



Bill Analysis

Author: Wallis

Sponsor:

Bill Number: AB 691

Related Bills: See Legislative
History

Amended: March 13, 2025

SUBJECT

Pet Adoption and Medical Expenses Tax Credits

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2025, and before January 1, 2030, provide a taxpayer a credit for qualified pet adoption costs and a credit for qualified pet medical expenses paid or incurred.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

The March 13, 2025, amendments removed provisions of the bill related to property tax and replaced them with the provisions discussed in this analysis.

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

REASON FOR THE BILL

The reason for the bill is to encourage more taxpayers to adopt companion animals from rescue organizations.

ANALYSIS

Under the PITL, this bill would, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, allow a tax credit for an amount equal to the following:

- Qualified pet adoption costs paid or incurred by the taxpayer during the taxable year, not to exceed \$250.
- Qualified pet medical expenses paid or incurred by the taxpayer during the taxable year, not to exceed \$500.

The bill would define the following:

- “Qualified animal rescue organization” means a public animal control agency or shelter, humane society shelter, or nonprofit rescue group that is exempt federal income taxation pursuant to Internal Revenue Code (IRC) section 501(c)(3) that is domiciled in this state and is primarily engaged in rescuing and placing animals in permanent homes.
- “Qualified pet” means a dog, cat, or other companion animal adopted from a qualified animal rescue organization that is not used by the taxpayer in a trade of business or for the production of income.
- “Qualified pet adoption costs” means the costs paid to a qualified animal rescue organization as adoption fees to secure the adoption of qualified pet.
- “Qualified pet medical expenses” means unreimbursed amounts paid for veterinary care, including vaccinations, spaying or neutering, and other necessary medical treatments for a qualified pet in the first 12 months following adoption.

The tax credit for qualified pet adoption costs may only be claimed once during the lifetime of the taxpayer. The tax credit for qualified pet medical expenses may only be claimed for one qualified pet during the lifetime of the taxpayer not to exceed \$500 cumulatively for that qualified pet. In the case of spouses filing joint returns, these credit limitations would apply to each spouse separately.

The taxpayer would be required provide, upon request and in the form and manner prescribed by the Franchise Tax Board (FTB), all documentation that the FTB determines necessary, including, but not limited to:

- A receipt or certification from the qualified animal rescue organization specifying the adoption date, pet description, and adoption fee paid.
- Receipts or invoices from a licensed veterinarian detailing the expenses incurred within the first 12 months following adoption.
- A declaration under penalty of perjury that the taxpayer has not previously claimed the respective credit in any prior taxable year, except for spouses filing joint returns.

This bill includes language to comply with Revenue and Taxation Code (RTC) section 41, stating that the purpose of the credit is to encourage the adoption of pets from rescue organizations. The performance indicators used to evaluate the effectiveness of credit are the number of taxpayers allowed the credit, and the total dollar value of credits allowed.

The bill would require the FTB to submit a report to the Legislature on or before December 1, 2026, and annually thereafter, detailing the number of taxpayers allowed the credit and the total dollar value of credits allowed.

This credit would be repealed on December 1, 2030.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2025, and before January 1, 2030.

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. Currently, federal and state law has no credit comparable to the Pet Adoption and Medical Expenses Tax Credit.

Under existing state law, legislation that would create a new tax expenditure, which includes a credit, deduction, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, detailed performance indicators, and data collection requirements to allow the Legislature to evaluate the effectiveness of the tax benefit.

Implementation Considerations

The FTB has identified the following considerations and is available to work with the author's office to resolve these and other considerations that may be identified.

This bill requires the FTB to prepare a report on the performance of the credit allowed by this bill on or before December 1, 2026, and annually thereafter. If the author's intent is to be able to review a report that contains complete information for taxable year 2025, it is recommended that the report due date be extended to no earlier than July 1, 2027. For instance, the due date for the 2025 personal income tax return is April 15, 2026, with extension individuals filing as late as October 15, 2026. The FTB needs approximately six to eight months to complete return processing and to compile the needed data to prepare a report. As a result, it is recommended that the reporting due date be no earlier than July 1, 2027, to provide complete information for the 2025 taxable year.

Technical Considerations

For consistency of terminology, the following changes are recommended:

- In Section 17052.27(a) delete "that term is".
- In Section 17052.27(b)(3) and (4) it is recommended to replace "paid" with "paid or incurred"
- In Section 17052.27(e)(1)(B) replace "taxpayers allowed" with "taxpayers claiming"

Policy Considerations

This bill does not provide a credit carryover period. 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 to allow a limited carryover period.

LEGISLATIVE HISTORY

AB 514 (Patterson and Lackey, 2023/2024) would have allowed a \$1,500 refundable tax credit to a taxpayer for the adoption of one or more law enforcement dogs during the taxable year. AB 514 did not pass out of the Assembly by the constitutional deadline.

AB 3128 (Chen, 2017/2018) would have allowed to a qualified disabled veteran a credit for qualified costs of ownership and maintenance of a service dog in an amount equal to 50 percent of the qualified disabled veteran's qualified costs, not to exceed \$1,500 during the taxable year. AB 3128 did not pass out of the Assembly by the constitutional deadline.

AB 2472 (Linder, 2015/2016) would have allowed a tax credit equal to 50 percent of the qualified costs of a qualified disabled veteran, paid or incurred for the ownership and maintenance of a qualified animal, not to exceed \$1,500. AB 2472 did not pass out of the Assembly by the constitutional deadline.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

The FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB691 as Amended on March 13, 2025
Assumed Enactment after June 30, 2025

(\$ in Millions)

Fiscal Year	Revenue
2025-2026	-\$95
2026-2027	-\$60
2027-2028	-\$60

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.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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