



Tax
EXPENDITURE
REPORT

2017-18

Table of Contents

Introduction	1
Definitions	1
Why Adopt Tax Expenditures	2
Revenue Estimates	3
State Revenue Losses	3
Local Revenue Losses.	4
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
Charitable Contribution Deduction	13
Basis Step-up on Inherited Property	14
Real Estate, Personal Property, and Other Taxes Deduction.	14
Employee Business and Miscellaneous Expenses Deduction	15
Exclusion of Benefits Provided Under Cafeteria Plans.	15
Dependent Exemption in Excess of Personal Exemption Credit	16
Head-of-Household and Qualifying Widow(er) Filing Status	16
Exclusion of Investment Income on Life Insurance and Annuity Contracts	17
Exclusions for Individual Retirement Accounts	17
Exclusions for Self-Employed Retirement Plans	18
Medical and Dental Expenses Deduction	18
Deduction of Health Insurance Paid by Self-Employed	19
Exclusion of Miscellaneous Fringe Benefits.	19
Exemption for Senior Citizens	20
Exclusion of Transportation-Related Fringe Benefits	20
Earned Income Tax Credit	21
Exclusion of Unemployment Insurance Benefits.	21

Exclusion of Employer Contributions to Life Insurance Plans 22

Exclusion of Scholarship/Fellowship Income 22

Renters’ Credit 23

Exclusion of Meals and Lodging Furnished by Non-Military Employers 23

Student Loan Interest Deduction 24

Exclusion of Nonresident Military Pay 24

Exclusion of Employee Child Care Benefits 25

Exclusion of State Lottery Winnings 25

Exclusion of Compensation for Injuries or Sickness 26

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

Casualty Losses Deduction. 29

Exclusion of Foster Care Payments 29

Limited Partnerships Investment Source Rules 30

College Access Credit 30

Agricultural Soil or Water Conservation and Prevention Of Erosion Cost Expensing 31

Corporation Tax

Water’s Edge Election. 33

Like-Kind Exchanges 33

Research and Development Credit. 34

Enterprise Zones and Similar Areas. 34

Subchapter S Corporations. 35

Tax-Exempt Status for Qualifying Corporations 36

Credit Union Treatment 36

Accelerated Depreciation of Research and Experimental Costs 37

Film Credit. 37

Employee Stock Ownership Plans (ESOP) 38

Exemption from the Minimum Tax for First-Year Corporations 38

Low-Income Housing Credit 39

California Competes Credit 39

Intangible Drilling Cost Expensing 40

New Advanced Strategic Aircraft Hiring Credit 40

Percentage Depletion of Mineral and Other Natural Resources 41

Expensing of Timber Growing Costs 41

Reforestation 42

Community Development Financial Institutions Tax Credit. 43

Sales and Use Taxes

Food Products	45
Prescription Medicine	45
Gas, Electricity, and Water	46
Animal Life, Feed, Seeds, Plants, Fertilizer, Drugs, and Medicines	46
Candy, Confectionery, Snack Foods, and Bottled Water	47
Manufacturing and Research & Development Equipment Exemption	47
Farm Equipment and Machinery.	48
Fuel Sold to Common Carriers	48
Custom Computer Programs	49
Subscription Periodicals	49
Diesel Fuel Used in Farming and Processing	50
Water Common Carriers.	50
California Alternative Energy	51
Teleproduction and Post-Production Equipment.	51
Motion Picture Production Services	52
Meals Furnished by Institutions	52
Leases of Motion Pictures and Television Films and Tapes	53
Printed Advertising.	53

Fuel Taxes

Aircraft Jet Fuel Used by Common Carriers and Military.	55
Fuel Used by Transit Districts and Schools	55

Property Tax

Computer Programs	57
Fixtures Excluded From the Supplemental Roll	57

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, 2017.

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 categories of transactions are not considered tax expenditures. For example, the sales tax is imposed on retailers for the privilege of selling tangible personal property at retail. According to its basic definition, California's sales tax does not apply to sales or leases of real property, sales of services, wholesale transactions, or sales of securities and insurance. These exemptions are therefore not considered tax expenditures.
- The net operating loss (NOL) deduction levels the playing field for firms with volatile and steady income, and is 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 an 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 over the two years.
- Across-the-board tax rate reductions do not represent tax expenditures. Tax expenditures resulting from changes in the rate structure only exist if different sets of rates are applied to a similar base.

