



Tax
EXPENDITURE
REPORT

2009-10



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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 tax expenditure, 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.

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 broad, this definition does exclude several provisions of the tax law from classification as 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.

However, the definition of "tax expenditure" is subject to debate, and 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.

Tax expenditures that have expired even though carry forwards from old credits can still be used, such as the Manufacturers' Investment Credit, are not included in this report.

WHY ADOPT TAX EXPENDITURES

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

- Those which conform California tax law to federal provisions.
- Those intended to remove perceived inequities in the basic tax structure.
- Those intended to ease tax administration.
- Those which grant targeted tax reductions through exemptions, credits, deductions, or exclusions.

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 long after outliving usefulness.

In general, there is also 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 are 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 budgetary appropriations.

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 the precision of these estimates can be lower 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. Other factors complicating this report's estimates include the effects of tax law interactions and taxpayer reactions to changes in tax law. Therefore, while the report displays the total value of the major identified expenditures within each major tax, these figures are best viewed as illustrative only. The fiscal impact of individual tax expenditures cannot be summed to generate the total fiscal impact of all tax expenditures due to the complicating factors of tax law interactions and taxpayer behavioral responses.

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 2009-10 Personal Income Tax revenues by approximately \$29 billion.

Sales and Use Tax The Sales and Use Tax Law contains identifiable state tax expenditures worth about \$8 billion in 2009-10. Examples of these include food; prescription medicines; gas, electricity, and water delivered through mains; farm equipment; fuel sold to common carriers; and rental of linen supplies.

Corporation Tax Fiscal year 2009-10 tax expenditures in the corporation category amount to about \$4 billion. Examples of these expenditures include provisions for S corporations, water's edge election, provisions for research and development, and special treatment for economically depressed areas.

Other Taxes Remaining tax expenditure programs are estimated to reduce revenues in the range of \$90 million annually. Much of this revenue loss results from aircraft jet fuel used by common carriers and the armed services, sales of cigarettes to governmental agencies, 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 further impacts state school financing by establishing minimum funding levels for public schools and community colleges, based on both property taxes and state funding under what are known as the Test 2 and 3 formulas. 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 \$5 billion.

UNIDENTIFIABLE 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 Legislative Analyst's Office (LAO) released the following tax expenditure publications since this report was last updated in September 2008:

- *Overview of the Governor's Special Session Proposals* was released in November 2008. In addition to assessing the Administration's proposed budget solutions for the Special Session, it also presents the LAO's budget options which include amending a number of tax expenditure items: namely, dependent exemption credit, senior exemption credit, small business stock exclusion, and exclusion for like-kind exchanges.
- *2009-10 Budget Analysis Series: Revenues* was released in February 2009. The publication presents in the LAO's evaluation of the Administration's proposed revenues options included in the 2009-10 Governor's Budget. In addition, it also lists the LAO's revenue options which include amending 12 tax expenditure items in personal income tax, corporation tax, and sales and use tax.
- *Overview of the 2009-10 May Revision*, which was issued in May 2009, presents the LAO's assessment of the Administration's May Revision to the 2009-10 Governor's Budget. The publication also presents LAO's revenue options which include amending 10 tax expenditure items.

These publications can be accessed on the Internet at www.lao.ca.gov under "Products" in "Publication Database."

The Franchise Tax Board released an update of their report, *California Income Tax Expenditures, Compendium of Individual Provisions*, covering personal income tax and corporation tax expenditures in December 2008. This report can be accessed on the Internet at www.ftb.ca.gov under "About Us" in "Reports, Plans & Statistics."

The Board of Equalization released an update of its Publication 61 in January of 2007 *Sales and Use Taxes: Exemptions and Exclusions*. The Board expects to release a new update of this publication before the end of 2009. This report can be accessed on the Internet at www.boe.ca.gov in "Forms and Publications."

