

The cover features a vertical design with a central light blue band. Above and below this band are solid dark blue rectangular blocks. The word 'Tax' is written in a large, dark blue, cursive script, spanning across the top of the light blue band. Below it, the words 'EXPENDITURE' and 'REPORT' are written in a dark blue, all-caps, sans-serif font, stacked vertically within the light blue band.

*Tax*

EXPENDITURE  
REPORT

2014-15







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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, 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, 2014.

## 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 Joint Strike Fighter Wages Credit, are not included in this report.

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.

#### **DIFFERENCES BETWEEN TAX EXPENDITURES AND NORMAL BUDGETARY EXPENDITURES**

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 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. Other factors complicating this report's estimates include the effects of tax law interactions and taxpayer reactions to changes in tax law. For example, a change in tax law could lead to economic activity that would not have occurred without the tax expenditure. These revenue estimates reflect direct behavioral changes, but keep economic aggregates unchanged. 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 2014-15 Personal Income Tax General Fund revenues by more than \$37 billion.

**Sales and Use Tax** The Sales and Use Tax Law contains separately identifiable state tax General Fund expenditures worth about \$13 billion in 2014-15. 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 2014-15 General Fund tax expenditures in the corporation category amount to over \$5 billion. Examples of these expenditures include provisions for research and development, interest on state and local government obligations, provisions for apportionment, and provisions for water's edge election.

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



## LOCAL REVENUE LOSSES

The revenue losses to local governments are also shown for the sales tax and the property tax. Property taxes are local taxes, and the legislative exemptions or preferential provisions do not constitute state tax expenditures. Nonetheless, they impact state finances because local tax exemptions reduce property tax allocations to schools. Under school finance law, the state is generally required to provide the difference in funding between local property tax allocations and school districts' revenue limits. Consequently, each dollar of property tax revenue foregone by schools results in additional state funding through the school apportionment process. Passage of Proposition 98 in November 1988 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 \$11 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 Franchise Tax Board released the latest version of their report, *California Income Tax Expenditures, Compendium of Individual Provisions: Report for 2010 Tax Year Data*, covering personal income tax and corporation tax expenditures in November 2013. This report can be accessed on the Internet at [www.ftb.ca.gov](http://www.ftb.ca.gov) under "About Us" in "Reports, Plans & Statistics."

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



TABLE 1

2014-15

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)					
Personal Income Tax	Provision	State General Fund Revenue Loss			
		2012-13 <sup>1e</sup>	2013-14 <sup>e</sup>	2014-15 <sup>e</sup>	2015-16 <sup>e</sup> 2016-17 <sup>1e</sup>
	Exclusion of employer contributions to health plans	4,900	5,500	5,500	6,000 6,500
	Home mortgage interest deduction	4,100	4,400	4,700	5,000 5,500
	Exclusion of employer pension contributions	3,500	3,600	4,000	4,400 4,900
	Basis step-up on inherited property	3,500	3,500	3,800	4,100 4,400
	Exclusion of capital gains on sale of principal residence	2,600	2,400	2,500	2,600 2,700
	Exclusion of social security benefits <sup>2f</sup>	2,700	2,900	3,100	3,200 3,400
	Charitable contributions deduction	1,800	1,900	2,100	2,200 2,300
	Real estate, personal property and other tax deduction	1,700	1,700	2,000	2,100 2,300
	Dependent exemption in excess of personal exemption credit	1,200	1,200	1,300	1,400 1,400
	Employee business and miscellaneous expenses deduction	1,200	1,200	1,300	1,400 1,500
	Exclusion of benefits provided under cafeteria plans	1,200	1,300	1,400	1,500 1,600
	Exclusion of investment income on life insurance and annuity contracts	1,100	1,100	1,100	1,200 1,200
	Head-of-household and qualifying widower filing status	900	900	1,000	1,100 1,100
	Exclusions for Individual Retirement Accounts	500	650	700	800 850
	Exclusions for self-employed retirement plans	430	440	470	500 500
	Medical and dental expenses deduction	400	440	490	550 600
	Exclusion of unemployment insurance benefits	320	220	160	150 140
	Deduction of health insurance paid by self-employed	280	310	330	350 370
	Exclusion of miscellaneous fringe benefits	280	280	290	290 300
	Exemption for senior citizens	200	210	220	230 220
	Exclusion of transportation-related fringe benefits	180	200	210	230 250
	Exclusion of non-resident military pay	120	120	120	120 120
	Exclusion of employer contributions to life insurance plans	110	120	120	130 140



