and could be an expensive and inefficient way to provide pet care.

POLICY CONCERNS

The credit would be allowed for qualified veterinary expenses paid or incurred either inside or outside California.

LEGISLATIVE STAFF CONTACT

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