



# *Tax*

## **EXPENDITURE REPORT**

**2024-25**

Contents

- Introduction..... 6
  - Definitions..... 7
  - Revenue Estimates ..... 8
  - State Revenue Losses ..... 10
  - Personal Income Tax..... 10
  - Sales and Use Tax..... 11
  - Corporation Tax ..... 11
  - Other Taxes ..... 11
  - Local Revenue Losses ..... 11
  - Unknown Revenue Loss Areas..... 11
  - Legislative Intent ..... 12
  - Other Tax Expenditure Reports ..... 12
- Personal Income Tax ..... 21
  - Employer Pension Contributions Exclusion ..... 21
  - Employer Contributions to Health Plans Exclusion..... 22
  - Social Security Benefits Exclusion ..... 23
  - Basis Step-Up on Inherited Property..... 24
  - Capital Gains on Sale of a Principal Residence Exclusion ..... 25
  - Charitable Contribution Deduction ..... 26
  - Home Mortgage Interest Deduction..... 27
  - Real Estate, Personal Property, and Other Taxes Deduction ..... 28
  - Benefits Provided Under Cafeteria Plans Exclusion..... 30
  - Head-of-Household and Qualifying Widow(er) Filing Status ..... 31
  - Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) Program Exclusions..... 32
  - Dependent Exemption in Excess of Personal Exemption Credit ..... 33
  - Like-Kind Exchanges..... 34
  - Contributions to Individual Retirement Accounts Deduction ..... 35
  - Earned Income Tax Credit (EITC)..... 37
  - Life Insurance and Annuity Contract Proceeds Exclusion ..... 39
  - Self-Employed Retirement Plans Deduction..... 40
  - Medical and Dental Expenses Deduction ..... 41
  - Miscellaneous Fringe Benefits Exclusion ..... 42
  - Meals and Lodging Furnished by Non-Military Employers Exclusion ..... 43
  - Senior Citizens Exemption Credit..... 44
  - Self-Employed Health Insurance Premium Deduction ..... 45

- Young Child Tax Credit..... 46
- Transportation-Related Fringe Benefits Exclusion..... 47
- Scholarship/Fellowship Income Exclusion ..... 48
- Non-resident Military Pay Exclusion ..... 49
- Unemployment Insurance Benefits Exclusion..... 50
- Income Earned on Section 529 (Scholarshare) Plans Exclusion ..... 51
- Employer Contributions to Life Insurance Plans Exclusion ..... 52
- Renters' Credit ..... 53
- State Lottery Winnings Exclusion..... 54
- Employee Child Care Benefits Exclusion ..... 55
- Restaurant Revitalization Fund Grant Exclusion ..... 56
- Compensation for Injuries or Sickness Exclusion ..... 57
- Income for In-Home Supportive Services or Waiver Personal Care Services Providers' Wages Exclusion..... 58
- Employer-Provided Educational Assistance Exclusion ..... 59
- Shuttered Venue Operator Grant Exclusion ..... 60
- Housing for Clergy Exclusion ..... 61
- Student Loan Interest Deduction..... 62
- Limited Partnerships Investment Source Rules..... 63
- Foster Care Payments Exclusion ..... 64
- Child and Dependent Care Credit ..... 65
- Moving Expense Deduction..... 66
- Coverdell Education Savings Accounts Earnings Exclusion ..... 67
- Casualty Loss Deduction ..... 68
- Foster Youth Earned Income Tax Credit..... 69
- Agricultural Soil or Water Conservation and Prevention of Erosion Cost Expensing ..... 70
- Reforestation..... 71
- New Employment Credit ..... 72
- Cannabis High-Road Business Tax Credit ..... 73
- Corporation Tax..... 74
  - Water's Edge Election..... 74
  - Research and Development Credit..... 75
  - Enterprise Zones and Similar Areas Tax Incentives..... 77
  - Tax-Exempt Status for Qualifying Nonprofit and Charitable Corporations..... 79
  - Exemption from the Minimum Tax for First-Year Corporations and Exemption from the Annual Tax for First-Year Limited Liability Companies (LLCs), Limited Partnerships (LPs), and Limited Liability Partnerships (LLPs) ..... 80
  - Cable Companies Proposition 39 Exclusion..... 81
  - Credit Union Treatment ..... 82

- Accelerated Depreciation of Research and Experimental Costs..... 83
- Employee Stock Ownership Plans (ESOP) ..... 84
- Low-Income Housing Credit..... 85
- Film and Television Tax Credit..... 88
- Expensing of Timber Growing Costs ..... 89
- Percentage Depletion of Mineral and Other Natural Resources ..... 90
- Intangible Drilling Cost Expensing..... 91
- State Historic Tax Credit..... 92
- New Advanced Strategic Aircraft Hiring Credit..... 93
- Sales and Use Taxes.....94
  - Food Products Exemption..... 94
  - Gas, Electricity, and Water Exemption..... 95
  - Prescription Medicine Exemption..... 96
  - Animal Life, Feed, Seeds, Plants, Fertilizer, Drugs, and Medicines Exemption..... 97
  - Candy, Confectionery, Snack Foods, and Bottled Water Exemption..... 98
  - Manufacturing and Research & Development Equipment Exemption..... 99
  - Farm Equipment and Machinery ..... 100
  - One-Year Diesel Fuel Sales Tax Exemption..... 101
  - Meals Furnished by Institutions Exemption ..... 102
  - Fuel Sold to Common Carriers Exemption ..... 103
  - Linen Supplies Rentals Exemption ..... 104
  - Wheelchairs, Crutches, Canes, and Walkers Exemption ..... 105
  - Professional Health Services Exemption ..... 106
  - Diesel Fuel Used in Farming and Processing Exemption..... 107
  - Custom Computer Programs Exemption ..... 108
  - California Alternative Energy Exclusion..... 109
  - Children’s Diapers Exemption..... 110
  - Bad Debt Sales Tax Deduction..... 111
  - Blood Storage Units Exemption..... 112
  - Medicine Administered by Veterinarians Exemption ..... 113
  - Subscription Periodicals Exemption..... 114
  - Printed Advertising Exemption..... 115
  - Fuel Sold to Water Common Carriers Exemption ..... 116
  - Oxygen Delivery Systems Exemption..... 117
  - Menstrual Products Exemption ..... 118
  - Tele-production and Post-Production Equipment Exemption..... 119
  - Qualified Motor Vehicles (Clean Cars 4 All) Exemption..... 121
  - Leases of Motion Picture and Television Films and Tapes Exemption ..... 122

*Nonprofit Youth Organizations Exemption*..... 123  
*Fuel from Organic Products and Waste Byproducts Exemption*..... 124  
*Aircraft Jet Fuel Used by Common Carriers and Military Exemption*..... 125  
*Fuel Used by Transit Districts and Schools Exemption* ..... 126  
Property Tax..... 127  
*Computer Programs Exemption* ..... 127  
*Fixtures Excluded from the Supplemental Roll Exemption* ..... 128

## Introduction

The Department of Finance (Finance) is required to provide a tax expenditure report to the Legislature annually. Chapter 1762, Statutes of 1971, required that a biennial report be submitted to the Legislature. Chapter 268, Statutes of 1984, increased the reporting frequency from once every two years to once a year. Chapter 49, Statutes of 2006, and Chapter 55, Statutes of 2023, require the report to include each of the following:

- A comprehensive list of tax expenditures with an annual cost exceeding \$5 million.
- The statutory authority for each provision.
- A description of the legislative intent of each provision, if specified in the enacting legislation.
- The sunset date of each provision.
- The beneficiaries of the provision.
- An estimate of the state and local revenue loss for the current and two subsequent fiscal years.
- For personal income tax expenditures, the number of taxpayers and returns affected for the most recent tax year, and the cost to the state resulting from these personal income tax expenditures categorized by taxpayers' income levels, for which data is readily available.
- For corporation and sales tax expenditures, the number of returns or businesses affected for the most recent year for which data is available.
- A listing of any comparable federal benefit.
- A description of any tax expenditure evaluation or compilation of information completed by any state agency since the last tax expenditure report by Finance.

This report fulfills Finance's statutory requirement pursuant to Government Code Section 13305. The narrative descriptions and revenue estimates for the tax expenditures included in this report are based on state laws for these tax expenditures as of June 30, 2024.

This report, beginning with the 2023-24 report, includes tables for certain personal income and corporate income tax expenditures categorized by taxpayers' income level for which data is readily available.

- All tables are for resident taxpayers only and exclude nonresident returns.
- For personal income tax and corporation tax credit tables, the column showing the amount of credit allowed represents the estimated reduction in tax liability for taxpayers within a particular adjusted gross income (AGI) range since each dollar of credit allowed reduces tax liability by a corresponding dollar.
- For tables related to personal income tax deductions and exclusions, the tax impact column represents the estimated reduction in tax liability for taxpayers within a particular AGI range. For tax exclusions and deductions, the tax impact is estimated by calculating how the changes in income due to the claiming of the deduction or exclusion, as reflected in the amount of deductions or exclusions claimed column, will result in changes in tax liability depending on tax rates, use of other deductions and exclusions, and credit usage among taxpayers in a given AGI range.
- The tables are only included for tax expenditures that are readily identifiable on the tax return. Many tax exclusions, for example, do not have accompanying tables because the excluded income is not reported on the tax return.

## Definitions

Section 13305 defines tax expenditure as "a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state." Although this definition is very broad, Finance has interpreted it to mean that aspects of the law that are basic to the tax structure are not tax expenditures. While the term "basic" is still ambiguous, it presents a framework for discussion as to what is not a tax expenditure.

Because the basic structure of each tax is used as the starting point for determining what constitutes a tax expenditure, elements of the basic tax structure that exempt certain categories of transactions are not considered tax expenditures. For example, the sales tax is imposed on retailers for the privilege of selling tangible personal property at retail.

According to its basic definition, California's sales tax does not apply to sales or leases of real property, sales of services, wholesale transactions, or sales of securities and insurance. These exemptions are therefore not considered tax expenditures.

- The net operating loss (NOL) deduction levels the playing field for firms with volatile and steady income and is not considered a tax expenditure for this report. For example, consider two firms, one with a \$100-loss in year one and a \$300-gain in year two, the second with a \$100-gain in each year. Without an NOL deduction, over the two years, the first firm would report \$300 in taxable income, while the second would report \$200, even though each had \$200 net income over the two years.
- Across-the-board tax rate reductions do not represent tax expenditures. Tax expenditures resulting from changes in the rate structure only exist if different sets of rates are applied to a similar base.
- Progressive rate structures do not constitute tax expenditures. The basic structure of California's income tax is progressive. For that reason, the application of different tax rates to different income levels is a basic characteristic of the tax and does not represent a tax expenditure.
- Exemptions or exclusions required by the U.S. Constitution, the California Constitution, or federal laws are generally not considered tax expenditures, even if they would qualify as tax expenditures if adopted by statute. One exception to the general rule that Constitutional prohibitions are not deemed to be tax expenditures is this report's inclusion of the sales tax exemption for candy, which has been prohibited by the California Constitution from being taxed since 1992 but had been subject to sales tax prior to that constitutional change.
- Changes in tax law that alter penalties or interest or that accelerate or defer tax payments are generally not considered tax expenditures unless they are very narrowly targeted.
- This report, consistent with the last eight annual reports, does not include apportionment rules as a tax expenditure. The 2015-16 Tax Expenditure Report and previous versions had considered equal-weighted three-factor formula to be normal tax law. The revenue impact of any of the other three apportionment rules was measured against this normal law. However, now that mandatory single-sales factor apportionment is required for most multi-state businesses and is used by the majority of the states in the nation, it is considered part of California's basic tax structure. As such, this report does not treat mandatory single-sales factor as a tax expenditure.
- This report, beginning with the 2023-24 report, does not include Subchapter S Corporations as a tax expenditure on the basis that Subchapter S Corporations are taxed as pass-through entities and this taxation is basic to the tax law because it

mirrors how S Corporations are taxed in nearly all other states. Unlike most other states that do not apply an entity-level tax, California applies an additional 1.5-percent tax on S Corporations at the entity level. Tax expenditure reports prior to 2023-24 calculated the amount of the tax expenditure by netting the revenue losses under the corporation tax against revenue gains from the pass-through income taxed under the personal income tax.

- The Pass-Through Entity Elective Tax (PTET) is not listed as a tax expenditure. While the PTET is taken as a personal income tax credit, it is fully offset by an elective tax paid by business entities, and therefore does not decrease state revenues.

There is no single rule for determining what constitutes an element of the basic tax structure. For this reason, this report may exclude items that are included in other tax expenditure reports prepared by other state agencies and vice versa.

Unless otherwise specified as refundable, all credits discussed in this report are nonrefundable.

### Why Adopt Tax Expenditures

Tax expenditures may be classified into the following two broad groups:

- Those which provide an incentive for a particular type of behavior.
- Those which provide tax relief for taxpayers facing a particular economic hardship.

There are several differences between tax expenditures and direct expenditures (those authorized through the budget process). First, tax expenditures are generally reviewed less frequently than direct expenditures once they are in place. This can offer taxpayers more certainty than if tax expenditures were subject to annual review, however, it can also result in tax expenditures remaining in the tax code when their cost outweighs their social benefits. Secondly, with certain notable exceptions, there is no control over the amount of foregone revenue that results from a tax expenditure once that provision has become part of the tax code.<sup>1</sup> Finally, the vote requirements for tax expenditures and direct expenditures may be different. Tax expenditures that are adopted legislatively (except those adopted as urgency measures) require approval by a simple majority of both houses of the Legislature. A two-thirds vote is required for General Fund appropriations outside the Budget. Additionally, the repeal of a tax expenditure requires a two-thirds majority vote, while direct expenditures can be repealed with a simple majority vote.

### Revenue Estimates

The estimates listed in this report are intended as a general indication of revenue losses from tax expenditure programs. In general, revenue estimates for the Personal Income Tax and Corporation Tax Laws are easier to quantify than those for the Sales and Use Tax Law. Personal income and corporation tax returns contain significant detail regarding different sources of income and types of exemptions, exclusions, deductions, and credits claimed. Thus, tax return data are often available when estimating the fiscal impact of various income and corporation tax expenditure programs. In contrast, returns filed by

---

<sup>1</sup>The Earned Income Tax Credit is subject to legislative appropriation each year by a simple majority vote to set its adjustment factor for a given year.



taxpayers under the Sales and Use Tax Law contain little specific information regarding items purchased from individual retailers. For this reason, independent data sources must be used when estimating the revenue impacts of various sales tax expenditure programs, and these estimates can be less accurate than those for the Personal Income Tax and Corporation Tax Laws and can vary considerably depending on the methodology used. Nonetheless, even the revenue estimates for the personal income and corporate income tax expenditures can be subject to significant margins of error due to data limitations and the lag in the availability of the tax data. For example, the personal income and corporate income tax estimates in this report released in November 2024 are based on data from tax year 2021.

