



### **Table of Contents**

Introduction			 	. 1
Definitions			 	. 1
Why Adopt Tax Expenditures				. 2
Revenue Estimates				. 2
State Revenue Losses				. 3
Local Revenue Losses				. 3
Unknown Revenue Losses			 	. 4
Legislative Intent			 	. 4
Other Tax Expenditure Reports			 	. 4
Personal Income Tax			 	. 5
Corporation Tax			 	. 7
Sales and Use Taxes				. 8
Fuel Taxes			 	. 9
Property Tax				10
Descriptive Detail				
Personal Income Tax				
Exclusion of Employer Contributions to Health Plans			 	11
Exclusion of Employer Pension Contributions			 	11
Home Mortgage Interest Deduction			 	12
Exclusion of Social Security Benefits			 	12
Exclusion of Capital Gains on Sale of a Principal Residence			 	13
Basis Step-up on Inherited Property			 	13
Charitable Contribution Deduction			 	14
Real Estate, Personal Property, and Other Taxes Deduction			 	14
Exclusion of Benefits Provided Under Cafeteria Plans			 	15
Dependent Exemption in Excess of Personal Exemption Credit			 	15
Employee Business and Miscellaneous Expenses Deduction			 	16
Exclusion of Investment Income on Life Insurance and Annuity Contracts			 	16
Head-of-Household and Qualifying Widow(er) Status			 	17
Exclusions for Individual Retirement Accounts			 	17
Medical and Dental Expenses Deduction			 	18
Exclusions for Self-Employed Retirement Plans			 	18
Exclusion of Miscellaneous Fringe Benefits			 	19
Deduction of Health Insurance Paid by Self-Employed			 	19
Exemption for Senior Citizens			 	20
Earned Income Tax Credit			 	20
Exclusion of Transportation-Related Fringe Benefits			 	21
Exclusion of Unemployment Insurance Benefits			 	21