TABLE 1

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)						
Provision	State General Fund Revenue Loss					
	2007-08 ^a	2008-09 ^e	2009-10 ^e	2010-11 ^e	2011-12 ^e	
Personal Income Tax						
Home mortgage interest deduction	\$5,200	\$5,200	\$4,800	\$4,700	\$4,700	
Exclusion of employer pension contributions	3,900	3,900	4,100	4,300	4,500	
Exclusion of employer contributions to health plans	3,300	3,700	3,800	3,900	3,900	
Exclusion of capital gains on sale of principal residence	1,900	1,000	1,000	1,300	1,300	
Basis step-up on inherited property	1,900	1,600	1,700	1,800	2,000	
Exclusion of Social Security benefits	1,900	2,100	2,100	2,100	2,100	
Charitable contributions deduction ¹	1,500	1,500	1,500	1,500	1,600	
Real Estate, Personal Property and Other Tax Deduction	1,530	1,660	1,710	1,600	1,550	
Dependent exemption in excess of personal exemption credit	1,400	800	0	750	1,600	
Exclusion of benefits provided under cafeteria plans	1,300	1,400	1,500	1,600	1,600	
Exclusion of investment income on life insurance and annuity contracts	1,100	1,200	1,200	1,100	1,100	
Employee business and miscellaneous expenses deduction	800	900	900	950	950	
Head-of-household and qualifying widower filing status	800	900	1,000	900	900	
Contributions to IRAs deduction	550	600	600	600	550	
Contributions to self-employed retirement plans deduction	360	410	500	610	680	
Medical and dental expenses deduction	310	340	360	360	360	
Exclusion of miscellaneous fringe benefits	240	250	250	260	280	
Exclusion of transportation-related fringe benefits	160	170	170	170	180	
Deduction of health insurance paid by self-employed	160	170	170	180	190	
Child and dependent care credit	160	160	160	160	160	
Exclusion of unemployment insurance benefits	140	290	390	310	240	
Exemption for senior citizens	120	130	130	130	130	
Exclusion of employer contributions to life insurance plans	100	110	100	100	95	
Renters' credit	95	100	100	100	100	

TABLE 1 (CONTINUED)

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)						
Personal Income Tax (cont.)	Provision	State General Fund Revenue Loss				
		2007-08^a	2008-09^e	2009-10^e	2010-11^e	2011-12^e
	Exclusion of non-resident military pay	\$80	\$90	\$90	\$90	\$90
	Exclusion of compensation for injuries or sickness	60	60	60	55	55
	Exclusion of scholarship/fellowship income	55	60	60	60	60
	Exclusion of state lottery winnings	47	49	49	49	49
	Exclusion of employee child care benefits	46	46	43	39	37
	Exclusion of meals and lodgings furnished by non-military employers	36	38	38	37	37
	Exclusion of employer-provided educational assistance	31	32	33	33	31
	Student loan interest deduction	31	30	27	26	28
	Moving expense deduction	29	31	32	32	33
	Casualty losses deduction	28	32	34	37	41
	Exclusion of foster care payment	26	28	29	29	31
	Exclusion of income earned on Section 529 (Scholarshare) plans	25	26	32	43	50
	Exclusion of housing for clergy	23	24	25	25	24
	Exclusion of capital gain on small business stock	11	6	8	13	20
	Limited partnerships investment source rules	8	4	4	4	4
	Amortization and expensing of reforestation expenditures ²	5	5	5	5	5
	Exclusion for cancellation of mortgage debt	4	7	1	0	0
	Housing credit	n/a	11	23	23	13
	Total	\$29,470	\$29,169	\$28,833	\$30,080	\$31,373

^aActual

^eEstimated

¹This includes only personal income tax amounts; corporate tax amounts are separately reported.

²This item includes corporate tax amounts.

TABLE 2

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)					
Provision	State General Fund Revenue Loss				
	2007-08 ^a	2008-09 ^e	2009-10 ^e	2010-11 ^e	2011-12 ^e
Research and development credit ¹	\$1,470	\$1,260	\$945	\$1,145	\$1,155
Water's edge election	750	750	650	600	600
Special treatment for economically depressed areas ¹	440	370	400	480	490
Subchapter S corporations ¹	430	420	370	330	320
Double-weighted sales factor	290	250	230	230	235
Like-kind Exchanges ¹	170	160	190	200	200
Accelerated depreciation of research and experimental costs ¹	130	180	210	240	270
Corporations exempt from minimum tax	110	120	120	120	120
Charitable contributions deduction ²	110	100	90	90	90
Low-income housing credit ¹	65	65	70	70	70
Employee stock ownership plans ¹	52	56	53	53	54
Percentage depletion of mineral and other natural resources	30	30	27	26	26
Credit union treatment	10	10	10	10	10
Expensing of timber growing costs ¹	8	8	7	7	7
Hiring Credit	n/a	17	330	50	27
Single Sales Factor election	n/a	n/a	n/a	300	950
Film credit	n/a	n/a	n/a	23	70
Total	\$4,065	\$3,796	\$3,702	\$3,974	\$4,694

^a/Actual

^e/Estimated

¹This item includes personal income tax amounts.