Due to the effects of tax law interactions and taxpayers' behavioral reactions to changes in tax law, the estimates for any individual tax expenditure in this report do not necessarily reflect the revenue gain that would occur if the tax expenditure was repealed. For example, repeal of the Section 529 Scholarshare plans may shift savings into Coverdell education savings accounts with similar tax benefits. As another example, elimination of the mortgage interest deduction could lead to lower home prices and a reduction in the amount of property tax deductions for income tax purposes. Further, while the report displays the total value of the major identified expenditures within each major tax, these figures are best viewed as a general indication of revenue losses. Since each tax expenditure is measured separately and independently of other tax provisions, the fiscal impact of individual tax expenditures when added together may significantly overstate the fiscal impact to the state if all the tax expenditures were repealed.

Except for the deduction for charitable contributions, the research and development tax credit, like-kind exchanges, and life insurance and annuity contract proceeds exclusion, which are reflected in both tables due to significant impacts on both taxes, the revenue loss for tax expenditures that are included in both Corporate and Personal Income Tax Laws are shown under the tax with the greatest revenue loss.

The 2019-20 Budget Act conformed or partially conformed to the following provisions of the Tax Cuts and Jobs Act:

- Small Business Accounting Reform and Simplification
- Limitation on Deduction of Non-Corporate Business Losses
- Limitation on Deduction of Federal Deposit Insurance Corporation Premiums
- Repeal of Technical Termination of Partnerships
- Limit Like-Kind Exchanges to Real Property
- Modification of Limitation on Excessive Employee Remuneration
- Eliminate Net Operating Loss Carrybacks
- Allow Increased Contributions to Achieving a Better Life Experience (ABLE) Accounts
- Allow 529 Plans to Rollover to ABLE Accounts
- Eliminate IRS Section 338 Election

Of the above provisions, only the like-kind exchanges are referenced in this report. The changes to small business accounting and net operating losses accelerate or defer tax collection and therefore are not considered tax expenditures. The changes to the ABLE accounts fall below this report's \$5-million threshold. The remaining provisions increase state revenue and therefore are not tax expenditures.

The 2020-21 Budget Act included a provision that temporarily limited usage of business

incentive tax credits, except the low-income housing credit, to offset no more than \$5 million in tax liability for each taxpayer in 2020, 2021, and 2022, while amendments to the 2021-22 Budget removed the limitation for 2022. In addition, the 2024-25 Budget Act temporarily limited usage of business incentive tax credits, except for the low-income housing credit, to offset no more than \$5 million in tax liability for each taxpayer in 2024, 2025, and 2026, with the 2025 and 2026 limitations each subject to a trigger mechanism. This limitation also included a provision for taxpayers to make a one-time election for each year of the limitation to convert to refundable credits any credits in excess of the \$5 million limitation that taxpayers would have normally used if not for the limitation. Taxpayers who elected into refundability will be able to utilize the converted credits over 5 years at 20 percent per year beginning 3 years following the election. The revenue estimates in this report reflect the impact of these temporary limitations and assume the limitation is in place through 2026. Generally, the credit limitation is expected to change the timing of credit usage but not necessarily materially impact the total amount of credits used.

The revenue estimates in this report reflect the impact of tax policy changes enacted in the 2024-25 Budget Act, which eliminated or significantly modified the following tax expenditures:

- Effective beginning in tax year 2024, eliminated the Intangible Drilling Costs Expensing tax expenditure.
- Effective beginning in tax year 2024, eliminated the Percentage Depletion for Producers of Oil and Gas, Oil Shale, and Coal tax expenditure. Producers of other resources and minerals are still allowed to use their percentage depletion schedules.

Effective for bad debt charged off on or after January 1, 2025, eliminates the deduction or refund for a lender or retailer's affiliate for sales tax previously paid on accounts that are found worthless and charged off as bad debt for income tax purposes. The Bad Debt Sales Tax Deduction remains in place for retailers.

### **Revenue Estimate for the California Earned income Tax Credit**

Based on opinions from the California Office of Tax Appeals in April 2021, taxpayers can consider In-Home Supportive Services (IHSS) payments as "earned income" for the purposes of the California Earned income Tax Credit (EITC) as of May 5, 2021, and it is applicable to any open statute year. By extension, this treatment would also now be applicable to the state's Young Child Tax Credit (YCTC) and Foster Youth Tax credit (FYTC). The impact of this change is expected to be in the range of low tens of millions of dollars per year and is reflected in the estimates for the EITC, YCTC, and FYTC.

### **State Revenue Losses**

As noted in the prior section, the total sum of individual tax expenditures can overstate tax expenditures' actual fiscal impact to the state. Nonetheless, totals are presented here to facilitate comparison to prior reports.

### **Personal Income Tax**

The personal income tax is a tax levied on the wages, salaries, dividends, interest, and other income of an individual. The Personal Income Tax Law includes the vast majority

of all tax expenditure programs approved to date. It is estimated that tax expenditures will reduce 2024-25 Personal Income Tax General Fund revenues by \$71.3 billion.

**Sales and Use Tax**

The sales and use tax is a tax imposed on the retail sale or the use of tangible personal property in the state by an individual, business, or other entity. The Sales and Use Tax Law contains separately identifiable state General Fund tax expenditures worth \$14.2 billion in 2024-25. Examples of these tax expenditures include sales tax exemptions for food; prescription medicines; gas, electricity, and water delivered through mains; farm equipment; fuel sold to common carriers, and the temporary one-year pause on General Fund taxation of diesel fuel, which ended September 30, 2023.

**Corporation Tax**

The corporation tax is a tax imposed on the profits of a corporation. Fiscal year 2024-25 General Fund tax expenditures in the corporation category amount to about \$5.9 billion. Examples of these expenditures include provisions for research and development, the film tax credit, and provisions for water's edge election.

**Other Taxes**

Remaining tax expenditure programs are estimated to reduce revenues by over \$100 million annually. Much of this revenue loss results from aircraft jet fuel used by common carriers and the armed services as well as diesel fuel used by transit districts and schools.

**Local Revenue Losses**

The revenue losses to local governments are also shown for the sales tax and the property tax. Property taxes are local taxes, however they impact state finances because local property tax exemptions reduce property tax allocations to schools. Under school finance law, the state is generally required to provide the difference in funding between local property tax allocations and school districts' minimum funding requirements. Consequently, each dollar of property tax revenue foregone by schools may result in additional state funding through the school apportionment process. Passage of Proposition 98 in November 1988 created an additional link between property taxes and state operations. The Proposition 98 minimum funding guarantee is determined each year according to a particular test—Test 1, Test 2, or Test 3—based on specified economic and fiscal circumstances in a given year. Under the Test 2 and Test 3 formulas, the minimum funding level is affected by the level change in property taxes. However, under Test 1, property taxes allocated to schools and community colleges are not part of the guaranteed funding level formula.

Local government revenue losses from identifiable property tax exemptions are estimated to be in excess of \$100 million annually, while losses from sales tax expenditures are estimated to be in excess of \$10 billion.

**Unknown Revenue Loss Areas**

Certain tax expenditures under Sales and Use Tax and Other Taxes have unknown revenue losses due to a lack of data and difficulty in estimating the extent of their usage.

Generally, these types of tax expenditures that have no estimated revenue loss are relatively small and do not result in significant revenue losses.

### Legislative Intent

This report includes the legislative intent of the tax expenditure when that intent was specified in the enacting or amending legislation.

### Other Tax Expenditure Reports

The Franchise Tax Board released the latest version of their report, *California Income Tax Expenditures, Compendium of Individual Provisions: Report for 2020 Tax Year Data*, covering personal income tax and corporation tax expenditures, in November 2023. A copy of this report can be obtained by emailing the Franchise Tax Board at [FTBopendata@ftb.ca.gov](mailto:FTBopendata@ftb.ca.gov).

The Franchise Tax Board released the latest version of their report, [California Competes Tax Credit Report](#), in February 2024. The report contains data on the amount of California Competes Tax Credits claimed for tax year 2022.

The Franchise Tax Board released the latest version of their report, [California Earned Income and Young Child Tax Credit Report](#), in June 2023. The report contains data for tax year 2021 on the number and dollar amount of EITC claims, as well as the characteristics of claimants and an estimate of the number of families lifted out of deep poverty.

The Franchise Tax Board released its report, [Minimum Tax and Annual Tax Exemption for Deployed Military](#), in December 2023. The report contains data on the numbers of returns filed for tax year 2022 that qualified for the exemption and the number of those businesses that closed during that year.

The Franchise Tax Board released the latest version of their report, [New Employment Credit Report](#), in February 2024. The report contains data on the number and dollar amount of credits claimed, and identifies options for increasing claims in future years.

The Franchise Tax Board released the latest version of their report, [Donated Fresh Fruits and Vegetables Credit Report](#), in November 2023. The report contains data on the number of returns claiming the credit and the amount of those credits, as well as the value of the fruit and vegetables donated, through tax year 2022.

The California Department of Tax and Fee Administration released the latest version of its [Publication 61 Sales and Use Taxes: Exemptions and Exclusions](#) in December 2022. The report contains a summary of all exemptions and exclusions under the sales and use tax law as of publication and provides an estimate of foregone revenue.

The Legislative Analyst's Office released a report, the [Annual Report on Tax Exemptions for Medicinal Cannabis](#), in June 2024, which contains data related to the amount of medicinal cannabis products donated, number of medicinal cannabis patients served, and amount of tax revenue foregone in 2023 as a result of Chapter 837 of 2019 (SB 34).

The California Film Commission released a report, the [Film and Television Tax Credit Program: Progress Report](#), in December 2023. The report includes an assessment of the tax credit program and data from fiscal year 2022-23 related to production expenditures,

television series that relocated to California, and productions that unsuccessfully applied for tax credits and did filming out of state.

The California Tax Credit Allocation Committee released a report, the [2023 Annual Report to the Legislature](#). The report covers federal and state low-income housing tax credits, including the number of credits allocated and the number of housing units those credits will help develop.

The California Alternative Energy and Advanced Transportation Financing Authority released a report, the [2023 Annual Report to the California State Legislature](#), in March 2024. Among other topics, the report provided information on the Sales and Use Tax Exclusion Program for Manufacturers, including data on applications and awards from the program's inception through 2023.

**This page is intentionally left blank.**

<b>Major Identifiable Tax Expenditures of \$5 Million or More</b> (Dollars in Millions)					
<b>Personal Income Tax</b>					
<b>Provision</b>	<b>State General Fund Revenue Loss</b>				
	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
Employer Pension Contributions Exclusion	\$14,000	\$16,000	\$19,000	\$21,000	\$23,000
Employer Contributions to Health Plans Exclusion	9,000	9,500	10,000	10,000	10,000
Social Security Benefits Exclusion <sup>1</sup>	5,000	5,200	5,500	6,000	6,000
Basis Step-up on Inherited Property	4,800	4,900	5,000	5,300	5,600
Capital Gains on Sale of Principal Residence Exclusion	3,700	3,400	3,500	3,700	3,900
Charitable Contributions Deduction	3,200	3,300	3,400	3,600	3,700
Home Mortgage Interest Deduction	3,200	3,200	3,300	3,300	3,500
Real Estate, Personal Property and Other Tax Deduction	2,780	2,890	2,990	3,090	3,300
Benefits Provided under Cafeteria Plans Exclusion	2,300	2,400	2,600	2,600	2,600
Head-of-Household and Qualifying Widow(er) Filing Status	1,700	1,800	1,800	1,900	2,000
Paycheck Protection Program Exclusion <sup>2</sup>	1,660	1,015	524	247	-
Dependent Exemption in excess of Personal Exemption Credit	1,500	1,500	1,600	1,600	1,700
Like-Kind Exchanges	1,300	1,500	1,400	1,300	1,300
Contributions to Individual Retirement Accounts Deduction	1,200	1,300	1,500	1,600	1,800
Employee Business and Miscellaneous Expenses Deduction	1,000	1,100	1,100	1,200	1,200
Earned Income Tax Credit	900	950	1,000	1,100	1,100
Life Insurance and Annuity Contract Proceeds Exclusion	650	700	750	750	800
Self-Employed Retirement Plans Deduction	650	650	700	700	750
Medical and Dental Expenses Deduction	500	500	500	550	550
Miscellaneous Fringe Benefits Exclusion	430	440	460	450	450
Meals and Lodgings Furnished by Non-Military Employers	420	480	490	470	460
Senior Citizens Exemption Credit	420	440	450	440	460
Self-Employed Health Insurance Premium Deduction	410	420	440	460	480
Young Child Tax Credit	400	410	430	450	470
Transportation-Related Fringe Benefits Exclusion	340	360	370	360	360
Research and Development Credit	240	240	240	250	280
Scholarship/Fellowship Income Exclusion	210	220	230	250	260
Non-Resident Military Pay Exclusion	200	210	220	230	240
Unemployment Insurance Benefits Exclusion	190	210	220	210	200

<sup>1</sup>Some recipients of Social Security are not required to report this income on their federal tax returns. The number of returns reported here is the number of Californians with Social Security income that was reported on their federal tax return.

<sup>2</sup>This item includes corporate tax amounts.

<b>Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)</b>					
<b>Personal Income Tax (continued)</b>					
<b>Provision</b>	<b>State General Fund Revenue Loss</b>				
	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
Income Earned on Section 529 (Scholarshare) Plans Exclusion	180	220	230	240	250
Employer Contributions to Life Insurance Plans Exclusion	180	190	200	200	200
Employee Stock Ownership Plans	150	170	180	180	190
Renters' Credit	150	160	170	180	190
State Lottery Winnings Exclusion	110	120	130	130	140
Employee Child Care Benefits Exclusion	100	100	110	110	100
Restaurant Revitalization Fund Grant Exclusion	95	75	38	12	0
Compensation for Injuries or Sickness Exclusion	90	90	95	90	85
Income for In-Home Supportive Services Exclusion	75	80	85	90	90
Employer-Provided Educational Assistance Exclusion	55	55	60	65	75
Shuttered Venue Operator Grant Exclusion	49	39	20	6	-
Enterprise Zone and Similar Areas	48	40	32	25	19
Housing for Clergy Exclusion	39	41	44	43	46
Student Loan Interest Deduction	30	85	120	120	130
Limited Partnerships Investment Source Rules	23	24	26	27	29
Foster Care Payment Exclusion	21	23	23	24	25
California Competes Credit	20	17	16	16	14
Child and Dependent Care Credit	16	17	17	17	16
Moving Expense Deduction	16	16	17	17	17
Coverdell Education Savings Accounts Earnings Exclusion	12	14	14	13	12
Casualty Losses Deduction	6	6	6	7	7
Foster Youth Earned Income Tax Credit	5	5	6	6	6
Agricultural Soil or Water Conservation and Prevention of Erosion Cost Expensing <sup>3</sup>	5	5	5	4	4
Reforestation <sup>3</sup>	5	5	5	4	4
New Employment Credit <sup>2</sup>	4	5	5	5	5
Cannabis High-Road Business Tax Credit	3	6	3	1	-
<b>Total</b>	<b>\$63,787</b>	<b>\$66,843</b>	<b>\$71,371</b>	<b>\$74,739</b>	<b>\$78,112</b>

<sup>1</sup>Some recipients of Social Security are not required to report this income on their federal tax returns. The number of returns reported here is the number of Californians with Social Security income that was reported on their federal tax return.