Renters' Credit
Exclusion of Nonresident Military Pay23Exclusion of Meals and Lodging Furnished by Non-Military Employers24Exclusion of Employee Child Care Benefits24Exclusion of State Lottery Winnings25Student Loan Interest Deduction25Exclusion of Compensation for Injuries or Sickness26Exclusion of Employer-Provided Educational Assistance26Child and Dependent Care Credit27Exclusion of Housing for Clergy27Exclusion of Income Earned on Section 529 (Scholarshare) Plans28Moving Expense Deduction28Exclusion of Foster Care Payments29Casualty Losses Deduction29Limited Partnerships Investment Source Rules30Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing30Vater's Edge Election31Research and Development Credit31Enterprise Zones and Similar Areas32Like-Kind Exchanges33Subchapter S Corporations33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Exclusion of Meals and Lodging Furnished by Non-Military Employers24Exclusion of Employee Child Care Benefits24Exclusion of State Lottery Winnings25Student Loan Interest Deduction25Exclusion of Compensation for Injuries or Sickness26Exclusion of Employer-Provided Educational Assistance26Child and Dependent Care Credit27Exclusion of Housing for Clergy27Exclusion of Income Earned on Section 529 (Scholarshare) Plans28Moving Expense Deduction28Exclusion of Foster Care Payments29Casualty Losses Deduction29Limited Partnerships Investment Source Rules30Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing30Vater's Edge Election31Research and Development Credit31Enterprise Zones and Similar Areas32Like-Kind Exchanges33Subchapter S Corporations33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Exclusion of Employee Child Care Benefits24Exclusion of State Lottery Winnings25Student Loan Interest Deduction25Exclusion of Compensation for Injuries or Sickness26Exclusion of Employer-Provided Educational Assistance26Child and Dependent Care Credit27Exclusion of Housing for Clergy27Exclusion of Income Earned on Section 529 (Scholarshare) Plans28Moving Expense Deduction28Exclusion of Foster Care Payments29Casualty Losses Deduction29Limited Partnerships Investment Source Rules30Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing30Corporation Tax31Water's Edge Election31Research and Development Credit31Enterprise Zones and Similar Areas32Like-Kind Exchanges33Subchapter S Corporations33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Exclusion of State Lottery Winnings25Student Loan Interest Deduction25Exclusion of Compensation for Injuries or Sickness26Exclusion of Employer-Provided Educational Assistance26Child and Dependent Care Credit27Exclusion of Housing for Clergy27Exclusion of Income Earned on Section 529 (Scholarshare) Plans28Moving Expense Deduction28Exclusion of Foster Care Payments29Casualty Losses Deduction29Limited Partnerships Investment Source Rules30Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing30Corporation Tax31Water's Edge Election31Research and Development Credit31Enterprise Zones and Similar Areas32Like-Kind Exchanges33Subchapter S Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Student Loan Interest Deduction25Exclusion of Compensation for Injuries or Sickness26Exclusion of Employer-Provided Educational Assistance26Child and Dependent Care Credit27Exclusion of Housing for Clergy27Exclusion of Income Earned on Section 529 (Scholarshare) Plans28Moving Expense Deduction28Exclusion of Foster Care Payments29Casualty Losses Deduction29Limited Partnerships Investment Source Rules30Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing30Corporation Tax31Water's Edge Election31Research and Development Credit31Enterprise Zones and Similar Areas32Like-Kind Exchanges33Subchapter S Corporations33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Exclusion of Compensation for Injuries or Sickness
Exclusion of Employer-Provided Educational Assistance. 26 Child and Dependent Care Credit . 27 Exclusion of Housing for Clergy . 27 Exclusion of Income Earned on Section 529 (Scholarshare) Plans . 28 Moving Expense Deduction . 28 Exclusion of Foster Care Payments . 29 Casualty Losses Deduction . 29 Limited Partnerships Investment Source Rules . 30 Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing . 30  Corporation Tax  Water's Edge Election . 31 Research and Development Credit . 31 Enterprise Zones and Similar Areas . 32 Like-Kind Exchanges . 33 Subchapter S Corporations . 33 Tax-Exempt Status for Qualifying Corporations . 34 Accelerated Depreciation of Research and Experimental Costs . 34 Film Credit . 35 Credit Union Treatment . 35 California Competes Credit . 36
Child and Dependent Care Credit27Exclusion of Housing for Clergy27Exclusion of Income Earned on Section 529 (Scholarshare) Plans28Moving Expense Deduction28Exclusion of Foster Care Payments29Casualty Losses Deduction29Limited Partnerships Investment Source Rules30Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing30Corporation TaxWater's Edge Election31Research and Development Credit31Enterprise Zones and Similar Areas32Like-Kind Exchanges33Subchapter S Corporations33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Exclusion of Housing for Clergy. 27 Exclusion of Income Earned on Section 529 (Scholarshare) Plans 28 Moving Expense Deduction 28 Exclusion of Foster Care Payments 29 Casualty Losses Deduction. 29 Limited Partnerships Investment Source Rules 30 Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing 30  Corporation Tax  Water's Edge Election 31 Research and Development Credit 31 Enterprise Zones and Similar Areas 32 Like-Kind Exchanges 33 Subchapter S Corporations 33 Subchapter S Corporations 34 Accelerated Depreciation of Research and Experimental Costs 34 Film Credit 35 Credit Union Treatment 35 California Competes Credit 36
Exclusion of Income Earned on Section 529 (Scholarshare) Plans
Moving Expense Deduction28Exclusion of Foster Care Payments29Casualty Losses Deduction29Limited Partnerships Investment Source Rules30Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing30Corporation TaxWater's Edge Election31Research and Development Credit31Enterprise Zones and Similar Areas32Like-Kind Exchanges33Subchapter S Corporations33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Exclusion of Foster Care Payments
Casualty Losses Deduction.29Limited Partnerships Investment Source Rules30Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing30Corporation TaxWater's Edge Election.31Research and Development Credit.31Enterprise Zones and Similar Areas.32Like-Kind Exchanges33Subchapter S Corporations.33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit.35Credit Union Treatment35California Competes Credit36
Limited Partnerships Investment Source Rules 30 Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing 30  Corporation Tax  Water's Edge Election 31 Research and Development Credit 31 Enterprise Zones and Similar Areas 32 Like-Kind Exchanges 33 Subchapter S Corporations 33  Tax-Exempt Status for Qualifying Corporations 34 Accelerated Depreciation of Research and Experimental Costs 34 Film Credit 35 Credit Union Treatment 35 California Competes Credit 36
Agricultural Soil or Water Conservation & Prevention of Erosion Cost Expensing
Corporation TaxWater's Edge Election31Research and Development Credit31Enterprise Zones and Similar Areas32Like-Kind Exchanges33Subchapter S Corporations33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Corporation TaxWater's Edge Election31Research and Development Credit31Enterprise Zones and Similar Areas32Like-Kind Exchanges33Subchapter S Corporations33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Water's Edge Election
Research and Development Credit.31Enterprise Zones and Similar Areas.32Like-Kind Exchanges33Subchapter S Corporations33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Enterprise Zones and Similar Areas.32Like-Kind Exchanges33Subchapter S Corporations33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Like-Kind Exchanges
Subchapter S Corporations33Tax-Exempt Status for Qualifying Corporations34Accelerated Depreciation of Research and Experimental Costs34Film Credit35Credit Union Treatment35California Competes Credit36
Tax-Exempt Status for Qualifying Corporations
Tax-Exempt Status for Qualifying Corporations
Accelerated Depreciation of Research and Experimental Costs
Film Credit
California Competes Credit
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Expansion from the Administra Text for First Venu Comments
Exemption from the Minimum Tax for First-Year Corporations
Low-Income Housing Credit
Employee Stock Ownership Plans
New Advanced Strategic Aircraft Hiring Credit
Percentage Depletion of Mineral and Other Natural Resources
Hiring Credit (2013 Budget Act)
Jobs Tax Credit
Expensing of Timber Growing Costs
Reforestation
Community Development Financial Institutions Tax Credit
Natural Heritage Preservation Credit
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### **Sales and Use Taxes**



### Introduction

The Department of Finance has been required to provide a tax expenditure report to the Legislature since 1971. 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, required the report to include each of the following:

- A comprehensive list of tax expenditures 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.
- 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 the Department of Finance.

This report fulfills the Department'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, 2016.

### **Definitions**

There is no absolute rule for defining tax expenditures, and the concept of a "tax expenditure" can be defined in several different ways. 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 at least presents a framework for discussion as to what is not a tax expenditure. Following are some examples of items that are not considered tax expenditures.

- 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 groups 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 also 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 a NOL deduction, over the two years, the first firm would report \$300 taxable income, while the second would report \$200, even though each had \$200 net income.
- 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, 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 not considered tax expenditures.
- 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.

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 and vice versa.

This report, for the first time, does not include apportionment rules as a tax expenditure. In the past, the state has at various times adopted the following rules for apportioning income to California for most businesses that operate both inside and outside California: equal-weighted three-factor formula, double-weighted sales factor, elective single-sales factor, and mandatory single-sales factor. Previous versions of this report 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 almost one-half of the states in the nation, it should be treated as part of California's basic tax structure. As such, this report does not treat mandatory single-sales factor as a tax expenditure.

### **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 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, but can also result in tax expenditures remaining in the tax code when their cost outweighs their social benefits.

Also, 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. 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 normal 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 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. In addition, certain estimates under all of the tax laws for which tax expenditure costs are cited can be subject to significant margins of error due to data limitations.



Due to the effects of tax law interactions and taxpayer 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. Or, 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 cannot be summed to generate the total fiscal impact of all tax expenditures.