- Progressive rate structures do not constitute tax expenditures. The basic structure of California's income tax is progressive. For that reason, 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, consistent with last year's report, 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. The 2015-16 Tax Expenditure Report and previous versions had considered equal-weighted three-factor formula to be normal tax law. The revenue impact of any of the other three apportionment rules was measured against this normal law. However, now that mandatory single-sales factor apportionment is required for most multi-state businesses and is used by over 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.

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 2017-18 Personal Income Tax General Fund revenues by more than \$45 billion.

Sales and Use Tax The Sales and Use Tax Law contains separately identifiable state General Fund tax expenditures worth about \$9.3 billion in 2017-18. 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 2017-18 General Fund tax expenditures in the corporation category amount to over \$7 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 property tax exemptions reduce property tax allocations to schools. Under school finance law, the state is generally required to provide the difference in funding between local property tax allocations and school districts' 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 \$10.3 billion.

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 2013 Tax Year Data*, covering personal income tax and corporation tax expenditures, in November 2016. This report can be accessed on the Internet at <https://www.ftb.ca.gov/AboutFTB/data-statistics.shtml> in "Revenues and Expenditures."

The Board of Equalization released the latest version of its Publication 61 *Sales and Use Taxes: Exemptions and Exclusions* in February of 2017. This report can be accessed on the Internet at www.boe.ca.gov in "Forms and Pubs" and in the "Special Taxes and Fees" section.

The Legislative Analyst's Office released a report, *California's First Film Tax Credit Program*, in September 2016. The report evaluated the economic effects of the first film tax credit program passed in 2009. The report can be accessed on the Internet at www.lao.gov in "Publications."

Personal Income Tax

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)						
Personal Income Tax	Provision	State General Fund Revenue Loss				
		2015-16 ^e	2016-17 ^e	2017-18 ^e	2018-19 ^e	2019-20 ^e
	Exclusion of employer contributions to health plans	\$6,500	\$6,500	\$7,000	\$7,500	\$7,500
	Exclusion of employer pension contributions	6,000	7,000	8,000	9,000	10,000
	Home mortgage interest deduction	3,700	3,900	4,200	4,300	4,400
	Exclusion of social security benefits ¹	3,400	3,600	3,800	4,100	4,300
	Exclusion of capital gains on sale of principal residence	2,800	3,100	3,200	3,400	3,500
	Charitable contribution deduction	2,590	2,690	2,890	2,990	3,080
	Basis step-up on inherited property	2,400	2,500	2,600	2,800	2,900
	Real estate, personal property and other taxes deduction	1,950	2,050	2,150	2,250	2,450
	Employee business and miscellaneous expenses deduction	1,500	1,600	1,600	1,700	1,800
	Exclusion of benefits provided under cafeteria plans	1,300	1,300	1,400	1,400	1,500
	Dependent exemption in excess of personal exemption credit	1,300	1,400	1,400	1,500	1,500
	Head-of-household and qualifying widow(er) filing status	1,000	1,100	1,100	1,200	1,300
	Exclusion of investment income on life insurance and annuity contracts ²	950	1,000	1,000	1,000	1,100
	Exclusions for individual retirement accounts	850	950	1,000	1,100	1,200
	Exclusions for self-employed retirement plans	440	450	450	450	450
	Medical and dental expenses deduction	390	400	420	430	450
	Deduction of health insurance paid by self-employed	350	360	380	410	440
	Exclusion of miscellaneous fringe benefits	310	320	320	330	340
	Exemption for senior citizens	210	220	230	240	250
	Exclusion of transportation-related fringe benefits	210	210	220	230	230
	Earned Income Tax Credit	200	200	340	350	355
	Exclusion of unemployment insurance benefits	160	160	160	160	160
	Exclusion of employer contributions to life insurance plans	160	170	170	180	180
	Exclusion of scholarship/fellowship income	130	150	160	170	180
	Renters' credit	120	120	120	130	130

^eEstimated

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

²This item includes corporate tax amounts.