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				
		2012-13 <sup>e</sup>	2013-14 <sup>e</sup>	2014-15 <sup>e</sup>	2015-16 <sup>e</sup>	2016-17 <sup>e</sup>
	Renters' credit	110	110	110	110	110
	Exclusion of scholarship/fellowship income	95	100	100	110	120
	Exclusion of state lottery winnings	70	90	90	95	95
	Exclusion of meals and lodgings furnished by non-military employers	65	70	75	85	90
	Exclusion of compensation for injuries or sickness	60	60	60	65	65
	Exclusion of employee child care benefits	55	55	55	55	60
	Exclusion of employer-provided educational assistance	50	50	50	50	50
	Student loan interest deduction	50	50	55	55	55
	Housing credit 2010: first-time buyer and new home credits	37	2	NA	NA	NA
	Child and dependent care credit (Nonrefundable)	34	35	37	38	40
	Exclusion of income earned on Section 529 (Scholarshare) plans	30	34	39	44	47
	Exclusion of housing for clergy	27	27	29	30	30
	Moving expense deduction	26	27	28	30	32
	Exclusion for cancellation of mortgage debt	23	1	NA	NA	NA
	Exclusion of capital gain on small business stock <sup>1/</sup>	21	28	11	2	Minor
	Casualty losses deduction	15	15	16	16	17
	Exclusion of foster care payment	15	15	15	15	15
	Limited partnerships investment source rules	9	9	9	8	9
	<b>Personal Income Tax Total</b>	<b>\$34,012</b>	<b>\$35,368</b>	<b>\$37,689</b>	<b>\$40,358</b>	<b>\$43,125</b>

Not applicable is indicated as NA.

<sup>e</sup>Estimated

<sup>1/</sup>The provision is not available to taxpayers for transactions after January 1, 2013.

<sup>2/</sup>Some recipients of Social Security are not required to report this income on their federal tax returns. The number of returns reported here is the number of Californians with Social Security income that was reported on their federal tax return.



TABLE 2

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)					
Corporation Tax	Provision	State General Fund Revenue Loss			
		2012-13 <sup>1e</sup>	2013-14 <sup>1e</sup>	2014-15 <sup>1e</sup>	2015-16 <sup>1e</sup>
	Research and development credit <sup>1</sup>	1,500	1,500	1,600	1,800
	Total sales factor apportionment:	908	862	890	974
	• Single sales factor mandatory <sup>4</sup>	(138)	(785)	(890)	(974)
	• Single sales factor election <sup>4</sup>	(600)	(60)	(0)	(0)
	• Double-weighted sales factor <sup>4</sup>	(170)	(17)	(0)	(0)
	Water's edge election	700	750	800	850
	Enterprise zones and similar areas <sup>1</sup>	1,000	950	750	500
	Like-kind exchanges <sup>1</sup>	320	360	420	450
	Subchapter S corporations	220	230	180	140
	Tax-exempt status for qualifying corporations	160	160	170	170
	Accelerated depreciation of research and experimental costs <sup>1</sup>	120	140	160	180
	Charitable contributions deduction <sup>2</sup>	90	95	100	110
	Film credit <sup>1,3</sup>	100	93	100	108
	Hiring credit (2013 Budget Act) <sup>1</sup>	0	8	35	72
	California Competes Credit	0	0	32	83
	Low-income housing credit <sup>1</sup>	50	50	55	60
	Jobs tax credit <sup>1</sup>	41	36	24	17
	Employee stock ownership plans <sup>1</sup>	27	29	29	32
	Percentage depletion of mineral and other natural resources	24	24	24	23
	Credit union treatment	20	25	30	34
	New advanced strategic aircraft hiring credit	0	0	13	25
	Expensing of timber growing costs <sup>1</sup>	7	7	7	7
	Reforestation <sup>1</sup>	6	6	6	6
	<b>Total</b>	<b>\$5,293</b>	<b>\$5,325</b>	<b>\$5,425</b>	<b>\$5,641</b>
					<b>\$5,667</b>