<sup>2</sup>This item includes corporate tax amounts.

<sup>3</sup>This item includes corporate tax amounts, but the corporate tax is minor.

<b>Major Identifiable Tax Expenditures of \$5 Million or More</b> (Dollars in Millions)					
<b>Corporation Tax</b>					
Provision <sup>4</sup>	State General Fund Revenue Loss				
	2022-23	2023-24	2024-25	2025-26	2026-27
Water's Edge Election	\$3,000	\$2,900	\$3,100	\$3,300	\$3,500
Research and Development Credit	1,900	1,400	1,100	1,200	2,200
Charitable Contributions Deduction	180	180	190	200	210
Tax-exempt Status for Qualifying Corporations	170	170	170	180	180
First Year Minimum Tax Exemption	170	120	85	85	90
Cable Companies Apportionment Exclusion	160	160	180	190	200
Credit Union Treatment	150	160	170	180	190
Low-Income Housing Credit <sup>1</sup>	119	226	340	390	390
Employee Stock Ownership Plans	110	120	130	130	140
Enterprise Zone And Similar Areas <sup>2</sup>	100	85	65	50	42
Accelerated Depreciation of Research and Experimental Costs <sup>1</sup>	97	87	87	87	86
California Competes Credit	80	70	65	60	55
Film and Television Tax Credit <sup>1</sup>	78	51	43	63	303
Life Insurance and Annuity Contract Proceeds Exclusion	70	75	75	75	80
Like-Kind Exchanges	50	65	60	60	60
Expensing of Timber Growing Costs <sup>3</sup>	13	13	13	13	13
Percentage Depletion of Mineral and Other Natural Resources <sup>3</sup>	7	4	2	2	2
Intangible Drilling Cost Expensing <sup>1</sup>	6	3	Minor	-	-
New Advanced Strategic Aircraft Credit	*	*	*	*	*
<b>Corporate Tax Total</b>	<b>\$6,460</b>	<b>\$5,889</b>	<b>\$5,875</b>	<b>\$6,265</b>	<b>\$7,741</b>

<sup>1</sup>This item includes personal income tax amounts.

<sup>2</sup>The Enterprise Zone credit was repealed as of January 1, 2014. Qualified workers hired prior to January 1, 2014, continued to generate credits through the 2018 taxable year. Taxpayers may continue to claim carryover credit through the 2028 taxable year.

<sup>3</sup>This item includes personal income tax amounts, but the personal income tax amounts are minor.

<sup>4</sup>Taxpayers were limited to utilizing \$5 million in business tax credits, except the low-income housing credit, in the 2020 and 2021 taxable years and are also subject to a \$5-million limitation for the 2024, 2025, and 2026 taxable years.

\*Due to state privacy rules the amount cannot be disclosed.



Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)										
Sales and Use Taxes										
Provision	2022-23		2023-24		2024-25		2025-26		2026-27	
	State General Fund	Local <sup>1</sup>	State General Fund	Local <sup>1</sup>	State General Fund	Local <sup>1</sup>	State General Fund	Local <sup>1</sup>	State General Fund	Local <sup>1</sup>
Food Products Exemption	\$5,056	\$5,936	\$5,037	\$5,913	\$5,108	\$5,997	\$5,238	\$6,149	\$5,409	\$6,351
Gas, Electricity, and Water Exemption	3,468	4,072	3,455	4,056	3,504	4,113	3,593	4,218	3,711	4,356
Prescription Medicine Exemption	2,278	2,674	2,269	2,664	2,301	2,701	2,360	2,770	2,437	2,861
Animal Life, Feed, Seeds, Plants, Fertilizer, Drugs, Medicines Exemption	767	901	764	897	775	910	795	933	821	964
Candy, Confectionery, Snack Foods, and Bottled Water Exemption	587	689	585	686	593	696	608	714	628	737
Manufacturing and Research & Development Equipment Exemption <sup>2,3</sup>	465	0	463	0	470	0	481	0	497	0
Farm Equipment and Machinery <sup>4</sup>	351	95	350	94	355	96	364	98	376	101
One-Year Diesel Fuel Sales Tax Pause <sup>3</sup>	325	0	131	0	0	0	0	0	0	0
Meals Furnished by Institutions Exemption	247	290	246	289	249	293	256	300	264	310
Fuel Sold to Common Carriers Exemption	132	155	131	154	133	156	137	160	141	166
Film and Television Tax Credit (Sales Tax Portion Only)	133	36	132	36	134	36	137	37	142	38
Linen Supplies Rentals Exemption	96	113	96	113	97	114	100	117	103	121
Wheelchairs, Clutches, Canes, and Walkers Exemption	77	91	77	90	78	92	80	94	83	97
Professional Health Services Exemption	59	70	59	69	60	70	61	72	63	74
Diesel Fuel Used in Farming and Processing <sup>4</sup>	57	15	57	15	58	16	59	16	61	16
Custom Computer Programs Exemption	54	64	54	63	55	64	56	66	58	68
California Alternative Energy Exclusion	53	62	53	62	49	58	23	27	0	0
Children's Diapers Exemption	37	43	37	43	37	44	38	45	39	46
Bad Debt Sales Tax Deduction	35	41	34	40	30	35	31	36	18	21
Blood Storage Units Exemption	31	36	31	36	31	36	32	37	33	39

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)										
Sales and Use Taxes (continued)										
Provision	2022-23		2023-24		2024-25		2025-26		2026-27	
	State General Fund	Local <sup>1</sup>	State General Fund	Local <sup>1</sup>	State General Fund	Local <sup>1</sup>	State General Fund	Local <sup>1</sup>	State General Fund	Local <sup>1</sup>
Medicine Administered by Veterinarians Exemption	23	27	23	26	23	27	23	28	24	28
Subscription Periodicals Exemption	21	25	21	25	21	25	22	26	23	26
Printed Advertising Exemption	17	20	17	20	17	20	17	20	18	21
Fuel Sold to Water Common Carriers Exemption	15	18	15	18	15	18	16	19	16	19
Oxygen Delivery Systems Exemption	14	16	14	16	14	16	14	17	15	17
Menstrual Products Exemptions	13	15	13	15	13	15	13	16	14	16
Tele-production and Post-Production Equipment Exemption <sup>4</sup>	10	3	10	3	10	3	11	3	11	3
Zero-Emission Transit Buses Exemption <sup>3</sup>	5	0	5	0	5	0	5	0	5	0
Qualified Motor Vehicles (Clean Cars 4 All) Exemption <sup>3</sup>	3	0	6	0	6	0	6	0	6	0
Leases of Motion Picture and Television Films and Tapes Exemption <sup>5</sup>	-	-	-	-	-	-	-	-	-	-
Nonprofit Youth Organizations Exemption <sup>5</sup>	-	-	-	-	-	-	-	-	-	-
Fuel From Organic Products and Waste By-Products Exemption <sup>5</sup>	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$14,429</b>	<b>\$15,505</b>	<b>\$14,182</b>	<b>\$15,443</b>	<b>\$14,241</b>	<b>\$15,651</b>	<b>\$14,575</b>	<b>\$16,016</b>	<b>\$15,016</b>	<b>\$16,498</b>

<sup>1</sup>Rate includes the 2011 Realignment 1.0625 percent, 1991 Local Revenue Fund 0.50 percent, Local Public Safety Fund 0.50 percent, Local Bradley Burns 1.25 percent, and the average county add-on of 1.3 percent.

<sup>2</sup>Includes the expansion from Chapter 137, Statutes of 2017 (AB 398); does not account for annual backfill from the Greenhouse Gas Reduction Fund which began in 2018-19. Includes the expansion from Chapter 137, Statutes of 2017 (AB 398); does not account for the backfill from the Greenhouse Gas Reduction Fund beginning in 2018-19.

<sup>3</sup>Exempted rates include the 3.9375 percentage points directed to the General Fund from the 4.75 percent and 0.25 percent rates minus the 1.0625 percent Local Revenue Fund 2011 rate.

<sup>4</sup>Exempted rates include the 0.25 percent General Fund rate and the 4.75 percent General Fund Rate, 1.0625 percentage points of which are directed to the Local Revenue Fund 2011.

<sup>5</sup>Unknown losses.

<b>Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)</b>					
<b>Fuel Taxes</b>					
<b>State Special Fund Revenue Loss</b>					
<b>Provision</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2025-26</b>
Aircraft jet fuel used by common carriers and military	\$27	\$28	\$28	\$28	\$29
Fuel used by transit districts and schools	15	15	15	15	16
<b>Total</b>	<b>\$42</b>	<b>\$43</b>	<b>\$43</b>	<b>\$43</b>	<b>\$45</b>

<b>Major Identifiable Tax Expenditures of \$5 Million or More</b>					
<b>(Dollars in Millions)</b>					
<b>Property Tax</b>					
<b>Local Revenue Loss</b>					
<b>Provision</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
Computer Programs <sup>1</sup>	-	-	-	-	-
Fixtures excluded on the supplemental roll <sup>2</sup>	-	-	-	-	-

<sup>1</sup>Unknown, but in excess of \$100 million per year.

<sup>2</sup>Unknown, but in low tens of millions of dollars per year.

## Personal Income Tax

### Personal Income Tax

#### Employer Pension Contributions Exclusion

**Description:**

Employer contributions to qualified retirement plans are generally excluded from employees' income, subject to annual limits.

**Statutory Authority:**

Revenue and Taxation Code Section 17501 which conforms to Internal Revenue Code Section 401

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

California generally conforms to federal law concerning employers' deductions for pension contributions.

## Personal Income Tax

### Employer Contributions to Health Plans Exclusion

**Description:**

Contributions by employers to provide accident and health benefits are excluded from the income of employees.

**Statutory Authority:**

Revenue and Taxation Code Section 17131 in conformity with Internal Revenue Code Section 106

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Personal Income Tax

### Social Security Benefits Exclusion

**Description:**

Social Security and federal railroad retirement benefits are not subject to tax.

**Statutory Authority:**

Revenue and Taxation Code Section 17087

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For 2021, 2.2 million tax returns, representing 3.5 million taxpayers, claimed this exclusion.

**Tax Exclusion Usage Details for Tax Year 2021:**

Social Security Benefits Exclusion				
Adjusted Gross Income Class	Returns Reporting Exclusion (Thousands)	Taxpayer Count (Thousands)	Amount of Exclusion Claimed (Millions)	Tax Impact of Exclusion (Millions)
Less than \$10,000	69	98	\$446	\$0.9
\$10,000 to \$19,999	153	203	\$596	\$1
\$20,000 to \$49,999	721	1,036	\$8,473	\$251
\$50,000 to \$99,999	616	983	\$13,404	\$805
\$100,000 to \$199,999	423	729	\$10,193	\$885
\$200,000 to \$499,999	191	331	\$5,350	\$505
\$500,000 to \$999,999	41	72	\$1,291	\$135
More than \$999,999	25	43	\$830	\$101
<b>Total</b>	<b>2,238</b>	<b>3,495</b>	<b>\$40,584</b>	<b>\$2,685</b>

**Comparable Federal Benefit:**

Under federal law, these benefits are partially taxed.

## Personal Income Tax

### **Basis Step-Up on Inherited Property**

**Description:**

The tax basis of property acquired by bequest, gift or inheritance is reassessed to the fair market value at the date of death. Therefore, appreciation that occurred prior to the death is not taxed.

**Statutory Authority:**

Revenue and Taxation Code Sections 18031, 18035.6, 18036.6 in conformity with Internal Revenue Code Section 1014

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.



## Personal Income Tax

### Capital Gains on Sale of a Principal Residence Exclusion

**Description:**

An individual may exclude up to \$250,000 of gain realized on the sale of a principal residence. For joint returns, the exclusion is \$500,000.

**Statutory Authority:**

Revenue and Taxation Code Section 17131 and 17152 in conformity with Internal Revenue Code Section 121

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Personal Income Tax

### Charitable Contribution Deduction

**Description:**

A deduction is allowed for cash or certain non-cash contributions to qualifying nonprofit or governmental entities. For personal income taxpayers, the deduction is only available to those who itemize their deductions. The deduction amount is limited depending upon the type of contribution and recipient, but in no case may exceed 50 percent of adjusted gross income. For corporate taxpayers, the limit is 10 percent of taxable income. Contributions in excess of these amounts may be carried forward for up to five years.

**Statutory Authority:**

Revenue and Taxation Code Sections 17201, 17275.5, 24357-24359.1 in conformity with Internal Revenue Code Section 170

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals and incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 5.2 million personal income tax returns representing 8.2 million taxpayers, claimed this deduction. This deduction was also claimed on 166,536 corporation tax returns.

**Personal Income Tax Deduction Usage Details for Tax Year 2021:**

Charitable Contribution Deduction—Personal Income Tax				
Adjusted Gross Income Class	Returns Reporting Deduction (Thousands)	Taxpayer Count (Thousands)	Amount of Deduction Claimed (Millions)	Tax Impact of Deduction (Millions)
Less than \$10,000	230	286	\$329	\$0.4
\$10,000 to \$19,999	188	235	\$278	\$0.1
\$20,000 to \$49,999	770	1,029	\$1,622	\$20
\$50,000 to \$99,999	1,293	1,867	\$3,880	\$179
\$100,000 to \$199,999	1,473	2,456	\$6,086	\$489
\$200,000 to \$499,999	915	1,646	\$5,874	\$558
\$500,000 to \$999,999	223	410	\$2,945	\$270
More than \$999,999	129	235	\$30,360	\$3,111
<b>Total</b>	<b>5,222</b>	<b>8,165</b>	<b>\$51,374</b>	<b>\$4,629</b>

**Comparable Federal Benefit:**

This provision generally conforms to federal law, except that due to the Tax Cuts and Jobs Act, for tax years 2018 through tax year 2025, California does not conform to the federal increase in limitations for certain charitable contributions.

## Personal Income Tax

### Home Mortgage Interest Deduction

**Description:**

Taxpayers may generally deduct a limited amount of interest paid or accrued within the taxable year for acquiring, constructing, substantially improving, or refinancing their principal residence and one other residence up to \$1 million on mortgages and an additional \$100,000 on equity debt.

**Statutory Authority:**

Revenue and Taxation Code Section 17201 which conforms to Internal Revenue Code Section 163

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 4.5 million returns representing 7.4 million taxpayers claimed this deduction.

**Tax Deduction Usage Details for Tax Year 2021:**

Home Mortgage Interest Deduction				
Adjusted Gross Income Class	Returns Claiming Deduction (Thousands)	Taxpayer Count (Thousands)	Amount of Deduction Claimed (Millions)	Tax Impact of Deduction (Millions)
Less than \$10,000	157	230	\$2,366	\$0.4
\$10,000 to \$19,999	110	154	\$908	\$0.2
\$20,000 to \$49,999	523	756	\$5,473	\$46
\$50,000 to \$99,999	1,121	1,682	\$10,353	\$451
\$100,000 to \$199,999	1,407	2,406	\$15,956	\$1,196
\$200,000 to \$499,999	862	1,581	\$12,888	\$1,106
\$500,000 to \$999,999	208	387	\$4,048	\$253
More than \$999,999	106	194	\$2,277	\$83
<b>Total</b>	<b>4,493</b>	<b>7,389</b>	<b>\$54,269</b>	<b>\$3,136</b>

**Comparable Federal Benefit:**

This provision partially conforms to federal law. For tax years 2018 through 2025, the federal mortgage interest deduction is limited to \$750,000 for mortgages acquired after 2017, and equity debt is only deductible if used to substantially improve the property that secures the loan.

