

SUMMARY ANALYSIS OF AMENDED BILL

Author: Mathis Analyst: Davi Milam Bill Number: AB 942
Related Bills: See Legislative History Telephone: 845-2551 Amended Date: March 21, 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**Summary of Amendments**

The March 21, 2017, amendments modified the definition of qualified veterinary costs and made other changes. As a result, the amendments resolved some, but not all, of the implementation considerations discussed in the department's analysis of the bill as introduced February 16, 2017, and created an additional implementation consideration. The remaining implementation considerations have been updated to reflect the changes made by the amendments.

Except for the "This Bill," "Implementation Considerations," and "Economic Impact" sections, the remainder of the department's analysis of the bill as introduced February 16, 2017, still applies. The "Technical Considerations," "Fiscal Impact," and "Policy Concerns" sections have been restated for convenience.

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 for a taxpayer's pets, not to exceed two thousand dollars (\$2,000) per taxable year.

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 paid to a licensed veterinarian, including, but not limited to, vaccinations, annual check-ups, surgeries, and drug prescriptions. Qualified veterinary costs does not include expenses reimbursed by pet insurance.

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This bill would be repealed by its own terms on December 1, 2023.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

It is unclear whether the \$2,000 cap would apply to the amount of allowable credit per taxable year or the costs eligible for credit per taxable year. For clarity and ease of administration, it is recommended that the bill be amended.

To clarify what is meant by "licensed veterinarian," the author may wish to amend the bill to specify that the veterinarian is licensed pursuant to the California Business and Professions Code.

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.

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 Amended March 21, 2017 Assumed Enactment After June 30, 2017 (\$ in Billions)		
2017-18	2018-19	2019-20
- \$1.9	- \$1.3	- \$1.4

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.

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 insurance industry, it is estimated that Californians will spend \$4 billion on qualified veterinary costs for their dogs and cats in 2017. The credit is limited to 50 percent of costs or \$2 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 \$1.2 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.

POLICY CONCERNS

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

LEGISLATIVE STAFF CONTACT

Davi Milam
Legislative Analyst, FTB
(916) 845-2551
davi.milam@ftb.ca.gov

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

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