<sup>e/</sup>Estimated<sup>1/</sup>This item includes personal income tax amounts.<sup>2/</sup>This includes only corporate tax amounts; personal income tax amounts are separately reported.<sup>3/</sup>From 2013-14 onward, 30 percent of total is estimated to come from sales tax exclusions.<sup>4/</sup>Numbers shown in parentheses are non-adds.



TABLE 3

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)															
	2012-13 Revenue Loss			2013-14 Revenue Loss			2014-15 Revenue Loss			2015-16 Revenue Loss			2016-17 Revenue Loss		
	State General Fund	Local <sup>i/</sup>	State Fiscal Recovery Fund	State General Fund	Local <sup>i/</sup>	State Fiscal Recovery Fund	State General Fund	Local <sup>i/</sup>	State Fiscal Recovery Fund	State General Fund	Local <sup>i/</sup>	State Fiscal Recovery Fund	State General Fund	Local <sup>i/</sup>	
	4.07%	3.95%	0.25%	4.19%	3.98%	0.25%	4.19%	3.98%	0.25%	4.19%	4.17%	0.06%	4.07%	4.23%	
Food products	\$ 4,263	\$ 4,137	\$ 262	\$ 4,567	\$ 4,338	\$ 273	\$ 4,834	\$ 4,592	\$ 288	\$ 5,046	\$ 5,019	\$ 75	\$ 5,120	\$ 5,321	
Gas, electricity, water, and steam	\$ 2,640	\$ 2,562	\$ 162	\$ 2,828	\$ 2,687	\$ 169	\$ 2,994	\$ 2,844	\$ 179	\$ 3,125	\$ 3,108	\$ 47	\$ 3,171	\$ 3,295	
Prescription medicines	\$ 1,603	\$ 1,644	\$ 104	\$ 1,814	\$ 1,723	\$ 108	\$ 1,920	\$ 1,824	\$ 115	\$ 2,004	\$ 1,994	\$ 30	\$ 2,034	\$ 2,114	
Animal life, feed, seeds, plants, fertilizer, drugs, medicines	\$ 855	\$ 830	\$ 53	\$ 916	\$ 870	\$ 55	\$ 970	\$ 921	\$ 58	\$ 1,012	\$ 1,007	\$ 15	\$ 1,027	\$ 1,067	
Candy, confectionery, snack foods, and bottled water	\$ 632	\$ 614	\$ 39	\$ 677	\$ 644	\$ 40	\$ 717	\$ 681	\$ 43	\$ 748	\$ 744	\$ 11	\$ 759	\$ 789	
Manufactures Exemption	-	-	-	-	-	-	\$ 491	\$ -	\$ -	\$ 525	\$ -	\$ -	\$ 535	\$ -	
Custom computer programs	\$ 201	\$ 195	\$ 12	\$ 216	\$ 205	\$ 13	\$ 228	\$ 217	\$ 14	\$ 238	\$ 237	\$ 4	\$ 242	\$ 251	
Fuel sold to common carriers	\$ 150	\$ 146	\$ 9	\$ 161	\$ 153	\$ 10	\$ 170	\$ 162	\$ 10	\$ 178	\$ 177	\$ 3	\$ 180	\$ 187	
Exemption for farm equipment	\$ 143	-	\$ 9	\$ 154	\$ 136	\$ 9	\$ 163	\$ -	\$ 10	\$ 177	\$ -	\$ 3	\$ 172	\$ -	
Water common carriers	\$ 34	\$ 33	\$ 2	\$ 36	\$ 34	\$ 2	\$ 38	\$ 36	\$ 2	\$ 40	\$ 40	\$ 1	\$ 41	\$ 42	
Diesel fuel used in farming and processing	\$ 53	\$ -	\$ 3	\$ 56	\$ -	\$ 4	\$ 60	\$ -	\$ 4	\$ 65	\$ -	\$ 1	\$ 63	\$ -	
Subscription periodicals	\$ 30	\$ 30	\$ 2	\$ 31	\$ 30	\$ 2	\$ 31	\$ 30	\$ 2	\$ 31	\$ 31	\$ 0	\$ 30	\$ 32	
Teleproduction and post production equipment	\$ 14	\$ -	\$ 1	\$ 15	\$ -	\$ 1	\$ 16	\$ -	\$ 1	\$ 17	\$ -	\$ 0	\$ 16	\$ -	
California Alternative Energy <sup>vi</sup>	\$ 4	\$ 4	\$ 0	\$ 5	\$ 5	\$ 0	\$ 5	\$ 5	\$ 0	\$ 5	\$ 5	\$ 0	\$ 5	\$ 6	
Weeds furnished by institutions <sup>vi</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Aircraft and component parts sales; common carriers; foreign governments; nonresidents <sup>vi</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Leases of motion picture and television films and tapes <sup>vi</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Motion picture production services <sup>vi</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Printed advertising <sup>vi</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Total	\$ 10,714	\$ 10,195	\$ 658	\$ 11,477	\$ 10,689	\$ 685	\$ 12,637	\$ 11,312	\$ 725	\$ 13,213	\$ 12,362	\$ 169	\$ 13,396	\$ 13,105	

