Date of Hearing: March 27, 2017

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION
Sebastian Ridley-Thomas, Chair

AB 942 (Mathis) – As amended March 21, 2017

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Personal income taxes: credit: veterinary costs

SUMMARY: Allows a tax credit under the Personal Income Tax (PIT) Law in an amount equal to 50% of the amount paid or incurred by a taxpayer for "qualified veterinary costs" for a "pet," not to exceed $2,000. Specifically, **this bill**:

1) Allows a tax credit under the PIT Law for taxable years beginning on or after January 1, 2017, and before January 1, 2023, in an amount equal to 50% of the amount paid or incurred during the taxable year by a taxpayer for "qualified veterinary costs" for a "pet," not to exceed $2,000 per taxable year.

2) Defines a "pet" as a domesticated cat or dog owned by the taxpayer.

3) Defines "qualified veterinary costs" as amounts paid or incurred for medical-related expenses paid to a licensed veterinarian, including, but not limited to, vaccinations, annual checkups, surgeries, and drug prescriptions. "Qualified veterinary costs" do not include expenses reimbursed by pet insurance.

4) Allows the credit to be carried over for seven years or until the credit is exhausted.

5) Repeals the credit on December 1, 2023.

6) Provides that Revenue and Taxation Code (R&TC) Section 41 does not apply to the credit.

7) Takes effect immediately as a tax levy.

EXISTING LAW:

1) Allows various tax credits under the PIT Law. These credits are generally designed to encourage socially beneficial behavior or to provide relief to taxpayers who incur specified expenses.

2) Applies performance measurement standards to any new tax credit under either the PIT Law or Corporation Tax (CT) Law if enacted by a bill introduced on or after January 1, 2015. Specifically, existing law requires all of the following:

   a) Specific goals, purposes, and objectives that the tax credit will achieve;

   b) Detailed performance indicators for the Legislature to use when measuring whether the tax credit meets the goals, purposes, and objectives stated in the bill; and,

c) Data collection requirements to enable the Legislature to determine whether the tax credit is meeting, failing to meet, or exceeding those specific goals, purposes, and objectives. The requirements shall include the specific data and baseline measurements to be collected and remitted in each year the credit is in effect, for the Legislature to measure the change in performance indicators, and the specific taxpayers, state agencies, or other entities required to collect and remit data. (R&TC Section 41).

FISCAL EFFECT: The Franchise Tax Board's estimate for this bill is pending.

COMMENTS:

1) Author's Statement: The author has provided the following statement in support of this bill:

   With routine veterinarian bills totaling in the hundreds, if not thousands of dollars, California's pet-owners are often faced with the difficult decision of undergoing expensive treatments for their pets or letting their furry friends continue on without needed medical attention. We have all heard stories where a family is forced to put down a pet because of the staggering costs for procedures. However, what if the state incentivized pet-owners to keep their pets in the family through an income tax write-off? Our cats and dogs are vital members of our families, providing emotional support through love and affection. Inflated veterinary costs should never prevent a family from adopting or taking care of a pet.

2) Supporters state that "the high bills associated with complex emergency care, orthopedic, or cancer surgery can leave a client so conflicted about their ability to pay for treatment that it 'can become a life or death decision for these pets.'"

3) Opponents state that pet care can reach into the thousands depending on individual veterinary needs, but because the decision to have a pet is discretionary, the state has never provided any expenditures or incentives for pet owners.

4) Committee Staff Comments:

   a) What is a "Tax Expenditure"? Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. In the late 1960s, United States Treasury officials began arguing that these features of the tax law should be referred to as "expenditures," since they are generally enacted to accomplish some governmental purpose and there is a determinable cost associated with each of them (in the form of forgone revenues). This bill would enact a new tax expenditure program in the form of a tax credit for qualified veterinary costs incurred by a taxpayer for their pet.

   b) Tax Expenditure vs. Direct Expenditure: As the Department of Finance notes in its annual Tax Expenditure Report, there are several key differences between tax expenditures and direct expenditures. First, tax expenditures are reviewed less frequently than direct expenditures once they are put in place. This can offer taxpayers greater certainty, but it can also result in tax expenditures remaining part of the tax code without demonstrating any public benefit. Second, there is generally no control over the amount of revenue losses associated with any given tax expenditure. Finally, it should also be noted that, once enacted, it takes a two-thirds vote to rescind an existing tax expenditure absent a sunset date. This bill includes a six-year sunset date for the tax credit. The Committee has generally recommended a five year sunset.

c) Incentive or Reward: Generally, tax expenditures such as the one in this bill are designed to encourage new socially beneficial behavior instead of simply rewarding individuals for behavior they would have done in the absence of the incentive. This bill provides a credit for expenses that are incurred beginning on or after January 1, 2017, before the provisions of this bill are even enacted. Thus, individuals may be receiving a benefit for behavior they would have done irrespective of the incentive. The Committee may wish to consider whether it is appropriate to reward individuals for expenses that were incurred before the provisions in this bill can take effect.

d) Not Every Person Benefits: A tax credit is often more valuable than a deduction because it lowers the tax liability dollar for dollar. In contrast, a deduction decreases the taxable income, so its value depends on one's tax bracket. For example, if a taxpayer is in a 25% bracket, a $1,000 deduction would lower the taxpayer's tax bill by $250. In contrast, a $1,000 credit decreases the tax liability by the full $1,000 regardless of the tax bracket. As such, tax credits are worth the same irrespective of the taxpayer. However, not everyone is able to utilize a tax credit. Because this tax credit is currently nonrefundable and because California's poorest working families have little or no tax liability, this bill would have minimal impact, if any, on lower income families.

e) R&TC Section 41: SB 1335 (Leno), Chapter 845, Statutes of 2014 added R&TC Section 41, which recognized that the Legislature should apply the same level of review used for government spending programs to tax preference programs, including tax credits. Thus, Section 41 requires any bill that is introduced on or after January 1, 2015 and allows a new PIT or CT credit to contain specific goals, purposes, and objectives that the tax credit will achieve. In addition, Section 41 requires detailed performance indicators for the Legislature to use when measuring whether the tax credit meets the goals, purposes, and objectives so-identified. This bill provides that R&TC Section 41 does not apply to the proposed tax credit. The Committee may wish to consider the appropriateness of this exemption.

REGISTERED SUPPORT / OPPOSITION:

Support

California Veterinary Medical Association
Sacramento Council of Dog Clubs
Social Compassion in LegislationDate of Hearing: March 27, 2017
Four individual taxpayers

Opposition

California Tax Reform Association

Analysis Prepared by: Carlos Anguiano / REV. & TAX. / (916) 319-2098