## Personal Income Tax

### Real Estate, Personal Property, and Other Taxes Deduction

**Description:**

Individual taxpayers may deduct certain taxes as an itemized deduction. This includes property taxes, personal property taxes like vehicle license fees, one-half of self-employment taxes, and other state, local, and foreign taxes relating to a trade or business or property held for the production of income.

**Statutory Authority:**

Revenue and Taxation Code Sections 17201, 17220, 17222 which conforms to Internal Revenue Code Section 164

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 5.2 million returns representing 8.5 million taxpayers claimed the real property tax deduction and 4.3 million returns representing 6.7 million taxpayers claimed the personal property and other taxes deduction.

**Tax Deduction Usage Details for Tax Year 2021:**

Real Property Tax Deduction				
Adjusted Gross Income Class	Returns Reporting Deduction (Thousands)	Taxpayer Count (Thousands)	Amount of Deduction Claimed (Millions)	Tax Impact of Deduction (Millions)
Less than \$10,000	201	288	\$1,150	\$0.6
\$10,000 to \$19,999	150	209	\$647	\$0.1
\$20,000 to \$49,999	664	954	\$3,262	\$53
\$50,000 to \$99,999	1,284	1,926	\$6,506	\$277
\$100,000 to \$199,999	1,559	2,653	\$9,960	\$763
\$200,000 to \$499,999	964	1,757	\$9,461	\$802
\$500,000 to \$999,999	237	439	\$3,829	\$254
More than \$999,999	132	240	\$4,140	\$196
<b>Total</b>	<b>5,191</b>	<b>8,465</b>	<b>\$38,956</b>	<b>\$2,345</b>

## Personal Income Tax

<b>Personal Property, and Other Taxes Deduction</b>				
<b>Adjusted Gross Income Class</b>	<b>Returns Reporting Deduction (Thousands)</b>	<b>Taxpayer Count (Thousands)</b>	<b>Amount of Deduction Claimed (Millions)</b>	<b>Tax Impact of Deduction (Millions)</b>
Less than \$10,000	199	257	\$98	\$0
\$10,000 to \$19,999	148	189	\$71	\$0
\$20,000 to \$49,999	595	798	\$385	\$4
\$50,000 to \$99,999	1,100	1,590	\$825	\$33
\$100,000 to \$199,999	1,262	2,127	\$953	\$71
\$200,000 to \$499,999	733	1,337	\$518	\$44
\$500,000 to \$999,999	161	301	\$123	\$9
More than \$999,999	77	141	\$104	\$6
<b>Total</b>	<b>4,275</b>	<b>6,741</b>	<b>\$3,077</b>	<b>\$166</b>

**Comparable Federal Benefit:**

This provision conformed to federal law prior to January 1, 2018. For tax years 2018 through 2025, federal law changed and limited the deduction for state and local taxes, including real estate and personal property taxes, to \$10,000 per tax return. This provision does not conform to that change.

## Personal Income Tax

### Benefits Provided Under Cafeteria Plans Exclusion

**Description:**

The value of benefits received from an employer-sponsored cafeteria plan is not subject to tax. Cafeteria plans allow employees to choose between monetary compensation and qualified benefits, such as health insurance, life insurance, and dependent care benefits. If monetary compensation, rather than benefits, is selected, the amount is subject to tax.

**Statutory Authority:**

Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 125

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision substantially conforms to federal law with minor differences in qualifying income limits due to different indexing implemented under the Tax Cuts and Jobs Act.

## Personal Income Tax

### Head-of-Household and Qualifying Widow(er) Filing Status

**Description:**

Individuals who provide a home for a qualifying relative are eligible for lower tax rates than are available for single persons or a married person filing separately. A qualifying widow(er) may claim a larger personal exemption in addition to the lower tax rates provided to heads-of-households. A qualifying widow(er) is an individual whose spouse died within the two prior years and has not remarried, and who provides the main home for an eligible dependent.

**Statutory Authority:**

Revenue and Taxation Code Section 18521, which is in partial conformity with Internal Revenue Code Section 2

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 2.4 million returns representing 2.4 million taxpayers used the head of household or qualifying widow(er) filing status.

**Filing Status Details for Tax Year 2021:**

Head of Household and Widow(er) Filing Status			
Adjusted Gross Income Class	Claiming Status (Thousands)	Taxpayer Count (Thousands)	Tax Impact of Status (Millions)
Less than \$10,000	327	327	\$0
\$10,000 to \$19,999	294	294	\$0.1
\$20,000 to \$49,999	918	918	\$123
\$50,000 to \$99,999	608	608	\$788
\$100,000 to \$199,999	202	202	\$380
\$200,000 to \$499,999	49	49	\$127
\$500,000 to \$999,999	9	9	\$51
More than \$999,999	5	5	\$34
<b>Total</b>	<b>2,411</b>	<b>2,411</b>	<b>\$1,503</b>

**Comparable Federal Benefit:**

This provision is in partial conformity with federal law.

## Personal Income Tax

### **Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) Program Exclusions**

***Description:***

Eligible businesses with forgiven loans under the federal PPP or advance grants under the EIDL program can exclude these grants from their taxable income and deduct related expenses. Public companies and businesses that cannot demonstrate a 25-percent reduction in sales in one quarter of calendar year 2020 versus a comparable quarter in 2019 are excluded from the benefit.

***Statutory Authority:***

Revenue and Taxation Code Sections 17131.8 and 24308.6

***Sunset Date:***

None

***Legislative Intent:***

Not specified

***Beneficiaries:***

Non-public companies with a minimum 25-percent sales reduction year-over-year in one quarter of calendar year 2020.

***Number of Taxpayers/Number of Returns:***

Not available

***Comparable Federal Benefit:***

This treatment conforms with federal law except for the exclusions of public companies and businesses that do not meet the 25-percent sales reduction threshold.



## Personal Income Tax

### Dependent Exemption in Excess of Personal Exemption Credit

**Description:**

A nonrefundable personal exemption credit is allowed for all taxpayers and their dependents. The exemption credit for dependents is over three times greater than the exemption allowed for the taxpayer or their spouse. A temporary reduction of the dependent credit to the level of the personal credit was instituted for the 2009 and 2010 tax years.

**Statutory Authority:**

Revenue and Taxation Code Sections 17054, 17054.1, 17056, and 17733

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

In 2021, 5.9 million tax returns representing 9 million taxpayers claimed this credit.

**Tax Credit Usage Details for Tax Year 2021:**

Not available

**Comparable Federal Benefit:**

Prior to January 1, 2018, federal law allowed a personal exemption deduction, rather than a credit. The deduction amount for dependents was the same as that for taxpayers. Federal law also allowed a child tax credit of \$1,000 per child. The Federal Tax Cuts and Jobs Act eliminated personal exemptions, increased the standard deduction, and increased the child tax credit to \$2,000 per child for tax years 2018 through 2025. The American Rescue Plan Act temporarily, for tax year 2021 only, increased the child tax credit from \$2,000 to \$3,600 for qualifying children 5 and under, from \$2,000 to \$3,000 for other qualifying children, and increased the age limit from 16 to 17 years of age.

## Personal Income Tax

### Like-Kind Exchanges

**Description:**

No gain or loss is recognized when real property is exchanged solely for similar (like-kind) property. If, as part of the exchange, dissimilar property (not like-kind) or money is received, gain is recognized on the value of dissimilar property or money received, but a loss is not recognized. The tax deferral on like-kind exchanges for personal property was eliminated in conformity with federal law as of January 1, 2019, with an exception for individual taxpayers with adjusted gross income less than \$250,000 or joint filers with adjusted gross income less than \$500,000.

**Statutory Authority:**

Revenue and Taxation Code sections 18031 and 24941 which conform to Internal Revenue Code Section 1031

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals, incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision partially conforms to federal law.

## Personal Income Tax

### Contributions to Individual Retirement Accounts Deduction

**Description:**

Taxpayers who receive compensation that is included in gross income and who are under 70-1/2 years of age may be allowed a deduction in computing adjusted gross income for contributions to their Individual Retirement Account (IRA). Earnings in IRAs are excluded from income until they are distributed to the taxpayer.

**Statutory Authority:**

Revenue and Taxation Code Sections 17201, 17203, 17501, 17504-09, 17551, and 17563.5 in conformity to Internal Revenue Code Section 219

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Personal Income Tax

### Employee Business and Miscellaneous Expenses Deduction

**Description:**

Certain unreimbursed employee expenses, expenses of producing income, and other qualifying expenses may be deducted as a miscellaneous itemized deduction. Amounts for meals and entertainment are limited to 50 percent of the expense. The deduction is limited—only the amount in excess of 2 percent of the taxpayer's federal adjusted gross income may be deducted.

**Statutory Authority:**

Revenue and Taxation Code Sections 17072, 17076, 17201 which generally conform to Internal Revenue Code Sections 62(a), 67, 68, 162, 274

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 1.4 million returns representing 2.1 million taxpayers claimed this deduction.

**Tax Deduction Usage Details for Tax Year 2021:**

Employee Business and Miscellaneous Expense Deduction				
Adjusted Gross Income Class	Returns Reporting Deduction (Thousands)	Taxpayer Count (Thousands)	Amount of Deduction Claimed (Millions)	Tax Impact of Deduction (Millions)
Less than \$10,000	119	148	\$372	\$0.8
\$10,000 to \$19,999	58	71	\$197	\$0.4
\$20,000 to \$49,999	189	229	\$1,184	\$16
\$50,000 to \$99,999	379	507	\$2,897	\$105
\$100,000 to \$199,999	421	676	\$3,879	\$231
\$200,000 to \$499,999	192	337	\$3,894	\$240
\$500,000 to \$999,999	36	63	\$1,493	\$65
More than \$999,999	28	50	\$4,958	\$247
<b>Total</b>	<b>1,421</b>	<b>2,081</b>	<b>\$18,874</b>	<b>\$905</b>

**Comparable Federal Benefit:**

This provision was in general conformity with federal law prior to January 1, 2018. For tax years 2018 through 2025, federal law suspended all miscellaneous itemized deductions subject to the 2-percent floor, including the 50-percent deduction for meals and entertainment. This provision does not conform to that change.

## Personal Income Tax

### Earned Income Tax Credit (EITC)

**Description:**

Taxpayers with wage income below specified amounts in 2015, dependent on the number of their qualifying children, may claim a refundable tax credit. The credit matches a specified percent, referred to as the adjustment factor, of the taxpayer's calculated federal earned income tax credit for 2015, up to a specified amount of wages and is scaled depending on the number of qualifying children, if any. Beginning in 2017, the Legislature expanded the credit to taxpayers with self-employment income, and the phase-out ranges were extended depending on the number of qualifying children. In 2018, the phase-out ranges were further extended and qualification was extended to individuals of age 18 to 24 and over 65. In 2019, the phase-out range was further increased to a maximum eligible earned income of \$30,000, and the credit phases out more gradually. In 2020, the EITC was expanded to include taxpayers who file using an Individual Taxpayer Identification Number.

The adjustment factor is set each year in the annual budget act and would be zero if no adjustment factor is specified. For tax years 2015 through 2024, the adjustment factor was set at 85 percent and the estimates in this report assume an 85-percent adjustment factor in subsequent years.

**Statutory Authority:**

Revenue and Taxation Code Section 17052

**Sunset Date:**

None

**Legislative Intent:**

To expand the credit to benefit a broader section of working poor Californians.

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 3.5 million tax returns representing 3.8 million taxpayers were allowed the credit.

## Personal Income Tax

### **Tax Credit Usage Details for Tax Year 2021**

<b>Earned Income Tax Credit</b>			
<b>Adjusted Gross Income Class*</b>	<b>Returns Allowing Credit (Thousands)</b>	<b>Taxpayers Allowed Credit (Thousands)</b>	<b>Amount of Credit Allowed (Millions)</b>
Less than or equal to \$0	31	38	\$6
\$1 to \$5,000	505	548	\$112
\$5,001 to \$10,000	612	670	\$227
\$10,001 to \$15,000	635	698	\$167
\$15,001 to \$20,000	596	658	\$94
\$20,001 to \$25,000	561	625	\$55
\$25,001 to \$30,000	524	583	\$19
Greater than \$30,000	11	14	\$1
<b>Total</b>	<b>3,475</b>	<b>3,835</b>	<b>\$680</b>

#### **Comparable Federal Benefit:**

Federal law allows taxpayers to claim a refundable tax credit based on the level of their wage and self-employment income, number of qualifying children, and filing status. Federal law limits the qualifying ages to 25 through 65 and does not accept an Individual Taxpayer Identification Number to qualify for the credit. The federal level of income at which the credit is phased out is higher than California's phase-out level.

## Personal Income Tax

### Life Insurance and Annuity Contract Proceeds Exclusion

**Description:**

The proceeds of a life insurance policy of a deceased person are generally excluded from the income of the beneficiary. Amounts received from a "living benefits" contract are also excluded from income, as are certain survivor benefits paid as an annuity to the beneficiary of a public safety officer killed in the line of duty.

**Statutory Authority:**

Revenue and Taxation Code Sections 17131, 17132.5, 24302, and 24305 which conform to Internal Revenue Code Section 101

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision generally conforms to federal law.

## Personal Income Tax

### Self-Employed Retirement Plans Deduction

**Description:**

Self-employed persons are allowed a limited deduction when computing adjusted gross income for contributions to a self-employed retirement plan. Income generated by these contributions is also excluded from taxation until the assets are withdrawn.

**Statutory Authority:**

Revenue and Taxation Code Sections 17501, 17504, 17506, and 17507 which generally conform to Internal Revenue Code Sections 219, 401-404, 408, and 415

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Self-employed individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 160,843 tax returns representing 275,602 taxpayers claimed this deduction.

**Tax Deduction Usage Details for Tax Year 2021:**

Self-Employed Retirement Plans Deduction				
Adjusted Gross Income Class	Returns Reporting Deduction (Thousands)	Taxpayer Count (Thousands)	Amount of Deduction Claimed (Millions)	Tax Impact of Deduction (Millions)
Less than \$10,000	2	2	\$40	\$2
\$10,000 to \$19,999	3	3	\$13	\$0.1
\$20,000 to \$49,999	10	13	\$83	\$4
\$50,000 to \$99,999	18	26	\$307	\$24
\$100,000 to \$199,999	33	56	\$631	\$62
\$200,000 to \$499,999	54	100	\$1,727	\$186
\$500,000 to \$999,999	24	44	\$1,117	\$132
More than \$999,999	17	32	\$1,136	\$152
<b>Total</b>	<b>161</b>	<b>276</b>	<b>\$5,053</b>	<b>\$561</b>

**Comparable Federal Benefit:**

This provision generally conforms to federal law.