<sup>i/</sup>Rate includes the 2011 Realignment 1.0625%, 1991 Local Revenue Fund 0.50%, Local Public Safety Fund 0.50% , Local Bradley Burns 1.00%, and the average county add-on of .89% for 12-13, and .92% for 2013-14 each here thereafter.

<sup>vi</sup> Assumed to be in effect for 3 months of 2015-16.

Indentifiable revenue losses



TABLE 4

2014-15

Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)						
Property Tax						
Provision	Local Revenue Loss					
	2012-13	2013-14	2014-15	2015-16	2016-17	
Computer programs Fixtures on the supplemental roll	NA <sup>*/</sup> \$19	NA <sup>*/</sup> \$19	NA <sup>*/</sup> \$19	NA <sup>*/</sup> \$19	NA <sup>*/</sup> \$19	NA <sup>*/</sup> \$19

<sup>\*/</sup>In excess of \$100 million.



Major Identifiable Tax Expenditures of \$5 Million or More (Dollars in Millions)																
Other Taxes																
Provision	R & T section code	2012-13 Revenue Loss			2013-14 Revenue Loss			2014-15 Revenue Loss			2015-16 Revenue Loss			2016-17 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
Fuel Tax																
Aircraft jet fuel used by common carriers and military	7374 & 7380	-	\$81	-	-	\$85	-	-	\$90	-	-	\$95	-	-	\$100	-
Diesel and use fuel used by transit dist. and schools		-	\$15	-	-	\$16	-	-	\$17	-	-	\$18	-	-	\$18	-
Total			\$96			\$100			\$107			\$112			\$118	



## 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

### 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 2011 tax year, 4.4 million returns claimed a deduction for home mortgage interest expenses. This represented 7.2 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**

**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 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

### 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 2011, 1.5 million tax returns claimed this exclusion, which represented 2.4 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 2011 tax year, 4.7 million personal income tax returns claimed this deduction, representing 7.5 million taxpayers. This deduction was also claimed on 166,000 corporation tax returns.

#### Comparable Federal Benefit:

This provision conforms to federal law.

## Personal Income Tax

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

#### Description:

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

#### Statutory Authority:

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

#### Sunset Date:

None

#### Legislative Intent:

Not specified

#### Beneficiaries:

Individuals

#### Number of Taxpayers/Number of Returns:

For the 2011 tax year, 8.9 million returns, representing 13.8 million taxpayers, claimed this deduction.

#### 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 2011, 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

### 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 2011 tax year, 1.9 million returns, representing 2.9 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

### 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

### 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 2011 tax year, 2.3 million returns, representing 2.3 million taxpayers, used the head-of-household or qualifying widow(er) filing status.

