

SUMMARY ANALYSIS OF AMENDED BILL

Author: Mathis Analyst: Davi Milam Bill Number: AB 942
Related Bills: See Prior Telephone: 845-2551 Amended Date: April 4, 2017
Analysis 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 April 4, 2017, amendments modified the definition of qualified veterinary costs and removed the credit carryover provision. As a result, the amendments resolved the technical consideration discussed in the department’s analysis of the bill as amended March 21, 2017.

As a result of the amendments, the “This Bill,” “Technical Considerations,” and “Policy Concerns” sections have been revised, and the “Economic Impact” section has been updated to reflect an assumption relevant to the revenue estimate. The remainder of the department’s analysis of the bill as amended March 21, 2017, still applies. The “Implementation Considerations” and “Fiscal Impact” 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 medically necessary 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.

This bill would be repealed by its own terms on December 1, 2023.

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.

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 April 4, 2017 Assumed Enactment After June 30, 2017 (\$ in Billions)		
2017-18	2018-19	2019-20
- \$1.9	- \$1.3	- \$1.4

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

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.

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 non-reimbursed medically necessary 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. Of those, 98 percent, or \$1.2 billion, would use the credit in 2017.

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

POLICY CONCERNS

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

This bill lacks carryover language. As a result, any unused credit would be lost if the taxpayer is unable to use the entire credit amount in the year claimed. The author may wish to add language allowing a limited carryover period.

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