With the exception of the deduction for charitable contributions, 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. For Subchapter S corporation treatment, the revenue gain under the personal income tax is netted against the loss for the corporation tax and the result is shown under the corporation tax.<sup>1</sup>

### **State Revenue Losses**

**Personal Income Tax**—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 2016-17 Personal Income Tax General Fund revenues by more than \$41 billion.

**Sales and Use Tax**—The Sales and Use Tax Law contains separately identifiable state tax General Fund expenditures worth about \$10 billion in 2016-17. Examples of these include food; prescription medicines; gas, electricity, and water delivered through mains; farm equipment; and fuel sold to common carriers.

**Corporation Tax**—Fiscal year 2016-17 General Fund tax expenditures in the corporation category amount to over \$6 billion. Examples of these expenditures include provisions for research and development, interest on state and local government obligations, 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, and 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, and the legislative exemptions or preferential provisions do not constitute state tax expenditures. Nonetheless, they impact state finances because local 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' revenue limits. Consequently, each dollar of property tax revenue foregone by schools results 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.

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

<sup>&</sup>lt;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.



### **Unknown Revenue Loss Areas**

It is not always possible to quantify the revenue loss of a particular tax expenditure. Fortunately, in most instances, those tax expenditures whose revenue impact cannot be estimated represent unique situations and probably do not result in significant revenue losses. Some examples of tax expenditures for which revenue losses cannot be quantified include sales tax exemptions for livestock and for meals furnished by institutions, and property tax exemptions for intangibles and air carrier ground time.

### **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 2012 Tax Year Data, covering personal income tax and corporation tax expenditures, in November 2015. This report can be accessed on the Internet at www.ftb.ca.gov under "About Us" in "Reports, Plans and Statistics."

The Board of Equalization released the latest version of its Publication 61 Sales and Use Taxes: Exemptions and Exclusions in July of 2014. This report can be accessed on the Internet at www.boe.ca.gov in "Forms and Pubs."

The Legislative Analyst's Office released a report, Options for Modifying the State Child Care Tax Credit, in April 2016. The report provided background information on the Child and Dependent Care Expenses Credit which allows filers with income below \$100,000 to reduce their tax liability by a percentage of their eligible child care expenses. The Legislative Analyst's Office issued another report, Community Development Financial Institution (CDFI) Tax Credit, in June 2016. This report evaluates the effectiveness of the tax credits allowed for qualified investments in Community Development Financial Institutions. Both of these reports can be accessed on the Internet at www.lao.ca.gov in "Publications."



### **Personal Income Tax**

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)	\$5 Million	or More			
Personal Income Tax					
	•	State Gene	State General Fund Revenue Loss	enne Loss	
Provision	2014-15°	2015-16	2016-17°	2017-18°	2018-19°
Exclusion of employer contributions to health plans	\$5,800	\$5,800	\$6,000	\$6,400	\$6,200
Exclusion of employer pension contributions	4,300	5,500	6,500	7,500	7,500
Home mortgage interest deduction	3,500	3,800	4,200	4,500	4,600
Exclusion of social security benefits <sup>1</sup>	3,200	3,400	3,600	3,800	3,700
Exclusion of capital gains on sale of principal residence	2,500	2,700	3,000	3,200	2,900
Basis step-up on inherited property	2,400	2,400	2,500	2,600	2,400
Charitable contributions deduction	2,370	2,470	2,660	2,850	2,940
Real estate, personal property and other taxes deduction	1,730	1,840	1,840	1,940	1,840
Exclusion of benefits provided under cafeteria plans	1,400	1,400	1,500	1,600	1,500
Dependent exemption in excess of personal exemption credit	1,300	1,300	1,400	1,500	1,500
Employee business and miscellaneous expenses deduction	1,300	1,300	1,400	1,400	1,400
Exclusion of investment income on life insurance and annuity contracts <sup>2</sup>	1,200	1,200	1,300	1,300	1,200
Head-of-household and qualifying widower filing status	1,000	1,100	1,100	1,200	1,200
Exclusions for individual retirement accounts	750	800	850	006	006
Medical and dental expenses deduction	480	550	550	009	009
Exclusions for self-employed retirement plans	450	470	200	500	550
Exclusion of miscellaneous fringe benefits	300	310	310	320	300
Deduction of health insurance paid by self-employed	260	260	260	250	240
Exemption for senior citizens	240	260	270	290	310
Earned Income Tax Credit	0	255	295	325	357
Exclusion of transportation-related fringe benefits	200	210	220	230	220
Exclusion of unemployment insurance benefits	170	160	160	150	150
Exclusion of employer contributions to life insurance plans	130	130	130	130	130
Renters' credit	110	110	110	120	120
Exclusion of scholarship/fellowship income	110	110	120	130	130



### Personal Income Tax (continued)

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)	f \$5 Million o	or More			
Personal Income Tax (continued)					
		State Gene	State General Fund Revenue Loss	enne Loss	
Provision	2014-15	2015-16	2016-17	2017-18	2018-19 <sup>e</sup>
Exclusion of non-resident military pay	08	80	80	98	85
Exclusion of meals and lodgings furnished by non-military employers	80	85	06	90	06
Exclusion of employee child care benefits	80	85	85	85	80
Exclusion of state lottery winnings	75	90	100	100	95
Student loan interest deduction	75	85	85	90	90
Exclusion of compensation for injuries or sickness	65	70	70	70	65
Exclusion of employer-provided educational assistance	09	60	09	09	09
Child and dependent care credit (Nonrefundable)	34	34	34	34	34
Exclusion of housing for clergy	31	32	32	32	30
Exclusion of income earned on Section 529 (Scholarshare) plans	30	35	45	55	55
Moving expense deduction	26	27	29	30	30
Exclusion of foster care payments	16	16	16	16	15
Casualty losses deduction	13	13	14	14	14
Limited partnerships investment source rules	12	12	11	10	10
Agricultural Soil or Water Conservation and Prevention of Erosion Cost Expensing <sup>2</sup>	5	4	4	4	4
Total	\$35,882	\$38,563	\$41,530	\$44,510	\$43,644

<sup>e</sup>Fetimate

<sup>&#</sup>x27;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 with Seocial Security income that was reported on their federal tax return.