## Personal Income Tax

### Medical and Dental Expenses Deduction

**Description:**

Taxpayers may take an itemized deduction for qualified medical and dental expenses incurred on behalf of the taxpayer, the taxpayer's spouse, and/or the taxpayer's dependents. Only unreimbursed expenditures that exceed 7.5 percent of federal adjusted gross income are deductible.

**Statutory Authority:**

Revenue and Taxation Code Section 17201 which conforms to Internal Revenue Code Section 213

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 1.4 million returns representing 2 million taxpayers claimed this deduction.

**Tax Deduction Usage Details for Tax Year 2021:**

Medical and Dental Expense Deduction				
Adjusted Gross Income Class	Returns Reporting Deduction (Thousands)	Taxpayer Count (Thousands)	Amount of Deduction Claimed (Millions)	Tax Impact of Deduction (Millions)
Less than \$10,000	230	308	\$1,310	\$0.1
\$10,000 to \$19,999	177	231	\$787	\$0.1
\$20,000 to \$49,999	373	538	\$2,995	\$23
\$50,000 to \$99,999	334	502	\$3,639	\$129
\$100,000 to \$199,999	200	340	\$3,114	\$206
\$200,000 to \$499,999	53	94	\$1,580	\$94
\$500,000 to \$999,999	4	7	\$293	\$15
More than \$999,999	1	2	\$113	\$7
<b>Total</b>	<b>1,373</b>	<b>2,021</b>	<b>\$13,830</b>	<b>\$474</b>

**Comparable Federal Benefit:**

This provision conforms with modifications to federal law. Except for tax years 2017 and 2018 when the federal threshold was also 7.5 percent, the threshold for deduction differs at the federal level, which is 10 percent.

## Personal Income Tax

### Miscellaneous Fringe Benefits Exclusion

**Description:**

Certain fringe benefits are excluded from the income of the employees who receive them. This includes free special services such as free stand-by flights provided to airline employees, employee discounts for the purchase of company products, use of company equipment such as a company car, employee achievement awards, and "de minimis" fringe benefits such as the use of a work-site gym.

**Statutory Authority:**

Revenue and Taxation Code Section 17131 which partially conforms to Internal Revenue Code Section 132

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

Prior to January 1, 2018, this provision conformed to federal law. For tax years 2018 through 2025, federal law prohibited certain types of property to qualify for a tax exclusion as an employee achievement award. This provision does not conform to that change.

## Personal Income Tax

### **Meals and Lodging Furnished by Non-Military Employers Exclusion**

**Description:**

The value of meals and lodging furnished by non-military employers to an employee, spouse, or dependent is excluded from the income of the employee. The meals and lodging must be provided at the employer's place of business, for the convenience of the employer, and as a precondition for employment.

**Statutory Authority:**

Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 119

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Personal Income Tax

### Senior Citizens Exemption Credit

**Description:**

Individuals over the age of 65 are eligible for an additional personal exemption credit.

**Statutory Authority:**

Revenue and Taxation Code Sections 17054 and 17054.1

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 3.4 million returns representing 5.1 million taxpayers were allowed this credit.

**Tax Credit Usage Details for Tax Year 2021:**

Senior Citizens Exemption Credit			
Adjusted Gross Income Class	Returns Allowing Credit (Thousands)	Taxpayers Allowed Credit (Thousands)	Tax Impact of Credit (Millions)
Less than \$10,000	580	808	\$59
\$10,000 to \$19,999	346	468	\$34
\$20,000 to \$49,999	835	1,198	\$88
\$50,000 to \$99,999	734	1,134	\$83
\$100,000 to \$199,999	528	884	\$65
\$200,000 to \$499,999	263	459	\$34
\$500,000 to 999,999	59	104	\$8
More than \$999,999	38	67	\$5
<b>Total</b>	<b>3,385</b>	<b>5,123</b>	<b>\$376</b>

**Comparable Federal Benefit:**

Federal law does not allow a credit but instead allows taxpayers over the age of 65 to claim an additional standard deduction amount.

## Personal Income Tax

### Self-Employed Health Insurance Premium Deduction

**Description:**

Self-employed individuals are allowed to deduct the cost of premiums paid for health insurance for themselves and their families. The deduction is limited to the taxpayer's net income earned from the trade or business for which the plan was established. This deduction can be taken regardless of whether the taxpayer itemizes their deductions.

**Statutory Authority:**

Revenue and Taxation Code Sections 17201, 17203, 17273 which generally conform to Internal Revenue Code Section 162

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

In 2021, 479,923 returns representing 763,609 taxpayers claimed this deduction.

**Tax Deduction Usage Details for Tax Year 2021:**

Self-Employed Health Insurance Premium Deduction				
Adjusted Gross Income Class	Returns Reporting Deduction (Thousands)	Taxpayer Count (Thousands)	Amount of Deduction Claimed (Millions)	Tax Impact of Deduction (Millions)
Less than \$10,000	36	48	\$176	\$0.1
\$10,000 to \$19,999	26	33	\$83	\$0.3
\$20,000 to \$49,999	77	105	\$329	\$7
\$50,000 to \$99,999	93	143	\$542	\$31
\$100,000 to \$199,999	95	159	\$790	\$71
\$200,000 to \$499,999	92	163	\$1,148	\$118
\$500,000 to \$999,999	34	63	\$557	\$63
More than \$999,999	28	50	\$538	\$69
<b>Total</b>	<b>480</b>	<b>764</b>	<b>\$4,162</b>	<b>\$359</b>

**Comparable Federal Benefit:**

This provision generally conforms to federal law.

## Personal Income Tax

### Young Child Tax Credit

**Description:**

Beginning in tax year 2019, a new \$1,000-refundable credit, referred to as the Young Child Tax Credit (YCTC), is provided to any family that qualifies for the EITC and has a child under age 6. Beginning in tax year 2022, the YCTC is indexed to inflation and taxpayers with zero earned income or negative earned income may claim the credit. Earned income consists of wages, salaries, tips, and other employee compensation that is subject to California withholding, or net income from self-employment.

**Statutory Authority:**

Revenue and Taxation Code Section 17052.1

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 365,982 tax returns representing 425,600 taxpayers were allowed the YCTC.

**Tax Credit Usage Details for Tax Year 2021:**

Young Child Tax Credit			
Adjusted Gross Income Class	Returns Allowing Credit (Thousands)	Taxpayers Allowed Credit (Thousands)	Amount of Credit Allowed (Millions)
Less than or equal to \$0	3	4	\$3
\$1 to \$5,000	54	60	\$54
\$5,001 to \$10,000	65	73	\$65
\$10,001 to \$15,000	68	78	\$68
\$15,001 to \$20,000	61	72	\$61
\$20,001 to \$25,000	58	70	\$58
\$25,001 to \$30,000	55	67	\$30
Greater than \$30,000	1	2	\$1
<b>Total</b>	<b>366</b>	<b>426</b>	<b>\$339</b>

**Comparable Federal Benefit:**

None

## Personal Income Tax

### Transportation-Related Fringe Benefits Exclusion

**Description:**

Employees are allowed to exclude qualified compensation for employer-provided transportation benefits from income. These benefits include up to a specified amount for parking, transit passes, and ridesharing programs. The exclusion is limited to the fair market value of the benefits received.

**Statutory Authority:**

Revenue and Taxation Code Sections 17090 and 17149 which generally conform to Internal Revenue Code Section 132

**Sunset Date:**

None

**Legislative Intent:**

This exclusion was intended to encourage ridesharing and transit use.

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

Prior to January 1, 2018, this provision generally conformed to federal law. For tax years 2018 through 2025, federal tax law eliminated business deductions for employer-provided transportation benefits. This provision does not conform to that change.

## Personal Income Tax

### Scholarship/Fellowship Income Exclusion

**Description:**

Individuals may exclude from income any qualifying scholarships, fellowships, and tuition grants or reductions they receive that are used for qualified educational expenses.

**Statutory Authority:**

Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 117

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.



## Personal Income Tax

### Non-resident Military Pay Exclusion

**Description:**

The military compensation of a person who is not domiciled or taxable in California, but attributable to a resident spouse because of community property laws is exempt from tax.

**Statutory Authority:**

Revenue and Taxation Code Sections 17140.5

**Sunset Date:**

None

**Legislative Intent:**

This provision was intended to ease administration and provide tax relief to military personnel.

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 76,060 returns claimed this exclusion.

**Comparable Federal Benefit:**

This issue is only relevant to state taxation.

## Personal Income Tax

### Unemployment Insurance Benefits Exclusion

**Description:**

Benefits received from the state's unemployment insurance program are excluded from income for tax purposes. For privately-provided unemployment compensation, benefits up to the amount of prior contributions are not taxable, but benefits in excess of this amount are taxable.

**Statutory Authority:**

Revenue and Taxation Code Section 17083

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

In 2021, 3.1 million returns representing 4.2 million taxpayers claimed this exclusion.

Unemployment Compensation Benefits Exclusion				
Adjusted Gross Income Class	Returns Claiming Exclusion (Thousands)	Taxpayer Count (Thousands)	Amount of Exclusion Claimed (Millions)	Tax Impact of Exclusion (Millions)
Less than \$10,000	962	1,102	\$16,535	\$49
\$10,000 to \$19,999	447	534	\$6,009	\$59
\$20,000 to \$49,999	766	1016	\$8,789	\$195
\$50,000 to \$99,999	486	811	\$5,704	\$291
\$100,000 to \$199,999	289	538	\$3,255	\$275
\$200,000 to \$499,999	106	203	\$1,223	\$115
\$500,000 to \$999,999	18	34	\$209	\$21
More than \$999,999	6	11	\$70	\$8
<b>Total</b>	<b>3,079</b>	<b>4,249</b>	<b>\$41,795</b>	<b>\$1,013</b>

**Tax Exclusion Usage Details for Tax Year 2021:**

**Comparable Federal Benefit:**

No comparable federal benefit, except the American Rescue Act of 2021 allowed an exclusion of \$10,200 from federal AGI for single filers, and \$20,400 for joint filers for the 2020 tax year only.

## Personal Income Tax

### Income Earned on Section 529 (Scholarshare) Plans Exclusion

**Description:**

Individuals may exclude earnings of Section 529 educational savings accounts (such as California's Scholarshare program) from income, provided that, upon withdrawal, the money from the accounts is used for qualified educational expenses.

**Statutory Authority:**

Revenue and Taxation Code Section 17140 which conforms to Internal Revenue Code Section 529

**Sunset Date:**

None

**Legislative Intent:**

This provision was intended to encourage taxpayers to invest for future higher education expenses to make the attainment of higher education possible for the greatest number of citizens of California.

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision partially conforms to federal law. For tax years 2018 through 2025, federal law allows education expenses to include elementary school and secondary school tuition.

## Personal Income Tax

### Employer Contributions to Life Insurance Plans Exclusion

**Description:**

An employer's contribution to an employee's group term life insurance policy is excluded from the employee's gross income for the first \$50,000 of coverage.

**Statutory Authority:**

Revenue and Taxation Code Section 17081 which conforms to Internal Revenue Code Section 79

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Personal Income Tax

### Renters' Credit

**Description:**

Low-income individuals who rent their principal residence are eligible for a credit of \$60 if they are single, or \$120 if married filing jointly or a head of household. To be eligible, the taxpayer's income cannot exceed specified levels.

**Statutory Authority:**

Revenue and Taxation Code Section 17053.5

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 1.9 million returns, representing 2.3 million taxpayers were allowed this credit.

**Tax Credit Usage Details for Tax Year 2021:**

Renter's Credit			
Adjusted Gross Income Class	Returns Allowing Credit (Thousands)	Taxpayers Allowed Credit (Thousands)	Amount of Credit Allowed (Millions)
Less than \$10,000	17	17	\$0.4
\$10,000 to \$19,999	183	183	\$7
\$20,000 to \$49,999	1,270	1,335	\$78
More than \$49,999	471	743	\$54
<b>Total</b>	<b>1,941</b>	<b>2,278</b>	<b>\$140</b>

**Comparable Federal Benefit:**

None

## Personal Income Tax

### State Lottery Winnings Exclusion

**Description:**

Winnings from the California State Lottery are exempt from tax.

**Statutory Authority:**

Government Code Section 8880.68

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 23,455 returns representing 34,991 taxpayers claimed this exclusion.

**Tax Exclusion Usage Details for Tax Year 2021:**

California Lottery Winnings Exclusion				
Adjusted Gross Income Class	Returns Reporting Exclusion (Thousands)	Taxpayer Count (Thousands)	Amount of Exclusion Claimed (Millions)	Tax Impact of Exclusion (Millions)
Less than \$10,000	4	5	\$98	\$6
\$10,000 to \$19,999	2	3	\$35	\$2
\$20,000 to \$49,999	6	9	\$114	\$9
\$50,000 to \$99,999	6	9	\$110	\$11
\$100,000 to \$199,999	4	6	\$563	\$53
\$200,000 to \$499,999	2	3	\$43	\$5
\$500,000 to \$999,999	0.1	0.3	\$8	\$0.9
More than \$999,999	0.1	0.1	\$0.9	\$0.2
<b>Total</b>	<b>23</b>	<b>35</b>	<b>\$972</b>	<b>\$88</b>

**Comparable Federal Benefit:**

None

## Personal Income Tax

### Employee Child Care Benefits Exclusion

**Description:**

Employees may exclude the amount of child and dependent care benefits received through an employer-sponsored payroll deduction program. The exclusion is the lesser of \$5,000 per year, the amount of the taxpayer's earned income, or the amount of the taxpayer's spouse's earned income.

**Statutory Authority:**

Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 129

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Personal Income Tax

### Restaurant Revitalization Fund Grant Exclusion

**Description:**

Restaurant Revitalization Fund grants are excluded from income for the purposes of state taxation. The Restaurant Revitalization Fund was a federal program which distributed grants in April and May of 2021 to restaurants financially disadvantaged by the COVID-19 Pandemic.

**Statutory Authority:**

Revenue and Taxation Code Sections 17158.2 and 24308.2

**Sunset Date:**

Not specified

**Legislative Intent:**

Not specified

**Beneficiaries:**

Incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.



## Personal Income Tax

### Compensation for Injuries or Sickness Exclusion

**Description:**

Taxpayers may exclude from income the compensation received from workers' compensation, accident insurance, state disability insurance, and health insurance for injuries or illness. This also includes compensatory damages awarded in court settlements for injury or sickness, but not punitive damages. Also, employer reimbursement for expenses incurred for the care of an employee, or an employee's spouse or dependents, is excluded from tax.

**Statutory Authority:**

Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 104

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Personal Income Tax

### **Income for In-Home Supportive Services or Waiver Personal Care Services Providers' Wages Exclusion**

***Description:***

Wages received by In-Home Supportive Services or Waiver Personal Care Services providers who live in the same home with the recipient of those services are excluded from gross income for tax purposes.

***Statutory Authority:***

Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 131

***Sunset Date:***

None

***Legislative Intent:***

None

***Beneficiaries:***

Individuals

***Number of Taxpayers/Number of Returns***

Not available

***Comparable Federal Benefit:***

This provision conforms to federal law.

## Personal Income Tax

### Employer-Provided Educational Assistance Exclusion

**Description:**

Individuals may exclude from income up to \$5,250 of qualified educational assistance contributions made by their employer.

