

1989

1989 Summary of Legislation

Franchise Tax Board

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**Franchise Tax
Board**

**prepared by
Legislative Services
Bureau**

1989 Summary of Legislation

**SUMMARY OF
1989 LEGISLATION**

Prepared by: Legislative Services Bureau
Franchise Tax Board
Sacramento, California
December 26, 1989



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CONTACTS

For questions on specific forms, and availability of forms or reproduction proofs for printers and computerized processors:

Franchise Tax Board
Tax Forms Design Unit
Gina Rodriques
P.O. Box 1468
Sacramento, CA 95812-1468
(916) 369-3442

For Information regarding changes in tax law:

Franchise Tax Board
Legislative Services Bureau
Jack L. Monroe
P.O. Box 1468
Sacramento, CA 95812-1468
(916) 369-4334

For practitioner's orders of Personal Income Tax Forms:

Franchise Tax Board
Tax Forms Request Unit
P.O. Box 942840
Sacramento, CA 94240-0070

For practitioner's orders of Corporation Tax Forms:

Franchise Tax Board
Tax Forms Request Unit
P.O. Box 942840
Sacramento, CA 94240-0570

For copies of legislative bills (one copy of each bill will be furnished free):

Legislative Bill Room
State Capitol, Room B-32
Sacramento, CA 95814
(916) 445-2323

INTRODUCTION

This report includes a summary, in section number order, of changes to the Personal Income Tax Law (PITL), the Senior Citizens Property Tax Assistance and Postponement Law (SCPTAL), and the Bank and Corporation Tax Law (B&CTL), enacted by the Legislature in the first-half of both the 1989-90 Regular Session and the first-half of the 1989-90 First Extraordinary Session, and approved by the Governor. A section number in parenthesis below the number of the section summarized indicates a corresponding or related change was made to that section. Also included in the Section-By-Section Summary are changes to the Business & Professions Code (B&P), Corporations Code (CC), Financial Code (FC), Government Code (GC), Unemployment Insurance Code (UI), and Welfare and Institutions Code (WI), which are related to the PITL and the B&CTL.

NOTE: This report does not include changes enacted on April 14, 1989, by AB 128 (Stats, 1989, Ch. 9), which were the subject of a separate report dated April 17, 1989.

Preceding the Section-By-Section Summary are:

- Exemption Credits
- Standard Deduction Amounts
- Limited-Income Credit Amounts
- Tax Rate Schedules - PIT
- Tax Tables - PIT

for taxable years beginning on or after January 1, 1989, and ending on or before November 30, 1990, followed by:

- Major Bills Vetoed
- 1989 Chaptered Bills
- Sections Added, Amended, Repealed

Legislative Change Reports (LCs), giving a brief description of the changes made by each legislative bill, are indicated below most section numbers in the summary and follow the Section-By-Section Summary. For more detailed information, refer to the specific bill, one copy of which will be furnished free by the:

Legislative Bill Room
State Capitol, Room B-32
Sacramento, CA 95814
(916) 445-2323

No Legislative Change Reports (LCs) were issued for bills which only made minor technical corrections to the PITL, SCPTAL, and B&CTL, or for changes in other codes related to these laws.

TAXABLE YEARS BEGINNING ON OR AFTER JANUARY 1, 1989,
AND ENDING ON OR BEFORE NOVEMBER 30, 1990

PERSONAL EXEMPTION CREDITS

Single, or Married filing separate return	\$55
Married filing joint return, Head of household, or Qualifying widow(er)	\$110
Dependent (each)	\$55
65 or over (taxpayer and/or spouse - each)	\$55
Blind (taxpayer and/or spouse - each)	\$55

STANDARD DEDUCTION

Single or Married filing separate return	\$2,070
Married filing joint return, Head of household, or Qualifying widow(er)	\$4,140

LIMITED-INCOME CREDIT AMOUNTS

(Round off to nearest dollar)

Single, Married filing separate return, or Head of Household:

<u>If Adjusted Gross Income Is</u>	<u>Percentage of Computational Tax</u>
\$6,430 or less	100%
Over \$ 6,430, but not over \$ 7,430	80%
Over \$ 7,430, but not over \$ 8,450	60%
Over \$ 8,450, but not over \$ 9,450	40%
Over \$ 9,450, but not over \$10,460	20%
Over \$10,460	0%

Married filing joint return, and Qualifying widow(er)

<u>If Adjusted Gross Income Is</u>	<u>Percentage of Computational Tax</u>
\$12,880 or less	100%
Over \$12,880, but not over \$14,880	80%
Over \$14,880, but not over \$16,890	60%
Over \$16,890, but not over \$18,900	40%
Over \$18,900, but not over \$20,900	20%
Over \$20,900	0%

"Computational tax" is:

- Form 540 - Line 21a, less sum of lines 23, 24, 25 and 26, OR
Line 21a, less sum of lines 23, 24 and 27.
- Form 540A - Line 17, less sum of lines 18 and 19.
- Form 540NR - Line 24, less sum of lines 33, 34 and 35, OR
Line 24, less sum of lines 33 and 36.

**CALIFORNIA TAX RATES FOR TAXABLE YEAR 1989
TAX SCHEDULES**

**SCHEDULE 1. (A) SINGLE TAXPAYERS
(B) MARRIED FILING SEPARATE RETURNS
(C) FIDUCIARY TAX RETURNS**

IF THE TAXABLE INCOME IS . . .		COMPUTED TAX IS . . .				

OVER	BUT NOT OVER					OF AMOUNT OVER . .
\$0	\$4,020 . . .	\$0.00	PLUS	1.0%		\$0
\$4,020	\$9,528 . . .	\$40.20	PLUS	2.0%		\$4,020
\$9,528	\$15,035 . . .	\$150.36	PLUS	4.0		\$9,528
\$15,035	\$20,873 . . .	\$370.64	PLUS	6.0%		\$15,035
\$20,873	\$26,380 . . .	\$720.92	PLUS	8.0%		\$20,873
\$26,380	and over. . .	\$1,161.48	PLUS	9.3%		\$26,380

**SCHEDULE 2. (A) JOINT TAXPAYERS AND
(B) SURVIVING SPOUSE WITH DEPENDENTS**

IF THE TAXABLE INCOME IS . . .		COMPUTED TAX IS . . .				

OVER	BUT NOT OVER					OF AMOUNT OVER . .
\$0	\$8,040 . . .	\$0.00	PLUS	1.0%		\$0
\$8,040	\$19,056 . . .	\$80.40	PLUS	2.0%		\$8,040
\$19,056	\$30,070 . . .	\$300.72	PLUS	4.0%		\$19,056
\$30,070	\$41,746 . . .	\$741.28	PLUS	6.0%		\$30,070
\$41,746	\$52,760 . . .	\$1,441.84	PLUS	8.0%		\$41,746
\$52,760	and over. . .	\$2,322.96	PLUS	9.3%		\$52,760

SCHEDULE 3. (A) UNMARRIED HEAD OF HOUSEHOLD

IF THE TAXABLE INCOME IS . . .		COMPUTED TAX IS . . .				

OVER	BUT NOT OVER					OF AMOUNT OVER . .
\$0	\$8,041 . . .	\$0.00	PLUS	1.0%		\$0
\$8,041	\$19,055 . . .	\$80.41	PLUS	2.0%		\$8,041
\$19,055	\$24,562 . . .	\$300.69	PLUS	4.0%		\$19,055
\$24,562	\$30,400 . . .	\$520.97	PLUS	6.0%		\$24,562
\$30,400	\$35,907 . . .	\$871.25	PLUS	8.0%		\$30,400
\$35,907	and over. . .	\$1,311.81	PLUS	9.3%		\$35,907

California Tax Table

To Find Your Tax:

1. Find the amount of your taxable income on line 18 of Form 540.
2. Read down the column titled "If Your Taxable Income Is . . ." Find the amounts which apply to your taxable income.
3. Read across the column titled "The Tax For Filing Status." Find the amount of tax which applies to your filing status.

If Your Taxable Income Is . . .		The Tax For Filing Status			If Your Taxable Income Is . . .		The Tax For Filing Status			If Your Taxable Income Is . . .		The Tax For Filing Status		
At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is
\$1	\$50	\$0	\$0	\$0	\$6,451	\$6,550	\$90	\$65	\$65	\$12,951	\$13,050	\$289	\$180	\$180
\$51	\$150	\$1	\$1	\$1	\$6,551	\$6,650	\$92	\$66	\$66	\$13,051	\$13,150	\$293	\$182	\$182
\$151	\$250	\$2	\$2	\$2	\$6,651	\$6,750	\$94	\$67	\$67	\$13,151	\$13,250	\$297	\$184	\$184
\$251	\$350	\$3	\$3	\$3	\$6,751	\$6,850	\$96	\$68	\$68	\$13,251	\$13,350	\$301	\$186	\$186
\$351	\$450	\$4	\$4	\$4	\$6,851	\$6,950	\$98	\$69	\$69	\$13,351	\$13,450	\$305	\$188	\$188
\$451	\$550	\$5	\$5	\$5	\$6,951	\$7,050	\$100	\$70	\$70	\$13,451	\$13,550	\$309	\$190	\$190
\$551	\$650	\$6	\$6	\$6	\$7,051	\$7,150	\$102	\$71	\$71	\$13,551	\$13,650	\$313	\$192	\$192
\$651	\$750	\$7	\$7	\$7	\$7,151	\$7,250	\$104	\$72	\$72	\$13,651	\$13,750	\$317	\$194	\$194
\$751	\$850	\$8	\$8	\$8	\$7,251	\$7,350	\$106	\$73	\$73	\$13,751	\$13,850	\$321	\$196	\$196
\$851	\$950	\$9	\$9	\$9	\$7,351	\$7,450	\$108	\$74	\$74	\$13,851	\$13,950	\$325	\$198	\$198
\$951	\$1,050	\$10	\$10	\$10	\$7,451	\$7,550	\$110	\$75	\$75	\$13,951	\$14,050	\$329	\$200	\$200
\$1,051	\$1,150	\$11	\$11	\$11	\$7,551	\$7,650	\$112	\$76	\$76	\$14,051	\$14,150	\$333	\$202	\$202
\$1,151	\$1,250	\$12	\$12	\$12	\$7,651	\$7,750	\$114	\$77	\$77	\$14,151	\$14,250	\$337	\$204	\$204
\$1,251	\$1,350	\$13	\$13	\$13	\$7,751	\$7,850	\$116	\$78	\$78	\$14,251	\$14,350	\$341	\$206	\$206
\$1,351	\$1,450	\$14	\$14	\$14	\$7,851	\$7,950	\$118	\$79	\$79	\$14,351	\$14,450	\$345	\$208	\$208
\$1,451	\$1,550	\$15	\$15	\$15	\$7,951	\$8,050	\$120	\$80	\$80	\$14,451	\$14,550	\$349	\$210	\$210
\$1,551	\$1,650	\$16	\$16	\$16	\$8,051	\$8,150	\$122	\$82	\$82	\$14,551	\$14,650	\$353	\$212	\$212
\$1,651	\$1,750	\$17	\$17	\$17	\$8,151	\$8,250	\$124	\$84	\$84	\$14,651	\$14,750	\$357	\$214	\$214
\$1,751	\$1,850	\$18	\$18	\$18	\$8,251	\$8,350	\$126	\$86	\$86	\$14,751	\$14,850	\$361	\$216	\$216
\$1,851	\$1,950	\$19	\$19	\$19	\$8,351	\$8,450	\$128	\$88	\$88	\$14,851	\$14,950	\$365	\$218	\$218
\$1,951	\$2,050	\$20	\$20	\$20	\$8,451	\$8,550	\$130	\$90	\$90	\$14,951	\$15,050	\$369	\$220	\$220
\$2,051	\$2,150	\$21	\$21	\$21	\$8,551	\$8,650	\$132	\$92	\$92	\$15,051	\$15,150	\$375	\$222	\$222
\$2,151	\$2,250	\$22	\$22	\$22	\$8,651	\$8,750	\$134	\$94	\$94	\$15,151	\$15,250	\$381	\$224	\$224
\$2,251	\$2,350	\$23	\$23	\$23	\$8,751	\$8,850	\$136	\$96	\$96	\$15,251	\$15,350	\$387	\$226	\$226
\$2,351	\$2,450	\$24	\$24	\$24	\$8,851	\$8,950	\$138	\$98	\$98	\$15,351	\$15,450	\$393	\$228	\$228
\$2,451	\$2,550	\$25	\$25	\$25	\$8,951	\$9,050	\$140	\$100	\$100	\$15,451	\$15,550	\$399	\$230	\$230
\$2,551	\$2,650	\$26	\$26	\$26	\$9,051	\$9,150	\$142	\$102	\$102	\$15,551	\$15,650	\$405	\$232	\$232
\$2,651	\$2,750	\$27	\$27	\$27	\$9,151	\$9,250	\$144	\$104	\$104	\$15,651	\$15,750	\$411	\$234	\$234
\$2,751	\$2,850	\$28	\$28	\$28	\$9,251	\$9,350	\$146	\$106	\$106	\$15,751	\$15,850	\$417	\$236	\$236
\$2,851	\$2,950	\$29	\$29	\$29	\$9,351	\$9,450	\$148	\$108	\$108	\$15,851	\$15,950	\$423	\$238	\$238
\$2,951	\$3,050	\$30	\$30	\$30	\$9,451	\$9,550	\$150	\$110	\$110	\$15,951	\$16,050	\$429	\$240	\$240
\$3,051	\$3,150	\$31	\$31	\$31	\$9,551	\$9,650	\$153	\$112	\$112	\$16,051	\$16,150	\$435	\$242	\$242
\$3,151	\$3,250	\$32	\$32	\$32	\$9,651	\$9,750	\$157	\$114	\$114	\$16,151	\$16,250	\$441	\$244	\$244
\$3,251	\$3,350	\$33	\$33	\$33	\$9,751	\$9,850	\$161	\$116	\$116	\$16,251	\$16,350	\$447	\$246	\$246
\$3,351	\$3,450	\$34	\$34	\$34	\$9,851	\$9,950	\$165	\$118	\$118	\$16,351	\$16,450	\$453	\$248	\$248
\$3,451	\$3,550	\$35	\$35	\$35	\$9,951	\$10,050	\$169	\$120	\$120	\$16,451	\$16,550	\$459	\$250	\$250
\$3,551	\$3,650	\$36	\$36	\$36	\$10,051	\$10,150	\$173	\$122	\$122	\$16,551	\$16,650	\$465	\$252	\$252
\$3,651	\$3,750	\$37	\$37	\$37	\$10,151	\$10,250	\$177	\$124	\$124	\$16,651	\$16,750	\$471	\$254	\$254
\$3,751	\$3,850	\$38	\$38	\$38	\$10,251	\$10,350	\$181	\$126	\$126	\$16,751	\$16,850	\$477	\$256	\$256
\$3,851	\$3,950	\$39	\$39	\$39	\$10,351	\$10,450	\$185	\$128	\$128	\$16,851	\$16,950	\$483	\$258	\$258
\$3,951	\$4,050	\$40	\$40	\$40	\$10,451	\$10,550	\$189	\$130	\$130	\$16,951	\$17,050	\$489	\$260	\$260
\$4,051	\$4,150	\$42	\$41	\$41	\$10,551	\$10,650	\$193	\$132	\$132	\$17,051	\$17,150	\$495	\$262	\$262
\$4,151	\$4,250	\$44	\$42	\$42	\$10,651	\$10,750	\$197	\$134	\$134	\$17,151	\$17,250	\$501	\$264	\$264
\$4,251	\$4,350	\$46	\$43	\$43	\$10,751	\$10,850	\$201	\$136	\$136	\$17,251	\$17,350	\$507	\$266	\$266
\$4,351	\$4,450	\$48	\$44	\$44	\$10,851	\$10,950	\$205	\$138	\$138	\$17,351	\$17,450	\$513	\$268	\$268
\$4,451	\$4,550	\$50	\$45	\$45	\$10,951	\$11,050	\$209	\$140	\$140	\$17,451	\$17,550	\$519	\$270	\$270
\$4,551	\$4,650	\$52	\$46	\$46	\$11,051	\$11,150	\$213	\$142	\$142	\$17,551	\$17,650	\$525	\$272	\$272
\$4,651	\$4,750	\$54	\$47	\$47	\$11,151	\$11,250	\$217	\$144	\$144	\$17,651	\$17,750	\$531	\$274	\$274
\$4,751	\$4,850	\$56	\$48	\$48	\$11,251	\$11,350	\$221	\$146	\$146	\$17,751	\$17,850	\$537	\$276	\$276
\$4,851	\$4,950	\$58	\$49	\$49	\$11,351	\$11,450	\$225	\$148	\$148	\$17,851	\$17,950	\$543	\$278	\$278
\$4,951	\$5,050	\$60	\$50	\$50	\$11,451	\$11,550	\$229	\$150	\$150	\$17,951	\$18,050	\$549	\$280	\$280
\$5,051	\$5,150	\$62	\$51	\$51	\$11,551	\$11,650	\$233	\$152	\$152	\$18,051	\$18,150	\$555	\$282	\$282
\$5,151	\$5,250	\$64	\$52	\$52	\$11,651	\$11,750	\$237	\$154	\$154	\$18,151	\$18,250	\$561	\$284	\$284
\$5,251	\$5,350	\$66	\$53	\$53	\$11,751	\$11,850	\$241	\$156	\$156	\$18,251	\$18,350	\$567	\$286	\$286
\$5,351	\$5,450	\$68	\$54	\$54	\$11,851	\$11,950	\$245	\$158	\$158	\$18,351	\$18,450	\$573	\$288	\$288
\$5,451	\$5,550	\$70	\$55	\$55	\$11,951	\$12,050	\$249	\$160	\$160	\$18,451	\$18,550	\$579	\$290	\$290
\$5,551	\$5,650	\$72	\$56	\$56	\$12,051	\$12,150	\$253	\$162	\$162	\$18,551	\$18,650	\$585	\$292	\$292
\$5,651	\$5,750	\$74	\$57	\$57	\$12,151	\$12,250	\$257	\$164	\$164	\$18,651	\$18,750	\$591	\$294	\$294
\$5,751	\$5,850	\$76	\$58	\$58	\$12,251	\$12,350	\$261	\$166	\$166	\$18,751	\$18,850	\$597	\$296	\$296
\$5,851	\$5,950	\$78	\$59	\$59	\$12,351	\$12,450	\$265	\$168	\$168	\$18,851	\$18,950	\$603	\$298	\$298
\$5,951	\$6,050	\$80	\$60	\$60	\$12,451	\$12,550	\$269	\$170	\$170	\$18,951	\$19,050	\$609	\$300	\$300
\$6,051	\$6,150	\$82	\$61	\$61	\$12,551	\$12,650	\$273	\$172	\$172	\$19,051	\$19,150	\$615	\$302	\$302
\$6,151	\$6,250	\$84	\$62	\$62	\$12,651	\$12,750	\$277	\$174	\$174	\$19,151	\$19,250	\$621	\$306	\$306
\$6,251	\$6,350	\$86	\$63	\$63	\$12,751	\$12,850	\$281	\$176	\$176	\$19,251	\$19,350	\$627	\$310	\$310
\$6,351	\$6,450	\$88	\$64	\$64	\$12,851	\$12,950	\$285	\$178	\$178	\$19,351	\$19,450	\$633	\$314	\$314

