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An act to amend Section 17560.5 of the Revenue and Taxation Code,
relating to taxation, to take effect immediately, tax levy.



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THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 17560.5 of the Revenue and Taxation Code is amended to read:

17560.5. (a) Section 461(j) of the Internal Revenue Code, relating to limitation on excess farm losses of certain taxpayers, shall not apply.

(b) (1) Section 11012(a) of the Tax Cuts and Jobs Act (Public Law 115-97), relating to limitation on excess business losses on noncorporate taxpayers, shall apply except as otherwise provided.

(2) Section 461(D)(1) of the Internal Revenue Code, relating to limitation, as amended by Section 11012(a) of the Tax Cuts and Jobs Act (Public Law 115-97), is modified by substituting "beginning after December 31, 2018" for the phrase "beginning after December 31, 2017, and before January 1, 2026."

(3) Section 461(D)(2) of the Internal Revenue Code, relating to disallowed loss carryover, as amended by Section 11012(a) of the Tax Cuts and Jobs Act (Public Law 115-97), is modified by substituting "Any loss which is disallowed under paragraph (1) shall be treated as a carryover excess business loss for the following taxable year." for "Any loss which is disallowed under paragraph (1) shall be treated as a net operating loss carryover to the following taxable year under section 172."

(4) Section 461(D)(3)(A) of the Internal Revenue Code, as amended by Section 11012 (a) of the Tax Cuts and Jobs Act (Public Law 115-97), is modified by inserting "(i) the sum of (I) Any prior year carryover excess business losses, plus" below "In general, the term "excess businesses loss means the excess (if any) of-"

(5) Section 461(D)(3)(A)(i) of the Internal Revenue Code, as amended by Section 11012 (a) of the Tax Cuts and Jobs Act (Public Law 115-97), is modified by inserting "(II)" for "(i)".

(6) Section 461(D)(6) of the Internal Revenue Code, relating to coordination with section 469, as amended by Section 11012(a) of the Tax Cuts and Jobs Act (Public Law 115-97), is modified by substituting "Section 17561" for "section 469."

SEC. 2. This act provides for a tax levy within the meaning of Article IV of the California Constitution and shall go into immediate effect.



LEGISLATIVE COUNSEL'S DIGEST

Bill No. _____
as introduced, _____
General Subject: Personal income taxes: loss limitation.

The Personal Income Tax Law generally allows a noncorporate taxpayer to deduct business losses from a pass through entity, like an "S" corporation.

Under existing federal income tax law, as amended by the Tax Cuts and Jobs Act, for taxable years beginning after December 31, 2017, and before January 1, 2026, excess business losses, as defined, of a noncorporate taxpayer are not allowed as a deduction and instead those losses must be carried forward and treated as a net operating loss in subsequent taxable years, as provided.

This bill, for taxable years beginning after December 31, 2018, would provide modified conformity to the above-described limitation, including not conforming to the federal sunset date.

This bill would include a change in state statute that would result in a taxpayer paying a higher tax within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of $\frac{2}{3}$ of the membership of each house of the Legislature.

This bill would take effect immediately as a tax levy.

Vote: 2/3. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