Personal Income Tax (continued)

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)						
Personal Income Tax (continued)	Provision	State General Fund Revenue Loss				
		2015-16 ^e	2016-17 ^e	2017-18 ^e	2018-19 ^e	2019-20 ^e
	Exclusion of meals and lodging furnished by non-military employers	110	130	130	130	140
	Student loan interest deduction	90	95	100	100	100
	Exclusion of nonresident military pay	85	90	90	90	95
	Exclusion of employee child care benefits	75	75	75	80	80
	Exclusion of state lottery winnings	70	70	80	80	85
	Exclusion of compensation for injuries or sickness	70	70	70	70	75
	Exclusion of employer-provided educational assistance	60	60	65	65	65
	Child and dependent care credit (Nonrefundable)	33	33	33	34	34
	Exclusion of housing for clergy	33	33	33	33	33
	Exclusion of income earned on Section 529 (Scholarshare) plans	30	39	48	55	60
	Moving expense deduction	27	28	28	29	30
	Casualty losses deduction	19	20	21	22	23
	Exclusion of foster care payments	16	16	17	19	20
	Limited partnerships investment source rules	11	10	10	10	10
	College Access Credit ¹	6	6	3	1	Minor
	Agricultural Soil or Water Conservation and Prevention of Erosion Cost Expensing ¹	5	5	5	5	5
	Total	\$39,660	\$42,230	\$45,118	\$48,143	\$50,550

^eEstimated

¹This item includes corporate tax amounts.

Corporation Tax

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)					
Corporation Tax	Provision	State General Fund Revenue Loss			
		2015-16 ^e	2016-17 ^e	2017-18 ^e	2018-19 ^e 2019-20 ^e
	Water's edge election	\$2,300	\$2,300	\$2,300	\$2,400 \$2,500
	Like-kind exchanges ¹	1,800	1,800	1,800	1,900 2,000
	Research and development credit ¹	1,500	1,500	1,600	1,600 1,700
	Enterprise Zone And Similar Areas ¹	700	450	330	260 230
	Subchapter S corporations	210	220	210	210 200
	Tax-exempt status for qualifying nonprofit and charitable corporations	160	160	160	160 160
	Charitable contributions deduction	110	110	110	110 120
	Credit union treatment	100	110	110	120 130
	Accelerated depreciation of research and experimental costs ¹	80	55	50	50 50
	Film credit ^{1,2}	80	95	120	160 180
	Employee stock ownership plans ¹	80	100	100	110 110
	Exemption from the Minimum Tax for First-Year Corporations	55	60	60	60 65
	Low-income housing credit ¹	36	35	36	38 40
	California Competes Credit ¹	26	50	85	120 150
	Intangible Drilling Cost Expensing ¹	24	24	21	19 18
	New advanced strategic aircraft hiring credit	0	20	20	20 20
	Percentage depletion of mineral and other natural resources ¹	18	15	15	15 15
	Expensing of timber growing costs ¹	8	8	8	8 8
	Reforestation ¹	6	6	7	9 11
	Community Development Financial Institutions Tax Credit ¹	6	5	3	1 1
	Circulation of Periodicals Cost Expensing ¹	5	3	Minor	Minor Minor
	Corporate Tax Total	\$7,304	\$7,126	\$7,145	\$7,370 \$7,708

^eEstimated

¹This item includes personal income tax amounts.

²Sales tax exclusions are included in the totals here. Actuals were \$11 million in 2014-15, \$11 million in 2015-16 and \$13 million in 2016-17. Estimated to account for 13 percent of the total beginning in 2016-17.

Sales and Use Taxes

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)															
Sales and Use Taxes	2015-16			2016-17			2017-18			2018-19			2019-20		
	State General Fund	Local ¹	Fiscal Recovery Fund ²	State General Fund ³	Local ¹	State General Fund	Local ¹	State General Fund	Local ¹	State General Fund	Local ¹	State General Fund	Local ¹	State General Fund	Local ¹
Food products	4,187.5%	\$3,526	\$3,493	0.1250%	\$105	\$3,468	\$3,698	4.3325%	\$4,037	\$3,499	\$3,629	\$4,187	3.9375%	\$3,751	\$4,327
Prescription medicine		2,181	2,160	65	2,145	2,287	2,287	2,497	2,589	2,244	2,589	2,320	2,676		
Gas, electricity, and water		1,655	1,639	49	1,627	1,735	1,642	1,894	1,965	1,703	1,965	1,760	2,030		
Animal life, feed, seeds, plants, fertilizer, drugs, medicines		811	803	24	797	850	805	928	835	862	862	995			
Candy, confectionery, snack foods, and bottled water		489	484	15	481	513	485	560	503	520	520	600			
Manufacturing and research & development equipment exemption ⁴		166	0	0	168	0	221	0	275	0	289	0			
Farm equipment and machinery		183	46	5	180	45	181	45	188	45	194	45			
Fuel sold to common carriers		83	82	2	82	87	82	95	85	98	88	102			
Custom computer programs		70	70	2	69	74	70	81	72	84	75	86			
Subscription periodicals		37	37	1	37	39	36	42	38	43	39	45			
Diesel fuel used in farming and processing		33	8	1	33	8	33	8	34	8	35	8			
Water common carriers		23	23	1	23	24	23	26	24	24	25	28			
California Alternative Energy		22	22	1	22	23	22	25	23	23	26	27			
Teleproduction and post-production equipment		14	4	0	14	3	14	3	14	3	15	3			
Film credit (sales tax portion only)		0	0	0	6	7	8	9	10	12	11	13			
Motion picture production services ⁵		-	-	-	-	-	-	-	-	-	-	-			
Meals furnished by institutions ⁵		-	-	-	-	-	-	-	-	-	-	-			
Leases of motion picture and television films and tapes ⁵		-	-	-	-	-	-	-	-	-	-	-			
Printed advertising ⁵		-	-	-	-	-	-	-	-	-	-	-			
Total		\$9,293	\$8,871	\$272	\$9,150	\$9,395	\$9,285	\$10,251	\$9,678	\$10,631	\$10,008	\$10,987			