California Tax Table — Continued

If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status			If Your Taxable Income Is ...		The Tax For Filing Status		
At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is	At Least	But Not Over	1 Or 3 Is	2 Or 5 Is	4 Is
\$19,451	\$19,550	\$639	\$318	\$319	\$26,451	\$26,550	\$1,173	\$598	\$637	\$33,451	\$33,550	\$1,824	\$947	\$1,119
\$19,551	\$19,650	\$645	\$322	\$325	\$26,551	\$26,650	\$1,182	\$602	\$643	\$33,551	\$33,650	\$1,833	\$953	\$1,127
\$19,651	\$19,750	\$651	\$326	\$327	\$26,651	\$26,750	\$1,191	\$606	\$649	\$33,651	\$33,750	\$1,842	\$959	\$1,135
\$19,751	\$19,850	\$657	\$330	\$331	\$26,751	\$26,850	\$1,201	\$610	\$655	\$33,751	\$33,850	\$1,852	\$965	\$1,143
\$19,851	\$19,950	\$663	\$334	\$335	\$26,851	\$26,950	\$1,210	\$614	\$661	\$33,851	\$33,950	\$1,861	\$971	\$1,151
\$19,951	\$20,050	\$669	\$338	\$339	\$26,951	\$27,050	\$1,219	\$618	\$667	\$33,951	\$34,050	\$1,870	\$977	\$1,159
\$20,051	\$20,150	\$675	\$342	\$343	\$27,051	\$27,150	\$1,228	\$622	\$673	\$34,051	\$34,150	\$1,879	\$983	\$1,167
\$20,151	\$20,250	\$681	\$346	\$347	\$27,151	\$27,250	\$1,238	\$626	\$679	\$34,151	\$34,250	\$1,889	\$989	\$1,175
\$20,251	\$20,350	\$687	\$350	\$351	\$27,251	\$27,350	\$1,247	\$630	\$685	\$34,251	\$34,350	\$1,898	\$995	\$1,183
\$20,351	\$20,450	\$693	\$354	\$355	\$27,351	\$27,450	\$1,256	\$634	\$691	\$34,351	\$34,450	\$1,907	\$1,001	\$1,191
\$20,451	\$20,550	\$699	\$358	\$359	\$27,451	\$27,550	\$1,266	\$638	\$697	\$34,451	\$34,550	\$1,917	\$1,007	\$1,199
\$20,551	\$20,650	\$705	\$362	\$363	\$27,551	\$27,650	\$1,275	\$642	\$703	\$34,551	\$34,650	\$1,926	\$1,013	\$1,207
\$20,651	\$20,750	\$711	\$366	\$367	\$27,651	\$27,750	\$1,284	\$646	\$709	\$34,651	\$34,750	\$1,935	\$1,019	\$1,215
\$20,751	\$20,850	\$717	\$370	\$371	\$27,751	\$27,850	\$1,294	\$650	\$715	\$34,751	\$34,850	\$1,945	\$1,025	\$1,223
\$20,851	\$20,950	\$723	\$374	\$375	\$27,851	\$27,950	\$1,303	\$654	\$721	\$34,851	\$34,950	\$1,954	\$1,031	\$1,231
\$20,951	\$21,050	\$731	\$378	\$379	\$27,951	\$28,050	\$1,312	\$658	\$727	\$34,951	\$35,050	\$1,963	\$1,037	\$1,239
\$21,051	\$21,150	\$739	\$382	\$383	\$28,051	\$28,150	\$1,321	\$662	\$733	\$35,051	\$35,150	\$1,972	\$1,043	\$1,247
\$21,151	\$21,250	\$747	\$386	\$387	\$28,151	\$28,250	\$1,331	\$666	\$739	\$35,151	\$35,250	\$1,982	\$1,049	\$1,255
\$21,251	\$21,350	\$755	\$390	\$391	\$28,251	\$28,350	\$1,340	\$670	\$745	\$35,251	\$35,350	\$1,991	\$1,055	\$1,263
\$21,351	\$21,450	\$763	\$394	\$395	\$28,351	\$28,450	\$1,349	\$674	\$751	\$35,351	\$35,450	\$2,000	\$1,061	\$1,271
\$21,451	\$21,550	\$771	\$398	\$399	\$28,451	\$28,550	\$1,359	\$678	\$757	\$35,451	\$35,550	\$2,010	\$1,067	\$1,279
\$21,551	\$21,650	\$779	\$402	\$403	\$28,551	\$28,650	\$1,368	\$682	\$763	\$35,551	\$35,650	\$2,019	\$1,073	\$1,287
\$21,651	\$21,750	\$787	\$406	\$407	\$28,651	\$28,750	\$1,377	\$686	\$769	\$35,651	\$35,750	\$2,028	\$1,079	\$1,295
\$21,751	\$21,850	\$795	\$410	\$411	\$28,751	\$28,850	\$1,387	\$690	\$775	\$35,751	\$35,850	\$2,038	\$1,085	\$1,303
\$21,851	\$21,950	\$803	\$414	\$415	\$28,851	\$28,950	\$1,396	\$694	\$781	\$35,851	\$35,950	\$2,047	\$1,091	\$1,311
\$21,951	\$22,050	\$811	\$418	\$419	\$28,951	\$29,050	\$1,405	\$698	\$787	\$35,951	\$36,050	\$2,056	\$1,097	\$1,320
\$22,051	\$22,150	\$819	\$422	\$423	\$29,051	\$29,150	\$1,414	\$702	\$793	\$36,051	\$36,150	\$2,065	\$1,103	\$1,330
\$22,151	\$22,250	\$827	\$426	\$427	\$29,151	\$29,250	\$1,424	\$706	\$799	\$36,151	\$36,250	\$2,075	\$1,109	\$1,339
\$22,251	\$22,350	\$835	\$430	\$431	\$29,251	\$29,350	\$1,433	\$710	\$805	\$36,251	\$36,350	\$2,084	\$1,115	\$1,348
\$22,351	\$22,450	\$843	\$434	\$435	\$29,351	\$29,450	\$1,442	\$714	\$811	\$36,351	\$36,450	\$2,093	\$1,121	\$1,358
\$22,451	\$22,550	\$851	\$438	\$439	\$29,451	\$29,550	\$1,452	\$718	\$817	\$36,451	\$36,550	\$2,103	\$1,127	\$1,367
\$22,551	\$22,650	\$859	\$442	\$443	\$29,551	\$29,650	\$1,461	\$722	\$823	\$36,551	\$36,650	\$2,112	\$1,133	\$1,376
\$22,651	\$22,750	\$867	\$446	\$447	\$29,651	\$29,750	\$1,470	\$726	\$829	\$36,651	\$36,750	\$2,121	\$1,139	\$1,386
\$22,751	\$22,850	\$875	\$450	\$451	\$29,751	\$29,850	\$1,480	\$730	\$835	\$36,751	\$36,850	\$2,131	\$1,145	\$1,395
\$22,851	\$22,950	\$883	\$454	\$455	\$29,851	\$29,950	\$1,489	\$734	\$841	\$36,851	\$36,950	\$2,140	\$1,151	\$1,404
\$22,951	\$23,050	\$891	\$458	\$459	\$29,951	\$30,050	\$1,498	\$738	\$847	\$36,951	\$37,050	\$2,149	\$1,157	\$1,413
\$23,051	\$23,150	\$899	\$462	\$463	\$30,051	\$30,150	\$1,507	\$743	\$853	\$37,051	\$37,150	\$2,158	\$1,163	\$1,423
\$23,151	\$23,250	\$907	\$466	\$467	\$30,151	\$30,250	\$1,517	\$749	\$859	\$37,151	\$37,250	\$2,168	\$1,169	\$1,432
\$23,251	\$23,350	\$915	\$470	\$471	\$30,251	\$30,350	\$1,526	\$755	\$865	\$37,251	\$37,350	\$2,177	\$1,175	\$1,441
\$23,351	\$23,450	\$923	\$474	\$475	\$30,351	\$30,450	\$1,535	\$761	\$871	\$37,351	\$37,450	\$2,186	\$1,181	\$1,451
\$23,451	\$23,550	\$931	\$478	\$479	\$30,451	\$30,550	\$1,545	\$767	\$879	\$37,451	\$37,550	\$2,196	\$1,187	\$1,460
\$23,551	\$23,650	\$939	\$482	\$483	\$30,551	\$30,650	\$1,554	\$773	\$887	\$37,551	\$37,650	\$2,205	\$1,193	\$1,469
\$23,651	\$23,750	\$947	\$486	\$487	\$30,651	\$30,750	\$1,563	\$779	\$895	\$37,651	\$37,750	\$2,214	\$1,199	\$1,479
\$23,751	\$23,850	\$955	\$490	\$491	\$30,751	\$30,850	\$1,573	\$785	\$903	\$37,751	\$37,850	\$2,224	\$1,205	\$1,488
\$23,851	\$23,950	\$963	\$494	\$495	\$30,851	\$30,950	\$1,582	\$791	\$911	\$37,851	\$37,950	\$2,233	\$1,211	\$1,497
\$23,951	\$24,050	\$971	\$498	\$499	\$30,951	\$31,050	\$1,591	\$797	\$919	\$37,951	\$38,050	\$2,242	\$1,217	\$1,506
\$24,051	\$24,150	\$979	\$502	\$503	\$31,051	\$31,150	\$1,600	\$803	\$927	\$38,051	\$38,150	\$2,251	\$1,223	\$1,516
\$24,151	\$24,250	\$987	\$506	\$507	\$31,151	\$31,250	\$1,610	\$809	\$935	\$38,151	\$38,250	\$2,261	\$1,229	\$1,525
\$24,251	\$24,350	\$995	\$510	\$511	\$31,251	\$31,350	\$1,619	\$815	\$943	\$38,251	\$38,350	\$2,270	\$1,235	\$1,534
\$24,351	\$24,450	\$1,003	\$514	\$515	\$31,351	\$31,450	\$1,628	\$821	\$951	\$38,351	\$38,450	\$2,279	\$1,241	\$1,544
\$24,451	\$24,550	\$1,011	\$518	\$519	\$31,451	\$31,550	\$1,638	\$827	\$959	\$38,451	\$38,550	\$2,289	\$1,247	\$1,553
\$24,551	\$24,650	\$1,019	\$522	\$523	\$31,551	\$31,650	\$1,647	\$833	\$967	\$38,551	\$38,650	\$2,298	\$1,253	\$1,562
\$24,651	\$24,750	\$1,027	\$526	\$529	\$31,651	\$31,750	\$1,656	\$839	\$975	\$38,651	\$38,750	\$2,307	\$1,259	\$1,572
\$24,751	\$24,850	\$1,035	\$530	\$535	\$31,751	\$31,850	\$1,666	\$845	\$983	\$38,751	\$38,850	\$2,317	\$1,265	\$1,581
\$24,851	\$24,950	\$1,043	\$534	\$541	\$31,851	\$31,950	\$1,675	\$851	\$991	\$38,851	\$38,950	\$2,326	\$1,271	\$1,590
\$24,951	\$25,050	\$1,051	\$538	\$547	\$31,951	\$32,050	\$1,684	\$857	\$999	\$38,951	\$39,050	\$2,335	\$1,277	\$1,599
\$25,051	\$25,150	\$1,059	\$542	\$553	\$32,051	\$32,150	\$1,693	\$863	\$1,007	\$39,051	\$39,150	\$2,344	\$1,283	\$1,609
\$25,151	\$25,250	\$1,067	\$546	\$559	\$32,151	\$32,250	\$1,703	\$869	\$1,015	\$39,151	\$39,250	\$2,354	\$1,289	\$1,618
\$25,251	\$25,350	\$1,075	\$550	\$565	\$32,251	\$32,350	\$1,712	\$875	\$1,023	\$39,251	\$39,350	\$2,363	\$1,295	\$1,627
\$25,351	\$25,450	\$1,083	\$554	\$571	\$32,351	\$32,450	\$1,721	\$881	\$1,031	\$39,351	\$39,450	\$2,372	\$1,301	\$1,637
\$25,451	\$25,550	\$1,091	\$558	\$577	\$32,451	\$32,550	\$1,731	\$887	\$1,039	\$39,451	\$39,550	\$2,382	\$1,307	\$1,646
\$25,551	\$25,650	\$1,099	\$562	\$583	\$32,551	\$32,650	\$1,740	\$893	\$1,047	\$39,551	\$39,650	\$2,391	\$1,313	\$1,655
\$25,651	\$25,750	\$1,107	\$566	\$589	\$32,651	\$32,750	\$1,749	\$899	\$1,055	\$39,651	\$39,750	\$2,400	\$1,319	\$1,665
\$25,751	\$25,850	\$1,115	\$570	\$595	\$32,751	\$32,850	\$1,759	\$905	\$1,063	\$39,751	\$39,850	\$2,410	\$1,325	\$1,674
\$25,851	\$25,950	\$1,123	\$574	\$601	\$32,851	\$32,950	\$1,768	\$911	\$1,071	\$39,851	\$39,950	\$2,419	\$1,331	\$1,683
\$25,951	\$26,050	\$1,131	\$578	\$607	\$32,951	\$33,050	\$1,777	\$917	\$1,079	\$39,951	\$40,050	\$2,428	\$1,337	\$1,692
\$26,051	\$26,150	\$1,139	\$582	\$613	\$33,051	\$33,150	\$1,786	\$923	\$1,087	\$40,051	\$40,150	\$2,437	\$1,343	\$1,702
\$26,151	\$26,250	\$1,147	\$586	\$619	\$33,151	\$33,250	\$1,796	\$929	\$1,095	\$40,151	\$40,250	\$2,447	\$1,349	\$1,711
\$26,251	\$26,350	\$1,155	\$590	\$625	\$33,251	\$33,350	\$1,805	\$935	\$1,103	\$40,251	\$40,350	\$2,456	\$1,355	\$1,720
\$26,351	\$26,450	\$1,163	\$594	\$631	\$33,351	\$33,450	\$1,814	\$941	\$1,111	\$40,351	\$40,450	\$2,465	\$1,361	\$1,730

MAJOR BILLS VETOED

AB 2120 (Bradley) **"BRADLEY FARMWORKERS HOUSING ASSISTANCE ACT OF 1989."** Would establish a new tax credit for farm-worker housing donated to a nonprofit corporation or a local public entity.

Reason for veto: Under existing law the Department of Housing and Community Development (HCD) administers the Office of Migrant Services which contracts with local public and nonprofit agencies for the construction and operation of temporary housing for migratory agricultural workers. Proposition 84, recently approved by the voters, authorized the sale of \$10 million in general obligation bonds to provide additional revenue for the program. In addition, existing law requires HCD to use any excess funds appropriated by the Budget Act to assist in the development of at least 100 family units of migrant farm labor housing, for use by farm labor employees and their families within the counties of Imperial, San Diego, Riverside and Madera.

Moreover, HCD sponsored legislation this year, SB 726 (Chapter 1347/1989) and SB 1290 (Chapter 1156/1989), to continue the existing state low-income housing tax credits, which are scheduled to expire on January 1, 1990. I also recently signed SB 70 (Chapter 46/1989) which authorized the carryover of approximately \$27 million in unused 1987 state tax credits for allocation in the current year.

In light of these current programs, I am not convinced that this legislation is necessary. Additionally, the bill would result in a revenue loss to the General Fund and take California further away from federal tax conformity. Finally, the measure raises several concerns regarding its workability: uncertainty as to how HCD and local agencies would enforce agreements between the taxpayer and nonprofit entity, the lack of any mechanism to ensure that appraisals of donated land are accurate, and the lack of any provisions to assure the financial viability of each project or to address projects that become economically unfeasible.

SB 1189 (Marks) **CHARITABLE CONTRIBUTIONS: ARTISTIC PROPERTY** Would establish a special personal income tax credit for artists who donate their works of art to [a] tax-exempt organization.

Reason for veto: Although the intent of this bill to encourage the donation of artworks is worthwhile, I believe the gains we have made in simplifying tax return preparation through close conformity with federal law should be maintained. This bill would be a move backwards, creating new differences between state and federal itemized deductions and credits. The potential benefits to be derived from this bill do not appear sufficient to justify another area of nonconformity.

In addition. I am concerned about the potential for tax avoidance. This credit would not be limited in amount, as are charitable deductions. Thus artists could eliminate their tax liability entirely by the use of this credit.

SB 1396 (Kopp) **QUALIFIED HOUSING PROJECTS** Would repeal the sunset date for the 50-percent tax exemption on the gain from the sale of low-income housing. Would also provide that the gain realized from the exchange of low-income housing for "like-kind" property be taxed, unless the low-income housing is transferred to certain nonprofit or governmental entities.

Reason for veto: I am concerned that the elimination of the "like-kind" exemption will be imposed even if the low-income housing is transferred to a private owner who continues to operate the property as low-income housing. This would be unfair to taxpayers who may have relied on the existence of this benefit when they acquired their low-income housing.

I am also concerned that this bill would move the state further away from federal conformity, thus complicating tax return preparation. In addition, since federal tax consequences are the primary consideration in investment decisions, I am not convinced that state tax incentives such as proposed by this bill are effective. Instead, they could merely provide windfall tax savings for behavior that would have occurred in any event.

1989 CHAPTERED BILLS

BILL NUMBER ORDER

Bill No.	Chapter No.	LC No.	Bill No.	Chapter No.	LC No.
AB 251	899	-----	SB 70	46	89-3
AB 446	1042	89-23	SB 71	1074	89-17
AB 482	362	89-4	SB 192	1440	89-15
AB 647	1461	89-20	SB 227	1291	89-13
AB 648	600	89-6	SB 269	1410	-----
AB 714	349	89-7	SB 270	291	-----
AB 802	1352	89-25	SB 317	440	-----
AB 861	839	-----	SB 354	581	89-22
AB 951	1314	89-24	SB 432	1090	89-9
AB 982	556	89-19	SB 702	954	89-10
AB 1280	1060	-----	SB 726	1347	89-14
AB 1308	1091	89-8	SB 742	295	-----
AB 1463	1227	89-12	SB 748	1222	89-18
AB 1904	1359	-----	SB 1207	797	89-16
AB 1910	1360	-----	SB 1290	1156	89-11
AB 2042	41	89-2	SB 34X	16X	89-26
AB 2346	1248	89-21			
AB 36X	15X	89-26			

CHAPTER NUMBER ORDER

Chapter No.	Bill No.	LC No.	Chapter No.	Bill No.	LC No.
41	AB 2042	89-2	1090	SB 432	89-9
46	SB 70	89-3	1091	AB 1308	89-8
291	SB 270	-----	1156	SB 1290	89-11
295	SB 742	-----	1222	SB 748	89-18
349	AB 714	89-7	1227	AB 1463	89-12
362	AB 482	89-4	1248	AB 2346	89-21
440	SB 317	-----	1291	SB 227	89-13
556	AB 982	89-19	1314	AB 951	89-24
581	SB 354	89-22	1347	SB 726	89-14
600	AB 648	89-6	1352	AB 802	89-25
797	SB 1207	89-16	1359	AB 1904	-----
839	AB 861	-----	1360	AB 1910	-----
899	AB 251	-----	1410	SB 269	-----
954	SB 702	89-10	1440	SB 192	89-15
1042	AB 446	89-23	1461	AB 647	89-20
1060	AB 1280	-----	15X	AB 36X	89-26
1074	SB 71	89-17	16X	SB 34X	89-26

Note 1: AB 36X and SB 34X were enacted by the Legislature in the first-half of the 1989-90 First Extraordinary Session.

Note 2: Legislative Change Reports (LCs) not issued for bills which made only minor technical corrections to the PITL, SCPTAL, and the B&CTL, or for bills which made changes to other codes relating to programs administered by the Franchise Tax Board.

Note 3: AB 128 (Stats. 1989, Ch. 9) is not included in the above listings, as this bill was the subject of a separate report dated April 17, 1989.

SECTIONS ADDED, AMENDED, REPEALED

<u>Section</u>	<u>Action</u>	<u>Page</u>	<u>Section</u>	<u>Action</u>	<u>Page</u>
BUSINESS AND PROFESSIONS CODE			17076	Amended	9
9891.21-91.42	Amended	39	17085	Amended	9
CODE OF CIVIL PROCEDURE			17092	Added	9
708.730	Amended	39	17094	Added	9
708.740	Amended	39	17095	Added	9
708.780	Amended	39	17133	Amended	10
CORPORATIONS CODE			17134	Amended	10
5813.5	Amended	39	17153	Amended	10
9928	Added	40	17154	Amended	10
FINANCIAL CODE			17156	Repealed	10
2090	Amended	40	17158	Amended	10
GOVERNMENT CODE			17160	Amended	10
7073	Amended	40	17206	Repealed	10
7073.5	Amended	41	17207	Amended	10
7082	Amended	41	17210	Repealed	10
12419.3	Amended	41	17232	Added	10
REVENUE AND TAXATION CODE			17241	Amended	11
17020.6	Added	1	17261	Amended	11
17020.12	Added	1	17270	Amended	11
17024.5	Amended	1	17271	Amended	11
17027	Repealed	2	17272	Repealed	11
17034	Amended	2	17272	Added	11
17039	Amended	2	17273	Amended	11
17041	Amended	3	17276	Amended	11
17043	Amended	3	17276.1	Amended	11
17052.4	Amended	3	17276.2	Amended	11
17052.5	Added	3	17277	Added	12
17052.9	Amended	4	17279	Added	12
17052.11	Amended	4	17289	Amended	12
17052.12	Amended	4	17502	Added	12
17052.14	Added	4	17504	Amended	13
17052.17	Amended	5	17506	Amended	13
17052.18	Amended	5	17512	Added	13
17053	Added	5	17515	Repealed	13
17053.1	Added	6	17551	Amended	13
17053.7	Amended	6	17551.5	Amended	14
17053.12	Added	6	17559	Added	14
17053.20	Amended	7	17560	Amended	14
17054.5	Amended	7	17562	Amended	14
17055	Amended	7	17563	Added	14
17057	Amended	7	17564	Added	14
17058	Amended	7	17565	Added	15
17061.5	Amended	8	17566	Added	15
17062	Amended	8	17570	Added	15
17063	Amended	8	17671	Amended	15
17072	Amended	8	17858	Added	15
17072.5	Amended	9	17932	Amended	16
			18001	Amended	16
			18002	Amended	16
			18035.5	Amended	16
			18044	Amended	16
			18162	Amended	16

<u>Section</u>	<u>Action</u>	<u>Page</u>	<u>Section</u>	<u>Action</u>	<u>Page</u>
18180	Added	17	23701u	Renumbered	26
18408.5	Amended	17	23701v	Amended	26
18504	Amended	17	23704	Amended	26
18507.4	Added	17	23704.6	Amended	26
18513	Amended	17	23732	Amended	27
18515.3	Added	17	23733	Repealed	27
18525	Amended	17	23735	Amended	27
18534	Amended	17	23772	Amended	27
18535.4	Added	17	23801	Amended	27
18545	Amended	17	23802	Amended	27
18546.10	Added	17	23803	Amended	28
18681.6	Amended	18	23805	Repealed	28
18681.9	Amended	18	24274	Amended	28
18682	Amended	18	24276	Added	28
18682.5	Amended	18	24306	Amended	28
18684	Amended	18	24343	Amended	29
18687	Amended	18	24343.2	Repealed	29
18689	Amended	18	24347.5	Amended	29
18802.4	Amended	19	24349.1	Amended	29
18807	Amended	19	24353.1	Repealed	29
18934	Amended	19	24356.1	Repealed	29
19053	Amended	19	24357.10	Added	29
19270	Amended	20	24359	Amended	30
19285.1	Added	20	24361	Amended	30
19286.9	Added	20	24362	Amended	30
20503	Amended	21	24363	Amended	30
23036	Amended	22	24363.5	Added	30
23045	Amended	22	24368.1	Repealed	30
23045.6	Added	22	24368.1	Added	30
23051.5	Amended	22	24373	Repealed	30
23058	Amended	23	24373	Added	30
23153	Amended	23	24374	Repealed	30
23332	Amended	23	24375	Repealed	30
23453	Amended	23	24376	Repealed	30
23455	Amended	23	24380	Repealed	31
23456	Amended	23	24381	Repealed	31
23457	Amended	23	24382	Amended	31
23601.5	Added	24	24390	Added	31
23605	Added	24	24406.5	Added	31
23608	Added	24	24412	Amended	31
23609	Amended	24	24413	Amended	31
23609.5	Amended	24	24416	Amended	32
23610.5	Amended	24	24416.1	Amended	32
23612	Amended	24	24416.2	Added	32
23612.5	Added	25	24422.3	Amended	32
23615	Amended	25	24440	Amended	32
23617	Amended	25	24442.5	Added	32
23617.5	Amended	25	24443	Amended	32
23621	Amended	25	24449	Amended	32
23634	Added	25	24451	Amended	33
23701d	Amended	25	24452	Repealed	33
23701r	Amended	26	24453	Repealed	33
23701s	Amended	26	24454	Repealed	33
23701u	Repealed	26	24454.2	Repealed	33

SECTION-BY-SECTION SUMMARY

SC = Substantive Change
TC = Technical Change

PERSONAL INCOME TAX LAW

<u>PIT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>
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General Provisions and Definitions

17020.6 (Amend) (23045)	7702 7702A	LIFE INSURANCE CONTRACT, MODIFIED ENDOWMENT CONTRACT (SC) Adds subdivision (b), incorporating by reference the provisions of IRC Section 7702A, which places new limitations on "modified endowment contracts". Amounts received under such a contract must be treated first as income, then recovery of basis. Loans are treated as amounts received under the contract and a 10 percent tax is imposed on certain amounts received that are includible in gross income. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25		
17020.12 (New) (23045.6)	7701(a) (20)	EMPLOYEE DEFINED (SC) Incorporates by reference the provisions of IRC Section 7701(a)(20), which defines the term "employee". Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25		
17024.5 (Amend) (23051.5)	----	SPECIFIED DATES AND GENERAL PROVISIONS (SC) Makes a minor change to the language pertaining to the operative date of the state's conformity to the Internal Revenue Code. Adds a reference to Section 17142, that governs recapture of credits. Transfers provision requiring taxpayers to use the same taxable year for state purposes that they do for federal purposes to new Section 17565 (see below). Clarifies that references to the term "chapter" mean, for purposes of the Personal Income Tax Law, Part 10 of Division 2 of the Revenue and Taxation Code. Operative for taxable years beginning on or after January 1, 1989. (AB 482, Ch. 89-362)
LC 89-4		
LC 89-25		Changes the "specified date" to January 1, 1989 (was 1/1/87), thus incorporating many (but not all) of the changes made to the IRC by the federal Revenue Act of 1987 and TAMRA. New exceptions (nonconformity) are added (see below). Specifies that uncodified provisions in federal law will apply for state purposes to the extent that the underlying federal provisions have been incorpo-

PIT
SECTION

IRC
SECTION

SUMMARY OF CHANGE

rated into state law by reference. Also makes several technical changes to this section. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

17027 7701(a) **"EMPLOYEE"** (SC) Repeals state definition of "employee" in order to conform to federal law. See Section 17020.12, above. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
(Repeal) (20)
LC 89-25

17034 7851 **OPERATIVE DATE** (SC) Specifies that penalties (except for underpayment of estimated tax) will become effective for taxable years beginning on or after January 1 of the year of enactment. Also provides that any changes relating to payments of estimated tax (including the penalty for underpayment) will not become effective until the year beginning on or after January 1 of the year following enactment. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
(Amend)
(23058)
LC 89-25

17039 ----- **DEFINITION OF "NET TAX"** (SC) Adds new solar energy credit (Section 17052.5) as an exception to the provision that tax credits cannot reduce the regular tax below the tentative minimum tax. LC Operative for taxable years beginning on or after January 1, 1990. (SB 227, Ch. 89-1291)
(Amend)
(23036)
89-13

LC 89-25 Adds credits for research expenditures (Section 17052.12) and clinical testing of orphan drugs (Section 17057) as exceptions to the provision that tax credits cannot reduce the regular tax below the tentative minimum tax.