²This includes only corporate tax amounts; personal income tax amounts are separately reported.

TABLE 3

Sales and Use Taxes	Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)														
	2007-08 Revenue Loss			2008-09 Revenue Loss			2009-10 Revenue Loss			2010-11 Revenue Loss			2011-12 Revenue Loss		
	State General Fund	Local	State Fiscal Recovery Fund	State General Fund	Local	State Fiscal Recovery Fund	State General Fund	Local	State Fiscal Recovery Fund	State General Fund	Local	State Fiscal Recovery Fund	State General Fund	Local	State Fiscal Recovery Fund
Food products	\$4,522	\$2,451	\$221	\$4,150	\$2,150	\$198	\$4,007	\$2,076	\$191	\$4,249	\$2,202	\$202	\$4,634	\$2,401	\$221
Gas, electricity, water, and steam	\$2,284	\$1,238	\$112	\$2,098	\$1,086	\$100	\$2,024	\$1,048	\$96	\$2,146	\$1,112	\$102	\$2,340	\$1,212	\$111
Prescription medicines	\$1,749	\$948	\$87	\$1,005	\$632	\$76	\$1,550	\$603	\$74	\$1,644	\$632	\$78	\$1,792	\$929	\$85
Candy, confectionery, snack foods, and bottled water	\$382	\$207	\$19	\$350	\$181	\$17	\$338	\$175	\$16	\$359	\$186	\$17	\$391	\$203	\$19
Exemption for farm equipment	\$114	-	\$6	\$105	-	\$5	\$101	-	\$5	\$108	-	\$5	\$117	-	\$6
Fuel sold to common carriers	\$138	\$75	\$7	\$126	\$65	\$6	\$122	\$63	\$6	\$129	\$67	\$6	\$141	\$73	\$7
Rental of linen supplies	\$61	\$33	\$3	\$56	\$29	\$3	\$45	\$28	\$3	\$58	\$30	\$3	\$63	\$32	\$3
Custom computer programs	\$51	\$28	\$2	\$47	\$24	\$2	\$45	\$23	\$2	\$48	\$25	\$2	\$52	\$27	\$2
Diesel fuel used in farming and processing	\$56	-	\$3	\$51	-	\$2	\$49	-	\$2	\$52	-	\$2	\$57	-	\$3
Water common carriers	\$36	\$20	\$2	\$33	\$17	\$2	\$32	\$17	\$2	\$34	\$18	\$2	\$37	\$19	\$2
Teleproduction and post-production equipment	\$20	-	\$1	\$19	-	\$1	\$18	-	\$1	\$19	-	\$1	\$21	-	\$1
Food products sold through vending machines	\$9	\$5	\$0	\$8	\$4	\$0	\$8	\$4	\$0	\$8	\$4	\$0	\$9	\$5	\$0
Animal life, feed, seeds, plants, fertilizer, drugs, medicines	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Meals furnished by institutions	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Aircraft and component parts sales; common carriers; foreign governments; nonresidents	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Leases of motion picture and television films and tapes	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Motion picture production services	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Printed advertising	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Subscription periodicals	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total	\$9,421	\$5,003	\$464	\$8,646	\$4,389	\$412	\$8,349	\$4,238	\$398	\$8,854	\$4,494	\$422	\$9,655	\$4,901	\$460

TABLE 4

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)															
Other Taxes	2007-08 Revenue Loss			2008-09 Revenue Loss			2009-10 Revenue Loss			2010-11 Revenue Loss			2011-12 Revenue Loss		
	State General Fund	State Special Fund	Local	State General Fund	State Special Fund	Local	State General Fund	State Special Fund	Local	State General Fund	State Special Fund	Local	State General Fund	State Special Fund	Local
Provision															
Fuel Tax															
Aircraft jet fuel used by common carriers and military	-	\$74	-	-	\$65	-	-	\$63	-	-	\$66	-	-	\$71	-
Diesel and use fuel used by transit dist. and schools	-	\$14	-	-	\$12	-	-	\$12	-	-	\$12	-	-	\$13	-
Total	-	\$88	-	-	\$77	-	-	\$74	-	-	\$78	-	-	\$84	-
Cigarette Tax															
Sales to government agencies	\$2	\$14	-	\$2	\$12	-	\$2	\$12	-	\$2	\$12	-	\$2	\$13	-

TABLE 5

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)						
Property Tax	Provision	Local Revenue Loss				
		2007-08	2008-09	2009-10	2010-11	2011-12
	Computer programs Fixtures on the supplemental roll	NA ^a \$16	NA ^a \$17	NA ^a \$16	NA ^a \$16	NA ^a \$16

^aIn excess of \$100 million.