**Statutory Authority:**

Revenue and Taxation Code Section 17151 which partially conforms to Internal Revenue Code Section 127

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision generally conforms to federal law.

## Personal Income Tax

### Shuttered Venue Operator Grant Exclusion

**Description:**

Shuttered Venue Operator Grants are excluded from income for the purposes of state taxation. The federal Shuttered Venue Operator Grant program distributed grants in April through August of 2021 to theaters, museums, and similar businesses financially disadvantaged by the COVID-19 Pandemic.

**Statutory Authority:**

Revenue and Taxation Code Sections 17158.3 and 24308.3

**Sunset Date:**

Not specified

**Legislative Intent:**

Not specified

**Beneficiaries:**

Incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Personal Income Tax

### Housing for Clergy Exclusion

**Description:**

The rental value of a minister's dwelling is exempt from tax. Additionally, state-employed members of the clergy may allocate up to 50 percent of their gross salary to either the rental value of a home furnished to them or to the rental allowance paid to them to rent a home.

**Statutory Authority:**

Revenue and Taxation Code Sections 17131 and 17131.6 which partially conforms to Internal Revenue Code Section 107

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision partially conforms to federal law.

## Personal Income Tax

### Student Loan Interest Deduction

**Description:**

Taxpayers may deduct interest paid on qualified education loans up to a maximum of \$2,500. This deduction is phased out based on the taxpayer's modified adjusted gross income, adjusted annually for inflation.

**Statutory Authority:**

Revenue and Taxation Code Section 17204 which conforms to Internal Revenue Code Section 221

**Sunset Date:**

None

**Legislative Intent:**

The intent of this provision was to make the expenses of higher education more affordable.

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

In 2021, 333,494 tax returns representing 468,491 taxpayers claimed this deduction.

**Tax Deduction Usage Details for Tax Year 2021:**

Student Loan Interest Deduction				
Adjusted Gross Income Class	Returns Reporting Deduction (Thousands)	Taxpayer Count (Thousands)	Amount of Deduction Claimed (Millions)	Tax Impact of Deduction (Millions)
Less than \$10,000	28	31	\$27	\$2
\$10,000 to \$19,999	18	20	\$15	\$1
\$20,000 to \$49,999	86	97	\$80	\$5
\$50,000 to \$99,999	124	165	\$104	\$7
More than \$99,999	78	155	\$62	\$4
<b>Total</b>	<b>333</b>	<b>468</b>	<b>\$287</b>	<b>\$18</b>

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Personal Income Tax

### Limited Partnerships Investment Source Rules

**Description:**

The dividends, interest, or gains and losses from qualified investment securities of members of limited partnerships are exempted from taxation if the members reside outside California, and their only contact with the state is through a security dealer, broker, or an investment advisor located in the state.

**Statutory Authority:**

Revenue and Taxation Code Section 17955

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This issue is only relevant to state taxation.

## Personal Income Tax

### Foster Care Payments Exclusion

**Description:**

Payments received from state and local governments, as well as tax-exempt foster care placement agencies, as reimbursements for the costs of caring for a foster child are excluded from income. In addition, supplemental "difficulty of care" payments to compensate the foster parents for the care of a foster child with a physical, mental, or emotional handicap are excluded from income. The foster child must live in the taxpayer's home for the exclusion to apply.

**Statutory Authority:**

Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 131

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.



## Personal Income Tax

### Child and Dependent Care Credit

**Description:**

A credit is allowed for a portion of qualifying child or dependent care expenses paid for the purpose of allowing the taxpayer to be gainfully employed. The credit is a percentage of a parallel federal credit. The percentage decreases as income increases and is eliminated for taxpayers with adjusted gross income greater than \$100,000. Chapter 14, Statutes of 2011 (SB 86) repealed the refundable portion of the Child and Dependent Care credit, effective January 1, 2011.

**Statutory Authority:**

Revenue and Taxation Code Section 17052.6 which generally conforms to Internal Revenue Code Section 21

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

In 2021, 106,077 returns representing 140,766 taxpayers claimed this credit.

**Credit Usage Details for Tax Year 2021**

Child and Dependent Care Credit			
Adjusted Gross Income Class	Returns Allowing Credit (Units)	Taxpayers Allowed Credit (Units)	Amount of Credit Allowed (Thousands)
Less than \$10,000	67	94	\$14
\$10,000 to \$19,999	116	152	\$9
\$20,000 to \$49,999	11,304	11,555	\$1,187
\$50,000 to \$99,999	93,446	127,034	\$18,182
\$100,000 to \$199,999	1,074	1,803	\$257
\$200,000 to \$499,999	58	107	\$21
More than \$499,999	12	21	\$4
<b>Total</b>	<b>106,077</b>	<b>140,766</b>	<b>\$19,673</b>

**Comparable Federal Benefit:**

This provision generally conforms to federal law; however, under federal law this credit does not have an income limit.

## Personal Income Tax

### Moving Expense Deduction

**Description:**

An above-the-line deduction is allowed for certain unreimbursed moving expenses that are required to start a new job. The deduction is limited to the cost of transportation of household goods and personal effects, and travel (including lodging, but not meals) to the new residence.

**Statutory Authority:**

Revenue and Taxation Code Sections 17072 and 17076 which conform to Internal Revenue Code Section 217

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

For 2021, 102,361 tax returns representing 132,822 taxpayers claimed this deduction.

**Tax Deduction Usage Details for Tax Year 2021:**

Moving Expense Deduction				
Adjusted Gross Income Class	Returns Reporting Deduction (Thousands)	Number of Taxpayers (Thousands)	Amount of Deduction Claimed (Millions)	Tax Impact of Deduction (Millions)
Less than \$10,000	23	27	\$109	\$0.1
\$10,000 to \$19,999	11	12	\$32	\$0.2
\$20,000 to \$49,999	28	35	\$95	\$2
\$50,000 to \$99,999	22	29	\$91	\$4
\$100,000 to \$199,999	12	18	\$71	\$4
\$200,000 to \$499,999	6	10	\$47	\$4
\$500,000 to \$999,999	0.8	2	\$10	\$0.8
More Than \$999,999	0.2	0.4	\$3	\$0.3
<b>Total</b>	<b>102</b>	<b>133</b>	<b>\$459</b>	<b>\$15</b>

**Comparable Federal Benefit:**

This provision conforms to federal law prior to January 1, 2018. For tax years 2018 through 2025, federal tax law no longer allows this deduction except for a member of the Armed Forces of the United States on active duty who moves pursuant to a military order. This provision does not conform to that change.

## Personal Income Tax

### Coverdell Education Savings Accounts Earnings Exclusion

**Description:**

Individuals may exclude earnings of Coverdell educational savings accounts from income, provided that, upon withdrawal, the money from the accounts is used for qualified educational expenses.

**Statutory Authority:**

Revenue and Taxation Code Section 23712 which conforms to Internal Revenue Code Section 530

**Sunset Date:**

None

**Legislative Intent:**

This provision was intended to encourage taxpayers to invest for future higher education expenses to make the attainment of higher education possible for the greatest number of citizens of California.

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Personal Income Tax

### Casualty Loss Deduction

**Description:**

This provision allows taxpayers to deduct from gross income qualified casualty losses for which they were not compensated by insurance or other means. Casualty losses are "losses caused by sudden, unexpected, or unusual events, such as floods, fire, storms, earthquakes, vandalism, theft, etc.". Casualty losses are limited to nonbusiness losses that are greater than \$100 per loss, and to cases where the sum of all casualty losses during a particular year is greater than 10 percent of federal adjusted gross income.

**Statutory Authority:**

Revenue and Taxation Code Sections 17131, 17207, and 24347.5

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals, incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

For 2021, 2,266 tax returns representing 2,793 taxpayers claimed this deduction.

**Comparable Federal Benefit:**

This provision conforms to federal law with modifications, but does not conform to the federal modification, which is in effect for taxable years 2018 through 2025, to only allow a deduction for presidentially declared disasters as personal casualty losses.

## Personal Income Tax

### Foster Youth Earned Income Tax Credit

**Description:**

Beginning in 2022, former foster youth ages 18 through 25 who qualify for the EITC and were in foster care while age 13 or older qualify for a \$11,083-refundable credit, indexed to inflation each year.

**Statutory Authority:**

Revenue and Taxation Code Sections 17052.2 and 19551.4

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

None

## Personal Income Tax

### **Agricultural Soil or Water Conservation and Prevention of Erosion Cost Expensing**

***Description:***

This provision allows taxpayers to deduct qualified costs associated with soil and water conservation, and the prevention of erosion.

***Statutory Authority:***

California Code of Regulations Title 18 Section 24369(a) and generally conform to Internal Revenue Code Section 26

***Sunset Date:***

None

***Legislative Intent:***

Not specified

***Beneficiaries:***

Individuals

***Number of Taxpayers/Number of Returns:***

Not available

***Comparable Federal Benefit:***

This provision conforms to federal law.

## Personal Income Tax

### Reforestation

**Description:**

Under this program, taxpayers can amortize over seven years up to \$10,000 per year of qualifying reforestation expenditures. These expenditures include the direct costs of forestation and reforestation, such as site preparation, seeds, and labor and equipment.

**Statutory Authority:**

Revenue and Taxation Code Sections 17278.5 and 24372.5, which conform to Internal Revenue Code Section 194

**Sunset Date:**

None

**Legislative Intent:**

The program's intent is to speed up the reforestation of depleted timberlands.

**Beneficiaries:**

Individuals, incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This treatment conforms to federal practice, except that the benefit is limited to reforestation activities located in California.

## Personal Income Tax

### New Employment Credit

**Description:**

Employers who obtain a tentative credit reservation may claim a credit worth 35 percent of a qualified full-time employee's wages between 150 percent and 350 percent of their minimum wage. Qualification for the credit is also subject to geographic restrictions and employee characteristics. This credit was expanded for tax years 2023 through 2025 for certain companies; including semiconductor companies that have or intend to apply for CHIPS Act funding, manufacturers of electric airplanes, lithium producers, and manufacturers of lithium batteries. These companies are not subject to geographic restrictions and are allowed to calculate the credit beginning at 100 percent of qualifying wages. The credit is operative for tax years 2014 to 2025.

**Statutory Authority:**

Revenue and Taxation Code Sections 17053.73 and 23626

**Sunset Date:**

December 1, 2027

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals, incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

For 2021, 249 tax returns representing 431 taxpayers were allowed this credit.

**Tax Credit Usage Details for Tax Year 2021:**

New Employment Credit			
Adjusted Gross Income Class	Returns Allowing Credit (Units)	Taxpayers Allowed Credit (Units)	Amount of Credit Allowed (Thousands)
Less than \$49,999	15	22	\$4
\$50,000 to \$99,999	29	46	\$23
\$100,000 to \$199,999	35	58	\$97
\$200,000 to \$499,999	49	86	\$247
\$500,000 to 999,999	30	55	\$371
More than \$999,999	91	164	\$3,943
<b>Total</b>	<b>249</b>	<b>431</b>	<b>\$4,685</b>

**Comparable Federal Benefit:**

None.



## Personal Income Tax

### Cannabis High-Road Business Tax Credit

**Description:**

Commercial cannabis businesses that provide full-time employees with employment compensation, employer-provided group health insurance, and employer-provided retirement benefits or pension benefits are allowed annual tax credits equal to 25 percent of qualified expenditures up to \$250,000 from 2023 through 2027. The credit has a cumulative cap of \$20 million over the lifetime of the credit.

**Statutory Authority:**

Revenue and Taxation Code Sections 17053.64 and 23664

**Sunset Date:**

January 1, 2028

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals, unincorporated and incorporated businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

None

## Corporation Tax

### Corporation Tax

#### Water's Edge Election

**Description:**

Unitary multinational corporations are allowed the option of computing the income attributable to California on the basis of a water's-edge (domestic) combined report, as opposed to a worldwide combined report. Under the water's edge provision, a business may elect to compute its California tax by reference to only the income and factors of a limited number of entities. In general, these entities include United States incorporated entities, the United States activities of foreign incorporated entities, and the activities of various foreign entities that are included in the federal consolidated return. The election is generally for a seven-year period.

**Statutory Authority:**

Revenue and Taxation Code Sections 25110-25113

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Corporations

**Number of Taxpayers/Number of Returns:**

For 2021, 19,368 returns elected the water's edge method.

**Tax Expenditure Usage Details for Tax Year 2021:**

Not available

**Comparable Federal Benefit:**

Federal law uses a different method of determining income subject to tax, but it relies on the same information as the water's edge method.

## Corporation Tax

### Research and Development Credit

**Description:**

Businesses are allowed a credit for increased research expenditures over a four-year base period.

**Statutory Authority:**

Revenue and Taxation Code Sections 17052.12 and 23609 in partial conformity with Internal Revenue Code Section 41

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

For 2021, 19,790 personal income tax returns representing 35,969 personal income taxpayers claimed this credit. In addition, 6,528 corporate tax returns were allowed this credit.

**Personal Income Tax Credit Usage Details for Tax Year 2021:**

Research and Development Credit--Personal Income Tax			
Adjusted Gross Income Class	Returns Allowing Credit (Units)	Taxpayers Allowed Credit (Units)	Amount of Credit Allowed (Millions) <sup>1</sup>
Less than \$10,000	292	515	\$0.0
\$10,000 to \$19,999	313	547	\$0.1
\$20,000 to \$49,999	718	1,248	\$0.3
\$50,000 to \$99,999	2,871	5,221	\$1
\$100,000 to \$199,999	4,688	8,629	\$5
\$200,000 to \$499,999	3,799	6,866	\$20
\$500,000 to 999,999	2,498	4,565	\$28
More than \$999,999	4,611	8,378	\$164
<b>Total</b>	<b>19,790</b>	<b>35,969</b>	<b>\$218</b>

<sup>1</sup>In taxable year 2021, taxpayers were limited to using \$5 million in business tax credits, including the Research and Development Credit.

## Corporation Tax

### **Corporate Income Tax Credit Usage Details for Tax Year 2021:**

<b>Research and Development Credit—Corporation Tax</b>		
<b>Size of Gross Receipts</b>	<b>Returns with Credit</b>	
	<b>Returns Allowing Credit (Units)</b>	<b>Amount of Credit Allowed (Millions)<sup>1</sup></b>
Not Known	401	\$63
Less than \$1 million	562	\$7
\$1 million to \$5 million	1,448	\$18
\$5 million to \$25 million	1,867	\$48
\$25 million to \$100 million	980	\$71
\$100 million to \$1 billion	736	\$182
\$1 billion to \$10 billion	427	\$486
More than \$10 billion	107	\$328
<b>Total</b>	<b>6,528</b>	<b>\$1,202</b>

<sup>1</sup>In taxable year 2021, taxpayers were limited to using \$5 million in business tax credits, including the Research and Development Credit.

#### **Comparable Federal Benefit:**

This provision partially conforms to federal law.