Conforms to federal law by clarifying that personal exemption (including joint custody head of household) credits (Sections 17054 and 17054.5) are not allowed to reduce the regular tax below the tentative minimum tax or the separate tax on lump-sum distributions.

Revises the order in which certain credits must be claimed, and adds a general rule providing that when a tax credit is repealed, any remaining carry-over may continue to be carried forward and used until exhausted. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

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Imposition of Tax

17041 (Amend) LC 89-22 LC 89-25	 1(i) -----	RATES AND INCOME BRACKETS (SC) Adds paragraph (2) to subdivision (i), incorporating the NOL computation rules for nonresidents and part-year residents, formerly included in Sections 17276(e) and 17276.1(a)(3). Operative for taxable years beginning on or after January 1, 1989. (SB 354, Ch. 89-581) Conforms to federal law which permits a parent to report the unearned income (up to \$5,000) of a minor child on the parent's return. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
17043 (Amend) LC: None	 -----	FILING STATUS SAME AS FEDERAL (TC) Corrects erroneous reference to PIT Section 18401 (was 18041). Operative January 1, 1990. (AB 1910, Ch. 89-1360)

Tax Credits

17052.4 (Amend) LC 89-13	 -----	CREDIT - COMMERCIAL SOLAR ENERGY SYSTEM (TC) Makes nonsubstantive technical corrections in subdivision (a). Operative January 1, 1990. (SB 227, Ch. 89-1291)
17052.5 (New) (23601.5) LC 89-13	 -----	CREDIT - COMMERCIAL SOLAR ENERGY SYSTEM (SC) Provides a tax credit equal to 10 percent of the cost of a solar energy system installed on premises located in California and used for commercial purposes. This credit is similar to the credit provided by Section 17052.4, for taxable years beginning on or after January 1, 1987, and before January 1, 1989, with the following differences: <ol style="list-style-type: none">1. The solar energy system is defined as "the use of solar devices for the individual function of production of electricity in excess of 30 watts per device". Systems generating electricity in excess of 10 megawatts must be certified by the State Energy Resources Conservation and Development Commission as meeting specified criteria; and a 10 percent or greater federal credit must be allowed for systems producing electricity in excess of 30 megawatts.2. Energy conservation measures that are used in conjunction with the solar energy system are <u>not</u> considered as part of the system for purposes of this credit.

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3. Cost effectiveness criteria in terms of dollars per kilowatt, has been added to the guidelines and criteria developed by the State Energy Resources Conservation and Development Commission.

Operative for taxable years beginning on or after January 1, 1990, and before January 1, 1994. Section repealed December 1, 1994.
(SB 227, Ch. 89-1291)

- 17052.9** 22 **CREDIT FOR THE ELDERLY (SC)** Provides that credit is allowed against "'net tax' (as defined by Section 17039)" (was "tax imposed by this part").
(Amend) Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25
- 17052.11** ---- **ALCOHOL FUEL DEVICE CREDIT (TC)** Repeals an obsolete definition of "net tax" from subdivision (c), and makes other minor technical amendments. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
(Amend)
LC 89-25
- 17052.12** 41(i) **CREDIT FOR INCREASING RESEARCH ACTIVITIES (SC)**
(Amend) Adds paragraph (i) to subdivision (e), specifying
(23609) that the federal sunset date for this credit is not applicable, since the state provision sunsets at a later date, December 1, 1993. Also conforms to new federal rules which allow a taxpayer to elect not to claim this credit. Operative for taxable years beginning on or after January 1, 1989.
LC 89-25 (AB 802, Ch. 89-1352)
- 17052.14** ---- **CREDIT FOR MACHINERY AND EQUIPMENT USED TO MANUFACTURE FINISHED PRODUCTS COMPOSED OF WASTE MATERIALS (SC)** Provides, under specified conditions, for a carryover tax credit to be spread over a three-year period equal to 40 percent of the costs of machinery or equipment located in California and used exclusively to manufacture finished products composed of specified amounts of secondary waste material and post consumer waste. The maximum credit is \$250,000 with respect to qualified property used in any one manufacturing facility. The Department of Conservation must certify that qualified property is purchased and used as specified, provide the taxpayer with a copy of the certification, and give the FTB an annual listing of the taxpayers who were issued certifications. Operative for taxable years beginning on or after January 1, 1989, and before January 1, 1994. Section repealed December 1, 1994.
(New) (23612.5) (SB 432, Ch. 89-1090)
LC 89-9

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17052.17 ---- **CREDIT FOR START-UP EXPENSES FOR CHILD CARE PROGRAM OR CONSTRUCTION OF FACILITY (SC)** Clarifies: (1) the maximum credit available for establishing a child care program or contributing to information and referral services for any given year cannot exceed \$30,000 [this amount changed by AB 802, Stats. 1989, Ch. 1352]; (2) the credit limitation does not prevent unused credit amounts from being carried over to subsequent years until exhausted (was five years); and (3) specifies September 23, 1988 as the actual date when these expenses became eligible for this credit. Operative for taxable years beginning on or after January 1, 1989. (AB 951, Ch. 89-1314)

(Amend)
(23617)

LC 89-24

LC 89-25 Amends subdivision (b)(2) by increasing the maximum annual tax credit to \$50,000 (was \$30,000), and amends subdivision (e) to clarify the carryover provisions of this credit. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

17052.18 ---- **CREDIT FOR CONTRIBUTIONS TO QUALIFIED CARE PLAN FOR DEPENDENTS OF EMPLOYEE (SC)** Adds to the term "qualified care plan" a dependent care center [as defined by IRC Sec. 21(b)(2)(D)] which is a specialized center (defined) with respect to short-term illnesses of an employee's dependent son, stepson, daughter, or stepdaughter under the age of 15. Operative for taxable years beginning on or after January 1, 1989. (AB 446, Ch. 89-1042)

(Amend)
(23617.5)

LC 89-23

LC 89-24 Clarifies: (1) the method of prorating a credit for care provided for less than a full year; (2) that the limit on the credit is based on contributions made on behalf of each dependent rather than each contribution made; and (3) specifies September 23, 1988 as the actual date when these expenses became eligible for this credit. Operative for taxable years beginning on or before January 1, 1989. (AB 951, Ch. 89-1314)

LC 89-25 Increases the maximum credit to \$600 (was \$300) per dependent for an employer who makes payments to, or reimburses employees for participation in, a part-time child care plan not operated by the employer. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

17053 ---- **RIDESHARING (SC)** Reinstates, with modifications, former Section 17053, allowing credit for cost of purchasing or leasing specified vehicles which are used as part of an employer-sponsored ridesharing incentive program for employees. The modifications

(New)
(23605)

LC 89-12

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include a 30% credit for employers with less than 200 employees (20% for all other employers); requirements that employee work more than 10 hours per week (was 8), employer keeps contemporaneous logs of each vehicle's use, and retains vehicle documents verifying the vehicle's weight requirements and fuel efficiency standards; and the allowance of a varied percentage credit of the cost of providing subsidized public transit passes to employees, based on the extent to which free or subsidized parking is provided. Operative for taxable years beginning on or after January 1, 1989, and before January 1, 1996. Section repealed December 1, 1996. (AB 1463, Ch. 89-1227)

17053.1
(New)

EMPLOYEE NON-EMPLOYER-SPONSORED VANPOOLS (SC) Provides employees in non-employer-sponsored vanpool programs a credit equal to 40 percent (maximum \$480 per year) of all vanpool subscription costs for which receipts are retained. Employee must work at least 10 hours per week and vanpool to and from work at least three days a week or 15 days per month for at least six months of the year. Operative for taxable years beginning on or after January 1, 1989, and before January 1, 1996. Section repealed December 1, 1996. (AB 1463, Ch. 89-1227)

LC 89-12

17053.7
(Amend)
(23621)

51-52

JOBS CREDIT (SC) Amends subdivision (j) extending credit to apply to wages paid to an individual who begins work before January 1, 1994 (was 1/1/90). Operative for taxable years beginning on or after January 1, 1989. (SB 71, Ch. 89-1074)

LC 89-17

LC 89-25

Conforms to federal law which denies this credit for wages paid to nonunion employees during a labor dispute. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

17053.12
(New)
(23608)

CREDIT - DONATION OF AGRICULTURAL PRODUCTS (SC) Allows a tax credit equal to 10 percent of the cost included in inventory costs under IRC Section 263A, or which would be required to be included in inventory costs under that section but for the exception for farming businesses contained in IRC Section 263A(d), with respect to those agricultural products donated to certain nonprofit charitable organizations under the Food and Agricultural Code. Operative for taxable years beginning on or after January 1, 1989, and before January 1, 1992. Section repealed December 1, 1992. (AB 2346, Ch. 89-1248)

LC 89-21

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<p>17053.20 (Amend) (23615) LC 89-16</p>	<p>-----</p>	<p>CREDIT FOR EMPLOYER PAYMENTS TO PROVIDE HEALTH COVERAGE (SC) Extends this credit to all small businesses, whether or not they subsidized health care insurance coverage for employees during 1986 or 1987. Adds to the definition of "eligible individual" the requirement that he or she must certify on a form prescribed by the FTB and retained by the employer, that he or she is a resident of California (within the meaning of Section 17014). Modifies definition of health coverage to include benefits and provisions required of employers in the Tucker Health Insurance Act of 1989 (AB 350, Stats. 1989, Ch. 829). Changes operative date of credits to January 1, 1992, the date the Tucker Health Insurance Act of 1989 becomes operative. (SB 1207, Ch. 89-797)</p>
<p>17054.5 (Amend) LC 89-25</p>	<p>-----</p>	<p>JOINT CUSTODY HEAD OF HOUSEHOLD CREDIT (TC) Makes minor technical corrections relating to the tax credit for a "qualified joint custody head of household" or a "married person who files a separate return and has a dependent parent". Operative October 2, 1989. (AB 802, Ch. 89-1352)</p>
<p>17055 (Amend) LC 89-25</p>	<p>-----</p>	<p>CREDITS FOR NONRESIDENTS OR PART-YEAR RESIDENTS (SC) Clarifies that, for persons filing the non-resident return, the political contributions credit and the joint custody head of household credit must be claimed <u>before</u> the tax is prorated. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)</p>
<p>17057 (Amend) (23609.5) LC 89-25</p>	<p>28(e)</p>	<p>CLINICAL TESTING EXPENSE CREDIT (TC) Adds paragraph (1) to subdivision (d), specifying that the federal sunset date for this credit is not applicable, since the state provision sunsets at a later date, December 1, 1993. Makes other nonsubstantive "housekeeping" changes. Operative October 2, 1989. (AB 802, Ch. 89-1352)</p>
<p>17058 (Amend) (23610.5) LC 89-3</p>	<p>42</p>	<p>LOW-INCOME HOUSING CREDIT (SC) Incorporates, by reference, all changes made to the comparable federal credit by TAMRA. Allows the credits allocated in 1989 to exceed the current cap of \$35 million by the amount that credits in 1987 and 1988 were less than the cap; however, these additional credits can not be used until the 1990 taxable year. Provides that the 8 percent return on investment limitation be on the partnership or S corporation as a whole, rather than on each partner or shareholder individually. Allows project owners additional time to place the project in service and still receive the credit. (SB 70, Ch. 89-46)</p>

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LC 89-14 Defines "taxpayer" and "housing sponsor", and substitutes "housing sponsor" for "taxpayer" where appropriate. Provides that the aggregate amount of tax credits granted under both the PITL and the B&CTL shall not exceed \$35 million in any year, rather than only in the 1987, 1988 and 1989 calendar years, as provided by SB 70 (see above). Also provides that the credits shall remain operative beyond the December 1, 1990 date for as long as similar provisions under federal income tax laws are in effect. Operative for taxable years beginning on or after January 1, 1989.
(SB 726. Ch. 89-1347)

17061.5 ---- **RESIDENTIAL RENTAL AND FARM SALES CREDIT (TC)**
(Amend) Makes nonsubstantive "housekeeping" changes that in general apply to all credits against the tax.
LC 89-25 Operative October 2, 1989. (AB 802, Ch. 89-1352)

Alternative Minimum Tax

17062 56(b) **IMPOSITION OF TAX (SC)** Adds paragraph (7) to sub-
(Amend) (1)(E) division (b), providing, in conformity with federal
(23456) 56(a) law, that the standard deduction is not allowed in
(6) computing alternative minimum taxable income; and
LC 89-25 adds new subdivision (c), providing that California has not conformed to federal rules for installment sales. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

17063 53 **MINIMUM TAX CREDIT (SC)** Adds paragraph (2) to sub-
(Amend) division (c), clarifying that, for purposes of
(23453) computing the minimum tax, the reference to "regular tax" is before the allowance of those credits which, for state purposes only, may reduce the regular tax below the tentative minimum tax.
LC 89-25 Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

Definition of Gross Income, Adjusted Gross Income,
Taxable Income, Etc.

17072 62 **ADJUSTED GROSS INCOME (SC)** Deletes obsolete lan-
(Amend) guage relating to the definition of "adjusted gross
LC 89-25 income". Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>
17072.5 (Amend) LC 89-25	62(a)	THIRD-PARTY EXPENSE REIMBURSEMENTS AND JURY DUTY PAY REMITTED TO EMPLOYER (SC) Deletes reference to January 1, 1989, included in this section as added by AB 128 (Stats. 1989, Ch. 9). Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
17076 (Amend) LC 89-25	67(c)	MISCELLANEOUS ITEMIZED DEDUCTIONS - 2 PERCENT FLOOR (SC) Conforms to federal law by delaying application of the two percent floor on miscellaneous itemized deductions, with respect to the indirect expenses of a shareholder in a regulated investment company (mutual fund), until January 1, 1990. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

Items Specifically Included in Gross Income

17085 (Amend) LC 89-25	72	ANNUITIES - LIFE INSURANCE CONTRACTS, MODIFICATIONS TO IRC SECTION 72 (SC) Conforms to federal technical amendments enacted by TAMRA relating to the new treatment of modified endowment contracts. See Section 17020.6, above. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
17092 (New) LC 89-25	89	BENEFITS PROVIDED UNDER CERTAIN EMPLOYEE BENEFIT PLANS (SC) Conforms to federal law which provides that the nondiscrimination requirements of IRC Section 89 do not apply to statutory employee benefit plans maintained by a church for church employees. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
17094 (New) (24274) LC 89-25	81	INCREASES IN VACATION PAY SUSPENSE ACCOUNT (SC) Retains the provisions of former IRC Section 81, which allowed accrual of vacation pay paid within eight and one-half months after the end of the taxable year. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
17095 (New) LC 89-25	89	BENEFITS PROVIDED UNDER CERTAIN EMPLOYEE BENEFIT PLANS (SC) Provides that IRC Section 89, relating to employee fringe benefits, shall <u>not</u> apply for state purposes for taxable years beginning during 1989. (AB 802, Ch. 89-1352)

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Items Specifically Excluded from Gross Income

17133 (Amend) LC 89-25	----	CONSTITUTIONALLY EXEMPT INCOME (SC) Deletes reference to "Public Law 99-514". Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
17134 17153	132(h) 121(d)	CERTAIN FRINGE BENEFITS (SC) ONE-TIME EXCLUSION OF GAIN FROM SALE OF PRINCIPAL RESIDENCE BY INDIVIDUAL WHO HAS ATTAINED AGE 55 - OUT-OF-RESIDENCE CARE (SC)
17154	117(d)	QUALIFIED SCHOLARSHIPS - SPECIAL RULES FOR TEACHING AND RESEARCH ASSISTANTS (SC)
17158 17160 (Amend) LC 89-25	125 -----	CAFETERIA PLANS (SC) INTERIM TREATMENT OF CERTAIN AMOUNTS AWARDED TO CHRISTA McAULIFFE FELLOWS (SC) Deletes references to January 1, 1989, included in these sections as added by AB 128 (Stats. 1989, Ch. 9). Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
17156 (Repeal) LC: None	----	REPARATION PAYMENTS TO PERSONS OF JAPANESE ANCESTRY INTERNED DURING WORLD WAR II (TC) Provisions repealed, as they are in conformity with federal law. Operative for taxable years beginning on or after January 1, 1989. (AB 1910, Ch. 89-1360)

Deductions

17206 17210 (Repeal) LC 89-4	165 213	CASUALTY LOSSES (SC) MEDICAL EXPENSES (SC) Sections repealed as provisions are in conformity with the IRC, and the reference to "federal adjusted gross income" is included in Section 17204.5(h)(2). Operative for taxable years beginning on or after January 1, 1989. (AB 482, Ch. 89-362)
17207 (Amend) (24347.5) LC 89-26	165(c) 165(i)	DISASTER RELIEF (SC) Adds losses resulting from the earthquake, aftershocks, or other related casualty occurring in California in October 1989, to the provisions allowing for carryback and carry-over of disaster losses, and extends this provision to specific cities proclaimed by the Governor to be in a state of disaster. Operative for taxable years beginning on or after January 1, 1989. (AB 36X, Ch. 89-15) (SB 34X, Ch. 89-16)
17232 (New) LC 89-25	163	INVESTMENT INTEREST EXPENSE (SC) Conforms to federal transition rules and effective dates relating to limitations on investment interest expense. Operative for taxable years beginning on or after January 1, 1987. (AB 802, Ch. 89-1352)

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17241	170	CHARITABLE CONTRIBUTIONS (SC)
17261 (Amend) (24357.10) (24422.3)	263A	CAPITALIZATION AND INCLUSION IN INVENTORY COSTS OF CERTAIN EXPENSES (SC)
LC 89-25		Deletes references to January 1, 1989, included in these sections as added by AB 128 (Stats. 1989, Ch. 9). Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
17270 (Amend) (24440)	280C	TRADE OR BUSINESS EXPENSES (SC) Provides that the provisions of IRC Section 280C(a), relating to the denial of the deduction of wages or salaries paid which is equal to the amount of the targeted jobs credit, shall not apply. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25		
17271 (24443)	274	DISALLOWANCE OF CERTAIN ENTERTAINMENT, ETC. EXPENSES (SC)
17273 (Amend)	220	JURY DUTY PAY REMITTED TO EMPLOYER (SC)
LC 89-25		Deletes references to January 1, 1989, included in these sections as added by AB 128 (Stats. 1989, Ch. 9). Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
17272 (Repeal)	219	RETIREMENT SAVINGS DEDUCTION (SC) Section repealed, since a specific rule in this section has been replaced by a general rule in Section 17024.5(h)(2). Operative for taxable years beginning on or after January 1, 1989. (AB 482, Ch. 89-362) (AB 802, Ch. 89-1352)
LC 89-4 LC 89-25		
17272 (New)	219(g)	RETIREMENT SAVINGS DEDUCTION (SC) Conforms to federal rule providing that judges making contributions to an IRA are now subject to the special limitations that apply to active participants. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25		
17276 (Amend)	172	NET OPERATING LOSSES (TC) Transfers former subdivision (e), relating to NOL computation rules for nonresidents and part-year residents, to Section 17041(i)(2). Operative for taxable years beginning on or after January 1, 1989. (SB 354, Ch. 89-581) (AB 802, Ch. 89-1352)
LC 89-22 LC 89-25		
17276.1 17276.2 (Amend) (24416.1) (24416.2)	172	ELECTION TO TAKE IRC SECTION 172 DEDUCTION (SC) DEFINITION OF "QUALIFIED TAXPAYER" AS USED IN SECTION 17276.1 (SC) Changes the format for setting forth the enterprise zone/program area NOL provisions by referencing the differences between the regular California NOL provisions and the enterprise zone/program area NOL provisions, rather than the differences between the enterprise zone/program area NOL provisions and the federal NOL
LC 89-22		

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provisions. Clarifies the rules for claiming the enterprise zone/program area NOL deduction, and provides that the 100% enterprise zone/program area NOL, if elected, is the only net operating loss allowed to be carried over. Operative for taxable years beginning on or after January 1, 1989. (SB 354, Ch. 89-581)

17277
(New)
(24390)

