

TRANSMITTAL

To:

THE COUNCIL

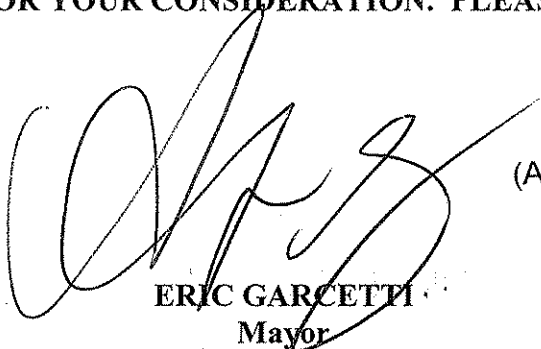
Date:

MAR 24 2014

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.



(Ana Guerrero)

ERIC GARCETTI
Mayor

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ANIMAL SERVICES
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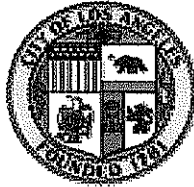
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MAYOR

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CHIEF VETERINARIAN

MAR 13 2014

Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall
200 North Spring Street
Los Angeles, California 90012

SUPPORT FOR AB 2326 (DICKINSON) ANIMAL ADOPTION TAX CREDIT

At its meeting of March 11, 2014, the Board of Animal Service Commissioners (Board) voted 5-0 to:

- **SUPPORT** Assembly Bill 2326 (Dickinson) which, covering the tax years from January 1, 2015 through January 1, 2020, would establish a tax deduction for California taxpayers adopting animals from public animal shelters, humane societies or rescue groups and a "check-off" donation mechanism on California tax returns to raise money to offset the cost of the deduction to the State's General Fund, and create a grant program for shelters.
- Upon approval, **TRANSMIT** this recommendation to the Mayor and Council for inclusion in the City's legislative program.

SUMMARY

Assembly Bill 2326 would create a "check-off" box for taxpayers to contribute to the proposed *Pet Adoption Cost Deduction Fund* and allow taxpayers to deduct the cost of adopting an animal from a public shelter or rescue organization. This bill would also provide grants up to \$22,500 to shelters and rescue organizations to care for homeless animals.

BACKGROUND

AB 2326 (attached) would raise money to offset the cost of the adoption deduction to the State's General Fund and create a grant program for shelters. By providing an above-the-line deduction on state taxes for the adoption of companion animals from a qualified shelter or animal rescue, AB 2326 incentivizes state residents to adopt rather

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than purchase a pet. The deduction would apply to those who itemize their taxes as well as those who do not.

If approved, a deduction equal to the qualified costs paid during the taxable year for the adoption of a pet from a qualified animal rescue organization (not to exceed \$100), will be available to taxpayers.

Additionally, AB 2326 allows taxpayers filing a return to contribute to the Pet Adoption Cost Deduction Fund (which would be established by this bill). This will reimburse the State General Fund and any excess funds will be used to provide grants to eligible shelters to aid in the cost of providing food and shelter for homeless animals. This grant program would be administered by the Department of Food and Agriculture on a first-come, first-served basis. Grants would be made on a graduated scale depending upon the size of the applying shelter(s), with shelter systems annually processing more than 25,000 animals (such as Animal Services) eligible for a maximum grant of \$22,500 a year, provided funds are available.

The bill provides that these provisions would remain in effect only until January 1 of the 5th taxable year following the first appearance of the Pet Adoption Cost Deduction Fund on the tax return (2020), but would further provide for an earlier repeal if the Franchise Tax Board determines that the amount of contributions estimated to be received during a calendar year will not equal or exceed the minimum contribution amount, as defined, for that calendar year (see next paragraph), in which case the provisions of the bill would be repealed on December 1 of that year. This section of the bill is intended to incentivize the use of the check-off mechanism. If the amount raised falls below \$250,000, the tax credit and check-off mechanism would "sunset" prior to 2020.

For purposes of this provision, the minimum contribution amount for a calendar year means \$250,000 for the second calendar year after the first appearance of the Pet Adoption Cost Deduction Fund on the personal income tax return, or the minimum contribution amount as adjusted by the Franchise Tax Board.

The bill is expected to be first heard in an Assembly committee toward the end of March.

IMPACT ON LOS ANGELES

This legislation can be beneficial to the City and Animal Services in at least two ways. At no cost to the City, it can reduce shelter and euthanasia costs by incentivizing adoptions for the taxpayer. And, it can offer the City grants of up to \$22,500 in a given year should the funds be available.

The Department has direct experience with the benefits of reducing the cost of adoptions for our shelter animals. From July 2013 through February 2014, Animal Services has held 10 discount adoption events, resulting in a total of 4,148 adoptions. For the same period last fiscal year, the Department had 3,568 adoptions. Our

Office of Mayor Eric Garcetti
AB 2326 Animal Adoption Tax Credit
March 12, 2014

discounted adoptions helped save 580 more animals, with several more discount events planned this fiscal year.