¹ Rate includes the 2011 Realignment 1.0625%, 1991 Local Revenue Fund 0.50%, Local Public Safety Fund 0.50%, Local Bradley Bums 1.00% (reverted to 1.25% on January 1, 2016), and the average county add-on of 96% in 2015-16, 1.02% in 2016-17, and 1.23% in 2017-18 and later.

² 0.25% rate in effect for the first 6 months of 2015-16.

³ Rate includes one-half year impact from the sales tax imposed by Proposition 30, which expires at end of 2016.

⁴ Includes the expansion from Chapter 137, Statutes of 2017 (AB 398); does not account for backfill from the Greenhouse Gas Reduction Fund beginning in 2017.

⁵ Unknown revenue losses.

Fuel Taxes

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)					
Fuel Taxes	State Special Fund Revenue Loss				
Provision	2015-16	2016-17	2017-18	2018-19	2019-20
Aircraft jet fuel used by common carriers and military	\$38	\$38	\$39	\$39	\$40
Fuel used by transit districts and schools	9	9	9	10	10
Total	\$47	\$47	\$48	\$49	\$50

Property Tax

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)					
Property Tax	Local Revenue Loss				
	2015-16	2016-17	2017-18	2018-19	2019-20
Provision					
Computer programs ¹	-	-	-	-	-
Fixtures excluded on the supplemental roll ²	-	-	-	-	-

¹ Unknown, but in excess of \$100 million per year.

² Unknown, but in low tens of millions of dollars per year.

Personal Income Tax

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.

Personal Income Tax

Home Mortgage Interest Deduction

Description:

Taxpayers may generally deduct a limited amount of interest paid or accrued within the taxable year for acquiring, constructing, substantially improving, or refinancing their principal 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 2014 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 2014, 1.8 million tax returns claimed this exclusion, which represented 2.8 million taxpayers.

Comparable Federal Benefit:

Under federal law, these benefits are partially taxed.

Personal Income Tax

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

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 2014 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

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.

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 2014 tax year, 9.2 million returns, representing 14.9 million taxpayers, claimed this deduction.

Comparable Federal Benefit:

This provision conforms to federal law.

Personal Income Tax

Employee Business and Miscellaneous Expenses Deduction

Description:

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

Statutory Authority:

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

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Individuals

Number of Taxpayers/Number of Returns:

For the 2014 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 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 2014, 6.3 million tax returns, representing 9.7 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.

Personal Income Tax

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

Description:

Individuals who provide a home for a qualifying relative are eligible for lower tax rates than are available for single persons or a married person filing separately.

A qualifying widow(er) may claim a larger personal exemption in addition to the lower tax rates provided to heads-of-households. A qualifying widow(er) is an individual whose spouse died within the two prior years and has not remarried, and who provides the main home for an eligible dependent.

Statutory Authority:

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

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Individuals

Number of Taxpayers/Number of Returns:

For the 2014 tax year, 2.3 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

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.

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.

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:

For the 2014 tax year, 161,000 tax returns, representing 280,000 taxpayers, claimed this exclusion.

Comparable Federal Benefit:

This provision generally conforms to federal law.

Personal Income Tax

Medical and Dental Expenses Deduction

Description:

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

Statutory Authority:

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

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Individuals

Number of Taxpayers/Number of Returns:

For the 2014 tax year, 1 million returns, representing 1.5 million taxpayers, claimed this deduction.