"DRAM" CORPORATION - DEDUCTION FOR NET INTEREST INCOME (SC) Provides that if a "Dynamic, Random-Access Memory Chips" (DRAM) corporation (a member of U.S. Memories, a consortium of semiconductor and chip companies described in Section 15379.21 of the Government Code), receives a certification pursuant to that section from the Department of Commerce, taxpayers who receive interest in payment of the corporation's indebtedness may claim the "net interest income" deduction allowed by Section 17231, with respect to indebtedness directly related to the corporation's facility or facilities located in California. Operative for taxable years beginning on or after January 1, 1989, and before January 1, 2005. Section repealed as of January 1, 2005. (SB 192, Ch. 89-1440)

LC 89-15

17279
(New)
(24422.3)

263A

AMORTIZATION OF PAST SERVICE PENSION COSTS (SC) Provides that the provisions of Section 10204 of Public Law 100-203 (RA 1987), relating to amortization of past service pension costs, shall not apply. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

LC 89-25

17289
(Amend)

RURAL LETTER CARRIERS' AUTO EXPENSES (SC) Deletes reference to January 1, 1989, included in this section as added by AB 128 (Stats. 1989, Ch. 9). Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

LC 89-25

Deferred Compensation

17502
(New)

401

QUALIFIED PENSION, PROFIT-SHARING, AND STOCK BONUS PLANS (SC) Provides that the federal effective dates, exceptions and transition rules relating to:

LC 89-25

- ◆ Strengthening of funding rules for defined benefit pension plans;
- ◆ Permitting employees of government or churches to defer distributions until retirement; and

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◆ Considering police, fire fighters and emergency service employees separately from other employees for purposes of the minimum participation standards;

shall apply. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

17504 402 **TAXABILITY OF BENEFICIARY OF EMPLOYEES' TRUST (SC)**
(Amend)
LC 89-25 Adopts federal transition rules and technical changes made by TAMRA, with specified state modifications. Provides that a taxpayer shall elect the same special lump-sum distribution averaging method for state purposes as that elected for federal purposes. Clarifies that the rules relating to multiple distributions do not apply to distributions received in taxable years beginning prior to January 1, 1987, when California first enacted a separate tax on lump-sum distributions. Operative for taxable years beginning on or after January 1, 1987. (AB 802, Ch. 89-1352)

17506 403 **PENSIONS - TAXATION OF EMPLOYEE ANNUITIES (SC)**
(Amend)
LC 89-25 Conforms to federal transition rules, as modified by Section 17504, relating to rollovers of pension funds, applicable to taxable years beginning on or after January 1, 1987. (AB 802, Ch. 89-1352)

17512 415 **LIMITATIONS ON BENEFITS AND CONTRIBUTION UNDER QUALIFIED PLANS (SC)**
(New)
LC 89-25 Provides that amendments made by TAMRA relating to limitations for state and local plans, police and firefighters, and collectively bargained agreements, shall apply. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

17515 468B **DESIGNATED SETTLEMENT FUNDS (SC)** Section repealed.
(Repeal)
LC 89-25 Provisions transferred to Section 17570. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

Accounting Periods and Methods of Accounting

17551 444(c) **ACCOUNTING PERIODS - CONFORMITY TO IRC (SC)** Amends
(Amend) (1) a cross reference to IRC Section 444 in conjunction
(24637) with conforming to IRC Section 280H, relating to
LC 89-25 limitations on payments made to employee-owners of
personal service corporations after the close of
the taxable year. Operative for taxable years be-
ginning on or after January 1, 1989.
(AB 802, Ch. 89-1352)

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17551.5 441 **ACCOUNTING PERIOD - 1986 TAX REFORM ACT REQUIRED**
(Amend) 444 **CHANGES (SC)** Conforms to federal rules relating to
(24633.5) computation of basis with respect to the four-year
spread of income in the short year resulting from a
change of taxable year. Also makes technical cor-
rections in subdivisions (a) and (b) to provisions
enacted by AB 53 (Stats. 1987, Ch. 1138). Opera-
tive for taxable years beginning on or after Jan-
uary 1, 1989. (AB 802, Ch. 89-1352)

LC 89-25

17559 451 **GENERAL RULE FOR TAXABLE YEAR OF INCLUSION (SC)**
(New) Conforms to federal provisions allowing a cash
(24661) basis taxpayer to elect to include insurance pro-
ceeds received as a result of destruction or damage
to crops in the year following the loss; and allow-
ing for the deferral of payments received under the
Disaster Assistance Act of 1988. Operative for
taxable years beginning on or after January 1,
1989. (AB 802, Ch. 89-1352)

LC 89-25

17560 453 **INSTALLMENT METHOD; INSTALLMENT OBLIGATIONS (SC)**
(Amend) 453A Specifies that California has not conformed to cer-
(24667) 453B tain federal rules relating to installment sales
453C (RA 1987, Sec. 10202; TAMRA, Secs. 1006, 1008,
1018, 2004, and 5076); and has not conformed to the
repeal of proportionate disallowance rule.
Operative for taxable years beginning on or after
January 1, 1989. (AB 802, Ch. 89-1352)

LC 89-25

17562 448 **LIMITATION ON USE OF CASH METHOD OF ACCOUNTING (TC)**
(Amend) Makes technical amendments to provisions enacted by
(24654) AB 53 (Stats. 1987, Ch. 1138), relating to effec-
tive dates and transition rules for new limitations
on the use of the cash method of accounting. Oper-
ative for taxable years beginning on or after Jan-
uary 1, 1989. (AB 802, Ch. 89-1352)

LC 89-25

17563 463 **ACCRUAL OF VACATION PAY - REPEAL (SC)** Specifies
(New) that California has not conformed to the federal
(24681) repeal of the reserve for accrual of vacation pay,
and retains the provisions of IRC Section 463, as
amended by the 1986 Tax Reform Act. Operative for
taxable years beginning on or after January 1,
1989. (AB 802, Ch. 89-1352)

LC 89-25

17564 460 **SPECIAL RULES FOR LONG-TERM CONTRACTS (SC)**
(New) Conforms to federal rules relating to long-term
(24673.2) contracts, as amended by the 1986 Tax Reform Act,
but does not conform to the federal 1987 and 1988
amendments thereto. Modifies, in subdivision (e),
the federal "look-back" rules by specifying that
amounts allowed to be deferred for state purposes,
due to differences in state and federal effective
dates, shall be treated as if reported at the same

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time as under federal law. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

17565
(New)
(24632)

TAXABLE YEAR (SC) Requires taxpayers to use the same taxable year for state purposes that they do for federal purposes, unless initiated or approved by the FTB [was Sec. 17024.5(d)(4)]. Operative for taxable years beginning on or after January 1, 1989. (AB 482, Ch. 89-362) (AB 802, Ch. 89-1352)

LC 89-4
LC 89-25

17566
(New)

457

DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX EXEMPT ORGANIZATIONS (SC)

Conforms to the federal effective dates, exceptions and transition rules with respect to changes to IRC Section 457, relating to deferred compensation plans of state and local governments and tax-exempt organizations. Operative for taxable years beginning on or after January 1, 1988. (AB 802, Ch. 89-1352)

LC 89-25

17570
(New)

468B

DESIGNATED SETTLEMENT FUNDS (SC) Conforms to federal law with respect to the tax treatment of designated settlement funds (IRC Sec. 468B) by making modifications to clarify existing law. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

LC 89-25

Common Trust Funds

17671
(Amend)

584

COMMON TRUST FUNDS - CONFORMITY TO IRC (SC)

Conforms to federal law with respect to the tax treatment of common trust funds (IRC Sec. 584), including federal rules allowing a four-year spread of income from the short year resulting from a change in taxable year; and specifically allowing for the filing of amended returns prior to January 1, 1990, to spread that income over the first four taxable years beginning after December 31, 1987. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

LC 89-25

Partners and Partnerships

17858
(New)

DEPRECIATION (SC) Clarifies existing law with respect to the computation of depreciation by partnerships having a corporate partner, by specifying that the computation of depreciation is determined at the partnership level and is not required (or permitted) to be recalculated by individual partners. Operative for taxable years beginning on or after January 1, 1987. (AB 802, Ch. 89-1352)

LC 89-25

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17932 6031 **RETURNS (SC)** Adds subdivision (d) conforming to
(Amend) federal law which expanded the reporting require-
LC 89-25 ments of a partnership which has one or more exempt
partners subject to the unrelated business income
tax. Operative October 2, 1989.
(AB 802, Ch. 89-1352)

Credit for Taxes Paid

18001 ----- **CREDIT, RESIDENTS (SC)**
18002 ----- **CREDIT, NONRESIDENTS (SC)** Clarifies that the term
(Amend) "net income taxes" paid to another state includes
LC 89-4 the taxpayer's pro rata share of any taxes on, or
according to, or measured by, income or profits
paid or accrued, which were paid by a partnership
or S corporation. Operative for taxable years be-
ginning on or after January 1, 1989.
(AB 482, Ch. 89-362)

Gain or Loss on Disposition of Property

18035.5 1039 **QUALIFIED HOUSING PROJECT; GAIN NOT RECOGNIZED (SC)**
(Amend) Provides that the election not to recognize gain on
(24953.5) the disposition of a qualified housing project
LC 89-20 shall be made at the time and manner specified by
the FTB in forms and instructions (formerly, as
prescribed by regulations). Operative for taxable
years beginning on or after January 1, 1989.
(AB 647, Ch. 89-1461)

18044 1034 **ROLLOVER OF GAIN ON SALE OF PRINCIPAL RESIDENCE**
(Amend) (SC) Deletes reference to January 1, 1989, included
LC 89-25 in this section as added by AB 128 (Stats. 1989,
Ch. 9). Operative for taxable years beginning on
or after January 1, 1989. (AB 802, Ch. 89-1352)

Capital Gains and Losses

18162 1202 **GAIN ON SALE OF DAIRY CATTLE (SC)** Conforms, in
(Amend) concept (using state percentages and holding
LC 89-25 periods), to federal law which allows a capital
gains deduction from gains on the sale of certain
dairy cattle under the U.S. Department of Agricul-
ture milk production termination program, by sub-
stituting "during 1987" for "after January 1, 1987
and before September 1, 1987". Operative for tax-
able years beginning on or after January 1, 1989.
(AB 802, Ch. 89-1352)

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18180 7872 **TREATMENT OF LOANS WITH BELOW-MARKET INTEREST RATES**
(New)
LC 89-25 (SC) Conforms to federal law with respect to the
treatment of certain loans with below market inter-
est rates. Operative for taxable years beginning
on or after January 1, 1989. (AB 802, Ch. 89-1352)

Returns

18408.5 ----- **GROUP RETURNS FOR NONRESIDENT PARTNERS (SC)**
(Amend)
LC 89-25 Modifies the rules relating to group returns of
nonresident partners (or "S" corporation share-
holders) by allowing a deduction from earned income
for contributions to qualified pension or deferred
compensation plans. Operative for taxable years
beginning on or after January 1, 1989.
(AB 802, Ch. 89-1352)

Designated Contributions

18504 ----- **STATE CHILDREN'S TRUST FUND (SC)**
(Amend)

18507.4 ----- **CALIFORNIA HOMELESS TRUST FUND (SC)**
(New)

18513 ----- **CALIFORNIA FUND FOR SENIOR CITIZENS (SC)**
(Amend)

18515.3 ----- **VIETNAM VETERANS MEMORIAL FUND (SC)**
(New)

18525 ----- **ENDANGERED AND RARE FISH, WILDLIFE, AND PLANT**
(Amend) **SPECIES CONSERVATION AND ENHANCEMENT ACCOUNT (SC)**

18534 ----- **U.S. OLYMPIC COMMITTEE FUND (SC)**
(Amend)

18535.4 ----- **ABATEMENT OF STREET CRIMES FUND (SC)**
(New)

18545 ----- **CALIFORNIA ALZHEIMER'S DISEASE AND RELATED RESEARCH**
(Amend) **FUND (SC)**

18546.10 ----- **CALIFORNIA DIABETES RESEARCH FUND (SC)**
(New)
LC 89-10 Adds Section 18515.3, providing that the provisions
relating to the Vietnam Veterans Memorial Fund,
shall be repealed on January 1, 1991; and provides
that for each of these funds, if its scheduled
repeal date is deleted, then the provisions appli-
cable to that fund shall be repealed with respect
to taxable years beginning on or after January 1 of
the year the FTB estimates, by September 1 of that
year, that contributions to that fund will be less
than \$250,000. Sections 18504, 18513, 18515.3
18525, 18534, and 18545 are operative January 1,
1990. Sections 18507.4, 18535.4, and 18546.10,
which relate to new funds, are operative only if
SB 1353, SB 1009, and SB 1474, respectively, of the
1989-90 Regular Legislative Session are chaptered.
(SB 702, Ch. 89-954)

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Interest and Penalties

18681.6 (Amend)	-----	UNREPORTED COMPENSATION, PENALTY (TC) Provides that the penalty for failure to report amounts paid as remuneration for personal services, as required by Sections 18802 and 18802.2, or Section 13050 of the Unemployment Insurance Code, shall be in lieu of the penalty imposed by new UI Section 13052.5, relating to unreported compensation. Operative January 1, 1990. (AB 648, Ch. 89-600)
LC 89-6		
18681.9 (Amend)	6693	FAILURE TO PROVIDE REPORTS ON INDIVIDUAL RETIREMENT ACCOUNTS OR ANNUITIES (SC) Conforms to federal law relating to penalties for failure to file information returns on IRAs. Operative for taxable years beginning on or after January 1, 1987. (AB 802, Ch. 89-1352)
LC 89-25		
18682 (Amend)	6654	FAILURE BY INDIVIDUAL TO PAY ESTIMATED INCOME TAX (TC) Makes technical correction in subdivision (i) to conform to federal law. Operative October 2, 1989. (AB 802, Ch. 89-1352)
LC 89-25		
18682.5 (Amend) (25951.5)	6654	WAIVER OF UNDERPAYMENT OF ESTIMATED TAX PENALTIES (SC) Conforms to federal law by providing that the penalty for underpayment of estimated tax for any period before April 16, 1989, will be waived with respect to any increase in tax due to the adoption of the technical amendments included in Sections 1001 through 2005 of TAMRA. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25		
18684 (Amend) (25934)	6653	UNDERPAYMENT OF LIABILITY DUE TO NEGLIGENCE OR FRAUD (SC) Conforms to federal law relating to the penalties for negligence and fraud by restructuring the section and deleting the provisions that included an amount equal to 50 percent of the interest on the underpayment of tax. Operative for taxable years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25		
18687 (Amend)	6601	EXTENSION OF TIME FOR PAYMENT, INTEREST (SC) Conforms to federal law by specifying that the allowance of installment payments does not reduce the computation of interest on the unpaid tax. Operative October 2, 1989. (AB 802, Ch. 89-1352)
LC 89-25		
18689 (Amend) (25901c)	6601	INTEREST ON PENALTIES (SC) Conforms to clerical amendments to federal law, relating to the calculation of interest on negligence and fraud penalties. Operative October 2, 1989. (AB 802, Ch. 89-1352)
LC 89-25		

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Collection of Tax

18802.4 (Amend) LC 89-25	6045	INFORMATION REPORTING REQUIREMENTS - BROKERS AND BARTERERS (SC) Conforms to minor amendments enacted by TAMRA relating to the definition of a "broker" for purposes of filing information returns. The term now includes governmental units, but does not include a person whose activities consist of managing a farm on behalf of another person. Operative October 2, 1989. (AB 802, Ch. 89-1352)
18807 (Amend) LC 89-4	1446	WITHHOLDING - PAYMENTS TO FOREIGN PARTNERS (TC) Clarifies that the required withholding of tax on amounts paid by United States partnerships to foreign partners applies to the extent that amounts paid represent income from California sources. Operative for taxable years beginning on or after January 1, 1989. (AB 482, Ch. 89-362) Chaptered out by AB 802 (see below).
LC 89-25		Conforms to federal changes in the rules for withholding of tax on amounts paid by partnerships to foreign partners. The withholding is now based on upon the amount of effectively connected <u>income</u> , rather than the amount <u>distributed</u> to the partner. Operative for taxable years beginning on or after January 1, 1990. (AB 802, Ch. 89-1352)
18934 (Amend) LC 89-25	6109	IDENTIFYING NUMBERS (SC) Provides that the reporting of identification numbers for dependents does not apply. Operative for taxable years beginning on or after January 1, 1987. (AB 802, Ch. 89-1352)

Overpayments and Refunds

19053 (Amend) (26073) LC 89-2	6511(a)	REFUND CLAIM, WHEN TO BE FILED (TC) Clarifies that a notice of proposed overpayment be preprinted on a specified form and mailed to the taxpayer by the FTB. Operative January 1, 1990. (AB 2042, Ch. 89-41)
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Administration of Tax

19270 (Amend)	----	REPORT TO LEGISLATURE OF INTERNAL REVENUE CODE CHANGES (SC) Provides that whenever changes to the IRC are enacted after September 15, the due date of FTB's annual report to the Legislature detailing changes made to federal income laws during the preceding calendar year would be changed from January 10 to 120 days after the federal law has been signed by the President of the United States. Operative October 2, 1989. (AB 802, Ch. 89-1352)
LC 89-25		
19285.1 (New)	6103	CALIFORNIA PARENT LOCATOR SERVICE (SC) Authorizes the FTB to provide, upon request of the California Parent Locator Service, personal income tax return information, as defined, which may be of assistance in locating alleged abducting or absent parents, spouses, or former spouses, in enforcing their liability for child or spousal support, establishing a parent and child relationship, and in locating and returning abducted children to their parents. Operative January 1, 1990. (AB 1280, Ch. 89-1060)
LC: None		
19286.9 (New)	6103	INFORMATION TO BE FURNISHED TO CALIFORNIA STUDENT AID COMMISSION (SC) Provides that the FTB may disclose specified tax information to the California Student Aid Commission relating to applicants for, and recipients of, student financial aid, the parents of dependent applicants or recipients, and spouses of the applicants or recipients, upon the commission furnishing to the FTB the names and social security numbers of those persons who have signed a student aid application for California which serves as a voluntary authorization for that disclosure; and authorizes the FTB to make specified audits of those authorizations. Operative January 1, 1990. (SB 742, Ch. 89-295)
LC: None		

SENIOR CITIZENS PROPERTY TAX
ASSISTANCE AND POSTPONEMENT LAW

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General Provisions and Definitions

20503 **"INCOME"** (TC) Clarifies the description of some of the
(Amend) items which must be included as income to eliminate the
 (apparent) duplication of those portions of income already
LC 89-25 included under the caption "adjusted gross income" as de-
 fined under the Personal Income Tax Law; clarifies that
 annual California state lottery winnings in excess of \$600
 are includible as "income", and removes references to Sec-
 tions 17138 and 17139 of the Personal Income Tax Law, which
 were repealed by AB 53 (Stats. 1987, Ch. 1138). Operative
 for claims filed for fiscal years 1989-90 and thereafter.
 (AB 802, Ch. 89-1352)

Tax Credits

- 23601.5** ----- **CREDIT - COMMERCIAL SOLAR ENERGY SYSTEM (SC)** See summary for PIT Section 17052.5, substituting "Section 23601.4" for "Section 17052.4", and "income years" for "taxable years". Operative for income years beginning on or after January 1, 1990, and before January 1, 1994. Section repealed December 1, 1994. (SB 227, Ch. 89-1291)
 (New)
 (17052.5)
 LC 89-13
- 23605** ----- **RIDESHARING (SC)** See summary for PIT Section 17053, substituting "former Section 23605" for "former Section 17053", and "15 percent" for "20 percent" for the cost of leasing specified vehicles by employers with 200 or more employees. Operative for income years beginning on or after January 1, 1989, and before January 1, 1996. Section repealed December 1, 1996. (AB 1463, Ch. 89-1227)
 (New)
 (17053)
 LC 89-12
- 23608** ----- **CREDIT - DONATION OF AGRICULTURAL PRODUCTS (SC)** See summary for PIT Section 17053.12. Operative for income years beginning on or after January 1, 1989, and before January 1, 1992. Section repealed December 1, 1992. (AB 2346, Ch. 89-1248)
 (New)
 (17053.12)
 LC 89-21
- 23609** 41(i) **CREDIT FOR INCREASING RESEARCH ACTIVITIES (SC)** See summary for PIT Section 17052.12. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
 (Amend)
 (17052.12)
 LC 89-25
- 23609.5** 28(e) **CREDIT FOR CLINICAL TESTING EXPENSES (SC)** Adds paragraph (1) to subdivision (d), specifying that the federal sunset date for this credit is not applicable, since the state provision sunsets at a later date, December 1, 1993. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
 (Amend)
 (!7057)
 LC 89-25
- 23610.5** 42 **LOW-INCOME HOUSING CREDIT (SC)** See summary for PIT Section 17058, substituting "income year" for "taxable year". Operative for income years beginning on or after January 1, 1989. (SB 70, Ch. 89-46) (SB 1290, Ch. 89-1156)
 (Amend)
 (17058)
 LC 89-3
 LC 89-11
- 23612** ----- **SALES AND USE TAX CREDIT ON PURCHASE OF QUALIFIED PROPERTY (TC)** Amends subdivision (a) by deleting "For income years beginning before January 1, 1993", inadvertently added by SB 1801 (Stats. 1988, Ch. 1465). Operative October 2, 1989. (AB 802, Ch. 89-1352)
 (Amend)
 LC 89-25

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23612.5 (New) (17052.14) LC 89-8	-----	CREDIT FOR MACHINERY AND EQUIPMENT USED TO MANUFACTURE FINISHED PRODUCTS COMPOSED OF WASTE MATERIALS (SC) See summary for PIT Section 17052.14. Operative for income years beginning on or after January 1, 1989, and before January 1, 1994. Section repealed December 1, 1994. (AB 1308, Ch. 89-1091)
23615 (Amend) (17053.20) LC 89-16	-----	CREDIT FOR EMPLOYER PAYMENTS TO SUBSIDIZE HEALTH COVERAGE (SC) See summary for PIT Section 17053.20. Operative for income years beginning on or after January 1, 1992. (SB 1207, Ch. 89-797)
23617 (Amend) (17052.17) LC 89-24 LC 89-25	-----	START-UP EXPENSES OF ESTABLISHING OR CONSTRUCTING A CHILD CARE FACILITY (SC) See summary for PIT Section 17052.17. Operative for income years beginning on or after January 1, 1989. (AB 951, Ch. 89-1314) (AB 802, Ch. 89-1352)
23617.5 (Amend) (17052.18) LC 89-23 LC 89-24 LC 89-25	-----	CREDIT - 50% OF COST OF CONTRIBUTIONS TO QUALIFIED CARE PLAN FOR DEPENDENT OF EMPLOYEE (SC) See summary for PIT Section 17052.18. Operative for income years beginning on or after January 1, 1989. (AB 446, Ch. 89-1042) (AB 951, Ch. 89-1314) (AB 802, Ch. 89-1352)
23621 (Amend) (17053.7) LC 89-17 LC 89-25	51-52	JOBS TAX CREDIT (SC) See summary for PIT Section 17053.7. Operative for income years beginning on after January 1, 1989. (SB 71, Ch. 89-1074) (AB 802, Ch. 89-1352)
23634 (New) LC 89-15	-----	"DRAM" CORPORATION - TAX CREDIT FOR SALES AND USE TAX ON QUALIFIED PROPERTY (SC) Provides that if a Dynamic, Random-Access Memory Chips" (DRAM) corporation (a member of U.S. Memories, a consortium of semiconductor and computer companies, described in Section 15379.21 of the Government Code), receives a certification pursuant to that section from the Department of Commerce, it may qualify for the sales and use tax credit on qualified property (Section 23612) acquired for use at the corporation's California facilities. Operative for income years beginning on or after January 1, 1989, and before January 1, 2005. Section repealed as of January 1, 2005. (SB 192, Ch. 89-1440)