**Comparable Federal Benefit:**

This provision is in partial conformity with federal law.

## Personal Income Tax

### Exclusions for Individual Retirement Accounts

**Description:**

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

**Statutory Authority:**

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

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

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

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.



## Personal Income Tax

### Exclusions for Self-Employed Retirement Plans

**Description:**

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

**Statutory Authority:**

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

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Self-employed individuals

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

Not available

**Comparable Federal Benefit:**

This provision generally conforms to federal law.

## 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 2011 tax year, 1.2 million returns, representing 1.8 million taxpayers, claimed this deduction.

**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 2011, 1.6 million returns, representing 2.4 million taxpayers, claimed this exclusion.

**Comparable Federal Benefit:**

None

## 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 2011, 543,000 returns, representing 882,000 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 2011 tax year, 2.3 million returns, representing 3 million taxpayers, claimed this exemption.

**Comparable Federal Benefit:**

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



### Personal Income Tax

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

**Description:**

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

**Statutory Authority:**

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

**Sunset Date:**

None

**Legislative Intent:**

This exclusion was intended to encourage ridesharing and transit use.

**Beneficiaries:**

Individuals

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

Not available

**Comparable Federal Benefit:**

This provision generally conforms to federal law.

### Personal Income Tax

#### **Exclusion of 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 2011 tax year, 60,000 returns claimed this credit.

**Comparable Federal Benefit:**

This issue is only relevant to state taxation.



## 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. 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 2011 tax year, 1.5 million returns, representing 1.8 million taxpayers, claimed this credit.

**Comparable Federal Benefit:**

None



## 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 2011 tax year, 8,800 returns claimed this exclusion, which represented 13,000 taxpayers.

**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

### 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 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 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. 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 2011, 821,000 tax returns used this deduction. This represented 1.2 million taxpayers.

**Comparable Federal Benefit:**

None

## Personal Income Tax

### Housing Credit 2010: First-time Buyer and New Home Credits

**Description:**

Under the Personal Income Tax Law, a taxpayer is allowed a tax credit equal to the lesser of \$10,000 or 5 percent of the purchase price for qualified purchases of single-family residences. The credit must be claimed in equal amounts over three tax years. Unused credits may not be carried forward. In 2010, two credits are available: One for new-home purchases and one for first-time home buyers. The credits are capped at \$100 million each.

**Statutory Authority:**

Revenue and Taxation Code Section 17059.1

**Sunset Date:**

The credits only apply to purchases made on or after May 1, 2010, and before August 1, 2011. The new-home purchase credit can only be used for enforceable contracts executed on or before December 31, 2010.

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals

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

For the 2011 tax year, 24,000 returns claimed the tax credit.

**Comparable Federal Benefit:**

This provision is similar but does not conform.



## 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 2011, 188,000 returns representing 295,000 taxpayers claimed this credit.

**Comparable Federal Benefit:**

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

## 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

### 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

### 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 2011, 165,000 tax returns, representing 238,000 taxpayers, claimed this deduction.

**Comparable Federal Benefit:**

This provision conforms to federal law.



## 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, 2013.

**Statutory Authority:**

Revenue and Taxation Code Section 17144.5 which generally conforms to Internal Revenue Code Section 108

**Sunset Date:**

January 1, 2013

**Legislative Intent:**

Not 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

### Exclusion of Capital Gains 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.

**Litigation:**

In *Cutler vs. Franchise Tax Board* (Super. Ct. L. A. County, 2012, No. BC421864), the taxpayer raised the



## Personal Income Tax

### Exclusion of Capital Gains on Small Business Stock (continued)

issue of the constitutionality of California's qualified small business stock provisions. The trial court upheld the constitutionality of these statutes. However, on appeal, the Second District Court of Appeal reversed the trial court's determination and held that a provision of the qualified small business stock exclusion and deferral statutes is unconstitutional. The Franchise Tax Board determined that these statutes could not be salvaged from the offending provision. As such, the FTB determined that there were no qualified small business stock exclusions or deferrals in California for any open or future years. However, Chapter 546, Statutes of 2013, retroactively allows the qualified small business stock deferral and 50 percent gain exclusion for tax years 2008 to 2012, and modifies the qualified small business stock statutes to eliminate the requirement that 80 percent of business activity happen in California during the holding period.