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 2014, 537,000 returns, representing 900,000 taxpayers, claimed this deduction.

Comparable Federal Benefit:

This provision generally conforms to federal law.

Personal Income Tax

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

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 2014 tax year, 2.6 million returns, representing 3.4 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

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

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. Beginning in 2017, the legislature expanded the credit to taxpayers with self-employment income, and the phase-out ranges are extended depending on the number of qualifying children. 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.

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 2014, 1.2 million returns, representing 1.8 million taxpayers, claimed this exclusion.

Comparable Federal Benefit:

None

Personal Income Tax

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

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

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 2014 tax year, 1.5 million returns, representing 1.8 million taxpayers, claimed this credit.

Comparable Federal Benefit:

None

Personal Income Tax

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

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 2014, 998,000 tax returns used this deduction. This represented 1.4 million taxpayers.

Comparable Federal Benefit:

None

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 2014 tax year, 76,800 returns claimed this credit.

Comparable Federal Benefit:

This issue is only relevant to state taxation.

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.

Personal Income Tax

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 2014 tax year, 14,900 returns claimed this exclusion, which represented 22,709 taxpayers.

Comparable Federal Benefit:

None

Personal Income Tax

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, or an employee's spouse or dependents, is excluded from tax.

Statutory Authority:
Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 104

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

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.

Personal Income Tax

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 2014, 178,000 returns representing 272,000 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 conforms to Internal Revenue Code Section 107

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Individuals

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

This provision partially conforms to federal law.

Personal Income Tax

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 2014, 181,000 tax returns, representing 256,000 taxpayers, claimed this deduction.

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 2014, 10,400 tax returns, representing 16,000 taxpayers, claimed this deduction.

Comparable Federal Benefit:

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

Personal Income Tax

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

**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

College Access Credit

Description:

A nonrefundable credit for taxpayers who contribute to the College Access Tax Credit Fund benefiting CalGrants.

Statutory Authority:

Revenue and Taxation Code Sections 17039, 17053, 23036, 23686, 12207, 17053, and 23687

Sunset Date:

December 31, 2022

Legislative Intent:

Not Specified

Beneficiaries:

Individuals, incorporated, and unincorporated businesses

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

For the tax year 2014, 509 individual and 12 corporate taxpayers claimed this credit.

Comparable Federal Benefit:

None

Personal Income Tax

Agricultural Soil or Water Conservation and Prevention of Erosion Cost Expensing

Description:

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

Statutory Authority:

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

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Individuals

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

Not available

Comparable Federal Benefit:

This provision conforms to federal law.

Corporation Tax

Water's Edge Election

Description:

Unitary multinational corporations are allowed the option of computing the income attributable to California on the basis of a water's-edge (domestic) combined report, as opposed to a worldwide combined report. Under the water's edge provision, a business may elect to compute its California tax by reference to only the income and factors of a limited number of entities. In general, these entities include United States incorporated entities, the United 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 2014, 13,200 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

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

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 2014, 6,600 personal income tax returns and 3,500 corporate tax returns claimed this credit.

Comparable Federal Benefit:

This provision partially conforms to federal law.

Corporation Tax

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:

January 1, 2014

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 2014, 36,800 personal income tax returns, and 7,300 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.

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 2014 tax year, there were 519,400 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.

Corporation Tax

Tax-Exempt Status for Qualifying Nonprofit and Charitable Corporations

Description:

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

Statutory Authority:

Revenue and Taxation Code Section 23701

Sunset Date:

None

Legislative Intent:

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

Beneficiaries:

Nonprofit Corporations

Number of Taxpayers/Number of Returns:

In 2014, 188,600 returns claimed this exemption.

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 2014, 364 credit unions 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.

Corporation Tax

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 201, 23 personal income tax returns, and 15 corporate returns claimed these tax credits.

Comparable Federal Benefit:

None

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.

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 2014, 92,800 returns claimed this exemption.

Comparable Federal Benefit:

None

Corporation Tax

Low-Income Housing Credit

Description:

A tax credit is allowed for a portion of the costs of investing in qualified low-income rental housing. The aggregate amount of the credit is capped, and specific credits are allocated to applicants by the California Tax Credit Allocation Committee. Credits are allocated to developers who, in turn, sell them to investors in exchange for project funding. All projects receiving the California credit must also receive the parallel federal credit.

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 2014 tax year, 286 personal income tax returns and 32 corporation tax returns claimed this credit.