Exempt Corporations

23701d (Amend) LC 89-25	170(c)	RELIGIOUS, CHARITABLE, EDUCATIONAL, ETC. CORPORATIONS (SC) Conforms to federal law which broadened existing rules relating to prohibited political activities by exempt organizations to include
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activities "in opposition to" as well as "in support of". Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

23701r 57(e) **POLITICAL ORGANIZATIONS (SC)** Conforms to federal
(Amend) (2) rules which allow a political organization to reim-
LC 89-25burse candidates for expenses that, if incurred by
the candidate, would qualify as "ordinary and
necessary" business expenses. Operative for income
years beginning on or after January 1, 1989.
(AB 802, Ch. 89-1352)

23701s 501(c) **VOLUNTARY EMPLOYEES' PENSION TRUSTS (SC)** Conforms
(Amend) (18) to federal rules relating to limitations on elec-
LC 89-25tative deferrals of exempt trusts. Operative for in-
come years beginning on or after January 1, 1989.
(AB 802, Ch. 89-1352)

23701u ----- **NONPROFIT PUBLIC BENEFIT CORPORATION (TC)** Section
(Repeal) added by SB 570 (Ch. 87-1142) repealed; duplicates
LC: None same section added by AB 430 (Stats. 1987, Ch.
1481). Operative January 1, 1990.
(AB 1910, Ch. 89-1360)

23701u 501(c) **TITLE-HOLDING COMPANIES (TC)** Section added by
(Renum) (25) SB 572 (Stats. 1987, Ch. 1139) renumbered as
LC: None Section 23701x. Operative January 1, 1990.
(AB 1910, Ch. 89-1360)

23701v 501(c) **MOBILEHOME PARKS, TENANTS ORGANIZATION (SC)** Clari-
(Amend) fies that an organization of mobilehome park owners
LC 89-25shall not lose its exemption merely because it
manages, maintains, or cares for the mobilehome
park it has purchased. Operative for income years
beginning on or after January 1, 1989.
(AB 802, Ch. 89-1352)

23704 501(e) **COOPERATIVE HOSPITAL SERVICE ORGANIZATIONS (SC)**
(Amend) (1) Conforms to federal law which provides that tax-
LC 89-25exempt hospital service organizations may acquire,
on a group basis, malpractice and general liability
insurance. Operative for income years beginning on
or after January 1, 1989. (AB 802, Ch. 89-1352)

23704.6 504(a) **STATUS AFTER ORGANIZATION CEASES TO QUALIFY FOR**
(Amend) (2) (B) **EXEMPTION BECAUSE OF SUBSTANTIAL LOBBYING (SC)**
LC 89-25Conforms to federal law which broadened existing
rules relating to status of exempt organizations
which have lost their exemption due to substantial
lobbying activities to refer to activities "in
opposition to" as well as "in support of". Opera-
tive for income years beginning on or after January
1, 1989. (AB 802, Ch. 89-1352)

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23732 (Amend) LC 89-25	512(c)	UNRELATED BUSINESS TAXABLE INCOME (SC) Provides that California does <u>not</u> conform to federal changes made by P.L. 100-203, relating to new rules for publicly traded partnerships. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
23733 (Repeal) LC 89-25	512(c)	UNRELATED BUSINESS ACTIVITY BY A PARTNERSHIP (SC) Section repealed, as its provisions are now included in Section 23732 (see above). Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
23735 (Amend) LC 89-25	514	UNRELATED DEBT-FINANCED INCOME (SC) Adds an exception to state law so that California does <u>not</u> conform to new federal rules added by P.L. 100-203, which provide that certain income from debt financed real property is allocable to exempt partners as income subject to the tax on unrelated business income. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
23772 (Amend) LC 89-25	6033(b)	RETURNS BY EXEMPT ORGANIZATIONS (SC) Conforms to federal law which requires that tax-exempt organizations disclose on their tax returns information regarding transfers, transactions, and relationships with other tax-exempt organizations. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

Tax Treatment of S Corporations and Their Shareholders

23801 (Amend) LC 89-22	1362	ELECTION; VALID FEDERAL ELECTION REQUIRED (SC) Clarifies, for income years beginning on or after 1987, the rules for making an election to be an S corporation, or remain a C corporation; and provides rules for out-of-state corporations not required to file California returns, but which have California shareholders. Operative for income years beginning on or after January 1, 1989. (SB 354, Ch. 89-581) These provisions chaptered out by AB 802 (Stats. 1989, Ch. 1352). See below.
LC 89-25		Makes numerous changes in the rules relating to corporations that have elected to be treated as an "S corporation" for federal purposes, which are applicable to income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
23802 (Amend) LC 89-22	1363	EFFECT OF ELECTION ON S CORPORATION (SC) Adds reference to Section 24416.1 (relating to net operating loss deductions) [subsequently chaptered out by AB 802 (Stats. 1989, Ch. 1352)], and defines,

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for purposes of the limitations on passive activity losses and credits, "adjusted gross income" to mean "net income", as determined under Section 24341, with modifications applicable to S corporations. Operative for income years beginning on or after January 1, 1989. (SB 354, Ch. 89-581)

LC 89-25 Adds subdivision (g) providing that the amendments to IRC Section 1363 made by Section 10227 of P.L. 100-203, relating to recapture of LIFO amount in the case of elections by S corporations, shall not apply. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

23803 1361 **CREDITS; SHAREHOLDER'S PRO RATA SHARE** (TC) Eliminates duplicate provision [included in Section (Amend) 23036(d)(2)] that an S corporation tax credit cannot be allowed against the minimum franchise tax. Operative January 1, 1990. (SB 354, Ch. 89-581)
LC 89-22
LC 89-25 (AB 802, Ch. 89-1352)

23805 1368(a) **DISTRIBUTIONS** (SC) Section repealed, as it refers (Repeal) to Section 24453, repealed by AB 802 (Stats. 1989, Ch. 1352), since state law now incorporates the provisions of IRC Section 301 by reference. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25

Gross Income

24274 81 **INCREASE IN VACATION PAY SUSPENSE ACCOUNT** (SC) See summary for PIT Section 17094. Operative for (Amend) (17094) income years beginning on or after January 1, 1989. LC 89-25 (AB 802, Ch. 89-1352)

24276 90 **ILLEGAL FEDERAL IRRIGATION SUBSIDIES** (SC) Conforms (New) to federal law which requires that gross income include any illegal federal irrigation subsidy; that is, the excess of the amount required to be paid for the water over the amount actually paid. Applicable to water delivered after January 1, 1988, in income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25

Deductions

24306 133 **SECURITIES ACQUISITION LOAN; IRC SECTION 133** (SC) Modifies the effective date of technical corrections made to IRC Section 133 by P.L. 100-647 (Amend) since, for state purposes, the provisions of IRC Section 133 are applicable only to income years beginning on or after January 1, 1990, and before
LC 89-25

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January 1, 1995. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

24343 162 **TRADE OR BUSINESS EXPENSES (TC)** Clarifies that (Amend) references to IRC Section 170 are references to B&CTL Sections 24357 to 24359.1, inclusive. Operative for income years beginning on or after January 1, 1989. (AB 482, Ch. 89-362) (AB 802, Ch. 89-1352)
LC 89-4
LC 89-25

24343.2 ---- **BUSINESS EXPENSES IN CERTAIN CLUBS (TC)** Section (Repeal) added by SB 572 (Stats. 1987, Ch. 1139) repealed; duplicates same section added by AB 239 (Stats. 1987, Ch. 1463). Operative January 1, 1990. (AB 1910, Ch. 89-1360)
LC: None

24347.5 165(c) **DISASTER RELIEF (SC)** See summary for PIT Section (Amend) 165(i) 17207. Operative for income years beginning on or (17207) after January 1, 1989.
LC 89-26 (AB 36X, Ch. 89-15) (SB 34X, Ch. 89-16)

24349.1 280F **DEPRECIATION - LUXURY AUTOMOBILES AND MIXED USE (Amend) PROPERTY (TC)** Deletes reference to P.L. 99-44. Operative for income years beginning on or after January 1, 1989. (AB 482, Ch. 89-362)
LC 89-4 (AB 802, Ch. 89-1352)
LC 89-25

24353.1 ---- **DEPRECIATION WITH RESPECT TO HISTORIC PROPERTIES (Repeal) (SC)** Repeals rules relating to depreciation of certified historic structures, since the federal counterparts (IRC Secs. 167(n) and 167(o)) were repealed in 1981. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25

24356.1 ---- **CHANGE FROM RETIREMENT TO STRAIGHT LINE METHOD OF (Repeal) COMPUTING DEPRECIATION IN CERTAIN CASES (SC)** Repeals obsolete transitional rules relating to returns filed for income years beginning in 1959. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25

24357.10 170 **TREATMENT OF CERTAIN AMOUNTS PAID TO OR FOR THE (New) BENEFIT OF HIGHER EDUCATION (SC)** Conforms to federal (17241) law which permits a deduction (as a charitable contribution) for 80 percent of amounts paid to an institution of higher education, even though the taxpayer receives the right to purchase seating at an athletic event conducted by the receiving institution. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
LC 89-25

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>
24359 (Amend) LC 89-25	170	CHARITABLE CONTRIBUTION DEFINED (SC) Conforms to federal law which modifies existing rules relating to prohibited political activities by exempt organizations to include activities "in opposition to" as well as "in support of". Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24361 (Amend) LC 89-25	171	AMOUNT OF BOND PREMIUM (SC) Conforms to federal technical corrections, relating to amortizable bond premium. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24362 (Amend) LC 89-25	171	ELECTION (TC) Amends subdivision (a) to add a cross reference to Section 24363.5, relating to amortization of bond premiums [added by AB 802 (Stats. 1989, Ch. 1352)]. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24363 (Amend) LC 89-25	171	"BOND" DEFINED (SC) Conforms to federal technical corrections, relating to amortizable bond premiums and adds a cross reference to new Section 24363.5, added by AB 802 (Stats. 1989, Ch. 1352). Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24363.5 (New) LC 89-25	171	AMORTIZABLE BOND PREMIUM (SC) Conforms to federal law by adding new rules relating to the treatment of amortizable bond premium. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24368.1 (Repeal/ New) LC 89-25	167(r)	TRADEMARK AND TRADE NAME EXPENDITURES (SC) Repeals current rules, and conforms to federal law by adding new rules relating to the treatment of expenditures for trademarks and trade names. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24373 (Repeal/ New) LC 89-25	178	AMORTIZATION OF COST OF ACQUIRING A LEASE (SC) Repeals current rules, and conforms to federal law by adding new rules relating to amortization of leases. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24374 24375 24376 (Repeal) LC 89-25	178	RELATED LESSEE AND LESSOR (SC) REASONABLE CERTAINTY TEST (SC) APPLICABLE DATE (SC) Sections repealed as new Section 24373, relating to amortization of leases, now incorporates by reference the provisions of IRC Section 178. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

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SUMMARY OF CHANGE

24380 (Repeal) LC 89-25	-----	ARCHITECTURAL AND TRANSPORTATIONAL BARRIER REMOVAL EXPENSES (SC) Repeals obsolete section which applied only to expenditures in income years beginning before January 1, 1980. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24381 (Repeal) LC 89-25	-----	AMORTIZATION OF CERTAIN REHABILITATION EXPENDITURES FOR CERTIFIED HISTORIC STRUCTURES (SC) Repeals obsolete section which applied only to expenditures in income years beginning prior to January 1, 1984. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24382 (Amend) LC 89-25	216	TENANT-STOCKHOLDERS OF COOPERATIVE HOUSING CORPORATIONS (SC) Conforms to federal law which provides that no gain or loss shall be recognized by a cooperative housing association upon distribution of a dwelling unit to a stockholder if it is in exchange for the stockholder's stock in the corporation and qualifies for rollover of the gain by the stockholder. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24390 (New) (17277) LC 89-15	-----	"DRAM" CORPORATION - SPECIAL DEDUCTIONS (SC) See Summary for PIT Section 17277, substituting "Section 24384" for "Section 17231". In addition, a certified "DRAM" corporation may claim the deductions allowed by Sections 24356.3 (relating to capital expenditures), and 24416.1 and 24416.2 (relating to NOLs). Operative for income years beginning on or after January 1, 1989, and before January 1, 2005. Section repealed as of January 1, 2005. (SB 192, Ch. 89-1440)
24406.5 (New) LC 89-7	1381	GAS PRODUCERS' COOPERATIVE ASSOCIATIONS (SC) Allows deduction for patronage refunds of a gas producers' cooperative association on the same basis as provided by Section 24406. Each cooperative association shall certify to the FTB its eligibility for the deduction. Operative for income years beginning on or after January 1, 1989. (AB 714, Ch. 89-349)
24412 (Amend) LC 89-25	854 860	REGULATED INVESTMENT COMPANIES (SC) Provides that the federal income tax treatment relating to the deduction for deficiency dividends shall apply. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24413 (Amend) LC 89-25	860	REAL ESTATE INVESTMENT TRUSTS (SC) Provides that the federal income tax treatment relating to the deduction for deficiency dividends shall apply. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

<u>BCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>
24416 (Amend) LC 89-22	172	NET OPERATING LOSS (TC) Adds reference to exceptions provided in Sections 24416.1 and 24416.2. Operative January 1, 1990. (SB 354, Ch. 89-581)
24416.1 (Amend)	172	QUALIFIED TAXPAYER UNDER SECTION 24416.2 (SC)
24416.2 (New) (17276.1) (17276.2) LC 89-22	172	QUALIFIED TAXPAYER DEFINED (SC) See summary for PIT Sections 17276.1 and 17276.2. Operative for income years beginning on or after January 1, 1989. (SB 354, Ch. 89-581)
24422.3 (Amend) (17279) LC 89-25	263A	CAPITALIZATION AND INCLUSION IN INVENTORY COSTS OF CERTAIN EXPENSES (SC) See summary for PIT Section 17279. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

Items Not Deductible

24440 (Amend) (17270) LC 89-25	280C	EXPENSES FOR INCREASONG RESEARCH ACTIVITIES (SC) Conforms to federal law which denies the deduction of one-half of any expenses for which the research credit was allowed. Operative for income years beginning on or after January 1, 1989, (AB 802, Ch. 89-1352)
24442.5 (New) LC 89-25	280H	LIMITATION ON CERTAIN AMOUNTS PAID TO EMPLOYEE-OWNERS BY PERSONAL SERVICE CORPORATIONS ELECTING ALTERNATIVE INCOME YEARS (SC) Conforms to federal treatment of salaries paid after the close of the income year to shareholder owners by a personal service corporation. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24443 (Amend) (17271) LC 89-25	274	DISALLOWANCE OF CERTAIN ENTERTAINMENT, ETC. EXPENSES (SC) Adds subdivision (c), conforming to federal law which permits full deduction (rather than 80 percent) of meals furnished to employees on offshore oil or gas rigs and to employees who are crew members of certain commercial vessels. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24449 (Amend) LC 89-4	291	SPECIAL RULES FOR CORPORATE PREFERENCE ITEMS (TC) Adds subdivision (b) clarifying that the reference in IRC Section 291(a)(3) to "a deduction under this chapter" means the deduction under B&CTL Section 24348; and that the reference in IRC Section 291(b)(1) to "Section 263(c)" means the deduction under B&CTL Section 24423. Operative for income years beginning on or after January 1, 1989. (AB 482, Ch. 89-362)

Corporate Distributions and Adjustments

- 24451** 301 **DISTRIBUTIONS OF PROPERTY (SC)** Conforms to federal changes enacted by TAMRA which expanded the scope of special rules for computing earnings and profits in the case of distributions to a shareholder which owns at least 20 percent of the stock of the distributing corporation. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
- (Amend)
- LC 89-25
- 24452** 301(a) **AMOUNT DISTRIBUTED (SC)**
- 24453** 301(b) **AMOUNT TAXABLE (SC)**
- 24454** 301(c) **BASIS (SC)**
- 24454.2** 301(e) **SPECIAL RULES FOR CERTAIN DISTRIBUTIONS RECEIVED BY 20 PERCENT CORPORATE SHAREHOLDER (SC)**
- (Repeal)
- LC 89-25
- Sections repealed as provisions are now incorporated in Section 24451, as amended by AB 802 (Stats. 1989, Ch. 1352). Operative for income years beginning on or after January, 1989. (AB 802, Ch. 89-1352)
- 24457** 304 **REDEMPTION THROUGH USE OF RELATED CORPORATIONS (SC)** Provides that the modification of federal rules relating to nonrecognition of gain for distributions to corporations owning 80 percent or more of the stock of the distributing corporation. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
- (Amend)
- LC 89-25

Corporate Liquidations

- 24513** 337 **APPLICABILITY OF IRC TRANSITIONAL RULES (SC)** Conforms to federal changes in the transition rules relating to the repeal of the General Utilities Doctrine, effective as if they had been included in the Tax Reform Act of 1986, generally applicable to income years beginning on or after January 1, 1987. (AB 802, Ch. 89-1352)
- (Amend)
- LC 89-25

Corporate Organizations and Reorganizations

- 24521** 351 **TRANSFER TO CORPORATION CONTROLLED BY TRANSFEROR (SC)** Adds new subdivision (e) conforming to federal modifications to rules relating to nonrecognition of gain on certain transfers of property to a controlled corporation. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
- (Amend)
- LC 89-25

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SUMMARY OF CHANGE

- 24541** 358(f) **BASIS TO DISTRIBUTEES** (SC) Adds subdivision (f),
(Amend) providing that property permitted to be received
LC 89-25 under Section 24551 without the recognition of gain
 or loss shall be treated as consisting only of
 stock or securities in another corporation which is
 a party to the reorganization. Operative for
 income years beginning on or after January 1, 1989.
 (AB 802, Ch. 89-1352)
- 24562** 368(a) **DEFINITIONS RELATING TO CORPORATE REORGANIZATIONS**
(Amend) (SC) Conforms to federal modifications to rules
LC 89-25 relating to corporate reorganizations. Operative
 for income years beginning on or after January 1,
 1989. (AB 802, Ch. 89-1352)

Miscellaneous Corporate Provisions

- 24585** 386 **TRANSFERS OF PARTNERSHIP AND TRUST INTERESTS BY**
(Repeal) **CORPORATIONS** (SC) Repeals separate provisions re-
LC 89-25 lating to transfers of partnership and trust in-
 terests by corporations, in conformity with repeal
 of IRC Section 386. Operative for income years be-
 ginning on or after January 1, 1989.
 (AB 802, Ch. 89-1352)

Carryovers

- 24592** 382 **SPECIAL LIMITATIONS ON NET OPERATING LOSS CARRY-**
(Amend) **FORWARDS** (SC) Conforms to new federal rules en-
LC 89-25 acted by TAMRA which provide that the limitations
 on NOL carryovers provided in the 1986 Tax Reform
 Act do not apply to a change in the ownership of a
 loss corporation that results from certain bank-
 ruptcy reorganizations or court proceedings; and to
 the new federal effective dates relating to new
 limitations on net operating loss carry forwards.
- Specifically does not conform to the extension of
federal rules relating to the exclusion from income
of FSLIC assistance payments to troubled financial
institutions, or to the inclusion of FDIC payments
made to troubled banks. Operative for income years
beginning on or after January 1, 1989.
(AB 802, Ch. 89-1352)

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SUMMARY OF CHANGE

Pension Plans

24601 419 **APPLICABLE IRC PROVISIONS (SC)** Adds subdivision
(Amend) (b), stating that the provisions of Section 10201
LC 89-25 of P.L. 100-202, relating to accrual of vacation
pay, shall not apply. Operative for income years
beginning on or after January 1, 1989.
(AB 802, Ch. 89-1352)

Accounting Periods and Methods of Accounting

24632 ---- **INCOME YEAR (SC)** Requires taxpayers to use the
(New) same income year for state purposes that they do
(17565) for federal purposes, unless initiated or approved
LC 89-4 by the FTB [formerly Sec. 23051.5(g)(4)]. Opera-
LC 89-25 tive for income years beginning on or after January
1, 1989. (AB 482, Ch. 89-362) (AB 802, Ch. 89-1352)

24633.5 441 **CHANGE IN ACCOUNTING PERIOD REQUIRED BY FEDERAL TAX**
(Amend) 444 **REFORM ACT OF 1986 (SC)** See summary for PIT Sec-
(17551.5) tion 17551.5, substituting "income year" for "tax-
LC 89-25 able year" and "SB 572 (Stats. 1987, Ch. 1139)" for
"AB 53 (Stats. 1987, Ch. 1138)". Operative for in-
come years beginning on or after January 1, 1989.
(AB 802, Ch. 89-1352)

24637 444 **ACCOUNTING PERIODS - CONFORMITY TO IRC (SC)** See
(Amend) summary for PIT Section 17551, substituting "income
(17551) year" for "taxable year". Operative for income
LC 89-25 years beginning on or after January 1, 1989.
(AB 802, Ch. 89-1352)

24652 447 **ACCOUNTING METHOD FOR CORPORATIONS ENGAGED IN FARM-**
(Amend) **ING (SC)** Adds subdivision (b), providing that the
LC 89-25 federal rules enacted by P.L. 100-203, requiring
family farming corporations with gross receipts in
excess of \$25 million to use the accrual method of
accounting, do not apply. Operative for income
years beginning on or after January 1, 1989.
(AB 802, Ch. 89-1352)

