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An act to amend Section 24343 of, and to add Section 17271 to, 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 17271 is added to the Revenue and Taxation Code, to read:

17271. (a) The amendments made by Section 13601(a), (b), (c), and (d) of the Tax Cuts and Jobs Act (Public Law 115-97) to Section 162(m) of the Internal Revenue Code, relating to certain excessive employee remuneration, shall apply, except as otherwise provided.

(b) The amendments made by Section 13601(e)(2) of the Tax Cuts and Jobs Act (Public Law 115-97), relating to exception for binding contracts, shall apply, and is modified by substituting "March 31, 2019" for "November 2, 2017."

SEC. 2. Section 24343 of the Revenue and Taxation Code is amended to read:

24343. (a) Section 162 of the Internal Revenue Code, relating to trade or business expenses, shall apply, except as otherwise provided.

(b) For purposes of applying Section 162 of the Internal Revenue Code, any references to Section 170 of the Internal Revenue Code shall be modified to refer to Sections 24357 to 24359.1, inclusive, of this part.

(c) (1) The amendments made by Section 13601(a), (b), (c), and (d) of the Tax Cuts and Jobs Act (Public Law 115-97) to Section 162(m) of the Internal Revenue Code, relating to certain excessive employee remuneration, shall apply, except as otherwise provided.

(2) The amendments made by Section 13601(e)(2) of the Tax Cuts and Jobs Act (Public Law 115-97), relating to exception for binding contracts, shall apply, and is modified by substituting "March 31, 2019" for "November 2, 2017."

SEC. 3. 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: Income taxes; deduction; business expenses; covered employees.

The Personal Income Tax Law and the Corporation Tax Law, in modified conformity with federal income tax laws, allow various deductions from gross income in computing adjusted gross income under those laws, including a deduction of ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business. Existing law prohibits a deduction from being allowed with respect to any covered employee of a publicly held corporation if the amount of applicable employee remuneration exceeds \$1,000,000.

This bill would conform to federal income tax law, as amended by the Tax Cuts and Jobs Act, by revising the definitions of covered employee and publicly held corporation to limit the amount those specified taxpayers may deduct for ordinary and necessary expenses. The bill would also disallow the performance-based compensation and commission exceptions with respect to the deduction limitation relating to covered employees.

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.