## 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 2011, 8,000 tax returns, representing 13,000 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.



## 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 2011, 5,200 personal income tax returns and 3,300 corporate tax returns claimed this credit.

**Comparable Federal Benefit:**

This provision partially conforms to federal law.

## Corporation Tax

### Sales Factor Apportionment

**Description:**

Corporations with income derived from sources both within and outside California must apportion income to California. Prior to January 1, 1993, California applied a three-factor apportionment formula in which the payroll, property, and sales in California, or "factors" were equally weighted. After that date, California required most corporations to adopt that same three-factor formula with the sales factor double-weighted. This apportionment determined what percentage of a corporation's income was taxed in California.

Beginning January 1, 2011, corporations that used the three-factor double-weighted sales apportionment formula could elect to apportion net income for California tax purposes based on a single factor—100 percent sales.

A 2012 decision by the California Court of Appeal ruled that California cannot require multistate business entities to use the double-weighted sales apportionment formula, thereby upholding the plaintiff's claim that the single weighted sales factor contained in the Multistate Tax Compact (MTC) could not be modified. The Franchise Tax Board has appealed that decision and the case is currently being considered by the California Supreme Court. However, the repeal of the MTC in Chapter 37, Statutes of 2012, ensures that most taxpayers will not be allowed to use the three-factor apportionment formula with equal-weighted sales for 2012 and later years.

Proposition 39, passed by the voters in 2012, requires most corporations, beginning on or after January 1, 2013, to use the "single sales factor method,"



## Corporation Tax

### **Sales Factor Apportionment (continued)**

in which the percentage of their business income that is apportioned to California is based solely on the proportion of their sales in California compared to total sales.

The tax expenditure estimate in this publication represents the movement from the three-factor equal-weighted apportionment, which existed prior to 1993, to the current apportionment formula. The mandatory single sales factor apportionment formula is in effect for tax years beginning January 1, 2013 and later.

#### **Statutory Authority:**

Revenue and Taxation Code  
Sections 25128, 25135, and 25136

#### **Sunset Date:**

None

#### **Legislative Intent:**

Not Specified

#### **Beneficiaries:**

Apportioning Businesses

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

For 2011, 7,200 corporate tax returns elected single sales factor and 71,400 elected double-weighted sales factor.

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

None

## 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 2011, 11,400 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

### Enterprise Zones and Similar Areas

#### Description:

Several tax incentives are available for certain types of expenditures or income earned in economically depressed areas of the state. These include areas designated as Enterprise Zones (EZs), Local Agency Military Base Recovery Areas (LAMBRAs), Targeted Tax Areas (TTAs), and Manufacturing Enhancement Areas (MEAs).

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

#### Statutory Authority:

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

#### Sunset Date:

None

## Corporation Tax

### Enterprise Zones and Similar Areas (continued)

#### Legislative Intent:

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

#### Beneficiaries:

Individuals and incorporated and unincorporated businesses

#### Number of Taxpayers/Number of Returns:

In 2011, 31,400 personal income tax returns, and 6,300 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

### Like-Kind Exchanges

**Description:**

No gain or loss is recognized when business or investment property is exchanged solely for similar (like-kind) property. If, as part of the exchange, dissimilar property (not like-kind) or money is received, gain is recognized on the value of dissimilar property or money received, but a loss is not recognized.

**Statutory Authority:**

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

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals, incorporated and unincorporated businesses

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

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law

## Corporation Tax

### Subchapter S Corporations

**Description:**

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

**Statutory Authority:**

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

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Individuals and businesses

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

For the 2011 tax year, there were 440,000 S corporation returns reporting some income/losses.

**Comparable Federal Benefit:**

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



### Corporation Tax

#### Tax-Exempt Status for Qualifying 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 2011, 201,000 returns claimed this exemption.