24654 448 **LIMITATION ON USE OF CASH METHOD OF ACCOUNTING (TC)**
(Amend) See summary for PIT Section 17562, substituting
(17562) "SB 572 (Stats. 1987, Ch. 1139)" for "AB 53 (Stats.
LC 89-25 1987, Ch. 1138)". Operative for income years be-
ginning on or after January 1, 1987.
(AB 802, Ch. 89-1352)

24661 451 **YEAR OF INCLUSION IN GROSS INCOME (SC)** See summary
(Amend) for PIT Section 17559. Operative for income years
(17559) beginning on or after January 1, 1989.
LC 89-25 (AB 802, Ch. 89-1352)

<u>BCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>
24667 (Amend) (17560) LC 89-25	453 453A 453B 453C	INSTALLMENT SALES METHOD (SC) See summary for PIT Section 17560. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24673.2 (Amend) (17564) LC 89-25	460	LONG-TERM CONTRACTS (SC) See summary for PIT Section 17564. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24681 (Amend) (17563) LC 89-25	463	GENERAL RULE FOR INCOME YEAR OF DEDUCTION (SC) See summary for PIT Section 17563. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24690 (Amend) LC 89-25	468A	NUCLEAR DECOMMISSIONING COSTS (SC) Clarifies that the tax upon the gross income of a Nuclear Decommissioning Reserve Fund is an <u>income</u> tax and, thus, not subject to the minimum franchise tax. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24701 (Amend) 24702 to 24707 (Repeal) LC 89-25	471 472	GENERAL RULE FOR INVENTORIES (SC) Adds subdivision (b) providing that IRC Section 472, relating to LIFO (last-in, first-out) inventories, shall apply. Sections 24702 to 24704, inclusive, repealed as those provisions are now included in Section 24701. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)

Natural Resources

24833 (Amend) LC 89-25	613	PERCENTAGE DEPLETION - IRC SECTION 613 MODIFIED (TC) Makes technical corrections, relating to percentage depletion, to restore language inadvertently deleted by SB 572 (Stats. 1987, Ch. 1139). Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
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Gain or Loss on Disposition of Property

24916 (Amend) LC 89-25	1016	ADJUSTMENTS TO BASIS (SC) Makes technical amendments to cross references to other B&CT sections, relating to adjustments to basis. Operative for income years beginning on or after January 1, 1989. (AB 802, Ch. 89-1352)
24953.5 (Amend) (18035.5) LC 89-20	1039	GAIN FROM SALE OF QUALIFIED HOUSING PROJECT (SC) See summary for PIT Section 18035.5. Operative for income years beginning on or after January 1, 1989. (AB 647, Ch. 89-1461)

BCT
SECTION

IRC
SECTION

SUMMARY OF CHANGE

24994 1272 **INCLUSION IN INCOME OF ORIGINAL ISSUE DISCOUNT (SC)**
(Amend) Adds subdivision (b), providing rules relating to
LC 89-25 the treatment of a state adjustment related to past
differences in the state and federal treatment of
original issue discount bonds. Operative for
income years beginning on or after January 1, 1987.
(AB 802, Ch. 89-1352)

Allocation of Income

25107 ----- **APPORTIONMENT OF INCOME, INTERNATIONAL BANKING**
(Amend) **FACILITY (TC)** Deletes reference to Section 23044,
89-25 repealed January 1, 1989. Operative October 2, LC
1989. (AB 802, Ch. 89-1352)

Water's-Edge Election

25111 ----- **PERIOD OF ELECTION (SC)** Corrects an erroneous
(Amend) reference in subdivision (a), relating to not
LC 89-4 renewing the water's-edge election contract. Operative
for income years beginning on or after January
1, 1989. (AB 482, Ch. 89-362) This correction was
inadvertently chaptered out by AB 647 (Stats. 1989,
Ch. 1461).

LC 89-20 Provides that a nonelecting taxpayer which is sub-
sequently proven to be a member of the water's-edge
group pursuant to an FTB audit determination, shall
be deemed to have made a water's-edge election.
Operative for income years beginning on or after
January 1, 1989. (AB 647, Ch. 89-1461)

Returns and Payments

25561 ----- **ESTIMATED TAX, GENERAL CORPORATIONS (TC)** Deletes
(Amend) reference to Sections 23151 and 23151.1. Operative
LC 89-25 for income years beginning on or after January 1,
1989. (AB 802, Ch. 89-1352)

Additions to Tax and Penal Provisions

25901c 6601 **INTEREST ON PENALTIES (SC)** See summary for PIT
(Amend) Section 18689. Operative October 2, 1989.
(18689) (AB 802, Ch. 89-1352)
LC 89-25

25934 6653 **UNDERPAYMENTS DUE TO NEGLIGENCE OR FRAUD (SC)** See
(Amend) summary for PIT Section 18684. Operative for
(18684) income years beginning on or after January 1, 1989.
LC 89-25 (AB 802, Ch. 89-1352)

BCT
SECTION

IRC
SECTION

SUMMARY OF CHANGE

25951 6655 **UNDERPAYMENT OF ESTIMATED TAX (SC)** Conforms to
(Amend) federal law by deleting subdivision (b) which pro-
vided for a reduction in the penalty for underpay-
ment of estimated tax if at least 80 percent of the
LC 89-25 tax was paid (90% required). Operative for income
years beginning on or after January 1, 1990.
(AB 802, Ch. 89-1352)

25951.5 6655 **UNDERPAYMENT OF ESTIMATED TAX - PRE 3-16-89 (SC)**
(Amend) See summary for PIT Section 18682.5, substituting
(18682.5) "March 16, 1989" for "April 16, 1989". Operative
for income years beginning on or after January 1,
LC 89-25 1989. (AB 802, Ch. 89-1352)

25954 6654(d) **EXCEPTIONS (SC)** Clarifies that, for purposes of
(Amend) the penalty for underpayment of estimated tax, the
return for the "preceding taxable year" must have
LC 89-4 been for a full 12-month period. Operative January
1, 1990. (AB 482, Ch. 89-362) This provision was
deleted by AB 802 (Stats. 1989, Ch. 89-1352).

LC 89-25 Substantially restructures the rules for computing
the penalty for underpayment of estimated tax; and
conforms to federal changes which (1) deleted the
exception relating to use of last year's income and
current year tax rates, and (2) allows large corpo-
rations to use the prior year tax as their basis
for making the first installment of estimated tax
for the current year. Operative for income years
beginning on or after January 1, 1990.
(AB 802, Ch. 89-1352)

25957.3 6706 **PENALTY FOR FAILURE TO MEET ORIGINAL ISSUE DISCOUNT**
(Renum) **REPORTING REQUIREMENTS (TC)** Renumbers section as
25957.4, and makes nonsubstantive change by de-
leting "the provisions of" in reference to IRC Sec-
tion 6706. Operative January 1, 1990. (AB 1910,
LC: None Ch. 89-1360) [NOTE: Some 1989 publications of the
Revenue and Taxation Code show this section as
25957.4.]

Refunds and Credits

26073 6511(a) **STATUTE OF LIMITATIONS ON CREDITS OR REFUNDS (TC)**
(Amend) See summary for PIT Section 19053. Operative
(19053) January 1, 1990. (AB 2042, Ch. 89-41)
LC 89-2

BUSINESS AND PROFESSIONS CODE

B&P
SECTION

SUMMARY OF CHANGE

Tax Preparers

9891.21 ANNUAL REGISTRATION AND FEE REQUIREMENTS (SC)
9891.22 VALIDATION OF REGISTRATION (SC)
9891.23 LOSS OF VALIDATION UNLESS RENEWAL FEE PAID (SC)
9891.34 INACTIVE STATUS; RETURN TO ACTIVE STATUS (SC)
9891.37 INITIAL AND SUBSEQUENT PERIODS (SC)
9891.39 CONTINUING EDUCATION (SC)
9891.42 FEE SCHEDULE (SC)
(Amend) Provides for a staggered birth date renewal program on a two-year basis for tax preparers and tax interviewers.
LC: None Operative January 1, 1990, for new and renewed registrations after October 31, 1990. (AB 861, Ch. 89-839)

CODE OF CIVIL PROCEDURE

CP
SECTION

SUMMARY OF CHANGE

708.730 MONEY OWED BY PUBLIC ENTITY; FILING ABSTRACT OR COPY OF JUDGMENT AND AFFIDAVIT; SERVICE OF NOTICE; SUBMISSION OF CLAIM; JUDGMENTS FOR CHILD SUPPORT (SC)
708.740 FILING OF ABSTRACT OR COPY OF MONEY JUDGMENT AND AFFIDAVIT WHERE MONEY OWED BY STATE AGENCY; DUTIES OF CONTROLLER; JUDGMENT FOR SUPPORT; SELECTION AMONG MULTIPLE CLAIMS; STATUS AS REFUNDS OF TAX OVERPAYMENTS TO JUDGMENT DEBTOR (SC)
708.780 AMOUNT OF LIEN CREATED; AFFIDAVITS FILED PURSUANT TO SUBDIVISIONS (c) AND (d) OF SECTION 708.730 (SC)
LC: None Adds subdivision (e) to Section 708.730, subdivision (i) to Section 708.740, and subdivision (d) to Section 708.780, defining "support" to mean "an obligation owing on behalf of a child, spouse, or family, or combination thereof"; and makes technical changes to reflect this expanded definition of support. Operative January 1, 1990.
(AB 1904, Ch. 89-1359)

CORPORATIONS CODE

CC
SECTION

SUMMARY OF CHANGE

5813.5 AMENDMENT TO CHANGE STATUS OF PUBLIC BENEFIT CORPORATION
(Amend) (SC) Deletes the requirement that a nonprofit public benefit corporation, in changing its status to a nonprofit mutual benefit corporation, must pay the minimum tax when it
LC: None

CC
SECTION

SUMMARY OF CHANGE

amends its articles with the Secretary of State. Requires Secretary of State to notify FTB of any amendments to a public benefit corporation's articles. Operative January 1, 1990. (SB 269, Ch. 89-1410)

9928

(New)

LC: None

SUSPENSION OF NONPROFIT CORPORATIONS ORGANIZED PRIOR TO 1971 (SC) Provides that certain nonprofit corporations organized prior to January 1, 1971, who have never filed an annual statement specifying the address of their principal office in this state (if any), the names and addresses of specified officers, and specified information relating to their agent for service of process, may be suspended by the Secretary of State. Operative January 1, 1990. (SB 317, Ch. 89-440)

FINANCIAL CODE

FC
SECTION

SUMMARY OF CHANGE

2090

(Amend)

LC: None

CONVERSION OF STATE BANK TO NATIONAL BANK (SC) Requires a bank chartered in California, upon its conversion to a national banking association, to file a prescribed officers' certificate with the Secretary of State, and requires the Secretary of State to enter the fact of the conversion on the corporate records of the converted state bank, after which that bank shall no longer be considered organized under the laws of this state. (NOTE: This provision does not effect the national banking association taxability under the B&CTL, as national banks are taxed in the same manner as state banks.) Operative January 1, 1990. (SB 270, Ch. 89-291)

GOVERNMENT CODE

GC
SECTION

SUMMARY OF CHANGE

7073

(Amend)

LC: None

DESIGNATION OF ENTERPRISE ZONES; APPLICATION, CRITERION, TECHNICAL DEFICIENCIES (SC) Provides that the Department of Commerce may, by December 1991, designate 25 enterprise zones (was 10), one of which may be designated an airport enterprise zone (defined), and changes the maximum number of those enterprise zones that may be designated as high technology enterprise zones to three (was two). Provides that a city or county may propose that an enterprise zone within the incorporated area may be expanded by 15 percent to include definitive boundaries that are contiguous to the enterprise zone. Operative January 1, 1990. (AB 251, Ch. 89-899)

GC
SECTION

SUMMARY OF CHANGE

- 7073.5** **ENTERPRISE ZONE AREAS; ELIGIBLE AREAS DEFINED (SC)**
(Amend) Includes within the definition of an enterprise zone an area that has a history of gang-related activity; whether or not crimes of violence have been committed. Operative January 1, 1990. (AB 251, Ch. 89-899)
LC: None
- 7082** **EMPLOYMENT AND ECONOMIC INCENTIVE ACT - DEFINITIONS (SC)**
(Amend) Provides that the area designated as a targeted economic development area or a neighborhood economic development area may have, but is not required to have, a history of gang-related activity, whether or not crimes of violence have been committed. Operative January 1, 1990. (AB 251, Ch. 89-899)
LC: None
- 12419.3** **PRIORITY OF OFFSET ACCOUNTS (SC)** Deletes the December 31, 1990 date for offsetting PIT refunds by the Controller; adds "family support" to offset priorities (1) and (2); and adds as new priorities (3) and (4), the nonpayment of spousal support accounts enforced by a district attorney, and by someone other than a district attorney, respectively. Operative January 1, 1990. (AB 1904, Ch. 89-1359)
(Amend)
LC: None

UNEMPLOYMENT INSURANCE CODE

UI
SECTION

SUMMARY OF CHANGE

- 328** **ADMINISTRATION OF CALIFORNIA JOBS TAX CREDIT ACT; DURATION OF SECTION (SC)** Amends subdivision (d) by changing the repeal date of this section to January 1, 1994 (was 1/1/90) Operative January 1, 1990. (SB 71, Ch. 89-1074)
(Amend)
LC 89-17
- 1176.5** **METHOD OF CLAIMING REFUND OR CREDIT; DISALLOWANCE AND PROTEST; MAKING REFUNDS; LAWS APPLICABLE (TC)**
(Amend)
- 1185** **RECOVERY OF ERRONEOUS REFUNDS; CREDITS FOR PAYMENTS INTO DISABILITY FUND (TC)**
(Repeal)
- 3012** **CONTINUOUS APPROPRIATION OF MONEY IN FUND; PURPOSE; ELIGIBLE PERSON DEFINED; UNEMPLOYED DISABLED ACCOUNT (TC)**
(Amend) Deletes reference to PIT Section 17061.5, repealed by AB 53 (Stats. 1987, Ch. 1138). Operative January 1, 1990, (AB 648, Ch. 89-600)
LC 89-6
- 13050** **WITHHOLDING STATEMENT; CONTENTS; TIME FOR FILING; ACCESS TO INFORMATION; THIRD-PARTY SICK PAY (TC)**
(Amend) Technical amendment to correct chapter and section number changes. Operative January 1, 1990. (AB 648, Ch. 89-600)
LC 89-6
- 13052.5** **UNREPORTED COMPENSATION, PENALTY (SC)** Imposes a penalty, in lieu of the penalty imposed under PIT Section 18681.1, for failure to report compensation under Section 13050, or PIT Sections 18802 or 18802.2. Operative January 1, 1990. (AB 648, Ch. 89-600)
(New)
LC 89-6

WELFARE AND INSTITUTIONS CODE

WI
SECTION

SUMMARY OF CHANGE

11478.5
(Amend)

LC: None

PARENT LOCATOR SERVICE; DATA WITH RESPECT TO PARENT DESERTING OR ABANDONING CHILD, SPOUSE OR FORMER SPOUSE; DUTIES OF ATTORNEY GENERAL; AVAILABILITY OF RECORDS; RULES AND REGULATIONS (SC) Allows the Department of Justice to disclose information, including tax return information, it receives from the Franchise Tax Board, to the central parent locator and registry of other states. Operative January 1, 1990. (AB 1280, Ch. 89-1060)

1989 LEGISLATIVE CHANGE REPORTS

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89-21	Credit/Donations of Agricultural Products	AB 2346	89-1248	69
89-22	Net Operating Loss (NOL) and S Corporation Technical Changes	SB 354	89-581	70
89-23	Employer Child Care Credit	AB 446	89-1042	72
89-24	Employer Child Care Credits	AB 951	89-1314	72
89-25	Conformity to Federal Tax Changes	AB 802	89-1352	74
89-26	Earthquake Related Disaster Loss Carryover	AB 36x SB 34x	89-15x 89-16x	103
	AB 802 Attachments:			
	Exhibit A			105
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Legislative Change Report (LC) 89-1 was included in Summary of Legislation report dated April 17, 1989.

Legislative Change Report (LC) 89-5 not included - Not directly related to the Personal Income Tax Law (PITL), the Bank and Corporation Tax Law (B&CTL), or the Senior Citizens Property Tax Assistance and Postponement Law (SCPTAL).

No Legislative Change Reports (LCs) issued for the following bills:

Enterprise Zones	AB 251	89-899
Registration of Tax Preparers	AB 861	89-839
Disclosure of Tax Information to California Parent Locator Service	AB 1280	89-1060
Offsets: Delinquent Child Support	AB 1904	89-1359
Maintenance of the Codes	AB 1910	89-1360
Exempt Corporations, Change of Status: Prepayment of Minimum Tax	SB 269	89-1410
State Banks Converting to National Banks	SB 270	89-291
Suspension of Nonprofit Corporations by Secretary of State	SB 317	89-440
Disclosure of Tax Information to Student Aid Commission	SB 742	89-295

**LEGISLATIVE CHANGE NO. 89-2
ASSEMBLY BILL 2042**

Author: Woodruff
Subject: Statute of Limitations on Claim for Credit/Refund
Laws Affecting Franchise Tax Board: Sections 19053 and 26073 of the
Revenue and Taxation Code
Date Filed with Secretary of State: June 8, 1989
Chapter Number: 89-41

SUMMARY

Sections 19053 and 26073.

This act requires the Franchise Tax Board, when it issues a Notice of Proposed Overpayment at the conclusion of an audit, to mail that notice on a preprinted form.

This act codifies the department's current practice in that the Franchise Tax Board issues a notice of proposed overpayment to the taxpayer by mailing a form titled "Computation of Proposed Overpayment".

This act takes effect January 1, 1990.

This act does not require any reports to the Legislature.

**LEGISLATIVE CHANGE NO. 89-3
SENATE BILL 70**

Author: L. Greene
Subject: Low-income Housing Credit
Laws Affecting Franchise Tax Board: Sections 17058 and 23610.5 of the
Revenue and Taxation Code
Date Filed with Secretary of State: June 15, 1989
Chapter Number: 89-46

SUMMARY

Sections 17058 and 23610.5

This act modifies the provisions pertaining to the low-income housing credit by:

- o Incorporating all the changes made to the federal provisions by the Technical Corrections and Miscellaneous Revenue Act of 1988 (see Addendum) which are incorporated in state law by reference;
- o Providing that all elections made by taxpayers pursuant to the federal low-income housing credit apply for state purposes;
- o Modifying the rules that apply to taxpayers who are entitled to receive a cumulative cash distribution from a low-income housing project by making the eight percent limitation apply in the aggregate to the partners if the taxpayer is a partnership and in

the aggregate to the shareholders if the taxpayer is an S corporation;

- o Providing that the remaining unused portion of the allotted \$35 million for this credit in each of 1987 and 1988 will be carried forward and allocated in 1989. However, the credit period for these amounts does not begin until after December 31, 1989;
- o Specifying that a minimum of 20 percent of the credit allocated by the Mortgage Bond and Tax Credit Allocation Committee must be for projects in rural areas; and
- o Providing that an additional credit is allowed where the qualified basis of a building increases in the year(s) subsequent to the first year of the credit period. The amount of the additional credit must be determined by applying the appropriate percentage (as specified) to the amount of the increase in the building's basis. The additional credit is available over a four year period beginning with the year in which the increase occurs. Prior law provided that in this circumstance the taxpayer must have been eligible to apply for an allocation of the credit.

This act does not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

ADDENDUM

=====

Explanation of Federal law prior to the enactment of the Technical and Miscellaneous Revenue Act of 1988

Changes to Federal law with enactment of the Technical and Miscellaneous Revenue Act of 1988

"Applicable percentage" meant the percentage prescribed by the Secretary for the month in which placed in service.

"Applicable percentage" means, for buildings placed in service after 1987, the percentage prescribed by the Secretary for:

- 1) the month in which such building is placed in service; or
- 2) the month in which the taxpayer, with the consent of the state agency, irrevocably elects to determine the low-income housing credit in advance of the date such building is placed in service.

The election must be filed with the IRS no later than the

fifth day of the month following the date that the binding commitment is made between the state agency and the taxpayer.

Such an election is binding for income tax purposes on the taxpayer, the credit agency, and all successors in interest.

Rents that could be charged families in units on which a credit is claimed generally may not exceed 30% of the applicable income qualifying as "low", adjusted for family size.

An exception was added to the 30% limitation to provide for situations in which the tenant receives federal rental assistance that is reduced as the tenant's income increases.

To be a qualified low-income project, an allocation of credit authority was required to be received from the state in the year in which the building was placed in service.

The building may be placed in service in the year in which the credit allocation is received, or in either of the two succeeding years, provided that at least 10% of the expected project costs were paid by the end of the year in which the credit allocation was received.

No provisions

Act language was provided to clarify that a housing project is not disqualified from receiving a credit allocation solely because the developer undertook the project as a condition of receiving zoning variances for other non-low-income rental housing property.

No provisions

Effective as of November 10, 1988, the low-income housing credit is extended for another year, through December 31, 1990.

LEGISLATIVE CHANGE NO. 89-4
ASSEMBLY BILL 482

Author: Jones

Subject: Miscellaneous Technical Amendments

Laws Affecting Franchise Tax Board: Sections 17024.5, 17206, 17210, 17272, 17565, 18001, 18002, 18807, 23051.5, 24343, 24349.1, 24449, 24632, 25111, and 25954 of the Revenue & Taxation Code

Date Filed with Secretary of State: September 12, 1989

Chapter Number: 89-362

SUMMARY

Sections 17024.5, 18807, 23051.5, 24343, and 24349.1 amended.

This act makes clarifying technical changes that were subsequently superseded with the enactment of AB 802 (Stats. 1989, Ch. 1352).

Section 17206, 17210, 17272 repealed.

Removes redundant references to the meaning of the term "adjusted gross income" with regard to casualty losses, medical expenses, and the deduction allowed for contributions to Individual Retirement Accounts (IRA).

Sections 17565 and 24632 added.

Moves the provision requiring taxpayers to use the same taxable or income year for state purposes that they do for federal purposes to the chapter of the Revenue and Taxation Code that deals with accounting periods.

Sections 18001 and 18002 amended.

Clarifies that the term "net income taxes" paid to another state includes the taxpayer's pro rata share of any taxes on, or according to, or measured by, income or profits paid or accrued, which were paid by a partnership or S corporation.

Sections 24449 amended.

Clarifies that references in certain IRC sections that refer to other IRC sections are instead references to Bank and Corporations Tax Law Sections.

Section 25111 amended.

Corrects an erroneous reference in the Bank and Corporation Tax Law Section that prescribes rules pertaining to the period for making a water's-edge election. This correction was subsequently chaptered out by AB 647 (Stats. 1989, Ch. 1461).

