

Date of Hearing: April 7, 2025

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

AB 834 (Hadwick) – As Amended March 24, 2025

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Personal Income Tax Law: deduction: teachers

SUMMARY: Conforms to federal law by allowing an above-the-line deduction under the Personal Income Tax (PIT) Law for certain expenses paid or incurred by elementary and secondary school teachers for taxable years beginning on or after January 1, 2026, and before January 1, 2031. Specifically, **this bill**:

- 1) Conforms to federal law by authorizing, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, an above-the-line deduction under the PIT Law for unreimbursed amounts paid or incurred, up to \$300, by elementary and secondary school teachers related to participation in professional development courses or to purchase materials and supplies for use in the classroom.
- 2) Provides that, for purposes of complying with Revenue and Taxation Code (R&TC) Section 41, the Legislature finds and declares the following:
 - a) The specific purpose of the deduction is to achieve conformity with federal law and support teachers that incur the costs of classroom supplies, materials, and professional development, which benefit students; and,
 - b) To the extent that data is available to be collected, the Franchise Tax Board (FTB) shall collect the number of taxpayers claiming the deduction, the average amount of the deduction claimed by taxpayers, and descriptions of the expenses deducted to determine if the deduction is conforming with federal law, supporting teachers, and benefiting students.
- 3) Takes immediate effect as a tax levy.

EXISTING FEDERAL LAW allows "eligible educators" to deduct, as an adjustment to gross income, up to \$300 of the cost to purchase specified school supplies used in the classroom or to participate in certain professional development courses. An "eligible educator", in turn, is defined as an individual who is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

EXISTING STATE LAW:

- 1) Allows, in modified conformity with federal tax law, various deductions from gross income in computing adjusted gross income (AGI) under the PIT Law. (R&TC Section 17072(a).)

- 2) Does not conform to Internal Revenue Code Section 62(a)(2)(D), related to specified expenses of elementary and secondary school teachers. (R&TC Section 17072(b).)
- 3) Requires any bill that authorizes a tax expenditure to contain all of the following:
 - a) Specific goals, purposes, and objectives that the tax expenditure will achieve;
 - b) Detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets the goals, purposes, and objectives stated in the bill; and,
 - c) Specified data collection requirements to enable the Legislature to determine whether the tax expenditure is meeting, failing to meet, or exceeding those specific goals, purposes, and objectives. (R&TC Section 41.)

FISCAL EFFECT: The FTB estimates that this bill would reduce General Fund revenues by \$5.5 million in both fiscal year (FY) 2026-27 and FY 2027-28.

COMMENTS:

- 1) The author has provided the following statement in support of this bill:

Teachers across California are spending more and more out of pocket every year to provide the best education for their students. With districts working with small supply budgets, any extras—whether it's classroom supplies, coats for students, snacks, or holiday party items—often come out of the teacher's pocket. Teachers step up to fill in the gaps for their students, going above and beyond without hesitation. I know this firsthand, having spent hundreds of dollars each month out of my own pocket. When I first filed my taxes as a teacher, I was appalled to learn I couldn't claim the costs I had incurred to support my students. Providing a state income tax deduction for teacher expenses through Assembly Bill 834 is just one small step to show that we are investing in our teachers, just as they invest in their classrooms and our children every single day.

- 2) Committee Staff Comments:

- a) *What does this bill do?* This bill conforms to the federal "above-the-line" deduction available to qualifying elementary and secondary school teachers for amounts paid or incurred for school supplies and professional development courses, not to exceed \$300. Eligible school supplies include books, computer equipment, and supplementary materials used by the eligible educator in the classroom. Professional development courses, in turn, must be related to the curriculum in which the educator provides instruction or to the students for which the educator provides instruction.
- b) *Above-the-line deduction vs itemized deduction:* An "above-the-line" deduction is used to derive a taxpayer's AGI, while a "below-the-line" deduction reduces AGI to derive taxable income. "Above-the-line" deductions are more desirable than "below-the-line" deductions because they can be claimed even if the taxpayer does not itemize. Additionally, they lower the taxpayer's AGI, which may allow the taxpayer to qualify for additional tax benefits.

- c) *The value of a tax deduction:* A deduction is generally more valuable to high-income taxpayers because the "value" of a deduction varies with the marginal tax rate (or tax bracket) of the taxpayer. For example, an individual taxpayer in a 10% tax bracket would receive a tax benefit of \$10 on a \$100 deduction. In contrast, a taxpayer in a 25% tax bracket would save \$25 in tax out of every \$100 deducted. Thus, assuming the same level of deductions, high-income taxpayers, presumably with a greater ability to pay taxes, would receive a greater tax benefit from the proposed deduction than lower income taxpayers.
- d) *Subsidizing private school teachers:* It would appear that the tax expenditure benefit conferred by this bill would be available to both public and private school teachers. Advocates of providing a deduction for public and private school teachers alike might argue that all teachers should receive encouragement in an inherently noble profession. Critics, however, might question why General Fund moneys are being used to subsidize costs incurred by teachers at private schools, especially given that tax expenditure programs tend to decrease the amount of funds available for public education in the first instance.
- e) *Federal conformity:* California generally conforms to federal tax law. Conforming to federal law simplifies the preparation of taxpayer returns and eases tax law administration. This bill would bring California further in conformity with federal law by removing the state prohibition on the deduction of certain costs paid or incurred by eligible educators.
- f) *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 remove the restriction in state law for deductions by eligible educators for certain expenses.
- g) *Committee's tax expenditure policy:* 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 credits introduced on or after January 1, 2015. AB 263 (Burke), Chapter 743, Statutes of 2019, extended the requirements in R&TC Section 41 to all tax expenditure measures under the PIT Law, the Corporation Tax Law, and the Sales and Use Tax Law introduced on or after January 1, 2020. A tax expenditure proposal must outline specific goals, purposes, and objectives that the tax expenditure will achieve, along with detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets those stated goals, purposes, and objectives. In addition to the R&TC Section 41 requirements, this Committee's policy also requires that all tax expenditure proposals contain an appropriate sunset provision to be eligible for a vote¹. Sunsets are required because eliminating a tax expenditure generally requires a two-thirds vote. These requirements must be satisfied

¹ An "appropriate sunset provision" means five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" means 10 years.

before a bill can receive a vote in this Committee. This bill complies with Section 41 requirements, and includes a five-year sunset.

h) *Previous legislation:*

- i) AB 250 (Choi), of the 2021-22 Legislative Session, would have provided a \$200 credit under the PIT Law on amounts paid or incurred by a qualified teacher on instructional materials and classroom supplies, as defined. AB 250 was never heard by this Committee.
- ii) SB 1214 (Portantino), of the 2017-18 Legislative Session, would have allowed an "above-the-line" deduction for specified teacher professional development expenses. SB 1214 was held on the Assembly Appropriations Committee's Suspense File.
- iii) AB 586 (Holden), of the 2017-18 Legislative Session, would have allowed a deduction for teacher development expenses. AB 586 was held on the Assembly Appropriations Committee's Suspense File.
- iv) SB 807 (Stern), of the 2017-18 Legislative Session, would have provided a tax credit for costs related to specific teacher training programs and provided an income exclusion for certain eligible teachers. SB 807 was held on the Senate Appropriations Committee's Suspense File.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

None on file

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