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



### **Corporation Tax**

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)	es of \$5 Mil ons)	lion or More			
Corporation Tax					
		State Gene	State General Fund Revenue Loss	enne Loss	
Provision	2014-15°	2015-16	2016-17°	2017-18°	2018-19 <sup>e</sup>
Water's edge election	\$2,000	\$2,200	\$2,300	\$2,400	\$2,600
Research and development credit <sup>1</sup>	1,400	1,500	1,600	1,700	1,700
Enterprise Zone And Similar Areas¹	850	600	410	310	250
Like-kind exchanges <sup>1</sup>	750	750	750	800	750
Subchapter S corporations	230	220	210	200	190
Tax-exempt status for qualifying nonprofit and charitable corporations	150	160	160	160	170
Charitable contributions deduction <sup>2</sup>	130	130	140	150	160
Accelerated depreciation of research and experimental costs1	110	120	130	140	140
Film credit <sup>3</sup>	91	104	110	157	195
Credit union treatment	80	90	95	100	110
California Competes Credit	10	39	75	115	155
Exemption from the Minimum Tax for First-Year Corporations	20	55	22	09	09
Low-income housing credit	37	39	41	43	46
Employee stock ownership plans <sup>1</sup>	31	38	40	42	43
New advanced strategic aircraft hiring credit	0	0	20	20	20
Percentage depletion of mineral and other natural resources1	19	19	20	22	22
Hiring Credit (2013 Budget Act)	3	7	10	41	17
Jobs Tax Credit 20091	10	5	3	2	1
Expensing of timber growing costs <sup>1</sup>	8	9	6	6	6
Reforestation <sup>1</sup>	9	9	7	8	8
Community Development Financial Institutions Tax Credit <sup>1</sup>	4	9	9	4	2
Natural Heritage Preservation Credit <sup>1</sup>	1	3	4	9	7
Corporate Tax Total	\$5,970	\$6,100	\$6,195	\$6,462	\$6,655
elerimated					

<sup>e</sup>Estimated

'This item includes personal income tax amounts.

<sup>2</sup>This includes only corporate tax amounts; personal income tax amounts are seperately reported.

<sup>3</sup>Sales tax exclusions are included in the totals here. Actuals were \$11 million in 2014-15 and \$9 million in 2015-16. Estimated to account for 17 percent of the total beginning in 2016-17.



### **Sales and Use Taxes**

		W	ijor Identifia	ble Tax Expe (Dollars	ax Expenditures of (Dollars in Millions)	Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)	r More					
Sales and Use Taxes												
		2014-15			2015-16		2016-17	-17	2017-18	-18	2018-19	-19
	State		State Fiscal	State		State Fiscal	State		State		State	
Provision	General Fund	Local <sup>2</sup>	Recovery	General	Local	Fund <sup>1</sup>	Fund³	Local <sup>2</sup>	General	Local <sup>2</sup>	General	Local <sup>2</sup>
	4.1875%	3.9825%	0.2500%	4.1875%	3.9825%	0.1250%	4.0625%	4.2325%	3.9375%	4.2325%	3.9375%	4.2325%
Food products	\$3,413	\$3,246	\$204	\$3,602	\$3,426	\$108	\$3,665	\$3,819	\$3,715	\$3,993	\$3,868	\$4,158
Prescription medicine	1,978	1,881	118	2,087	1,985	62	2,124	2,212	2,152	2,314	2,241	2,409
Gas, electricity, and water	1,896	1,803	113	2,001	1,903		2,036	2,121		2,218	2,149	2,310
Animal life, feed, seeds, plants, fertilizer, drugs,	o i		C	000	3	Č		000	L	100		0
medicines	8/8	835	79	976	881	87	342	382	955	1,02/	984	690,1
Candy, confectionery, snack foods, and bottled												
water	417	397	25	4	419	13	448	467	454	488	473	208
Manufacturing and research & development												
equipment exemption	136	0	0	190	0	0	210	0	220	0	220	0
Farm equipment and machinery	176	0	10	185	0	9	188	0	191	0	199	0
Fuel sold to common carriers	103	86	9	109	104	3	111	116	113	121	117	126
Custom computer programs	69	99	4	73	69	2	74	77	75	80	82	84
Diesel fuel used in farming and processing	48	45	3	20	48	2	51	23	52	99	54	28
Subscription periodicals	39	37	2	40	40	7	40	44	43	46	45	48
Water common carriers	26	25	2	28	26	1	28	29	29	31	30	32
Teleproduction and post-production equipment	14	13	1	14	14	0	15	15	15	16	15	17
Film Credit (sales tax portion only)	9	2	0	2	4	0	10	10	13	14	17	18
California Alternative Energy	8	8	1	6	6	0	14	14	18	20	19	21
Motion picture production services⁴	-	-	-	-		-	-	-	-	-	-	-
Meals furnished by institutions⁴	-	-	-	-		-	-	-	-	-	-	•
Leases of motion pictures, television films, tapes <sup>4</sup>												
	-	-	-	-	•	1	-	-	-	-	-	-
Printed advertising <sup>4</sup>	•	•	•	•	•	•						•
Total	\$9,206	\$8,459	\$541	\$9,761	\$8,927	\$285	29,957	\$9,960	\$10,108	\$10,424	\$10,519	\$10,857
0 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1												

In effect for the first 6 months of 2015-16.

