



## Bill Analysis

Author: Choi

Sponsor:

Bill Number: AB 2496

Analyst: Toni Arnold

Phone: (916) 845-4743

Amended: May 4, 2020

Attorney: Shane Hofeling

Related Bills: See Legislative  
History

## SUBJECT

COVID-19 Cleaning and Sanitizing Supplies Credit

## SUMMARY

This bill would allow a tax credit for cleaning and sanitizing supplies purchased by businesses for use in this state to prevent the transmission of the novel coronavirus (COVID-19).

## RECOMMENDATION

No position.

## SUMMARY OF AMENDMENTS

The May 4, 2020, amendments removed provisions of the bill related to an employer-provided child care tax credit, and replaced them with the provisions discussed in this analysis.

## REASON FOR THE BILL

The reason for the bill is to help reimburse those businesses that incurred extra costs to protect their employees and the public from the transmission of COVID-19.

## ANALYSIS

Under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), for taxable years beginning on or after January 1, 2020, and before January 1, 2021, this bill would allow a credit in an amount equal to the costs paid or incurred, for the purchase of cleaning and sanitizing supplies by a qualified taxpayer used at business locations in California for the purpose of preventing transmission of COVID-19.

A "qualified taxpayer" would be defined as a taxpayer that is a business with a physical location in California.

This bill specifies that no deduction would be allowed for the same expenses for which the credit was allowed.

Unused credits could be carried over for eight years, unless exhausted beforehand.

To comply with Revenue and Taxation Code (R&TC) section 41, this bill would require, notwithstanding R&TC section 19542, the Franchise Tax Board (FTB) to provide a report to the Legislature on the use of these tax expenditures, in compliance with Government Code section 9795.

This credit would be repealed by its own terms on December 1, 2021, but unused credits would be eligible for use throughout the carryover period.

#### *Effective/Operative Date*

As a tax levy, this bill would be effective immediately upon enactment, and would be specifically operative for taxable years beginning on or after January 1, 2020, and before January 1, 2021.

#### *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 hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

There are currently no federal or state credits comparable to the credit this bill would create.

#### *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.

This bill uses the terms "cleaning and sanitizing supplies," and "business" that are undefined. The absence of definitions to clarify these terms could lead to disputes with taxpayers and would complicate the administration of this bill. The author may want to amend the bill to clearly define these terms.

The bill requires the FTB to report to the Legislature regarding the use of this credit. The bill is silent on the report date requirements. Because income tax returns for calendar year taxpayers may be filed, with extension, until October 15, the department would not have the data for tax year 2020 until approximately June 2022. For clarity and ease of administration, it is suggested that the bill be amended to specify the timing of the delivery of the report.

#### *Technical Considerations*

None noted.

#### *Policy Concerns*

This bill fails to limit the amount of the credit that may be taken. Credits that could potentially be quite costly are sometimes limited either on a per-project or per-taxpayer basis or allow only a percentage of the costs paid or incurred.

### **LEGISLATIVE HISTORY**

AB 2166 (Kiley, 2019/2020), would have under the PITL and CTL, allowed a net operating loss (NOL) carryback in certain conditions, and would state that the goal, purpose, and objective of the bill is to jumpstart California's economic recovery from the COVID-19 pandemic. AB 2166 failed to pass out of the Assembly by the constitutional deadline.

AB 2493 (Choi, 2019/2020), would have under the PITL and CTL, increased the amounts of the research credit in California, and would state that the goals, purposes, and objectives of the bill include incentivizing more research into treatments, cures, and vaccines to address the global pandemic caused by COVID-19. AB 2493 failed to pass out of the Assembly by the constitutional deadline.

### **PROGRAM BACKGROUND**

None noted.

### **FISCAL IMPACT**

If the implementation considerations addressed in this analysis are resolved, the department's costs are expected to be minor.

### **ECONOMIC IMPACT**

For purposes of Section 41, this bill provides that the tax expenditures this bill would allow are to help reimburse those businesses that incurred extra costs to protect their employees and the public and prevent the transmission of the novel coronavirus (COVID-19).

### *Revenue Discussion*

This bill would allow a credit in an amount equal to the costs paid or incurred for the purchase of cleaning and sanitizing supplies used at business locations in California to prevent the transmission of the novel coronavirus. To determine the magnitude of the potential impact to the General Fund, the number of businesses and amount of costs paid or incurred for cleaning or sanitizing supplies must be known. Since it is difficult to predict precautions businesses would take during a pandemic, the revenue impact to the General Fund is unknown.

It is estimated that for every \$1 million in credits generated approximately \$350,000 would be claimed in the year generated and the remaining credit would be used over the subsequent seven years. The offsetting tax effect for every \$1 million qualified taxpayers spend on cleaning and sanitizing supplies results in an offsetting revenue gain of \$60,000. The overall revenue loss is expected to be approximately \$285,000 in taxable year 2020 for each \$1 million of credits generated.

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.

### **LEGAL IMPACT**

None noted.

### **APPOINTMENTS**

None noted.

### **SUPPORT/OPPOSITION**

To be determined.

### **ARGUMENTS**

To be determined.

**LEGISLATIVE STAFF CONTACT**

Toni Arnold  
Legislative Analyst, FTB  
(916) 845-4743  
toni.arnold@ftb.ca.gov

Tiffany Christiansen  
Revenue Manager, FTB  
(916) 845-5346  
tiffany.christiansen@ftb.ca.gov

Annette Kunze  
Legislative Director, FTB  
(916) 845-6333  
annette.kunze@ftb.ca.gov