## Corporation Tax

### Enterprise Zones and Similar Areas Tax Incentives

**Description:**

Several tax incentives are available for certain types of expenditures or income earned in economically depressed areas of the state. These include areas designated as Enterprise Zones (EZs), Local Agency Military Base Recovery Areas (LAMBRAs), Targeted Tax Areas (TTAs), and Manufacturing Enhancement Areas (MEAs). Employers in these areas may be allowed a credit for a portion of the wages paid to qualified individuals. Employers may be eligible for a credit for the amount of sales and use taxes paid on certain purchases of machinery or parts. Employees in these designated areas may be eligible for an income tax credit of five percent of their qualified wages. Taxpayers may exclude the net interest from certain investments or loans to businesses in economically distressed areas. Businesses in designated areas are allowed to expense part of the costs of business equipment beyond normal expensing limits.

**Statutory Authority:**

Chapter 12.8 of the Government Code, and Revenue and Taxation Code Sections 17053.33, 17053.34, 17053.45, 17053.46, 17053.47, 17053.7, 17053.74, 17053.75, 17268, 17276.2, 23612.2, 23622.7, 23622.8, 23633, 23634, 23645, and 23646

**Sunset Date:**

January 1, 2014

**Legislative Intent:**

These provisions were intended to help attract business and industry to the state, and more specifically to selected areas meeting various criteria, to help retain and expand existing state business and industry, and to create increased job opportunities for all Californians.

**Beneficiaries:**

Individuals, incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

In 2021, 2,121 personal income tax returns and 2,805 corporate returns were allowed these tax credits.

**Tax Credit Usage Details for Tax Year 2021:**

Not available.

**Comparable Federal Benefit:**

These provisions do not conform to federal law; however, federal law does provide similar tax incentives for designated empowerment zones and renewal communities. The Tax Cuts and Jobs Act, after January 1, 2018, provides preferential tax treatment to investments in opportunity zones.

**Repeal of Enterprise Zones Provisions:**

Chapter 69, Statutes of 2013, repealed provisions allowing for Enterprise Zones and similar development areas, effective January 1, 2014, although credits may still be

## **Corporation Tax**

carried forward and utilized for up to 10 years. The Enterprise Zone (and similar areas) program has been replaced, for taxable years beginning on or after January 1, 2014. The new economic development program includes a hiring credit in high poverty areas, a sales tax exemption for manufacturing equipment, and a credit (California Competes Credit) awarded on a competitive basis to businesses that attract or retain jobs in the state.

## Corporation Tax

### **Tax-Exempt Status for Qualifying Nonprofit and Charitable Corporations**

**Description:**

Qualifying nonprofit and charitable organizations may request exemption from corporate franchise and income taxes.

**Statutory Authority:**

Revenue and Taxation Code Section 23701

**Sunset Date:**

None

**Legislative Intent:**

Provide tax relief to nonprofit, charitable, and qualified membership organizations.

**Beneficiaries:**

Nonprofit Corporations

**Number of Taxpayers/Number of Returns:**

In 2021, 166,536 returns claimed this exemption.

**Tax Expenditure Usage Details for Tax Year 2021:**

Not available

**Comparable Federal Benefit:**

None

## Corporation Tax

### **Exemption from the Minimum Tax for First-Year Corporations and Exemption from the Annual Tax for First-Year Limited Liability Companies (LLCs), Limited Partnerships (LPs), and Limited Liability Partnerships (LLPs)**

**Description:**

A minimum tax of \$800 is generally imposed on corporations subject to the corporation franchise tax. However, corporations in their first year of business are generally not subject to the minimum tax. LLCs, LLPs, and LPs are generally subject to an \$800-annual tax. However, these entities were exempt from the annual tax for their first year for tax years 2020, 2021, and 2022.

**Statutory Authority:**

Revenue and Taxation Code Section 23153

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

In 2021, 192,533 returns claimed this exemption.

**Tax Exemption Usage Details for Tax Year 2021:**

Not available

**Comparable Federal Benefit:**

None



## Corporation Tax

### Cable Companies Proposition 39 Exclusion

**Description:**

Under Proposition 39, cable companies with \$250 million or higher in business expenditures are allowed to lower their tax liability by excluding 50 percent of their California sales from the numerator of their California apportionment formula.

**Statutory Authority:**

Revenue and Taxation Code Section 25136.1

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Cable companies

**Number of Taxpayers/Number of Returns:**

In 2021, 19 returns claimed this exclusion.

**Tax Exclusion Usage Details for Tax Year 2021:**

Not available

**Comparable Federal Benefit:**

None

## Corporation Tax

### Credit Union Treatment

**Description:**

Credit unions are exempt from state income and franchise taxes. Since credit unions are nonprofit membership organizations, only their member income is generally exempt from tax. This provision also exempts their "nonmember" income (such as investment income on excess deposits or miscellaneous sources of income, such as ATM fees charged to nonmembers) from taxation.

**Statutory Authority:**

Revenue and Taxation Code Section 23153

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Non-profit cooperative associations

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

None

## Corporation Tax

### Accelerated Depreciation of Research and Experimental Costs

**Description:**

Research and experimental expenditures may be deducted immediately in the taxable year that the expense occurred or may be amortized over a 60-month period at the election of the taxpayer.

**Statutory Authority:**

Revenue and Taxation Code Sections 17201 and 24365 which conform to Internal Revenue Code Sections 59 and 174

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

Prior to the enactment of the Tax Cuts and Jobs Act in late 2017, this provision conformed to federal law. Beginning in tax year 2022, federal law requires research and experimental expenditures to be amortized over 60 months, or, for specified research and experimental costs attributable to research outside of the United States, 15 years. This provision does not conform to that change.

## Corporation Tax

### Employee Stock Ownership Plans (ESOP)

**Description:**

Employers that provide employee stock ownership plans are allowed a deduction for dividends paid to an ESOP, when those dividends are paid by the ESOP to participants or are used to retire ESOP debt. Additionally, capital gains on the sale of stock to an ESOP are deferred if the proceeds are used to acquire a similar type of security.

**Statutory Authority:**

Revenue and Taxation Code Sections 18042 and 24601-24612 which generally conform to Internal Revenue Code Sections 401-424 and 1042

**Sunset Date:**

None

**Legislative Intent:**

This provision was intended to broaden employee ownership of California businesses, as well as prevent undue recordkeeping burdens and costs of compliance by being out of conformity with federal law.

**Beneficiaries:**

Incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Corporation Tax

### Low-Income Housing Credit

**Description:**

A tax credit is allowed for a portion of the costs of investing in qualified low-income rental housing. The aggregate amount of the credit is capped, and specific credits are allocated to applicants by the California Tax Credit Allocation Committee. Credits are allocated to developers who, in turn, sell them to investors in exchange for project funding. All projects receiving the California credit must also receive the parallel federal credit. Chapter 159, Statutes of 2019 expanded the program by \$500 million for 2020 and ongoing annually pursuant to an authorization in the Budget Act. The Budget Acts for 2020-21, 2021-22, 2022-23, 2023-24, and 2024-25 each authorized the \$500-million expansion.

**Statutory Authority:**

Revenue and Taxation Code Sections 17058 and 23610.5 in conformity with Internal Revenue Code Section 42

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals, unincorporated and incorporated businesses

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 669 personal income tax returns and 31 corporation tax returns claimed this credit.

**Tax Credit Usage Details for Tax Year 2021:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Corporation Tax

### California Competes Credit

**Description:**

An income tax credit is competitively awarded based on several factors, including the number of jobs in California, compensation paid to its employees, the amount of investment in California, and the business' economic impact. The amount of credit that can be allocated is \$30 million in 2013-14, \$150 million in 2014-15, \$200 million annually in 2015-16 through 2017-18, \$180 million annually in 2018-19 through 2020-21, \$290 million in 2021-22, and \$180 million annually from 2022-23 to 2027-28. These amounts may be reduced to ensure that the total estimated amounts of the sales tax exemption on manufacturing equipment, the New Employment credit, and this credit do not exceed \$750 million per year.

**Statutory Authority:**

Revenue and Taxation Code Sections 17059.2 and 23689

**Sunset Date:**

December 1, 2030

**Legislative Intent:**

To attract and retain high-value employers in the state by allowing businesses to publicly apply for tax credits on the basis of job creation and retention standards.

**Beneficiaries:**

Incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

For the 2021 tax year, 278 personal income tax returns representing 501 taxpayers and 130 corporation tax returns claimed this credit.

**Personal Income Tax Credit Usage Details for Tax Year 2021:**

California Competes Credit—Personal Income Tax			
Adjusted Gross Income Class	Returns Allowing Credit (Units)	Taxpayers Allowed Credit (Units)	Amount of Credit Allowed (Thousands)
\$1 to \$49,999	13	21	\$6
\$50,000 to \$99,999	18	27	\$26
\$100,000 to \$199,999	26	50	\$119
\$200,000 to \$499,999	60	106	\$864
\$500,000 to \$999,999	43	81	\$1,250
More than \$999,999	118	216	\$15,480
<b>Total</b>	<b>278</b>	<b>501</b>	<b>\$17,744</b>

## Corporation Tax

### **Corporate Income Tax Credit Usage Details for Tax Year 2021:**

<b>California Competes Credit—Corporation Tax</b>		
<b>Size of Gross Receipts</b>	<b>Returns Allowing Credit (Units)</b>	<b>Amount of Credit Allowed (Millions)</b>
Less than \$1 million	14	\$1.1
\$1 million to \$5 million	22	\$0.3
\$5 million to \$25 million	29	\$0.9
\$25 million to \$100 million	19	\$3.3
\$100 million to \$1 billion	25	\$10.6
Greater than \$1 billion	21	\$25.2
<b>Total</b>	<b>130</b>	<b>\$41.3</b>

### **Comparable Federal Benefit:**

This is a state-only benefit.

## Corporation Tax

### Film and Television Tax Credit

**Description:**

Provides a corporation franchise tax, personal income tax, or sales tax credit to qualified taxpayers who produce a motion picture in California or relocate a television series or independent film to California. The credits are allocated and certified by the California Film Commission. The annual allocation of credits is \$100 million per year through 2014-15 and \$330 million per year for 2015-16 through 2029-30. From 2025-26 to 2029-30, the credit is electively refundable at a discounted 90-percent rate and the refundable credit is taken over 5 years. There is an additional \$90 million in 2021-22 and \$90 million in 2022-23 in allocations reserved for relocating and recurring television shows and an additional cumulative \$150 million in allocations from 2022 to 2032 for motion picture productions at newly constructed soundstages in California.

**Statutory Authority:**

Revenue and Taxation Code Sections 17053.85, 17053.95, 17053.98, 17053.98.1, 23685, 23695, 23698, 29698.1, 6902.5

**Sunset Date:**

Fiscal year 2029-30 is the final year in statute that credit allocations can be made, except for the \$150 million related to soundstages filming, which can be allocated through 2032. Any credit amounts that cannot be used in the year generated can be carried forward for 9 years to 12 years.

**Legislative Intent:**

Not specified.

**Beneficiaries:**

Corporations and Individuals

**Number of Taxpayers/Number of Returns:**

In 2022-23, 104 taxpayers claimed a credit against sales taxes. In tax year 2021, the number of personal income or corporate income taxpayers claiming the credit is not available.

**Comparable Federal Benefit:**

None



## Corporation Tax

### Expensing of Timber Growing Costs

**Description:**

Costs incurred with acquiring timber are ordinarily capital expenditures. Taxpayers can elect to deduct up to \$10,000 in qualifying reforestation costs for each timber property. Any remaining costs can be amortized over an 84-month period.

**Statutory Authority:**

Revenue and Taxation Code Sections 17201, 17278.5, 17681, 24343, 24373.2, and 24831 which conform to Internal Revenue Code Sections 162, 194, and 611

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Corporation Tax

### Percentage Depletion of Mineral and Other Natural Resources

**Description:**

Taxpayers may deduct a fixed percentage of gross income for resource depletion, which is generally more than the deduction that would be allowed under the normal cost-depletion method. The percentage depends upon the type of resource, and the depletion allowance cannot be more than 50 percent of the taxpayer's related net income prior to the depletion deduction, or more than 100 percent for oil and gas properties. This tax expenditure was eliminated for oil and gas, oil shale, and coal producers effective beginning in the 2024 taxable year.

**Statutory Authority:**

Revenue and Taxation Code Sections 17681 and 24831 which conform to Internal Revenue Code Sections 611, 612, 613, and 613A except, effective beginning in the 2024 taxable year, in the case of oil and gas, oil shale, and coal.

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Incorporated and unincorporated businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law except, effective beginning in the 2024 taxable year, in the case of oil and gas, oil shale, and coal.

## Corporation Tax

### Intangible Drilling Cost Expensing

**Description:**

Costs incurred during the drilling and preparation of new gas and oil wells are ordinarily capital expenditures. Tangible costs are usually deducted using depreciation or depletion. Under this provision, 70 percent of intangible drilling costs, such as survey work, ground clearing, drainage, and repairs, can be deducted as a current business expense immediately, with the remainder spread over five years, as opposed to normal tax law that requires these expenses to be deducted over the same period of time as profits are made. Independent producers can fully deduct 100 percent of their intangible drilling costs as a current business expense immediately. This tax expenditure was eliminated effective beginning in the 2024 taxable year.

**Statutory Authority:**

Revenue and Taxation Code Section 24423

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Corporations

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law for taxable years 2023 and prior.

## Corporation Tax

### State Historic Tax Credit

**Description:**

Taxpayers are allowed a tax credit for the rehabilitation of certified historic structures and qualified owner-occupied residences. The maximum credit that can be allocated in calendar years 2021 through 2027 is \$50 million per year, subject to a Budget Act appropriation.

**Statutory Authority:**

Revenue and Taxation Code Sections 17053.91 and 23691

**Sunset Date:**

January 1, 2027

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals, unincorporated and incorporated businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

Federal law allows a Historic Rehabilitation Tax Credit for expenditures to rehabilitate historic buildings.

## Corporation Tax

### **New Advanced Strategic Aircraft Hiring Credit**

**Description:**

Qualified aerospace companies are allowed a credit equal to 17.5 percent of wages paid to qualified employees during a taxable year with annual caps over 15 years ranging from \$25 million to \$31 million.

**Statutory Authority:**

Revenue and Taxation Code Sections 23636 and 23689

**Sunset Date:**

December 1, 2030

**Legislative Intent:**

Not specified

**Beneficiaries:**

Corporations

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

None

## **Sales and Use Taxes**

### **Food Products Exemption**

***Description:***

Sales of food for human consumption are not generally subject to the sales and use taxes. However, this exemption does not generally include hot prepared food, food sold and consumed at or on the seller's facility, or food sold for consumption where there is an admission charge.

***Statutory Authority:***

Revenue and Taxation Code Section 6359

***Sunset Date:***

None

***Legislative Intent:***

Not specified

***Beneficiaries:***

Individuals

***Number of Taxpayers/Number of Returns:***

Not available

***Comparable Federal Benefit:***

There is no federal sales tax.

## Sales Taxes

### Gas, Electricity, and Water Exemption

**Description:**

Gas, electricity, and water delivered through mains, lines, or pipes are exempt from tax. Water sold in bulk quantities of 50 gallons or more and liquefied petroleum gas delivered for use in a residence or for use in producing or harvesting agricultural products, are also exempt.