Comparable Federal Benefit:

This provision conforms to federal law.

Corporation Tax

California Competes Credit

Description:

An income tax credit is competitively awarded based on several factors, including the number of jobs in California, compensation paid to its employees, the amount of investment in California, and the business' economic impact. The 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:

For the 2014 tax year, 60 personal income tax returns and 18 corporation tax returns claimed this credit.

Comparable Federal Benefit:

This is a state-only benefit.

Corporation Tax

Intangible Drilling Cost Expensing

Description:

Costs incurred during the drilling and preparation of new gas and oil wells are ordinarily capital expenditures. Tangible costs can usually be deducted using depreciation or depletion and intangible costs can be deducted as current business expense.

Statutory Authority:

Revenue and Taxation Code Section 24423

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Corporations

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

This provision conforms to federal law.

Corporation Tax

New Advanced Strategic Aircraft Hiring Credit

Description:

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

Corporation Tax

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.

Corporation Tax

Reforestation

Description:

Under this program, taxpayers can amortize over seven years up to \$10,000 per year of qualifying reforestation expenditures. These expenditures include the direct costs of forestation and reforestation, such as site preparation, seeds, 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 2014 tax year, 106 personal income tax returns and 13 corporate tax returns.

Comparable Federal Benefit:
None.

Sales and Use Taxes

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:

There is no federal sales tax

Sales and Use Taxes

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:

There is no federal sales tax

Sales and Use Taxes

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. Beginning January 1, 2018, this exemption is expanded to specified electric power and agricultural activities.

Statutory Authority:

Revenue and Taxation Code Section 6377.1

Sunset Date:

July 1, 2031

Legislative Intent:

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

Beneficiaries:

Individuals and businesses

Number of Taxpayers/Number of Returns:

In 2015-16, 8,099 returns claimed this exemption.

Comparable Federal Benefit:

There is no federal sales tax

Sales and Use Taxes

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 2015-16, 15,815 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:

There is no federal sales tax

Sales and Use Taxes

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

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

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 2015-16, 873 returns claimed this exemption.

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:

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:

There is no federal sales tax

Sales and Use Taxes

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 2015-16, 2,119 returns claimed this exemption.

Comparable Federal Benefit:

There is no federal sales tax

Sales and Use Taxes

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:

There is no federal sales tax

Sales and Use Taxes

**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:

There is no federal sales tax

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:

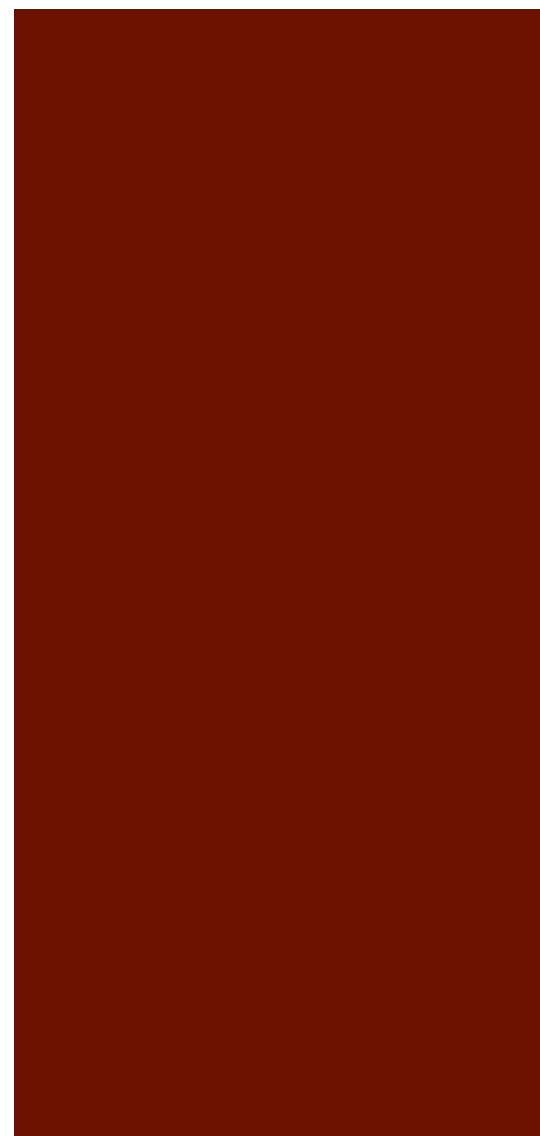
Businesses

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

None



2017-18