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 2006 tax year, 5.2 million returns claimed a deduction for home mortgage interest expenses. This represented 8.5 million taxpayers.

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

**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 Capital Gain 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.

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 2006, 1.4 million tax returns claimed this exclusion, which represented 2.2 million taxpayers.

Comparable Federal Benefit:

Under federal law, these benefits are partially taxed.

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 2006 tax year, 5.4 million personal income tax returns claimed this deduction, representing 8.7 million taxpayers. Under the corporate tax, 168,153 returns claimed this deduction.

Comparable Federal Benefit:

This section 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 2006 tax year, 5.4 million tax returns, representing 8.9 million taxpayers, claimed the deduction for real estate taxes and 5.1 million tax returns, representing 8.3 million taxpayers, deducted personal property and other taxes.

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 2006, 6.1 million tax returns, representing 9.6 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

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

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 2006, 940,203 returns, representing 1.4 million taxpayers, claimed this exclusion.

Comparable Federal Benefit:

None

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 2006 tax year, 1.8 million returns, representing 2.7 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 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. In order 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 2006 tax year, 1.4 million returns, representing 1.7 million taxpayers, claimed this credit.

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:

Not available

Comparable Federal Benefit:

This is a state-only issue.

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, 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
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 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 2006 tax year, 11,052 returns claimed this exclusion, which represented 18,495 taxpayers.

Comparable Federal Benefit:

None

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 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 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

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.

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 2006, 766,855 tax returns used this deduction. This represented 1.1 million taxpayers.

Comparable Federal Benefit:

None

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 2006, 188,529 tax returns, representing 279,091 taxpayers, claimed this deduction.

Comparable Federal Benefit:

This provision conforms to federal law.

Personal Income Tax

Casualty Loss 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 2006, 12,582 tax returns, representing 18,457 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

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 in order 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

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.

Personal Income Tax

Exclusion of Capital Gain on Small Business Stock

Description:

Fifty percent of the gain from the sale of qualified small business stock that is held for at least five years is excluded from income. For married couples, the exclusion is limited to \$10 million or ten times the stock's basis. The limit for single persons is less.

Statutory Authority:

Revenue and Taxation Code Section 18152.5 which partially conforms to Internal Revenue Code Section 1202

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 except for California purposes 80 percent of the corporation's payroll must be attributable to California and 80 percent of the corporation's assets have to be used in the active conduct of a trade or business in California for substantially all of the taxpayer's holding period.

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 they 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 is a state-only issue.

Personal Income Tax

Amortization and Expensing of Reforestation Expenditures

Description:

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 24372.5 which conforms to Internal Revenue Code Section 194

Sunset Date:

None

Legislative Intent:

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 provision conforms to federal law except that the benefit is limited to reforestation activities located in California.

Personal Income Tax

Exclusion for Cancellation of Mortgage Debt

Description:

Income from the cancellation of debt (COD) arising from the discharge of a loan for the acquisition, construction, or substantial improvement of the principal residence of an individual taxpayer is generally included in gross income. This provision allows taxpayers to exclude from gross income discharge of a loan from an acquisition debt of up to \$250,000 (\$125,000 for married filing separate). The maximum amount of the loan eligible for exclusion is \$800,000 (\$400,000 married filing separate), and the exclusion is phased-out for discharged loans exceeding those amounts. The COD must occur on or after January 1, 2007 and before January 1, 2009.

Statutory Authority:

Revenue and Taxation Code Section 17144.5, which generally conforms to Section 108 of the Internal Revenue Code.

Sunset Date:

January 1, 2009

Legislative Intent:

None Specified

Beneficiaries:

Individuals

Number of Taxpayers/ Number of Returns

Not Available

Comparable Federal Benefit:

Conforms to in concept but is more restrictive than federal law.