**Statutory Authority:**

Revenue and Taxation Code Section 6353

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals and businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Prescription Medicine Exemption

**Description:**

Medicine, or any substance or preparation intended for use by internal or external application to the human body, that is prescribed for an individual and furnished by a registered pharmacist, physician, surgeon, podiatrist, or health facility, is exempt from tax. This exemption also includes such things as orthotic and prosthetic devices and parts, insulin syringes, and sutures. The exemption does not include any auditory, prosthetic, ophthalmic, or ocular device or appliance, bandages, splints, or similar items, or any alcoholic beverage.

**Statutory Authority:**

Revenue and Taxation Code Sections 6369 and 6369.1

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.



## Sales Taxes

### **Animal Life, Feed, Seeds, Plants, Fertilizer, Drugs, and Medicines Exemption**

**Description:**

Sales of animals which are generally used for human consumption, as well as the feed and drugs used for those animals, is exempt from tax. Additionally, seeds and plants that are normally used for human consumption and fertilizer for those plants are exempt from tax.

**Statutory Authority:**

Revenue and Taxation Code Section 6358

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals and businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### **Candy, Confectionery, Snack Foods, and Bottled Water Exemption**

**Description:**

Candy, gum, confectionery, snack foods, and bottled water are exempt from tax.

**Statutory Authority:**

Revenue and Taxation Code Section 6359

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Manufacturing and Research & Development Equipment Exemption

**Description:**

Beginning July 1, 2014, manufacturers and certain research and development businesses may qualify for an exemption from the 5- percent state sales and use tax rate (General Fund plus Local Revenue Fund 2011) on qualifying manufacturing and research and development equipment purchases and leases. Beginning January 1, 2018, this exemption is expanded to specified electric power and agricultural activities.

**Statutory Authority:**

Revenue and Taxation Code Section 6377.1

**Sunset Date:**

July 1, 2030

**Legislative Intent:**

To make California more competitive in attracting new businesses to the state, and to bring California in line with the 48 other states that exempt manufacturing equipment from sales and use tax.

**Beneficiaries:**

Individuals and businesses

**Number of Taxpayers/Number of Returns:**

In 2022-23, 25,110 returns claimed this exemption.

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Farm Equipment and Machinery

**Description:**

Sales of farm equipment, machinery, and their parts are exempt from the 5-percent state sales and use tax rate (General Fund plus Local Revenue Fund 2011) when sold to qualified persons engaged in the business of producing and harvesting agricultural products.

**Statutory Authority:**

Revenue and Taxation Code 6356.5

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

In 2022-23, 13,989 returns claimed this exemption.

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### One-Year Diesel Fuel Sales Tax Exemption

**Description:**

Sales of diesel fuel were exempted from the 3.9375-percent General Fund sales tax rate from October 1, 2022 to September 30, 2023.

**Statutory Authority:**

Revenue and Taxation Code Section 6357.4

**Sunset Date:**

October 1, 2023

**Legislative Intent:**

The purpose of this exemption is to provide financial relief to California businesses and residents that use diesel fuel.

**Beneficiaries:**

Individuals and businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Meals Furnished by Institutions Exemption

**Description:**

Meals furnished by institutions such as schools, health facilities, and residential care facilities for the elderly, drug treatment facilities, community care facilities, and alcohol recovery facilities are exempt from tax.

**Statutory Authority:**

Revenue and Taxation Code Sections 6363 and 6363.6

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals and businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Fuel Sold to Common Carriers Exemption

**Description:**

Sales of fuel and petroleum products to air common carriers for international flights are exempt from tax.

**Statutory Authority:**

Revenue and Taxation Code Section 6357.5

**Sunset Date:**

None

**Legislative Intent:**

This provision was intended to allow domestic fuel producers to compete equally with foreign producers, who are exempt under federal law from state sales taxes on airline fuel used in international travel.

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Linen Supplies Rentals Exemption

**Description:**

Linen supplies and similar articles furnished as part of a recurring service of laundering or cleaning such linen supplies and similar articles are exempt from sales and use tax.

**Statutory Authority:**

Revenue and Taxation Code Sections 6408

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Businesses and individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.



## Sales Taxes

### Wheelchairs, Crutches, Canes, and Walkers Exemption

**Description:**

Wheelchairs, crutches, canes, quad canes, white canes used by the legally blind, and walkers, and replacement parts for these devices, when sold to an individual for personal use as directed by a physician, are not subject to sales and use tax.

**Statutory Authority:**

Revenue and Taxation Code Section 6369.2

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Professional Health Services Exemption

**Description:**

A licensed healthcare professional is generally the consumer and not the retailer of property furnished in the performance of healthcare services, and therefore any tangible goods used while providing services are taxed when purchased by the doctor rather than when administered to the patient.

**Statutory Authority:**

Revenue and Taxation Code Sections 6018, 6018.4, 6018.5, 6018.7 and 6020

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Diesel Fuel Used in Farming and Processing Exemption

**Description:**

Sales of diesel fuel are not subject to the 5-percent state sales and use tax rate (General Fund plus Local Revenue Fund 2011) when that fuel is consumed during the activities of a farming or food processing business. Farming business includes transporting farm products to the marketplace.

**Statutory Authority:**

Revenue and Taxation Code 6357.1

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

In 2022-23, 525 returns claimed this exemption.

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Custom Computer Programs Exemption

**Description:**

The transfer of custom computer programs, other than a basic operational program, and separate charges for custom modifications to existing prewritten programs are excluded from the definition of "sale." Therefore, these computer programs are not subject to sales and use tax.

**Statutory Authority:**

Revenue and Taxation Code 6010.9

**Sunset Date:**

None

**Legislative Intent:**

This provision was intended to provide an incentive for the development and utilization of computer software.

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### California Alternative Energy Exclusion

**Description:**

Authorizes the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) to approve sales and use tax exemptions on the purchase of tangible personal property that is used for the design, manufacture, production, or assembly of advanced transportation technologies or alternative energy products. The maximum allocation is \$100 million per year.

In 2012, this program was expanded to allow the sales tax exemption for tangible personal property used in advanced manufacturing projects. In 2016, the sales tax exemption was expanded to projects that process and use recycled feedstock. The maximum allocation of sales tax exemptions was increased from \$100 million to \$115 million for calendar years 2022, 2023, and 2024 with the additional \$15 million reserved for lithium extraction, recovery, and processing.

**Statutory Authority:**

Public Resources Code Section 26003

**Sunset Date:**

The entire CAEATFA sales and use tax exclusion program will sunset on January 1, 2026.

**Legislative Intent:**

Not specified

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Children's Diapers Exemption

**Description:**

Diapers designed, manufactured, processed, fabricated, or packaged for use by infants and children are not subject to sales and use tax.

**Statutory Authority:**

Revenue and Taxation Code 6363.9

**Sunset Date:**

None

**Legislative Intent:**

To promote public health by increasing the affordability of, and expanding access to, diapers

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Bad Debt Sales Tax Deduction

**Description:**

Current California law allows retailers, lenders, and retailers' affiliates to receive a deduction or claim a refund for sales and use tax paid on bad debt used to purchase taxable goods on credit. Retailer lending accounts that are found worthless and are charged off for income tax purposes are not subject to sales and use tax. Effective January 1, 2025, the sales tax deduction and refund will be limited only to retailers who incurred bad debt from consumer accounts and will no longer be available to lenders and retailers' affiliates.

**Statutory Authority:**

Revenue and Taxation Code Sections 6055 and 6203.5

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Blood Storage Units Exemption

**Description:**

Containers used to collect or store human blood, plasma, blood products, or blood derivatives, including any disposable tubing, filters, grommets, and needles sold along with the bags and held in a blood bank for medical purposes, are not subject to sales and use tax.

**Statutory Authority:**

Revenue and Taxation Code Sections 6364.5

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals and businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.



## Sales Taxes

### Medicine Administered by Veterinarians Exemption

**Description:**

Drugs or medicines that are administered by licensed veterinarians to animal life as an additive to feed or drinking water or in the regular course of business, and the primary purpose of those drugs or medicines is the prevention and control of disease, are not subject to sales and use tax.

A licensed veterinarian is generally the consumer and not the retailer of property furnished in the performance of healthcare services, and therefore any tangible goods used while providing services are taxed when purchased by the veterinarian rather than when administered to the patient.

**Statutory Authority:**

Revenue and Taxation Code Sections 6018.1, 6358, and 6358.4

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Subscription Periodicals Exemption

**Description:**

Sales of periodicals that appear at stated intervals of at least 4 times per year but not more than 60 times per year, and their ingredient and component parts are exempt from the sales and use taxes when the periodical is sold by subscription and delivered by mail or common carrier.

**Statutory Authority:**

Revenue and Taxation Code Section 6362.7

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals and businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Printed Advertising Exemption

**Description:**

Sales of printed material which is substantially advertisements for good and services are exempt from tax if the material is (1) printed to the special order of the purchaser, (2) mailed or delivered by the seller, the seller's agent, or a mailing house, and (3) delivered to another person at no cost to that person.

**Statutory Authority:**

Revenue and Taxation Code 6379.5

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Fuel Sold to Water Common Carriers Exemption

**Description:**

The sale of fuel and petroleum products is exempt from sales and use tax when sold to a water common carrier for use after the vessel reaches its first out-of-state destination.

**Statutory Authority:**

Revenue and Taxation Code Section 6385

**Sunset Date:**

January 1, 2029

**Legislative Intent:**

To ensure fueling will continue to be a robust economic activity in the state and adhere to tax policy and rationale of first substantial use occurring out of state.

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax

## Sales Taxes

### Oxygen Delivery Systems Exemption

**Description:**

Medical oxygen delivery systems, including, but not limited to, liquid oxygen containers, high pressure cylinders, and regulators, when sold, leased, or rented to an individual as directed by a physician, are not subject to sales and use tax.

**Statutory Authority:**

Revenue and Taxation Code Section 6369.5

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Menstrual Products Exemption

**Description:**

Menstrual hygiene products including tampons, menstrual cups, menstrual sponges, and sanitary napkins are not subject to sales and use tax.

**Statutory Authority:**

Revenue and Taxation Code 6363.10

**Sunset Date:**

None

**Legislative Intent:**

to promote public health by increasing the affordability of, and expanding access to, menstrual hygiene products.

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Tele-production and Post-Production Equipment Exemption

**Description:**

Sales of tele-production and post-production equipment to businesses primarily engaged in tele-production and post-production activities are not subject to the 5-percent state sales and use tax rate (General Fund plus Local Revenue Fund 2011) when that property is used 50 percent or more in those activities.

**Statutory Authority:**

Revenue and Taxation Code Section 6378

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

In 2022-23, 1,197 returns claimed this exemption.

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Zero-Emission Transit Buses Exemption

**Description:**

Sales of zero-emission transit buses sold to local jurisdictions or public agencies that provide transit services to the public are partially exempt from sales and use tax, with the 3.9375-percent General Fund portion of the sales tax rate being exempted.

**Statutory Authority:**

Revenue and Taxation Code 6377

**Sunset Date:**

January 1, 2026

**Legislative Intent:**

To assist transit agencies in transitioning bus fleets to zero-emission by reducing upfront capital costs and incremental costs between technologies, overcome upfront funding shortfalls impeding adoption of zero-emission buses, eliminate pollutant emissions and clean the air, and reduce greenhouse gas emissions.

**Beneficiaries:**

Local governments and businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.



## Sales Taxes

### Qualified Motor Vehicles (Clean Cars 4 All) Exemption

**Description:**

On or after January 1, 2023, gross receipts from the sale of a qualified zero-emission or near-zero-emission motor vehicle to a qualified buyer are partially exempt from sales and use tax, with the 3.9375-percent General Fund portion of the sales tax rate being exempted.

**Statutory Authority:**

Revenue and Taxation Code 6368.2

**Sunset Date:**

January 1, 2028

**Legislative Intent:**

This provision is intended to increase participation of low-income Californians in the Clean Cars 4 All Program and encourage replacement of higher-polluting vehicles with zero-emission vehicles.

**Beneficiaries:**

Individuals

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### **Leases of Motion Picture and Television Films and Tapes Exemption**

**Description:**

Leases of motion pictures, animated motion pictures, and television films and tapes are not considered sales and are therefore exempt from tax. The lessor is considered the consumer of such tangible personal property it leases.

**Statutory Authority:**

Revenue and Taxation Code Sections 6006 and 6010

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Nonprofit Youth Organizations Exemption

**Description:**

Food products, nonalcoholic beverages, or other tangible personal property made or produced by members of the organization provided and sold on an intermittent basis, and that the profits from those sales are used exclusively in furtherance of the purposes of the organization, are not subject to sales and use tax.

**Statutory Authority:**

Revenue and Taxation Code Section 6361

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Nonprofit organizations

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Sales Taxes

### Fuel from Organic Products and Waste Byproducts Exemption

**Description:**

Organic products grown for fuel purposes and waste byproducts from agricultural or forest products, municipal refuse, or manufacturing operations which are used as fuel in an industrial facility in lieu of traditional fuel sources are not subject to sales and use tax.

**Statutory Authority:**

Revenue and Taxation Code Section 6358.1

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals and businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

There is no federal sales tax.

## Fuel Taxes

### Fuel Taxes

#### Aircraft Jet Fuel Used by Common Carriers and Military Exemption

**Description:**

Air common carriers engaged in the business of transporting persons or property for compensation under certification of public necessity by the state, national, or any foreign government, persons engaged in the business of constructing or reconstructing aircraft, and the United States armed forces are exempt from the tax on aircraft jet fuel.

**Statutory Authority:**

Revenue and Taxation Code Section 7389

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Businesses and U.S. government

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.

## Fuel Taxes

### Fuel Used by Transit Districts and Schools Exemption

**Description:**

Diesel fuel purchased by certain public transit agencies, school districts, and common carriers is taxed at a reduced rate of 1 cent per gallon.

**Statutory Authority:**

Revenue and Taxation Code Sections 8655, 60039, and 60502.2

**Sunset Date:**

None

**Legislative Intent:**

To provide relief from the payment of use fuel tax for local transit operators and ensure that the funds accruing to such operators shall be used for the improvement of their transit operations and to aid in providing better transit service to and from places of employment.

**Beneficiaries:**

Government agencies and businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

Federal law exempts these sales.

## Property Taxes

### Property Tax

#### Computer Programs Exemption

**Description:**

Computer programs other than basic operational programs which are necessary for the fundamental functioning of the computer are exempt from tax. The storage media for the programs are, however, taxable.

**Statutory Authority:**

Revenue and Taxation Code 995

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

None

## Property Taxes

### Fixtures Excluded from the Supplemental Roll Exemption

**Description:**

Fixtures that are valued as a separate appraisal unit from the structure on the property are exempt from supplemental property tax assessment. Fixtures are personal property such as equipment that are affixed to and incorporated into real property.

**Statutory Authority:**

Revenue and Taxation Code Sections  
75.5 and 75.15

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Businesses

**Number of Taxpayers/Number of Returns:**

Not available

**Comparable Federal Benefit:**

None







# *Tax*

## **EXPENDITURE REPORT**

**2024-25**