The AB 2326 tax credit would have the effect of offering a modest discount to taxpayers adopting animals whether or not one of our discount periods was in effect. The tax credit would also apply to discounted adoption fees, adding to the benefit to adopters.

The exact amount of benefit to each taxpayer would depend on their bracket and how it was affected by the deduction from gross income of up to \$100 for dogs, \$76 for cats or \$56 for rabbits during non-discounted periods and less during discounted periods. (The bill does not allow a deduction to exceed the amount of the adoption fee.)

An additional overall benefit of AB 2326 is that adoptions from humane societies (such as spcaLA) and rescue groups (including the Department's New Hope partners) would also be eligible.

FISCAL IMPACT

The Department anticipates that AB 2326 would create a modest fiscal benefit depending on the bill's impact on adoptions and whether the Department is able to receive the annual Department of Food Agriculture grant.

Brenda F. Barnette

Brenda F. Barnette
General Manager

Attachment.

cc: Patricia Whelan, Associate Director
Mandy Morales, Legislative Coordinator
Dov Lesel, Assistant City Attorney
Ross Pool, Animal Services
File

ASSEMBLY BILL

No. 2326

Introduced by Assembly Member Dickinson

February 21, 2014

An act to amend Section 17072 of, to add and repeal Section 17239 of, and to add and repeal Article 18 (commencing with Section 18887) of Chapter 3 of Part 10.2 of Division 2 of, the Revenue and Taxation Code, relating to taxation.

LEGISLATIVE COUNSEL'S DIGEST

AB 2326, as introduced, Dickinson. Personal income tax: deductions: pet adoption costs: voluntary contributions.

(1) The Personal Income Tax Law authorizes various deductions in computing income that is subject to tax under that law.

This bill, for taxable years beginning on or after January 1, 2015, and before January 1, 2020, would allow a deduction from gross income, not to exceed \$100, under that law for the qualified costs paid or incurred by a taxpayer for the adoption of a pet from a qualified animal rescue organization.

(2) The Personal Income Tax Law authorizes taxpayers to contribute amounts in excess of their tax liability for the support of specified funds.

This bill would authorize taxpayers to designate on their tax return that a specified amount in excess of their tax liability be transferred to the Pet Adoption Cost Deduction Fund, which would be created by this bill. The bill would prohibit a voluntary contribution designation for the Pet Adoption Cost Deduction Fund from being added on the tax return until another voluntary contribution designation is removed.

The bill would require moneys in the Pet Adoption Cost Deduction Fund, upon appropriation by the Legislature, to be allocated to the

Franchise Tax Board, to the Controller for reimbursement of costs in connection with providing personal income tax deductions for pet adoptions, as provided, and the balance to the Department of Food and Agriculture for the distribution of grants to eligible municipal shelters, as defined, for the purpose of providing food and shelter to abandoned and impounded animals, as specified.

The bill would provide that these provisions would remain in effect only until January 1 of the 5th taxable year following the first appearance of the Pet Adoption Cost Deduction Fund on the tax return, but would further provide for an earlier repeal if the Franchise Tax Board determines that the amount of contributions estimated to be received during a calendar year will not equal or exceed the minimum contribution amount, as defined, for that calendar year, in which case these provisions would be repealed on December 1 of that year.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 17072 of the Revenue and Taxation Code
2 is amended to read:

3 17072. (a) Section 62 of the Internal Revenue Code, relating
4 to adjusted gross income defined, shall apply, except as otherwise
5 provided.

6 (b) Section 62(a)(2)(D) of the Internal Revenue Code, relating
7 to certain expenses of elementary and secondary school teachers,
8 shall not apply.

9 (c) Section 62(a)(21) of the Internal Revenue Code, relating to
10 attorneys fees relating to awards to whistleblowers, shall not apply.

11 (d) *For taxable years beginning on or after January 1, 2015,*
12 *and before January 1, 2020, the deduction allowed by Section*
13 *17239, relating to qualified costs for the adoption of a pet from a*
14 *qualified animal rescue organization, shall apply.*

15 SEC. 2. Section 17239 is added to the Revenue and Taxation
16 Code, to read:

17 17239. (a) For each taxable year beginning on or after January
18 1, 2015, and before January 1, 2020, there shall be allowed as a
19 deduction an amount equal to the qualified costs paid or incurred
20 during the taxable year by a taxpayer for the adoption of a pet from
21 a qualified animal rescue organization.

1 (b) For the purposes of this section, the following definitions
2 shall apply:

3 (1) "Pet" means an animal adopted from a qualified animal
4 rescue organization that is not used by the taxpayer in a trade or
5 business or for the production of income.