Section 25954 amended.

Clarifies that, for purposes of the penalty for underpayment of estimated tax, the return for the "preceding taxable year" must have been for a full 12-month period.

This act will not result in departmental program changes for the department requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

The provisions of this act are operative January 1, 1989.

**LEGISLATIVE CHANGE NO. 89-6
ASSEMBLY BILL 648**

Author: D. Brown
Subject: Penalty for Underreported Compensation; Employment
Development Department; Technical Changes
Laws Affecting Franchise Tax Board: Section 18681.6 of the Revenue
and
Taxation Code and Section 13052.5 of the Unemployment
Insurance Code
Date Filed with Secretary of State: 9/21/89
Chapter Number: 89-600

SUMMARY

Section 18681.6 of the Revenue and Taxation Code is amended.

This act provides that the penalty for failure to report compensation for personal services can be imposed by either the Franchise Tax Board or the Employment Development Department (EDD). As such, it will no longer be necessary for EDD to forward its audit reports to the Franchise Tax Board (FTB) for it to impose this penalty.

Section 13052.5 is added to the Unemployment Insurance Code.

This act authorizes the EDD to impose the penalty for failure to report compensation for personal services and specifies that the imposition will be by either the EDD or FTB (not both). As such, EDD will be able to use its audit reports to impose the penalty rather than forward the audit reports to FTB for imposition of the penalty.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

This act is operative January 1, 1990.

LEGISLATIVE CHANGE NO. 89-7
ASSEMBLY BILL 714

Author: Moore
Subject: Special Tax Deduction for Gas Producers' Cooperatives
Laws Affecting Franchise Tax Board: Sections 3051, 3121, 3151, and
3171 of the Public Utilities Code. Section 24406.5 of the
Revenue and Taxation Code
Date Filed with Secretary of State: September 12, 1989
Chapter Number: 89-349

SUMMARY

Sections 3051, 3121, 3151, and 3171 of the Public Utilities Code.

This act makes technical clarifications to the Public Utilities Code provisions regarding gas producers' cooperatives and do not affect the taxation or special tax deductions allowed to the cooperative or the shareholder.

Section 24406.5 of the Revenue and Taxation Code.

This act provides a special tax deduction for gas producers' cooperatives.

Gas producers' cooperative associations are required to be organized under the Public Utilities Code. All income derived from the sale of tangible personal property other than water, agricultural products or food sold at wholesale, which is paid to patrons in the form of patronage refunds would be nontaxable to the cooperative (the amount would be allowed as a special tax deduction to the cooperative) but would be taxable to the recipient. Patronage refunds must be allocated as follows:

1. Under a preexisting obligation created by the association's bylaws or other written instrument;
2. Made from earnings which are attributable to business done by the association with the patrons to whom the patronage refunds are made and allocated ratably according to patronage;
3. Allocated on or before the due date for the filing of the association's franchise tax return, including any extension of time, for the year in which the patronage refund occurred. The patrons to whom the patronage refunds are to be allocated would also have to be notified of the allocation.

In addition, the cooperative association is required to certify to the Franchise Tax Board its eligibility for this deduction at the time and in the manner prescribed by the Franchise Tax Board in forms and instructions provided by the Franchise Tax Board.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

This act's provisions apply to income years beginning on or after January 1, 1989.

BACKGROUND

In 1987, a legislative bill (Stats. 1987, Ch. 680) amended the Public Utilities Code to permit three or more persons engaged in the production of gas to form a cooperative association to:

1. Sell gas produced by its members.
2. Store, handle, transport or utilize gas or manufacture or make by-products of gas.
3. Manufacture, sell or supply to its members machinery, equipment or supplies directly related to the production, transmission, storage, or marketing of gas.
4. Finance any of these activities.
5. Represent members in bargaining and negotiations concerning any sale of gas to a third party.

According to one of the sponsors of this act, to date, gas cooperatives have not been formed for many reasons. One of the major reasons is that the gas cooperatives received unfavorable treatment when competing for use of the gas lines. Legislation passed in 1987, effective on January 1, 1989, eliminated this discrimination. The Public Utilities Commission is currently in the process of administering the act's provisions by allowing fair access of the gas lines to the smaller gas producers.

LEGISLATIVE CHANGE NO. 89-8 ASSEMBLY BILL 1308

Author: Killea, et al

Subject: Credit for the Purchase of Qualified Recycling Equipment
Laws Affecting Franchise Tax Board: Section 23612.5 of the Revenue
and Taxation Code

Date Filed with Secretary of State: 9/30/89

Chapter Number: 89-1091

SUMMARY

Section 23612.5

This act allows a credit against "tax" equal to 40 percent of the cost of purchasing qualified property. This credit is to be claimed in the following amounts and for the following years:

- o 20% of the cost for the income year of purchase;
- o 15% of the cost for the income year immediately succeeding the income year of purchase; and

- o 5% of the cost for the second income year after the income year of purchase.

The credit is only allowed if:

- (1) The total adjusted basis of all qualified property owned on the last day of the income year exceeds the total adjusted basis of all qualified property owned on the last day of the base year.
- (2) The total number or capacity of items of qualified property on the last day of the income year exceeds the total number or capacity of items of qualified property on the last day of the base year.

The amount of the credit can not exceed \$250,000 with respect to qualified property used in any one manufacturing facility.

Specifically, this act:

- o requires that the basis of any qualified property be reduced by the amount of the credit;
- o requires that taxpayers who dispose of or no longer use the qualified property be disallowed any amount that would have been allowed as a credit in the year of disposition or nonuse;
- o specifies that if two or more taxpayers or partnerships share in the expenses eligible for the credit, then each taxpayer would be entitled to receive the allowable credit with respect to its pro rata share of the expenses; and
- o allows the credit to be carried over to future years.

The California Integrated Waste Management Board is required to certify to the taxpayer that the machinery or equipment purchased is qualified for the tax credit and is required to do all of the following:

- (1) provide an annual listing of the qualified taxpayers who were issued the certification to the Franchise Tax Board (preferably on magnetic media or other machine readable form) in a form and manner agreed upon by the Franchise Tax Board;
- (2) provide the taxpayer with a copy of the certification to retain for its records; and
- (3) submit a report to the Legislature on the impact of this act's provisions. The information must include the number of taxpayers claiming the credit, the total dollar amount, and the equipment for which the credit was used. The California Integrated Waste Management Board is required to work cooperatively with the Franchise Tax Board. The Franchise Tax Board must provide the data to the California Integrated Waste Management Board.

Taxpayers who claim the credit are required to:

- (1) provide the California Integrated Waste Management Board with any documents deemed necessary by this board to verify this act's eligibility requirements; and
- (2) retain for its tax records a copy of the certification received from the California Integrated Waste Management Board.

The following definitions are contained within the act:

- o "Base year" is the income year immediately preceding the income year for which the credit allowed by this section is claimed.
- o "Qualified property" means machinery or equipment located within California, which is used by the taxpayer exclusively to manufacture finished products composed of at least 50 percent secondary waste material with at least 10 percent of which is composed of postconsumer waste generated from within California. "Qualified property" may include manufacturing equipment which utilizes 100 percent secondary waste, including at least 80 percent postconsumer waste where all of that material is contained within the finished product regardless of the finished product's percent postconsumer content. "Qualified property" includes, but is not limited to certain deinking equipment and certain equipment used to reclaim specified plastic.
- o "Postconsumer waste" is only those products generated within California by a business or consumer which have served their intended end uses and would normally be disposed of as solid waste, having completed their life cycle as a consumer item.
- o "Secondary waste" means fragments of products or finished products of a manufacturing process generated within California, which has converted a virgin resource into a commodity of real economic value, and includes postconsumer waste, but does not include mill broke, wood slabs, chips, sawdust or other wood residue from a manufacturing process.
- o "Finished product" means a marketable product or component thereof that has an economic value to a consumer and is ready to be used without the requirement of further alteration of its form.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

This act's provisions would apply to income years beginning on or after January 1, 1989, and before January 1, 1994.

LEGISLATIVE CHANGE NO. 89-9
SENATE BILL 432

Author: Alquist
Subject: Credit for the Purchase of Qualified Recycling Equipment
Laws Affecting Franchise Tax Board: Section 17052.14 of the Revenue
and Taxation Code
Date Filed with Secretary of State: 9/30/89
Chapter Number: 89-1090

SUMMARY

Section 17052.14

This act allows a credit against "net tax" equal to 40 percent of the cost of purchasing qualified property. This credit is to be claimed in the following amounts and for the following years:

- o 20% of the cost for the taxable year of purchase;
- o 15% of the cost for the year immediately succeeding the taxable year of purchase; and
- o 5% of the cost for the second year after the year of purchase.

The credit is only allowed if:

- (1) The total adjusted basis of all qualified property owned on the last day of the taxable year exceeds the total adjusted basis of all qualified property owned on the last day of the base year.
- (2) The total number or capacity of items of qualified property on the last day of the taxable year exceeds the total number or capacity of items of qualified property on the last day of the base year.

The amount of the credit can not exceed \$250,000 with respect to qualified property used in any one manufacturing facility.

Specifically, this act:

- o requires that the basis of any qualified property be reduced by the amount of the credit;
- o requires that taxpayers who dispose of or no longer use the qualified property be disallowed any amount that would have been allowed as a credit in the year of disposition or nonuse;
- o specifies that if two or more taxpayers or partnerships share in the expenses eligible for the credit, then each taxpayer would be entitled to receive the allowable credit with respect to his/her pro rata share of the expenses. For husbands and wives who file separate returns, the credit would be taken by either or divided equally between them;
- o allows the credit to be carried over to future years.

The California Integrated Waste Management Board is required to certify to the taxpayer that the machinery or equipment purchased is qualified for the tax credit and is required to do all of the following:

- (1) provide an annual listing to the Franchise Tax Board (preferably on magnetic media or other machine readable form) in a form and manner agreed upon by the Franchise Tax Board and the board of the qualified taxpayers who were issued the certification;
- (2) provide the taxpayer with a copy of the certification to retain for his or her records; and
- (3) submit a report to the Legislature on the impact of this act's provisions. The information must include the number of taxpayers claiming the credit, the total dollar amount, and the equipment for which the credit was used. The California Integrated Waste Management Board is required to work cooperatively with the Franchise Tax Board. The Franchise Tax Board must provide the data to the California Integrated Waste Management Board.

Taxpayers who claim the credit are required to:

- (1) provide the California Integrated Waste Management Board with any documents deemed necessary to verify this act's eligibility requirements; and
- (2) retain for his or her tax records a copy of the certification received from the California Waste Management Board.

The following definitions are contained within the act:

- o "Base year" is the taxable year immediately preceding the taxable year for which the credit allowed by this section is claimed.
- o "Qualified property" means machinery or equipment located within California, which is used by the taxpayer exclusively to manufacture finished products composed of at least 50 percent secondary waste material with at least 10 percent of which is composed of postconsumer waste generated from within California. "Qualified property" may include manufacturing equipment which utilizes 100 percent secondary waste, including at least 80 percent postconsumer waste where all of that material is contained within the finished product regardless of the finished product's percent postconsumer content. "Qualified property" includes, but is not limited to certain deinking equipment and certain equipment used to reclaim specified plastic.
- o "Postconsumer waste" is only those products generated within California by a business or consumer which have served their intended end uses and would normally be disposed of as solid waste, having completed their life cycle as a consumer item.
- o "Secondary waste" means fragments of products or finished products of a manufacturing process generated within California, which has converted a virgin resource into a commodity of real economic value, and includes postconsumer waste, but does not

include mill broke, wood slabs, chips, sawdust or other wood residue from a manufacturing process.

- o "Finished product" means a marketable product or component thereof that has an economic value to a consumer and is ready to be used without the requirement of further alteration of its form.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

This act's provisions would apply to taxable years beginning on or after January 1, 1989, and before January 1, 1994.

**LEGISLATIVE CHANGE NO. 89-10
SENATE BILL NO. 702**

Author: Morgan
Subject: Extension or Deletion of Voluntary Contributions Sunset Date
Laws Affecting Franchise Tax Board: Sections 18504, 18513, 18515.3,
18525, 18534, and 18545 of the Revenue and Taxation Code
Date Filed with Secretary of State: 9/29/89
Chapter Number: 89-954

SUMMARY

Sections 18504, 18513, 18515.3, 18525, 18534, and 18545

This act provides that if any of the current sunset dates of voluntary contributions (except the California Election Campaign Fund) is extended or its existing sunset date is deleted, then the estimated contributions must exceed \$250,000 for that calendar year or the voluntary contribution provision would be repealed and removed from tax returns starting the following taxable year.

The existing voluntary contributions affected by this bill are:

- o State Children's Trust Fund for the Prevention of Child Abuse (Sunset date 1/1/92)
- o California Fund for Senior Citizens (Sunset date 1/1/92)
- o Vietnam Veterans' Memorial Fund (Sunset date 1/1/91)
- o Endangered and Rare Fish, Wildlife, and Plant Species Conservation and Enhancement Account (Sunset date 1/1/92)
- o United States Olympic Committee Fund (Sunset date 1/1/92)
- o Designation to the California Alzheimer's Disease and Related Disorders Research Fund (Sunset date 1/1/92)

Franchise Tax Board is responsible for estimating the amount of voluntary contributions by September 1 of every year.

This act also authorizes the Controller to continue transferring amounts contributed prior to the repeal date from the Personal Income Tax Fund to the designated funds, and for the administrators of the designated funds to continue to disburse amounts contributed until they are exhausted.

In addition, the FTB must report to the Legislature if in any fiscal year the administrative costs for any fund exceed 3% for the first year and 2% in succeeding years. The report includes: (1) The reasons the administrative costs exceed the targeted amount; and, (2) A plan to reduce the administrative costs in subsequent years.

This act is operative beginning January 1, 1990.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

**LEGISLATIVE CHANGE NO. 89-11
SENATE BILL 1290**

Author: Seymour and Kopp
Subject: Low-income Housing
Laws Affecting Franchise Tax Board: Section 23610.5 of the Revenue and

Taxation Code

Date Filed with Secretary of State: 9/30/89

Chapter Number: 89-1156

SUMMARY

Section 23610.5.

This act modifies the provisions pertaining to the low-income housing credit established under the Bank and Corporation Tax Law, as amended by SB 70 (Ch. No. 46, Stats. 1989), by allowing new credits to be allocated for income years beginning January 1, 1990, and thereafter only as long as comparable provisions are in effect at the federal level.

In addition, this act clarifies the law by adding the following definitions:

- o "Taxpayer", for purposes of the Bank and Corporation low-income housing credit, means the sole owner in the case of a C corporation, the partners in the case of a partnership, and the shareholders in the case of an S corporation.
- o "Housing sponsor" for purposes of the Bank and Corporation low-income housing credit means the sole owner in the case of a C corporation, the partnership in the case of a partnership, and the S corporation in the case of an S corporation.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

LEGISLATIVE CHANGE NO. 89-12
ASSEMBLY BILL 1463

Author: Klehs
Subject: Credits for Employer and Employee Rideshare Participation
Laws Affecting Franchise Tax Board: Revenue and Taxation Code Section
17053, 17053.1 and 23605
Date Filed with Secretary of State: 10/01/89
Chapter Number: 89-1227

SUMMARY

Section 17053 and 23605

For taxable or income years beginning on or after January 1, 1989, and before January 1, 1996, noncorporate and corporate employers are allowed a tax credit (eligible for carryover) for the purchase, lease or contracting of company shuttle buses, company commuter buses or vans, or company motor-pool vehicles which are provided as part of an employer-sponsored ridesharing incentive program conducted principally in this state.

The amount of the credit for each employer depends on the number of employees the employer employs and whether the equipment is purchased or leased. Noncorporate and corporate taxpayers who employ less than 200 employees are allowed a credit equal to 30 percent of the cost paid or incurred for the specified purchase or lease. Noncorporate taxpayers who employ 200 or more employees are allowed a credit of 20 percent for the purchase or lease. Corporate taxpayers which employ 200 or more employees are also entitled to a 20 percent credit for the purchase of equipment. However, corporate taxpayers which employ 200 or more taxpayers and which lease the equipment are restricted to a 15 percent credit.

Employers who lease or contract vehicles must claim the credit on the tax return for the year the vehicles were first leased or contracted for, and placed in service. However, if an employer has a contract or lease that began prior to 1989 and the contract or lease is for vehicles that meet this act's definitions, then a credit may be claimed using the 1989 total payments plus the total payments to be made on the remaining life of the lease or contract.

If a ridesharing vehicle for which a credit is allowed is disposed of or no longer used as a part of an employer-sponsored ridesharing program within three years after the credit is claimed, then the employer must determine the pro rata share of that remaining three, two or one year period, and add that amount to the current year's tax liability. Employers must increase the basis of the vehicle by the amount added to the tax liability.

A credit is not allowed to employers if the vehicles that are purchased, leased or contracted for would otherwise be required as part of the employer's business activities in the absence of an employer-ridesharing program.

This act requires employers to:

- 1) Keep a contemporaneous log of the vehicle's use to determine if the use meets the requirements. The logged information must include, but is not limited to, dates and times the vehicle was driven, the mileage of each trip, and purpose of each trip.
- 2) Retain documents verifying the vehicle's weight requirements. These would include the vehicle's owners manual and the vehicle's registration.
- 3) Provide the information in items #1 and #2 to the Franchise Tax Board upon request.

In addition to the credit provided to employers for purchasing, contracting, or leasing vehicles, employers are also allowed:

- o A credit equal to 40 percent of the cost of providing subsidized public transit passes if the employer provides no free or subsidized parking.
- o A credit equal to 20 percent of the cost for providing subsidized public transit passes if the employer provides subsidized parking.
- o A credit equal to 10 percent of the cost of providing subsidized public transit passes if the employer provides free parking.

The act provides definitions for employer, employee, employer-sponsored ridesharing incentive program, company shuttle bus, company commuter bus or van, company motor-pool vehicle and subsidized parking.

The credits provided by this act are in lieu of any deduction to which the employer may be entitled for costs that are used to determine the allowable credit amount.

Section 17053.1

For taxable years beginning on or after January 1, 1989, and before January 1, 1996, a credit (available for carryover) is allowed to employees in non-employer-sponsored vanpool programs in an amount equal to 40 percent of all vanpool subscription costs. To be eligible to claim the credit receipts must be available. The credit allowed by this section may not exceed \$480 per taxable year.

This act provides definitions for vanpool, employer, employee, and non-employer sponsored vanpool program.

Standard rules are provided in all three sections for the sharing of the credit when more than one taxpayer shares in the expenses. In the case where the employee's credit exceeds the taxpayer's net tax, the excess may be carried forward to succeeding years, if necessary, until the remaining credit is exhausted.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

**LEGISLATIVE CHANGE NO. 89-13
SENATE BILL 227**

Author: Garamendi
Subject: Solar Energy Tax Credit
Laws Affecting Franchise Tax Board: Sections 17039, 17052.4, 17052.5, 23036, and 23601.5
Date Filed with Secretary of State: October 1, 1989
Chapter Number: 89-1291

SUMMARY

Sections 17039, 17052.4 and 23036 are amended.

This act makes technical changes to the Revenue and Taxation Code provisions that established a solar energy tax credit for taxable/income years beginning on or after January 1, 1987.

Sections 17052.5 and 23601.5 are added.

This act establishes a 10 percent solar energy credit under both the Personal Income Tax Law and Bank and Corporation Tax Law for taxable/income years beginning on or after January 1, 1990, and ending before January 1, 1994. The differences between the current law and the new provisions are:

- o The solar energy credit provisions in this act do not allow energy conservation measures that are used in conjunction with solar energy systems to be considered as part of the system for purposes of claiming the solar energy credit.
- o The solar energy system allowed a credit by this act is required to meet cost effectiveness criteria in terms of dollars per kilowatt, as established in the guidelines and criteria developed by the State Energy Resources Conservation and Development Commission.

This act redefines the phrase "solar energy system" to mean the use of solar devices and for the individual function of production of electricity in excess of 30 watts per device.

This act specifies that the phrase "solar energy system" includes, but is not limited to solar thermal electric systems and photovoltaic systems.

Any solar energy system with a generating capacity in excess of 10 megawatts is allowed the credit only if the owner of the solar energy system first obtains a finding from the State Energy Resources Conservation and Development Commission that the system is eligible for the credit under the criteria established.

This act prohibits the credit from being claimed for any solar energy system with a generating capacity in excess of 30 megawatts for any taxable year for which the Internal Revenue Code does not allow at least a 10-percent tax credit for those systems which is equivalent in scope to the credit available under the Internal Revenue Code for the 1989 calendar year.

Sections 17039 and 23036 as amended, and 17052.5 and 23601.5, as added.

This act allows both the existing solar energy credit and the new solar energy credit to reduce the regular tax below the tentative minimum tax, but prohibits the new credit from reducing the alternative minimum tax.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

**LEGISLATIVE CHANGE NO. 89-14
SENATE BILL 726**

Author: L. Greene
Subject: Low-income Housing
Laws Affecting Franchise Tax Board: Section 17058 of the Revenue and Taxation Code
Date Filed with Secretary of State: 10/02/89
Chapter Number: 89-1347

SUMMARY

Section 17058.

This act modifies the provisions pertaining to the low-income housing credit established under the Personal Income Tax Law, as amended by SB 70 (Ch. No. 46, Stats. 1989), by allowing new credits to be allocated for taxable years beginning January 1, 1990, and thereafter only as long as comparable provisions are in effect at the federal level.

In addition, this act clarifies the law by adding the following definitions:

- o "Taxpayer", for purposes of the Personal Income Tax Law low-income housing credit means the sole owner in the case of an individual, the partners in the case of a partnership, and the shareholders in the case of an S corporation.
- o "Housing sponsor" for purposes of the Personal Income Tax Law low-income housing credit means the sole owner in the case of an individual, the partnership in the case of a partnership, and the S corporation in the case of an S corporation.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

This act requires the Legislative Analyst to prepare a report to evaluate the low-income tax credit under the Personal Income Tax Law by no later than May 1, 1990.

**LEGISLATIVE CHANGE NO. 89-15
SENATE BILL 192**

Author: Garamendi

Subject: California Dynamic, Random-Access Memory (DRAM) Consortium Project

Laws Affecting Franchise Tax Board: Sections 11752, 15333.6, 15379.3 and 15379.10 of the Government Code as amended; Sections 15379.20 and 15379.21 of the Government Code, as added; and Sections 17277, 23634, and 24390 of the Revenue and Taxation Code as added.