Rate includes the 2011 Realignment 1.0625%, 1991 Local Revenue Fund 0.50%, Local Public Safety Fund 0.50%, Local Bradley Burns 1.00% (reverted to 1.25% on January 1, 2016), and the average county add-on of .92%.

Rate includes one-half year impact from the sales tax imposed by Proposition 30, which expires at end of 2016.

\*Unknown revenue losses.



### **Fuel Taxes**

		E	ajor Iden	tifiable Tay	Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)	ures of \$	55 Million	or More							
Fuel Taxes															
	2014-1	2014-15 Revenue Loss	SSO.	2015-16	2015-16 Revenue Loss	SSOT	2016-1	2016-17 Revenue Loss	Loss	2017-1	2017-18 Revenue Loss	Loss	2018-19	2018-19 Revenue Loss	SSO
	State	State		State	State		State	State		State	State		State	State	
	General	Special		General	Special		General Special	Special		General	Special		General	Special	
Provision	Fund	Fund	Local	Fund	Fund	Local	Fund	Fund	Local	Fund	Fund	Local	Fund	Fund	Loca
Aircraft jet fuel used by common carriers and military	\$0	\$40	\$	\$0	7,5	\$0	\$0	\$41	\$0	80	25	80	\$0	\$43	
בוכסו מום מסומה של יומוטו מוסומה מום מסומה	0	7	0	0	7	0	0	8	0	0	80	0	0	80	
Total	9	\$48	9	O\$	\$48	90	90	\$49	0\$	9	849	\$	G.	\$5.	



### **Property Tax**

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)	s of \$5 Mi ıs)	llion or Mo	re		
Property Tax					
		Lo	Local Revenue Loss	sso.	
Provision	2014-15	2015-16	2016-17	2014-15 2015-16 2016-17 2017-18 2018-19	2018-19
Computer programs <sup>1</sup>	1	,	ı	1	ı
Fixtures excluded from the supplemental roll <sup>2</sup>	ı	ı	•	1	İ

### **Exclusion of Employer Contributions** to Health Plans

### 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**

# Exclusion of Employer Pension Contributions

### **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.

### **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 and one other residence.

### **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 2013 tax year, 4.2 million returns claimed a deduction for home mortgage interest expenses. This represented 7 million taxpayers.

### **Comparable Federal Benefit:**

This provision conforms to federal law.

### **Personal Income Tax**

### Exclusion of Social Security Benefits

### **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 2013, 1.7 million tax returns claimed this exclusion, which represented 2.7 million taxpayers.

### **Comparable Federal Benefit:**

Under federal law, these benefits are partially taxed.

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

### **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**

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

### **Description:**

The basis of property acquired by bequest, devise, or inheritance is 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.

#### **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 2013 tax year, 4.7 million personal income tax returns claimed this deduction, representing 7.5 million taxpayers. This deduction was also claimed on 168,000 corporation tax returns.

### **Comparable Federal Benefit:**

This provision conforms to federal law.

### **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 including 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 2013 tax year, 9.4 million returns, representing 15.2 million taxpayers, claimed this deduction.

### **Comparable Federal Benefit:**

This provision conforms to federal law.

### Exclusion of Benefits Provided Under Cafeteria Plans

### **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 conforms to federal law.

### **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 2013, 6.4 million tax returns, representing 9.8 million taxpayers, claimed this credit.

### **Comparable Federal Benefit:**

Federal law allows a personal exemption deduction, rather than a credit. The deduction amount for dependents is the same as that for taxpayers. Federal law also allows a child tax credit of \$1,000 per child.

# **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 2013 tax year, 2 million returns, representing 3 million taxpayers, claimed this deduction.

### **Comparable Federal Benefit:**

This provision is in general conformity with federal law.

### **Personal Income Tax**

# Exclusion of Investment Income on Life Insurance and Annuity Contracts

### **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.

# 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 2013 tax year, 2.4 million returns, representing 2.4 million taxpayers, used the head-of-household or qualifying widow(er) filing status.

### **Comparable Federal Benefit:**

This provision is in partial conformity with federal law.

### **Personal Income Tax**

### Exclusions for Individual Retirement Accounts

### **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.

### 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 2013 tax year, 1 million returns, representing 1.6 million taxpayers, claimed this deduction.

### **Comparable Federal Benefit:**

This provision conforms to federal law.

### **Personal Income Tax**

### Exclusions for Self-Employed Retirement Plans

### **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:

Not available

### **Comparable Federal Benefit:**

This provision generally conforms to federal law.

### Exclusion of Miscellaneous Fringe Benefits

### **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, 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:**

This provision conforms to federal law.

### **Personal Income Tax**

# Deduction of Health Insurance Paid by Self-Employed

### **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 2013, 647,000 returns, representing 1 million taxpayers, claimed this deduction.

### **Comparable Federal Benefit:**

This provision generally conforms to federal law.

### **Exemption for Senior Citizens**

### **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 2013 tax year, 2 million returns, representing 3.3 million taxpayers, claimed this exemption.

### **Comparable Federal Benefit:**

Federal law allows taxpayers over the age of 65 to claim an additional standard deduction amount.

### **Personal Income Tax**

#### **Earned Income Tax Credit**

### **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 85 percent 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. The credit then phases out at the same rate for wage income above that specified amount. The matching percentage, called the adjustment factor, is set each year in the annual budget act, and would be zero if no adjustment factor is specified.

### **Statutory Authority:**

Revenue and Taxation Code Section 17052

#### **Sunset Date:**

None

### Legislative Intent:

In future years, to expand the credit to benefit a broader section of working poor Californians.

### Beneficiaries:

Individuals

### Number of Taxpayers/Number of Returns:

Not available

### **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.

# **Exclusion of Transportation- Related Fringe Benefits**

### **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:**

This provision generally conforms to federal law.