6 (2) "Qualified animal rescue organization" means a public
7 animal control agency or shelter, humane society shelter, or rescue
8 group.

9 (3) "Qualified costs" means amounts paid or incurred to a
10 qualified animal rescue organization to adopt a pet, not to exceed
11 one hundred dollars (\$100).

12 (4) "Rescue group" means an organization exempt from federal
13 income taxation as, an organization described in Section 501(c)(3)
14 of the Internal Revenue Code, whose primary purpose is the
15 placement of dogs, cats, or other animals that have been removed
16 from a public animal control agency or shelter, society for the
17 prevention of cruelty to animals shelter, or humane society, or that
18 have been surrendered or relinquished to the rescue group by the
19 previous owner.

20 (c) The deduction allowed under this section for a taxable year
21 shall not exceed one hundred dollars (\$100).

22 (d) This section shall remain in effect only until December 1,
23 2020, and as of that date is repealed.

24 SEC. 3. Article 18 (commencing with Section 18887) is added
25 to Chapter 3 of Part 10.2 of Division 2 of the Revenue and Taxation
26 Code, to read:

27
28 Article 18. Pet Adoption Cost Deduction Fund
29

30 18887. (a) An individual may designate on the tax return that
31 a contribution in excess of the tax liability, if any, be made to the
32 Pet Adoption Cost Deduction Fund established by Section 18888.
33 That designation is to be used as a voluntary contribution on the
34 tax return.

35 (b) The contributions shall be in full dollar amounts and may
36 be made individually by each signatory on a joint return.

37 (c) A designation under subdivision (a) shall be made for a
38 taxable year on the original return for that taxable year, and once
39 made shall be irrevocable. If payments and credits reported on the
40 return, together with any other credits associated with the

1 individual's account, do not exceed the individual's liability, the
2 return shall be treated as though no designation has been made. If
3 a designee is not specified, the contribution shall be transferred to
4 the General Fund after reimbursement of the direct actual costs of
5 the Franchise Tax Board for the collection and administration of
6 funds under this article.

7 (d) If an individual designates a contribution to more than one
8 account or fund listed on the tax return, and the amount available
9 is insufficient to satisfy the total amount designated, the
10 contribution shall be allocated among the designees on a pro rata
11 basis.

12 (e) The Franchise Tax Board shall revise the form of the return
13 to include a space labeled "Pet Adoption Cost Deduction Fund"
14 to allow for the designation permitted under subdivision (a). The
15 form shall also include in the instructions information that the
16 contribution may be in the amount of one dollar (\$1) or more and
17 that the contribution shall be used to reimburse the California State
18 General Fund for the reduction in receipts attributable to the Pet
19 Adoption Fee Deduction allowed pursuant to Section 17239, with
20 any contributions in excess of the reduction in receipts used to
21 provide grants to eligible municipal shelters for the purpose of
22 providing food and shelter to abandoned and impounded animals.

23 (f) Notwithstanding any other law, a voluntary contribution
24 designation for the Pet Adoption Cost Deduction Fund shall not
25 be added on the tax return until another voluntary contribution
26 designation is removed.

27 (g) A deduction shall be allowed under Article 6 (commencing
28 with Section 17201) of Chapter 3 of Part 10 for any contribution
29 made pursuant to subdivision (a).

30 18888. There is hereby established in the State Treasury the
31 Pet Adoption Cost Deduction Fund to receive contributions made
32 pursuant to Section 18887. The Franchise Tax Board shall notify
33 the Controller of both the amount of money paid by taxpayers in
34 excess of their tax liability and the amount of refund money that
35 taxpayers have designated pursuant to Section 18887 to be
36 transferred to the Pet Adoption Cost Deduction Fund. The
37 Controller shall transfer from the Personal Income Tax Fund to
38 the Pet Adoption Cost Deduction Fund an amount not in excess
39 of the sum of the amounts designated by individuals pursuant to
40 Section 18887 for payment into that fund.

1 18889. All moneys transferred to the Pet Adoption Cost
2 Deduction Fund, upon appropriation by the Legislature, shall be
3 allocated as follows:

4 (a) To the Franchise Tax Board and the Controller for
5 reimbursement of all costs incurred by the Franchise Tax Board
6 and the Controller in connection with their duties under this article.

7 (b) To the Controller for reimbursement of all losses incurred
8 by the General Fund in connection with providing tax deductions
9 for pet adoptions pursuant to Section 17239.

10 (c) (1) To the Department of Food and Agriculture for
11 distribution of grants to eligible municipal shelters for the purpose
12 of providing food and shelter to abandoned and impounded
13 animals. The department may use up to 5 percent of the money
14 allocated to municipal shelters for administrative costs incurred
15 in connection with the Pet Adoption Fee Deduction Fund.