**Comparable Federal Benefit:**

None

### Corporation Tax

#### Accelerated Depreciation of Research and Experimental Costs

**Description:**

Research and experimental expenditures may be deducted currently, or may be amortized over a 60-month period at the election of the taxpayer.

**Statutory Authority:**

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

**Sunset Date:**

None

**Legislative Intent:**

Not specified

**Beneficiaries:**

Incorporated and unincorporated businesses

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

Not available

**Comparable Federal Benefit:**

This provision conforms to federal law.



## 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:

2016-17 is the final year in statute that credit allocations can be made. However, credit allocations in practice have been accelerated by one year. Therefore, in practice the final year for credit allocations is 2015-16. These credit allocations will generate credit amounts over the next several years beyond 2015-16. Any credit amounts that cannot be used in the year generated can be carried forward indefinitely.

#### Legislative Intent:

Not specified

#### Beneficiaries:

Corporations and Individuals

#### Number of Taxpayers/Number of Returns:

Not available

#### Comparable Federal Benefit:

None

## Corporation Tax

### Hiring Credit (2013 Budget Act)

#### Description:

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

#### Statutory Authority:

Revenue and Taxation Code Sections 17053.73 and 23626

#### Sunset Date:

December 1, 2024

#### Legislative Intent:

Not specified

#### Beneficiaries:

Incorporated and unincorporated businesses

#### Number of Taxpayers/Number of Returns:

Not available

#### Comparable Federal Benefit:

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



## Corporation Tax

### California Competes Credit

**Description:**

An income tax credit is competitively awarded based on several factors, including the number of jobs in California, compensation paid to its employees, the amount of investment in California, and the business' economic impact. The maximum credit that can be allocated is \$30 million in 2013-14, \$150 million in 2014-15, and \$200 million annually in 2015-16 through 2017-18. These maximum amounts may be reduced to ensure that the aggregation of the estimated amounts of the sales tax exemption on manufacturing equipment, the new hiring credit, and this credit do not exceed \$750 million per year.

**Statutory Authority:**

Revenue and Taxation Code Sections 17059.2 and 23689

**Sunset Date:**

December 1, 2025

**Legislative Intent:**

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

**Beneficiaries:**

Incorporated and unincorporated businesses

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

Not Available

**Comparable Federal Benefit:**

This is a state-only benefit.

## Corporation Tax

### 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 2011 tax year, 322 personal income tax returns and 34 corporation tax returns claimed this credit.

**Comparable Federal Benefit:**

This provision conforms to federal law.



## Corporation Tax

### Jobs Tax Credit

**Description:**

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

**Statutory Authority:**

Revenue and Taxation Code Sections 17053.80 and 23623

**Sunset Date:**

Repealed as of December 1, 2014.

**Legislative Intent:**

Not Specified

**Beneficiaries:**

Small businesses

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

Not Available

**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

### 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

### Credit Union Treatment

#### Description:

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

#### Statutory Authority:

Revenue and Taxation Code Section 23153

#### Sunset Date:

None

#### Legislative Intent:

Not specified

#### Beneficiaries:

Non-profit cooperative associations

#### Number of Taxpayers/Number of Returns:

Not available

#### Comparable Federal Benefit:

None



### Corporation Tax

#### **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

#### **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.



## 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

### **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

### 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

### 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.

**Statutory Authority:**

Revenue and Taxation Code Section 6377.1

**Sunset Date:**

July 1, 2022

**Legislative Intent:**

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

**Beneficiaries:**

Individuals and businesses

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

Not available at this time.

**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

### 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

### 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 2012-13, 14,848 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

### 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 2012-13, 897 returns claimed this exemption.

**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

### 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 2012-13, 2,254 returns claimed this exemption.

**Comparable Federal Benefit:**

There is no federal sales tax

## Sales and Use Taxes

### 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.

**Statutory Authority:**

Public Resources Code Section 26003

**Sunset Date:**

The authority to approve sales and use tax exemptions will expire July 1, 2016. However, the expenditure benefit will continue for previously approved applications, up to three years after 2016.

**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

### 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

### 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:**

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

### 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:**

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:**

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:**

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









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