### **Personal Income Tax**

# **Exclusion of Unemployment Insurance Benefits**

### **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 2013, 1.3 million returns, representing 2 million taxpayers, claimed this exclusion.

### **Comparable Federal Benefit:**

None

### **Exclusion of Employer Contributions** to Life Insurance Plans

### **Description:**

An employer's contribution to an employee's group term life insurance policy is exempted 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 2013 tax year, 1.5 million returns, representing 1.8 million taxpayers, claimed this credit.

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

None

### Exclusion of Scholarship/Fellowship Income

### **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**

# Exclusion of Nonresident Military Pay

### **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 2013 tax year, 76,400 returns claimed this credit.

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

This issue is only relevant to state taxation.

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

### **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 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**

### Exclusion of Employee Child Care Benefits

### **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.

### **Exclusion of State Lottery Winnings**

### **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 2013 tax year, 12,300 returns claimed this exclusion, which represented 19,300 taxpayers.

### **Comparable Federal Benefit:**

None

### **Personal Income Tax**

### Student Loan Interest Deduction

### **Description:**

Taxpayers may deduct interest paid on qualified education loans up to a maximum amount. This deduction is phased-out for taxpayers above a specified income level. In federal law, beginning in 2013, the AGI level at which the phase-out begins will be reduced. As California conforms to federal law, the state AGI phase-out levels will decline as well.

### **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 2013, 941,000 tax returns used this deduction. This represented 1.3 million taxpayers.

### **Comparable Federal Benefit:**

None

# **Exclusion of Compensation for Injuries or Sickness**

### **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, 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**

# Exclusion of Employer-Provided Educational Assistance

### **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.

### **Child and Dependent Care Credit**

### **Description:**

A refundable 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 AGI 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 2013, 185,000 returns representing 284,000 taxpayers claimed this credit.

### **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**

### **Exclusion of Housing for Clergy**

### **Description:**

The rental value of a minister's dwelling is exempt from tax. Also, 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 conform 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.

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

### **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 generally conforms to federal law.

### **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 2013, 196,000 tax returns, representing 277,000 taxpayers, claimed this deduction.

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

This provision conforms to federal law.

### **Exclusion of Foster Care Payments**

### **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. 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**

### **Casualty Losses Deduction**

### **Description:**

Taxpayers may 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, fires, storms, earthquakes, vandalism, theft, etc. Casualty losses are limited to losses that are greater than \$100 per loss and where the sum of all casualty losses during a year is greater than 10 percent of federal adjusted gross income.

### **Statutory Authority:**

Revenue and Taxation Code Sections 17131, 17207, and 24347.5 which generally conform to Internal Revenue Code Section 165

#### **Sunset Date:**

None

#### Legislative Intent:

Not specified

#### **Beneficiaries:**

Individuals, incorporated and unincorporated businesses

### Number of Taxpayers/Number of Returns:

For 2013, 9,300 tax returns, representing 12,300 taxpayers, claimed this deduction.

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

This provision generally conforms to federal law except that it is limited to losses sustained in California.

### 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 this state is through a security dealer, broker, or an investment advisor located in this 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**

### 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.

### **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 State 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 2013, 15,000 returns elected the water's edge method.

#### **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 2013, 5,800 personal income tax returns and 3,100 corporate tax returns claimed this credit.

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

This provision partially conforms to federal law.

# **Enterprise Zones and Similar Areas**

#### **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).

- (1) Employers in these areas may be allowed a credit for a portion of the wages paid to qualified individuals.
- (2) Employers may be eligible for a credit for the amount of sales and use taxes paid on certain purchases of machinery or parts.
- (3) Employees in these designated areas may be eligible for an income tax credit of five percent of their qualified wages.
- (4) Taxpayers may exclude the net interest from certain investments or loans to businesses in economically distressed areas.
- (5) 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:**

None

#### **Corporation Tax**

# **Enterprise Zones and Similar Areas** (continued)

#### **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 and incorporated and unincorporated businesses

# Number of Taxpayers/Number of Returns:

In 2013, 37,400 personal income tax returns, and 7,500 corporate returns claimed these tax incentives.

#### **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.

# Repeal of Enterprise Zones Provisions:

Chapter 69, Statutes of 2013, repealed provisions allowing for Enterprise Zones and similar development areas, effective January 1, 2014. 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 awarded on a competitive basis to businesses that attract or retain jobs in the state.

### **Like-Kind Exchanges**

### **Description:**

No gain or loss is recognized when business or investment 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.

# **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 conforms to federal law

# **Corporation Tax**

### **Subchapter S Corporations**

#### **Description:**

Corporations that meet specified criteria are allowed to elect Subchapter S corporation status for tax purposes. An S corporation pays tax on corporate income at a reduced rate of 1.5 percent, except for financial institutions, which are subject to a 3.5 percent rate. An S corporation is not subject to the Alternative Minimum Tax but is subject to the applicable corporate minimum tax. Individual shareholders of an S corporation pay personal income taxes on their pro rata share of corporate income.

#### **Statutory Authority:**

Revenue and Taxation Code Sections 17087.5, 18006, and 23800-23813 which partially conform to Internal Revenue Code Sections 1361-1379

#### **Sunset Date:**

None

#### **Legislative Intent:**

Not specified

#### **Beneficiaries:**

Individuals and businesses

# Number of Taxpayers/Number of Returns:

For the 2013 tax year, there were 485,000 S corporation returns reporting some income/losses.

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

This provision generally conforms to federal law; however, no entity-level tax is imposed at the federal level.

# 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 2013, 191,600 returns claimed this exemption.

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

None

### **Corporation Tax**

# Accelerated Depreciation of Research and Experimental Costs

### **Description:**

Research and experimental expenditures may be deducted currently, 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:**

This provision conforms to federal law.

#### Film Credit

#### **Description:**

Provides a nonrefundable 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 2019-20.