16 (2) For the purposes of this article, “eligible municipal shelter”
17 means a city or county animal control agency or shelter that is
18 current on its reporting requirements to the State Department of
19 Public Health, Veterinary Public Health Section. The State
20 Department of Public Health shall, upon the written request of the
21 Department of Food and Agriculture, make available information
22 regarding whether a city or county animal control agency or shelter
23 is current on its reporting requirements pursuant to this paragraph.

24 (3) The Department of Food and Agriculture shall do all of the
25 following with respect to the distribution of grants:

26 (A) Accept applications for grants from eligible municipal
27 shelters.

28 (B) Process and approve, or reject all applications on a
29 first-come-first-served basis, in the following manner:

30 (i) Eligible municipal shelters processing fewer than 5,000 dogs
31 and cats each year shall receive up to seven thousand five hundred
32 dollars (\$7,500), if funds are available.

33 (ii) Eligible municipal shelters processing between 5,000 and
34 25,000 dogs and cats each year shall receive up to fifteen thousand
35 dollars (\$15,000), if funds are available.

36 (iii) Eligible municipal shelters processing more than 25,000
37 dogs and cats shall receive up to twenty-two thousand five hundred
38 dollars (\$22,500), if funds are available.

1 (C) Make applications available to eligible municipal shelters
2 on the first day of the second calendar year after the Pet Adoption
3 Fee Deduction Fund first appears on the tax return.

4 (d) In order to be eligible for grants authorized by this article,
5 eligible municipal shelters shall file an application with the
6 Department of Food and Agriculture, in the form and manner as
7 specified by the Department of Food and Agriculture.

8 (e) Any grants distributed under this article create an additional
9 funding source for food and shelter services and programs for
10 eligible municipal shelters and shall be used to supplement, not
11 supplant, other funding sources for these services and programs.

12 18890. (a) Except as otherwise provided in subdivision (b),
13 this article shall remain in effect only until January 1 of the fifth
14 taxable year following the first appearance of the Pet Adoption
15 Cost Deduction Fund on the personal income tax return, and is
16 repealed as of December 1 of that year.

17 (b) (1) By September 1 of the second calendar year and each
18 subsequent calendar year that the Pet Adoption Cost Deduction
19 Fund appears on the tax return, the Franchise Tax Board shall do
20 all of the following:

21 (A) Determine the minimum contribution amount required to
22 be received during the next calendar year for the fund to appear
23 on the tax return for the taxable year that includes that next calendar
24 year.

25 (B) Provide written notification to the Department of Food and
26 Agriculture of the amount determined in subparagraph (A).

27 (C) Determine whether the amount of contributions estimated
28 to be received during the calendar year will equal or exceed the
29 minimum contribution amount determined by the Franchise Tax
30 Board for the calendar year pursuant to subparagraph (A). The
31 Franchise Tax Board shall estimate the amount of contributions
32 to be received by using the actual amounts received and an estimate
33 of the contributions that will be received by the end of that calendar
34 year.

35 (2) If the Franchise Tax Board determines that the amount of
36 the contributions estimated to be received during a calendar year
37 will not at least equal the minimum contribution amount for the
38 calendar year, this article shall be inoperative with respect to
39 taxable years beginning on or after January 1 of that calendar year
40 and shall be repealed on December 1 of that year.

1 (3) For purposes of this section, the minimum contribution
2 amount for a calendar year means two hundred fifty thousand
3 dollars (\$250,000) for the second calendar year after the first
4 appearance of the Pet Adoption Cost Deduction Fund on the
5 personal income tax return or the minimum contribution amount
6 as adjusted pursuant to subdivision (c).

7 (c) For each calendar year, beginning with the third calendar
8 year after the first appearance of the Pet Adoption Cost Deduction
9 Fund on the personal income tax return, the Franchise Tax Board
10 shall adjust, on or before September 1 of that calendar year, the
11 minimum contribution amount specified in subdivision (b) as
12 follows:

13 (1) The minimum contribution amount for the calendar year
14 shall be an amount equal to the product of the minimum
15 contribution amount for the prior calendar year multiplied by the
16 inflation factor adjustment as specified in subparagraph (A) of
17 paragraph (2) of subdivision (h) of Section 17041, rounded off to
18 the nearest dollar.

19 (2) The inflation factor adjustment used for the calendar year
20 shall be based on the figures for the percentage change in the
21 California Consumer Price Index for all items received on or before
22 August 1 of the calendar year pursuant to paragraph (1) of
23 subdivision (h) of Section 17041.

24 (d) Notwithstanding the repeal of this article, any contribution
25 amounts designated pursuant to this article prior to its repeal shall
26 continue to be transferred and disbursed in accordance with this
27 article as in effect immediately prior to that repeal.