Personal Income Tax

Housing Credit

Description:

Provides a credit, equal to 5 percent of the purchase price, up to \$10,000, for individuals who purchase a qualified principal residence between March 1, 2009 and March 1, 2010. The credit would be claimed in equal amounts over three years. The total credit allowable is limited to \$100 million.

Statutory Authority:

Revenue and Taxation Code Sections 17059

Sunset Date:

March 1, 2010

Legislative Intent:

None Specified

Beneficiaries:

Individuals

Number of Taxpayers/Number of Returns:

Not Available

Comparable Federal Benefit:

The Housing and Economic Recovery Act of 2008 (Public Law 110-289) added a new refundable tax credit for first-time homebuyers who purchase a home between April 8, 2008, and before July 1, 2009. The credit is the lesser of \$7,500 or 10 percent of the home's purchase price.

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 2006, 3,636 personal income tax returns and 2,037 corporate tax returns claimed this credit.

Comparable Federal Benefit:

This provision partially 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 2006, 10,994 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

Special Treatment for Economically Depressed 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 part.
- (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, 23646

Sunset Date:

None

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 2006, 9,973 personal income tax returns, representing 17,486 taxpayers, and 4,851 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.

Corporation Tax

Subchapter S Corporations

Description:

Corporations that meet specified criteria are allowed to elect Subchapter S corporation status for tax purposes. S corporations pay 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. S corporations are not subject to the Alternative Minimum Tax but are 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 2006 tax year, there were 347,603 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

Double-Weighted Sales Factor

Description:

Corporations with income derived from sources both within and outside California must apportion income using a formula that takes into account payroll, property, and sales factors. Prior to January 1, 1993, California applied a three-factor formula in which the payroll, property, and sales factors were equally weighted. After that date, California adopted a formula in which the sales factor is double-weighted. Corporations engaged in qualified agricultural, extractive, and financial business activities are exempted from the double-weighted sales formula, and must continue using the equally weighted three-factor formula to apportion their worldwide income.

Statutory Authority:

Revenue and Taxation Code Section 25128

Sunset Date:

Election to use a "Single Sales Factor" for tax years beginning on or after January 1, 2011. (See p. 41).

Legislative Intent:

Not specified

Beneficiaries:

Corporations

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

None

Corporation Tax

Like-Kind Exchanges

Description:

No gain or loss is recognized when business or investment property is exchanged solely for like-kind property. If, as part of the exchange, other (not like-kind) property or money is received, gain is recognized to the extent of the other property and 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

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

Corporations Exempt from the Minimum Tax

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 2006, 138,647 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 2006 tax year, 591 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.

Corporation Tax

Percentage Depletion of Mineral and Other 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

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

Credit Union Treatment

Description:

Credit unions are exempt from state income and franchise taxes. Since credit unions are nonprofit, membership organizations, only their "nonmember" income (such as investment income on excess deposits or miscellaneous sources of income, such as ATM fees charged to nonmembers) would be taxed in the absence of this exemption.

Statutory Authority:

Revenue and Taxation Code Section 23153

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Non-profit cooperative associations

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

None

Corporation Tax

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.

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

Hiring 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 is \$400 million.

Statutory Authority:

Revenue and Taxation Code Sections 17053.80 & 23623

Sunset Date:

Remains in effect until December 1 of the calendar year after the year in which the cumulative credit limit of \$400 million has been reached.

Legislative Intent:

None Specified

Beneficiaries:

Small businesses

Number of Taxpayers/Number of Returns:

Not Available

Comparable Federal Benefit:

None

Corporation Tax

Single Sales Factor Election

Description:

An apportioning business which utilizes the four factor formula for allocating net income which includes property, payroll, and sales, with sales being double weighted, is allowed to elect to allocate net income for California tax purposes based on a single factor, 100 percent sales, starting with tax years beginning on or after January 1, 2011.

Statutory Authority:

Revenue and Taxation Code
Sections 25128.5, 25135, and 25136

Sunset Date:

None

Legislative Intent:

None Specified

Beneficiaries:

Apportioning Businesses

Number of Taxpayers/Number of Returns:

Not Available

Comparable Federal Benefit:

None

Corporation Tax

Film Credit

Description:

Provides a nonrefundable franchise or personal income 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 capped at \$100 million.