# **Statutory Authority:**

Revenue and Taxation Code Sections 17053.85, 17053.95, 23685, 23695, 6902.5

#### **Sunset Date:**

2019-20 is the final year in statute that credit allocations can be made. Any credit amounts that cannot be used in the year generated can be carried forward indefinitely.

#### **Legislative Intent:**

To replace the program's arbitrary lottery system with a competitive system that ranks tax credit applications according to net new job creation and economic benefits to the state.

#### **Beneficiaries:**

Corporations and Individuals

# Number of Taxpayers/Number of Returns:

In 2013, 26 personal income tax returns, and 10 corporate returns claimed these tax credits.

# **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:

In 2013, 381 credit unions claimed this exemption.

# **Comparable Federal Benefit:**

None

#### **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 maximum credit that can be allocated is \$30 million in 2013-14, \$150 million in 2014-15, and \$200 million annually in 2015-16 through 2017-18. These maximum amounts may be reduced to ensure that the aggregation of the estimated amounts of the sales tax exemption on manufacturing equipment, the new hiring 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, 2025

#### **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:

Not Available

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

This is a state-only benefit.

### **Corporation Tax**

# **Exemption from the Minimum Tax** for First-Year Corporations

#### **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.

### **Statutory Authority:**

Revenue and Taxation Code Section 23153

#### **Sunset Date:**

None

#### **Legislative Intent:**

Not specified

#### **Beneficiaries:**

Corporations

# Number of Taxpayers/Number of Returns:

In 2013, 56,500 returns claimed this exemption.

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

None

# **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.

#### **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 2013 tax year, 300 personal income tax returns and 26 corporation tax returns claimed this credit.

### **Comparable Federal Benefit:**

This provision conforms to federal law.

# **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. Also, 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.

# **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 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.

### **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.

#### **Statutory Authority:**

Revenue and Taxation Code Sections 17681 and 24831 which conform to Internal Revenue Code Sections 611, 612, 613, and 613A

#### **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.

#### Hiring Credit (2013 Budget Act)

#### **Description:**

Provides that a qualified employer located in designated areas can take a credit against their tax of 35 percent of qualified wages between 1.5 and 3.5 times the minimum wage for a period of five years. The credit is only available to taxpayers that have a net increase in jobs.

#### **Statutory Authority:**

Revenue and Taxation Code Sections 17053.73 and 23626

#### **Sunset Date:**

December 1, 2024

#### **Legislative Intent:**

Not specified

#### **Beneficiaries:**

Incorporated and unincorporated businesses

# Number of Taxpayers/Number of Returns:

Not available

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

This provision does not conform to federal law, however, federal law does provide various hiring tax credits to employers.

### **Corporation Tax**

#### **Jobs Tax Credit**

#### **Description:**

Provides that a qualified employer can take a credit against their tax of \$3,000 for each increase in qualified full-time employees during the tax year. The total allowable credits for all tax years are \$400 million.

# **Statutory Authority:**

Revenue and Taxation Code Sections 17053.80 and 23623

#### **Sunset Date:**

Repealed as of December 1, 2014

### Legislative Intent:

Not Specified

#### **Beneficiaries:**

Small businesses

# Number of Taxpayers/Number of Returns:

In 2013, 10,300 personal income tax returns, and 2,200 corporate returns claimed these tax credits.

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

None

# **Expensing of Timber Growing Costs**

### **Description:**

Expenses of growing timber fall into three categories. Some must be capitalized and recovered through cost depletion as the timber is cut. Some are fully deductible. Others may be used only to offset the proceeds of sale.

A. Capitalized costs – Preparation of the site including brush removal, cost of seedlings, and labor and tool expense, including depreciation of equipment used in planting, are capital expenditures and are added to the basis of the timber. These costs are recovered under cost depletion as the timber is cut.

B. Fully deductible – Expenditures incurred for silvicultural practices, such as weeding, cleaning, or noncommercial thinning, are currently deductible business expenses. Reforestation expenses (on property located in California) of up to \$10,000 on any one timber property may be expensed in any year, and the balance of reforestation expenses above this amount may be amortized for 84 months.

C. Offset proceeds of sale –The cost of land improvements, such as road grading, ditching, and firebreaks, are capitalized into the basis of the land; they are not added to the basis of the timber and are recovered as an offset against the sales proceeds when the land is sold. Expenses related to the sale of the timber must be offset against the sales proceeds.

#### **Corporation Tax**

# Expensing of Timber Growing Costs (continued)

### **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.

#### 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, labor and equipment.

#### **Statutory Authority:**

Revenue and Taxation Code Section 17278.5 and 24372.5, which conforms 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 and 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.

### **Corporation Tax**

# Community Development Financial Institutions Tax Credit

#### **Description:**

Under this program, investors receive a tax credit worth 20 percent of their investment in one of the community development financial institutions certified by the California Organized Investment Network. The credit can be applied against the corporation tax, personal income tax, or insurer premium tax.

**Statutory Authority:** Revenue and Taxation Code Sections 12209 and 17053.57

#### **Sunset Date:**

January 1, 2017

# Legislative Intent:

Not specified

#### Beneficiaries:

Individual and incorporated and unincorporated business investors.

# Number of Taxpayers/Number of Returns:

For the 2013 tax year, 126 personal income tax returns and an undisclosed number of corporate tax returns.

# Comparable Federal Benefit:

None.

#### **National Heritage Preservation Credit**

Description: Provides a nonrefundable credit to taxpayers who donate property for conservation purposes. The amount of the tax credit equals 55 percent of the fair market value of the donated real property. The California Wildlife Conservation Board must approve Property donations. Prior to approving any credits, the Board must find that bond act monies or local funds would be provided to eliminate any General Fund Cost.

