STATE OF CALIFORNIA
Franchise Tax Board

Analysis of Original Bill

Author: Choi	Sponsor:	Bill Number: AB 266
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Subject: Attic Vent Closure Credit

Summary

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), allow a tax credit for costs paid or incurred to install an attic vent closure in a residential property.

Recommendation – No position.

Reason for the Bill

The reason for the bill is to encourage California residents to make their properties more fire safe by offering a credit for them to install attic vent closures.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for each taxable year beginning on or after January 1, 2020, and before January 1, 2025.

Federal/State Law

Existing federal and state 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.

Current federal and state laws lack a comparable credit for the installation of attic vent closures.

This Bill

This bill would, for each taxable year beginning on or after January 1, 2020, and before January 1, 2025, allow a tax credit to a qualified taxpayer that installs an attic vent closure in a residential property in an amount equal to 40 percent of the qualified costs paid or incurred by the qualified taxpayer during the taxable year for the installation.

The credit allowed to a qualified taxpayer for a taxable year would be limited to $500 per taxable year and only with regard to one residential property per taxable year.

The bill would define the following:

- "Qualified costs" means amounts paid or incurred for retrofitting, materials, and costs of labor either from an approved company or vendor listed on the Department of Forestry and Fire Protection's Internet Website or for the purchase and installation by the qualified taxpayer of one-eighth inch mesh to protect embers from entering through attic vents.
- "Qualified taxpayer" means an owner of residential property located in this state. A taxpayer who owns a proportional share of a residential property located in this state may claim the credit allowed based upon the taxpayer's share of the qualified costs.
- "Residential property" means any building containing not more than one unit that is intended for human habitation.

The credit may be carried over for up to seven years until exhausted.

No deduction would be allowed for amounts included in the calculation of this credit.

The credit would be repealed by its own terms as of December 1, 2025.

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 definition provided for "residential property" is unclear. It is recommended that the bill be amended to clarify if a qualified property would be a single family residence only.

The bill would disallow a deduction for "amounts taken into account in the calculation of the credit." This exclusion would prevent a taxpayer from taking a deduction on the costs used to generate the credit and would limit the taxpayer to a $500 credit. If the author intends for a deduction otherwise allowed to be reduced by the credit or the expense that generated the credit versus being eliminated, this bill should be amended.

Legislative History

AB 2414 (Choi, 2017/2018), substantially similar to this bill, would have allowed a tax credit to a qualified taxpayer that installed an attic vent closure in a residential property in an amount equal to 40 percent of the qualified costs paid or incurred by the qualified taxpayer during the taxable year of the installation. AB 2414 failed to pass out of the house of origin by the constitutional deadline.

Other States' Information

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota,* and *New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws. No similar tax credits were identified.

Fiscal Impact

This bill would require some changes to the existing tax forms and instructions, and information systems. As the bill continues to move through the legislative process, costs will be identified.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 266 as Introduced on January 24, 2019
Assumed Enactment after June 30, 2019

($ in Millions)

Fiscal Year	Revenue
2019-2020	-$28.0
2020-2021	-$80.0
2021-2022	-$110.0

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 US Census Bureau, it is estimated that there would be approximately 14.2 million single-family and multi-family residences in California in 2020. It is assumed that 1.25 percent, or 150,000 of single-family and 27,000 of multi-family residence owners would pursue an attic vent closure project and have qualified costs in 2020.

Based on home improvement data, the estimated average cost of a vent closure replacement project for a single-family residence would be $1,200. Applying the credit at 40 percent of costs would result in an average cost of $475 per residence and the credit would be approximately $71 million in taxable year 2020.

Using the same data, the estimated average cost for an attic vent closure project for a multi-family residence would be $7,000. Applying the credit at 40 percent of costs would exceed the maximum credit allowed of $500 per taxpayer. Applying the maximum credit of $500 would result in a total credit generated for multi-family residences of approximately $14 million in taxable year 2020. Total credits for both single and multi-family residences would be $85 million in taxable year 2020 and would peak to $160 million in taxable year 2024.

It is estimated that 80 percent of total credits generated, or $68 million, would be used in the year generated and the remaining 20 percent would be claimed in the following year.

To arrive at the offsetting tax effect of the expense deduction that would otherwise be allowed under current law, it is estimated that qualified taxpayers would be unable to deduct approximately $125 million in qualified expenses in taxable year 2020. Applying an average tax rate of 8 percent results in an offsetting revenue gain of $10 million. This results in an estimated net revenue loss of $58 million in taxable year 2020.

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

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