



## **Summary Analysis of Amended Bill**

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Sponsor:

Bill Number: AB 348

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Amended: March 21, 2019

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Related Bills: See Prior Analysis

**Subject:** Teachers Instructional Materials and Classroom Supplies Credit

### **Summary**

This bill would, under the Personal Income Tax Law (PITL), allow qualified teachers a tax credit for purchases of instructional materials and classroom supplies.

**Recommendation – No position.**

### **Summary of Amendments**

The March 21, 2019, amendments, modified the definition of “qualified teacher,” increased the maximum allowable credit amount, and added sunset and repeal dates, as well as a reporting requirement.

As a result of the amendments, one of the policy concerns discussed in the department’s analysis of the bill as introduced on February 4, 2019, has been resolved.

Except for the “Effective/Operative Date,” “This Bill,” “Implementation Considerations,” “Economic Impact,” and “Policy Concerns” sections, the remainder of the department’s analysis of the bill as introduced on February 4, 2019, still applies. The “Fiscal Impact” section has been restated below for convenience.

### **Effective/Operative Date**

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

### **This Bill**

For each taxable year beginning on or after January 1, 2020, and before January 1, 2025, this bill would, under the PITL, allow a tax credit in an amount equal to the amount paid or incurred by a qualified teacher during the taxable year for instructional materials and classroom supplies, not to exceed \$250 per taxable year.

The bill would define the following terms for purposes of this credit.

- “Instructional materials and classroom supplies” means books, supplies, computer equipment, including related software, services, and other equipment, and supplementary materials used in the classroom, that are not of a religious nature. “Instructional materials and classroom supplies” would specifically exclude nonathletic supplies for courses of instruction in health or physical education.
- “Qualified teacher” means a teacher in a public, charter, or private school offering instruction in kindergarten or any grades 1 to 12, inclusive, who is within their first three years of employment as a teacher.

Unused credits could be carried over for up to three years or until exhausted.

This bill would require the Franchise Tax Board to submit an annual report to the Legislature on the amount of credits used by qualified teachers.

This bill would remain in effect until December 1, 2025, and be repealed as of that date.

### **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.

The defined phrase “instructional materials and classroom supplies” uses the undefined phrase “not of a religious nature” as well as specifically excluding the undefined phrase “nonathletic supplies for courses of instruction in health or physical education.” The absence of definitions to clarify these phrases could lead to disputes with taxpayers and would complicate the administration of this bill. For example, expenses paid for certain materials supporting social studies and history could be argued to be “of a religious nature” and ineligible for the credit. To ensure clarity and consistency with the author’s intent this bill should be amended.

The definition of “qualified teacher” uses the undefined terms “teacher” and “offering instruction.” The phrase “who is within their first three years of employment as a teacher” is also undefined, and it is unclear how the department would be able to verify this. Additionally, the definition would exclude teachers that are transitional kindergarten or preschool teachers from eligibility for the credit. To ensure clarity and consistency with the author’s intent this bill should be amended.

Because the bill fails to specify otherwise, two qualified teachers filing a joint return would each be eligible for the credit. If this is contrary to the author’s intent, the bill should be amended.

### **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.

### **Economic Impact**

#### Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 348 as Amended March 21, 2019  
Assumed Enactment after June 30, 2019

(\$ in Millions)

<b>Fiscal Year</b>	<b>Revenue</b>
2019-2020	n/a
2020-2021	-\$7.9
2021-2022	-\$8.4

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 Department of Education, it is estimated there would be 60,000 qualified teachers in California in 2020. Data from the National Center for Education Statistics reported that teachers spend an average of \$480 each year on instructional materials and classroom supplies. Therefore, it is estimated that qualified teachers would be eligible for the entire credit of \$250 per taxable year, resulting in \$13 million of credits generated in the 2020 taxable year.

It is estimated that 70 percent, or \$9 million, of the credit would be earned by qualified teachers who have the tax liability to offset with the credit. Of this amount 90 percent, or \$8 million, would be claimed in the year generated and the remaining credit would be used over the subsequent three years. The tax year estimates are converted to fiscal year totals and rounded to arrive at the amounts reflected in the above table.

## **Policy Concerns**

Generally, tax credits are based on unreimbursed expenditures. This bill would allow reimbursed expenses in determining the credit, thus allowing taxpayers in certain circumstances a tax benefit when there has been no underlying economic outlay.

## **Legislative Staff Contact**

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