**Statutory Authority:** Revenue and Taxation Code Sections 17053.3 and 23630; Division 28 (commencing with section 37000) of the Public Resources Code

#### **Sunset Date:**

Non

# Legislative Intent:

To protect wildlife habitat, open space, and agricultural lands by providing up to one hundred million dollars (\$100,000,000) in tax credits for donations of qualified land.

#### Beneficiaries:

Individual and incorporated and unincorporated business investors.

# Number of Taxpayers/Number of Returns:

For the 2013 tax year, 126 personal income tax returns and an undisclosed number of corporate tax returns.

# Comparable Federal Benefit:

None.

#### Food Products

#### 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 and Use Taxes

#### **Prescription Medicine**

#### **Description:**

Medicine that is prescribed for an individual and furnished by a registered pharmacist is exempt from tax. This exemption also includes such things as orthotic and prosthetic devices and parts.

# **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:**

# Gas, Electricity, and Water

#### **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 is 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 and Use Taxes**

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

### **Description:**

Sales of animals which are generally used for human food, as well as the feed and drugs used for those animals is exempt from tax. Also, seeds and plants that are normally used for human food 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:**

# Candy, Confectionery, Snack Foods, and Bottled Water

#### **Description:**

Candy, gum, confectionery, snack foods, and bottled water are not subject to the sales and use taxes.

# **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 and Use Taxes**

# Manufacturing and Research & Development Equipment Exemption

#### **Description:**

Beginning July 1, 2014, manufacturers and certain research and development businesses may qualify for a partial exemption of sales and use tax on qualifying manufacturing and research and development equipment purchases and leases.

#### **Statutory Authority:**

Revenue and Taxation Code Section 6377.1

#### **Sunset Date:**

July 1, 2022

#### **Legislative Intent:**

To exempt manufacturing equipment from state sales and use taxes in order 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 2014-15, 10,057 returns claimed this exemption.

# **Comparable Federal Benefit:**

# Farm Equipment and Machinery

#### **Description:**

Sales of farm equipment, machinery, and their parts are exempt from 5.5 percent of the 6.5 percent state sales and use tax rate 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 2014-15, 15,999 returns claimed this exemption.

### **Comparable Federal Benefit:**

There is no federal sales tax

#### **Sales and Use Taxes**

#### **Fuel Sold to Common Carriers**

# **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:**

#### **Custom Computer Programs**

#### **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 the sales and use taxes.

#### **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 and Use Taxes

# Diesel Fuel Used in Farming and Processing

### **Description:**

Sales of diesel fuel are exempt from the 5.5 percent state sales and use tax 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 2014-15, 915 returns claimed this exemption.

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

# **Subscription Periodicals**

#### **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 and Use Taxes**

#### **Water Common Carriers**

# **Description:**

The sale of fuel and petroleum products is exempt when sold to a water common carrier for immediate shipment outside this state.

#### **Statutory Authority:**

Revenue and Taxation Code Section 6385

#### **Sunset Date:**

January 1, 2024

#### **Legislative Intent:**

Not specified

#### **Beneficiaries:**

**Businesses** 

# Number of Taxpayers/Number of Returns:

Not available

### **Comparable Federal Benefit:**

# Teleproduction and Post-Production Equipment

#### **Description:**

Sales of teleproduction and post production equipment to businesses primarily engaged in teleproduction and post production activities is exempt from the 5.5 percent state sales and use tax 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 2014-15, 2,190 returns claimed this exemption.

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

There is no federal sales tax

#### **Sales and Use Taxes**

### California Alternative Energy

#### **Description:**

Authorizes the California Alternative Energy and Advanced Transportation Financing Authority to approve a sales and use tax exemption 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.

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.

# **Statutory Authority:**

Public Resources Code Section 26003

### **Sunset Date:**

The entire sales and use tax exclusion program will sunset on January 1, 2021.

#### **Legislative Intent:**

Not specified

#### **Beneficiaries:**

Businesses

# Number of Taxpayers/Number of Returns:

Not available

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

#### **Motion Picture Production Services**

#### **Description:**

Transfers of any qualified motion picture or any interest or rights therein prior to the date that the qualified motion picture is exhibited or broadcast to its general audience and the performance of qualified motion picture production services is not subject to tax.

### **Statutory Authority:**

Revenue and Taxation Code Section 6010.6

#### **Sunset Date:**

None

#### **Legislative Intent:**

Not specified

#### **Beneficiaries:**

Local governments, individuals, and businesses that are served by these departments.

# Number of Taxpayers/Number of Returns:

Not available

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

There is no federal sales tax

#### Sales and Use Taxes

### **Meals Furnished by Institutions**

# **Description:**

Meals furnished by institutions such as health facilities, residential care facilities for the elderly, drug treatment facilities, community care facilities, and alcohol recovery facilities are not subject to tax.

# **Statutory Authority:**

Revenue and Taxation Code Section 6363.6

#### **Sunset Date:**

None

### **Legislative Intent:**

Not specified

#### **Beneficiaries:**

Individuals and businesses

# Number of Taxpayers/Number of Returns:

Not available

# **Comparable Federal Benefit:**

# Leases of Motion Picture and Television Films and Tapes

#### **Description:**

Leases of motion pictures, animated motion pictures, and television films and tapes are not considered sales. 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 and Use Taxes

### **Printed Advertising**

#### **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:**

#### **Fuel Taxes**

# Aircraft Jet Fuel Used by Common Carriers and Military

#### **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 Sections 6357.5 and 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

#### **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:**

Not specified

#### **Beneficiaries:**

Government agencies and businesses

# Number of Taxpayers/Number of Returns:

Not available

### **Comparable Federal Benefit:**

Federal law exempts these sales.

# **Property Tax**

### **Computer Programs**

#### **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 Tax**

# Fixtures Excluded From the Supplemental Roll

### **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 Section 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

