



Analysis of Amended Bill

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Sponsor:

Bill Number: SB 1214

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Introduced February 15, 2018 and
Amended March 19, 2018

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Related Bills: See Legislative
History

Subject: Teacher Professional Expenses 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 March 19, 2018, amendments added operative dates to the provisions discussed in this analysis.

This is the department's first analysis of the bill.

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 subject to an appropriation in the annual Budget Act or other statute, specifically operative for each taxable year beginning on or after January 1, 2019, and before January 1, 2024.

Federal/State Law

Itemized Deductions

Existing federal and state laws allow individuals to deduct certain expenses, such as medical expenses, charitable contributions, interest, and taxes, as itemized deductions. For taxable years beginning after December 31, 2017, and before January 1, 2026, the federal Tax Cuts and Jobs Act (Act) repealed miscellaneous itemized deductions subject to the 2 percent floor,

and the overall itemized deduction limitation for high-income taxpayers.¹ Prior to the Act, certain other expenses for the production of income and certain employee business expenses are considered miscellaneous itemized deductions and only the portion that exceeds 2 percent of adjusted gross income may be deducted. Also, itemized deductions may be further limited for high-income taxpayers.

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 specifically does not conform to this federal provision.

This Bill

This bill would, subject to an appropriation in the annual Budget Act or other statute, allow for each taxable year beginning on or after January 1, 2019, and before January 1, 2024, “an above-the-line”² 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.

¹ An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, Public Law 115-97, enacted December 22, 2017.

² A deduction that reduces gross income to arrive at adjusted gross income, before any itemized or standard deduction.

- 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.

“Second tier teaching credential program” means a teacher induction program that leads to a clear teaching credential.

“Teacher professional development expenses” means enrollment fees associated with the completion of a second tier teaching credential program, approved by the Commission on Teacher Credentialing.

A qualified taxpayer would be allowed a deduction under this bill for no more than three taxable years.

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 (FTB) may issue regulations necessary or appropriate to carry out the purposes of the deduction. Any rule, standard, criterion, guideline, procedure, determination, or notice established or issued by the FTB 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, 2024.

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.

The operative date language requires a budget appropriation, as specified, to implement the provisions in this bill. However, it is unclear how an appropriation for purposes of administering a tax deduction would apply.

Legislative History

AB 586 (Holden, 2017/2018) would have, similar to this bill, allowed a deduction from gross income for teacher professional development expenses, as specified. AB 586 failed to pass by the constitutional deadline.

SB 807 (Galgiani, 2017/2018) would have created a tax credit for certain costs related to specific teacher training programs and provided an income exclusion for certain eligible teachers. SB 807 failed to pass by the constitutional deadline.

SB 413 (Knight, 2013/2014) would have created a personal income tax credit for qualifying science, technology, engineering, or mathematics teachers. SB 413 failed to pass by the constitutional deadline.

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.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1214 as amended March 19, 2018
For Taxable Years Beginning On or After January 1, 2019, and before January 1, 2024
Assumed Enactment after June 30, 2018

Fiscal Year	Revenue
2018-2019	- \$100,000
2019-2020	- \$200,000
2020-2021	- \$200,000

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 California Commission on Teacher Credentialing, in 2015 there were approximately 2,400 qualified taxpayers (taxpayers that meet the qualifications in this bill) that spent \$2,100 per year on teacher professional development expenses. The number of qualified taxpayers and the amounts spent on teacher professional development expenses were adjusted for changes in the economy over time resulting in an approximately 3,500 qualified taxpayers in the 2019 taxable year. The estimate assumes qualified taxpayers would incur average annual expenses in excess of the maximum of \$2,500 each year, for a total of nearly \$8.8 million in qualified teacher professional development expenses.

This bill specifies that no other deduction shall be allowed for these expenses. To arrive at the offsetting tax effect of miscellaneous itemized deductions that would otherwise be allowed under current law, it is estimated that qualified taxpayers would be able to deduct almost \$900,000 in teacher professional development expenses. Therefore, the total expenses are

reduced by \$900,000 for miscellaneous itemized deductions that would no longer be allowed. Applying an average tax rate of 2.5 percent results in an estimated \$200,000 revenue loss in 2019.

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

Support/Opposition³

Support: California Catholic Conference and California Federation of Teachers.

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 Concern

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

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³ Author's fact sheet.