Statutory Authority:

Revenue and Taxation Code
Sections 17053.85 and 23685

Sunset Date:

July 1, 2014

Legislative Intent:

None Specified

Beneficiaries:

Corporations and Individuals

Number of Taxpayers/Number of Returns:

Not Available

Comparable Federal Benefit:

None

Sales and Use Taxes

Food

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:

None

Sales and Use Taxes

Gas, Electricity, 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:

None

Sales and Use Taxes

Prescription Medicine

Description:

Medicine that is prescribed for a human being 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:

None

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:

None

Sales and Use Taxes

Farm Equipment and Machinery

Description:

Sales of farm equipment, machinery, and their parts are exempt from the 5 percent state sales and use tax 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 2007-08, 13,326 returns claimed this exemption.

Comparable Federal Benefit:

None

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:

None

Sales and Use Taxes

Rental of Linen Supplies

Description:

A person leasing linen supplies and similar articles who furnishes the recurring service of laundering or cleaning such linen supplies is the consumer of the property provided and tax applies to the purchase of the items.

Statutory Authority:

Revenue and Taxation Code Section 6006 and 6010

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Businesses

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

None

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."

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:

None

Sales and Use Taxes

Diesel Fuel Used in Farming and Processing

Description:

Sales of diesel fuel are exempt from the 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 2007-08, 1,405 returns claimed this exemption.

Comparable Federal Benefit:

None

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, 2014

Legislative Intent:

Not specified

Beneficiaries:

Businesses

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

None

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 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 2007-08, 2,057 returns claimed this exemption.

Comparable Federal Benefit:

None

Sales and Use Taxes

Treatment of Vending Machine Sales

Description:

Sales through vending machines are subject to tax on 33 percent of the sales price. Also, vending machine operators are considered the consumer of food products sold below a specified price through a vending machine.

Statutory Authority:

Revenue and Taxation Code Sections 6359.2 and 6359.4

Sunset Date:

None

Legislative Intent:

This provision was designed to simplify tax auditing procedures and provide uniformity in the taxation of vending machine sales. The percentage was set at 33 percent because that was deemed the average statewide percentage of vending machine sales that were subject to tax.

Beneficiaries:

Businesses

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

None

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:

None

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:

None

Sales and Use Taxes

Aircraft and Component Parts Sales

Description:

The sale of aircraft and component parts to common carriers, foreign governments, or nonresidents is not subject to tax.

Statutory Authority:

Revenue and Taxation Code Section 6366

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Individuals, businesses, foreign governments

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

None

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 Section 6006 and 6010

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Businesses

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

None

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:

Businesses

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

None

Sales and Use Taxes

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:

None

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:

This provision appears to have been intended to assist the California printing industry increase its share of the direct mail and catalog market.

Beneficiaries:

Businesses

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

None

**Cigarette and Tobacco
Products Tax**

Sales to Government Agencies

Description:

Sales of cigarettes and tobacco products by or through the United States military exchanges, commissaries, ship's stores, or the United States Veterans' Administration are not subject to the cigarette tax. Deliveries of cigarettes or tobacco products to a veterans' home of this state or a hospital or domiciliary facility of the United States Veterans' Administration for the use of the veterans are also not subject to tax.

Statutory Authority:

Revenue and Taxation Code Sections 30102 and 30105.5

Sunset Date:

The exemption for sales by or through military installations will sunset on the first calendar day beginning more than 60 days after federal law is changed to allow state taxation of military sales.

Legislative Intent:

This exemption was intended to provide a tax incentive for the United States Armed Forces and the United States Veterans' Administration to purchase cigarettes or tobacco products in this state, as opposed to purchasing cigarettes outside this state for purposes of avoiding the tax. The exemption was also intended to provide tax relief to various members of the United States Armed Forces by enabling them to acquire their cigarettes and tobacco products at reduced costs.

Beneficiaries:

Individuals

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

Not available

Comparable Federal Benefit:

This conforms to federal law.

Fuel Taxes

Aircraft Jet Fuel Used by Common Carriers

Description:

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

Statutory Authority:

Revenue and Taxation Code Section 7389

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Businesses and U.S. government

Number of Taxpayers/Number of Returns:

Not available

Comparable Federal Benefit:

This provision conforms to federal law.

Fuel Taxes

Fuel Used by Transit Districts and Schools

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

Sunset Date:

None

Legislative Intent:

Not specified

Beneficiaries:

Businesses

Number of Taxpayers/Number of

Returns:

Not available

Comparable Federal Benefit:

None



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