Date Filed with Secretary of State: October 2, 1989

Chapter Number: 89-1440

BACKGROUND

The Japanese semiconductor industry "dumped" their smaller dynamic, random-access memories (DRAM) semiconductor chips in the United States causing most of the semiconductor industry to withdraw from the market. After the prices stabilized, the Japanese had secured seventy-five percent (75%) of the market.

In response to this situation, a joint venture was entered into in June 1989 by Advanced Micro Devices, Digital Equipment Corp., Hewlett-Packard Co., International Business Machines Corp. Inc., Intel Corp., LSI Logic Corp., and National Semiconductor Corp. These companies formed a for-profit consortia to do business as U.S. Memories and to compete with foreign manufacturers on the state-of-the-art DRAM semiconductor chips.

On August 14, 1989, U.S. Memories conducted a bidders conference to which were invited the following states:

o Arizona	o California
o Colorado	o Missouri
o North Carolina	o Massachusetts
o New York	o Texas

Each of these states put together packages consisting of various economic incentives to lure U.S. Memories into locating its manufacturing facilities within their individual jurisdictions.

On Tuesday, October 24, 1989, U.S. Memories announced that it had chosen four "site finalists" that will be considered as the location of a \$1 billion state-of-the-art manufacturing operation designed to challenge Japanese dominance in the industry. The four cities named were Austin, Texas; Colorado Springs, Colo.; Middletown, N. Y.; and Phoenix, Ariz.

This act among other things, established specific tax incentives directed at U.S. Memories that were included in California's bid. However, as California was not chosen as the location of the

manufacturing facility, these incentives will not be available to any taxpayer. Other provisions of this act, as described below, not related to tax incentives are effective January 1, 1990.

SUMMARY

GOVERNMENT CODE PROVISIONS

Section 11752 is amended.

This act requires that the director of the Stephen P. Teal Data Center be appointed by the Governor, subject to confirmation by the Senate and who will serve at the pleasure of the Governor.

Formerly, the director of the Stephen P. Teal Data Center was appointed by the Secretary of Business, Transportation and Housing Agency pursuant to civil service.

Section 15333.6 is amended.

This act makes minor, technical changes to the Government Code provision that establishes the Competitive Technology Advisory Committee within the Department of Commerce.

Section 15379.3 is amended.

This act amends the provision that authorizes the California Competitive Technology Program to provide grants to technology transfer projects.

Specifically this act adds consortia to the types of projects that are eligible to receive funding through the grant program.

In addition, this act allows grant funds awarded for consortia development projects to be used to fund third-party projects upon compliance with all of the following requirements:

- o The projects are within one or more specified technology or industry priorities.
- o The Department of Commerce has approved the process used for selecting the projects.
- o The entity conducting the project is a public agency or a not-for-profit or a nonprofit organization.

Section 15379.10 is amended.

This act modifies the provision that limits the amount of funds the Director of Commerce may award as discretionary technology transfer grants.

Specifically, this act authorizes the Director of Commerce to award up to 15 percent of the funds appropriated for a given fiscal year for consortia development projects which do not have private sector match within six months from the date of the award of funding. If, after six months, no private sector match is available, funding under the

program would cease and all moneys previously received would be required to be returned to the state.

"Private sector match" means a cash or in-kind contribution available for expenditure or use to a consortium development project.

Section 15379.20 is added.

This act codifies legislative findings regarding the socio-economic need for encouraging the consortium to locate it's DRAM semiconductor chips manufacturing facility in California.

Section 15379.21 is added.

This act requires the Department of Commerce to annually certify that the consortium described in this act is eligible for the tax benefits specified.

REVENUE AND TAXATION CODE PROVISIONS

Sections 17277 and 24390 are added.

This act allows the deduction of interest income that is attributable to loans made by the taxpayer/lender to a corporation that was formed to compete with foreign manufacturers of state-of-the-art DRAM semiconductor chips (Personal Income Tax Law Section 17231 and Bank & Corporation Tax Law Section 24384) with respect to indebtedness directly related to the corporation's facility or facilities located in California.

The corporate provision (Section 24390) provides for the following additional tax incentives:

- o Expensing of a portion of the cost of (1) machinery and machinery parts used for fabricating, processing, assembling, and manufacturing and (2) machinery used to produce renewable energy resources or air or water pollution control mechanisms (Bank & Corporation Tax Law Section 24356.3). However, this expensing is available only with respect to equipment used exclusively for the corporation's facility or facilities located in California.
- o A net operating loss carryforward of 100% of the amount of the net operating loss (Bank & Corporation Tax Law Sections 24416.1 and 24416.2) but only with respect to activities directly related to the corporation's facility or facilities located in California. The net operating loss can be carried forward for up to fifteen years.

Section 23634 is added.

This act also establishes tax credits for sales and use tax paid on the purchase of qualified property (Bank and Corporation Tax Law Section 23612) but only with respect to properties used exclusively for the corporation's facility or facilities located in California. The credit applies to purchases up to a value of \$20,000,000 of machinery and machinery parts used for (1) fabricating, processing,

assembling, and manufacturing or (2) for production of renewable energy resources or pollution control mechanisms.

The amount of the credit is limited to the taxpayer's tax liability. In the case where the credit exceeds the tax, the excess may be carried over to succeeding years. Any sales tax claimed as a credit on "qualified property" may not also increase the basis of such property.

This act's tax provisions are operative for taxable and income years beginning on or after January 1, 1989, and sunset on January 1, 2005, but are only operative upon the annual certification by the Department of Commerce.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government code.

**LEGISLATIVE CHANGE NO. 89-16
SENATE BILL 1207**

Author: Keene
Subject: Small Business Health Coverage Credit
Laws Affecting Franchise Tax Board: Sections 17053.20 and 23615 of the

Revenue and Taxation Code

Date Filed with Secretary of State: September 26, 1989
Chapter Number: 89-797

SUMMARY

This act extends the Personal Income Tax and Bank and Corporation Tax credit, enacted by The Small Employer Health Coverage Act of 1988, SB 2260 (Stats. 1988, Ch. No. 1521), to all small employers (25 employees or less), whether or not they subsidized health care insurance coverage for employees during 1986 or 1987.

In addition, technical corrections were made to the statutory definitions of employers and employees who meet qualification tests related to credit eligibility. These corrections clarify that the credit must be based on the employer's cost of furnishing health care coverage to employees who are residents of California and who might otherwise rely upon publicly supported medical services, and that the credit may be claimed only by employers who have on the average no more than 25 employees.

The criteria for employee health care insurance benefits established by AB 350 (W. Brown), Ch 89-829, now fit within the definition of qualified "health coverage" for the purpose of claiming the small employer health care credit.

The small employer health care credit may be claimed for health coverage payments made by an employer on or after January 1, 1992. The small employer health coverage credit has no expiration date.

However, the small employer health coverage credit will not become operative unless a report, researching health care insurance issues in California, is submitted to the Governor and Legislature by a board or agency designated by the Governor. This enabling report is due by March 1, 1990.

This act will not result in department program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

**LEGISLATIVE CHANGE NO. 89-17
SENATE BILL 71**

Author: B. Greene
Subject: Extends Sunset Date for Jobs Tax Credit
Laws Affecting Franchise Tax Board: Sections 17053.7 and 23621 of the Revenue and Taxation Code
Date Filed with Secretary of State: September 30, 1989
Chapter Number: 89-1074

SUMMARY

This act extends to December 31, 1993, the cut-off date by which an individual, certified by the Employment Development Department (EDD) as being an active participant in the GAIN (Greater Avenues Of Independence) program, must be hired for the individual's wages to be used as a basis for claiming the California Jobs Tax Credit.

This act requires the Legislative Analyst to submit an impact report to the Legislature before May 2, 1993, including the following information and evaluation:

- o the number of Jobs Tax Credit claims;
- o the General Fund revenue losses associated with the credit;
- o the effect of the Jobs Tax Credit on the GAIN program;
- o a comparison between General Fund losses and administrative costs generated by the Jobs Tax Credit with related savings in public aid expenditures; and
- o the personal income tax revenue impact of the employment of verified GAIN participants.

This act also conforms California law to federal law, prohibiting a Jobs Tax Credit for wages paid to an otherwise eligible employee who replaces either a striking employee or an employee affected by a work facility lockout.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

**LEGISLATIVE CHANGE NO. 89-18
SENATE BILL 748**

Author: Royce
Subject: Credit Union Exemption from Minimum Tax
Laws Affecting Franchise Tax Board: Section 23153 of the Revenue and
Taxation Code
Date Filed with Secretary of State: October 1, 1989
Chapter Number: 89-1222

SUMMARY

This act exempts all credit unions from imposition of the minimum franchise tax. State chartered credit unions would continue to be liable for a tax measured on outside investment income which is unrelated to income derived from business activities with credit union members.

The act applies to income years beginning on or after January 1, 1990.

This act would not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

**LEGISLATIVE CHANGE NO. 89-19
ASSEMBLY BILL 982**

Author: Lempert
Subject: Corporate Dissolution - Minimum Tax in Final Year
Laws Affecting Franchise Tax Board: Section 23332 of the Revenue and
Taxation Code
Date Filed with Secretary of State: September 21, 1989
Chapter Number: 89-556

SUMMARY

A corporation, which begins the process of dissolution or withdrawal near the close of the corporate accounting period, may become liable for an additional minimum franchise tax before the dissolution or withdrawal is complete and the corporate entity ceases to exist for tax purposes. By amending Revenue and Taxation Code Section 23332, this act protects corporations from becoming liable for an additional minimum tax only because the department's processing time for issuing a tax clearance certificate exceeds 30 days, which is the processing period allowed the Franchise Tax Board by statute.

A minimum tax will not be imposed on a corporation for the final taxable year in which the corporation ceases doing business, dissolves or withdraws, if all of the following conditions are satisfied:

1. The corporation does no business in California during the final taxable year.
2. The corporation files a request for a tax clearance certificate at least 30 days before the beginning of the final taxable year.

3. The corporation satisfies all the requirements necessary for the issuance of a tax clearance certificate at least 30 days before the beginning of the final taxable year.
4. The corporation files a certificate of withdrawal or dissolution with the Office of the Secretary of State by the expiration date of the tax clearance certificate issued by the Franchise Tax Board.

This act provides the statutory authority for the waiver of the minimum tax when a corporation acts prudently and meets all requirements but is not dissolved before the end of the corporation's accounting period.

Since these provisions affect a change in the computation of tax, they apply for taxable years beginning on or after January 1, 1989.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

**LEGISLATIVE CHANGE NO. 89-20
ASSEMBLY BILL 647**

Author: D. Brown
Subject: Election Not to Recognize Gain from Sale of Low-Income Housing Projects; Water's Edge Elections
Laws Affecting Franchise Tax Board: Sections 18035.5, 24953.5 and 25111 of the Revenue and Taxation Code
Date Filed with Secretary of State: 10/02/89
Chapter Number: 89-1461

SUMMARY

Sections 18035.5 and 24953.5 of the Revenue and Taxation Code are amended.

The intent of this act is to allow the Franchise Tax Board to provide forms and instructions for taxpayers who are electing not to recognize a gain from the sales or other dispositions of certain low-income housing projects. This provision is operative immediately.

Section 25111 of the Revenue and Taxation Code is amended.

This act allows a corporate entity to make a water's edge election after the original return is filed, if the corporate entity is determined by the Franchise Tax Board to be part of a unitary business with another corporation which has previously made a water's edge election. (It contains a technical error which we expect will be rectified promptly next session.) This provision is operative for income years beginning on or after January 1, 1989.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

LEGISLATIVE CHANGE NO. 89-21
ASSEMBLY BILL 2346

Author: Kelley
Subject: Credit/Donations of Agricultural Products
Laws Affecting Franchise Tax Board: Sections 17053.12 and 23608 of
the Revenue and Taxation Code
Date Filed with Secretary of State: 10/1/89
Chapter Number: 89-1248

SUMMARY

This act provides a tax credit equal to 10 percent of the cost of agricultural products donated to certain nonprofit organizations. The product must be in a condition that it may be used as food for human beings and must be donated to a nonprofit charitable organization within the state. The credit is allowed to taxpayers who are engaged in the business of processing, distributing, or selling any agricultural product. The costs, which are allowed for purposes of computing this credit amount, are those included in inventory costs under the Internal Revenue Code (IRC). Farming businesses also will use the IRC inventory method for determining the costs of the donations.

If the credit amount exceeds the tax, the credit may be carried forward.

In the case of a husband and wife, only one credit is allowed and if filing separate returns, the credit may be taken by either or equally divided between them. In the case of a partnership, the credit is in proportion to each partner's respective share of the costs.

Any deductions otherwise allowed for the same costs must be reduced by the amount of the credit.

Upon receipt of the donated agricultural product, the nonprofit organization must provide a certificate to the donor. The certificate must be furnished to the Franchise Tax Board upon request.

This credit is operative for income and taxable years beginning on or after January 1, 1989 and before January 1, 1992.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

LEGISLATIVE CHANGE NO. 89-22
SENATE BILL 354

Author: Morgan
Subject: Net Operating Loss (NOL) and S Corporation Technical Changes
Laws Affecting Franchise Tax Board: Sections 17041, 17276, 17276.1,
17276.2, 23801, 23802, 23803, 24416.1, and 24416.2 of the
Revenue and Taxation Code
Date Filed with Secretary of State: 9/21/89
Chapter Number: 89-581

SUMMARY

Section 17041 of the Revenue and Taxation Code is amended.

This act relocates and clarifies the NOL computation rules for nonresidents.

Section 17276 of the Revenue and Taxation Code is amended.

This act eliminates the NOL computation rules from this section. (The rules were added to Section 17041 as stated above.)

Sections 17276.1 and 24416.1 of the Revenue and Taxation Code are amended.

This act changes the format for setting forth the enterprise zone/program area NOL provisions by: (1) clarifying that the enterprise zone/program area NOL deduction is the same as California's regular NOL deduction except (1) losses sustained in years beginning on or after January 1, 1992 are permitted, (2) 100% of the loss may be carried forward, and (3) additional rules (specified in Sec. 17276.2) also apply.

Section 17276.2 of the Revenue and Taxation Code is amended.

This act removes obsolete provisions pertaining to losses occurring before January 1, 1984. In addition, it clarifies that: (1) if an enterprise zone/program area election is made, only the loss from the zone/area can be carried over; (2) if a taxpayer is eligible as both an enterprise zone and a program area, the taxpayer is to designate as to whether the loss is under the zone or the area; and (3) clarifies that the designation must be included in the election.

Section 23801 of the Revenue and Taxation Code is amended.

This act makes technical changes to the S corporation rules for income years beginning after 1987. It:

- (1) in general, rewords the existing election rules to make them clearer;
- (2) expands the rule for corporations that want to continue to be treated as a "C corporation" for California purposes (when changing to a federal "S"), so that in addition to these corporations, out-of-state corporations that file as a

federal "S corporation" that begin doing business in California, and newly formed corporations electing to be a federal "S", can make a "C" election.

- (3) allows out-of-state corporations that are not required to file California returns to make a "C" election on or before the 15th day of the third month following the close of its income year, if the corporation has: (a) a shareholder who becomes a California resident in mid-year, or (b) a shareholder residing in California and the corporation is filing a federal "S" election for the current year.

It is noted that the enactment of AB 802, which was chaptered October 2, 1989 (Chpt. 1352) substantially changed these rules for income years beginning on or after January 1, 1990.

Section 23802 of the Revenue and Taxation Code is amended.

This act defines "adjusted gross income" for purposes of an "S corporation" to equal "net income" as determined under corporation tax law.

Section 23803 of the Revenue and Taxation Code is amended.

This act eliminates a duplicate provision, which restated that an "S corporation" tax credit can not be allowed against the minimum franchise tax or the alternative minimum tax.

Section 24416 of the Revenue and Taxation Code is amended.

This act makes a technical change to clarify that the NOL provisions relating to enterprise zones/program areas are exceptions to the regular NOL provisions. (This change is consistent with existing language under the corresponding personal income tax provision.)

Section 24416.2 is added to the Revenue and Taxation Code.

This act restores a provision that was inadvertently repealed last year. This provision: (1) defines those corporations that qualify under the enterprise zone or program area laws to be those that are qualified to take advantage of the enterprise zone/program area NOL deduction and (2) provides that the rules for determining an NOL in an enterprise zone/program area conform to the Internal Revenue Code, modified by the regular NOL rules, including those pertaining to the enterprise zone/program area NOL deduction.

Except for Section 24416.2, the act is operative September 21, 1989. Section 24416.2 is operative for income and taxable years beginning on or after January 1, 1989.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

**LEGISLATIVE CHANGE NO. 89-23
ASSEMBLY BILL 446**

Author: Hansen
Subject: Employer Child Care Credit
Laws Affecting Franchise Tax Board: Sections 17052.18 and 23617.5 of
the Revenue and Taxation Code
Date Filed with Secretary of State: 9/29/89
Chapter Number: 89-1042

SUMMARY

Sections 17052.18 and 23617.5 of the Revenue and Taxation Code are amended.

This act adds dependent care centers that are specialized centers with respect to short-term illnesses to the list of those facilities that are qualified care plans.

This bill is operative for taxable and income years beginning on or after January 1, 1989.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

**LEGISLATIVE CHANGE NO. 89-24
ASSEMBLY BILL 951**

Author: Woodruff
Subject: Employer Child Care Credits
Laws Affecting Franchise Tax Board: Sections 17052.17, 17052.18,
23617
and 23617.5 of the Revenue and Taxation Code
Date Filed with Secretary of State: 10/2/89
Chapter Number: 89-1314

SUMMARY

Sections 17052.17 and 23617 of the Revenue and Taxation Code are amended.

This act makes numerous clarifying changes to the provision that provides a credit for establishing a child care program, constructing a child care facility, or contributing to child care information and referral services. Specifically it:

- o clarifies that the credit amount for a given year will not exceed \$30,000;
- o clarifies that in the event a credit amount is carried over to a year in which there are additional costs that qualify for the credit, the \$30,000 credit limitation per year will not cause the carried over amount to be lost but rather to be carried over to the next succeeding year;

- o rewords or reformats the credit language to be consistent with other credit provisions in the Personal Income Tax and Bank and Corporation Tax Law by: (1) moving the credit's sunset date to the beginning of the provision and adding the first year the credit can be taken; (2) adding the actual date that the law became effective since only those costs paid or incurred on or after that date qualify for the credit; (3) rewording the carryover language so that it is less confusing; and (d) specifically providing that the sunset of the credit does not affect the ability to continue to carry forward any credit amounts not used.

Sections 17052.17 and 23617.5 of the Revenue and Taxation Code are amended.

This act makes numerous clarifying changes to the provision that provides a credit for contributions to a child care plan on behalf of an employee's child. Specifically it:

- o clarifies that the basis for computing an allowable credit is 42 weeks rather than 52 weeks. The 42-week basis allows for temporary absences from a 52-week program for illnesses, family vacations, etc.;
- o clarifies that the limit on the amount of credit that may be taken with respect to a full-time or part-time plan is with respect to contributions made on behalf of each dependent, rather than each contribution made;
- o rewords or reformats the credit language to be consistent with other credit provisions in the Personal Income Tax and Bank and Corporation Tax Law by: (1) moving the credit's sunset date to the beginning of the provision and adding the first year the credit can be taken; (2) adding the actual date that the law became effective since only those costs paid or incurred on or after that date qualify for the credit; (3) rewording the carryover language so that it is less confusing; and (4) specifically providing that the sunset of the credit does not affect the ability to continue to carry forward any credit amounts not used.

It is noted that the provisions of this bill are chaptered out by Assembly Bill 802 (Ch. 1989, Stats. 1352). However, because the changes made by this act were included in Assembly Bill 802, the changes described above are still applicable. These changes became operative October 2, 1989.

This act will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

**LEGISLATIVE CHANGE NO. 89-25
ASSEMBLY BILL 802**

Author: Klehs

Subject: Conformity to federal tax changes.

Laws Affecting Franchise Tax Board: 17020.6, 17020.12, 17024.5, 17027,

17034, 17039, 17041, 17052.9, 17052.11, 17052.12, 17052.17, 17052.18, 17053.7, 17054.5, 17055, 17057, 17061.5, 17062, 17063, 17072, 17072.5, 17076, 17085, 17092, 17094, 17095, 17133, 17134, 17153, 17154, 17158, 17160, 17232, 17241, 17261, 17270, 17271, 17272, 17273, 17276, 17279, 17289, 17502, 17504, 17506, 17512, 17515, 17551, 17551.5, 17559, 17560, 17562, 17563, 17564, 17565, 17566, 17570, 17671, 17858, 17932, 18044, 18162, 18180, 18408.5, 18681.9, 18682, 18682.5, 18684, 18687, 18689, 18802.4, 18807, 18934, 19270, 20503, 23036, 23045, 23045.6, 23051.5, 23058, 23453, 23456, 23609, 23609.5, 23612, 23617, 23617.5, 23621, 23701d, 23701r, 23701s, 23701v, 23704, 23704.6, 23732, 23733, 23735, 23772, 23801, 23802, 23803, 23805, 24274, 24276, 24306, 24343, 24349.1, 24353.1, 24356.1, 24357.10, 24359, 24361, 24362, 24363, 24363.5, 24368.1, 24373, 24374, 24375, 24376, 24380, 24381, 24382, 24412, 24413, 24422.3, 24440, 24442.5, 24443, 24451, 24452, 24453, 24454, 24454.2, 24457, 24513, 24521, 24541, 24562, 24585, 24592, 24601, 24632, 24633.5, 24637, 24652, 24654, 24661, 24667, 24673.2, 24681, 24690, 24701, 24702, 24703, 24704, 24705, 24706, 24707, 24833, 24916, 24994, 25107, 25561, 25901c, 25934, 25951, 25951.5, and 25954.

Date Filed with Secretary of State: October 2, 1989

Chapter Number: 89-1352

SUMMARY

Since 1983, many provisions of federal law (Internal Revenue Code) have been incorporated into state law by reference, as of a "specified date."

This act changes the "specified date" from January 1, 1987 to January 1, 1989, for taxable (or income) years beginning on or after January 1, 1989 (Sec. 17024.5). In so doing, many of the recent federal changes, such as the Revenue Act of 1987 and the Technical and Miscellaneous Revenue Act of 1988, are incorporated into the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (BCTL).

However, this act did not conform to those provisions of the Revenue Act of 1987 which would substantially increase state revenues. These nonconformity items include changes relating to vacation pay, installment sales, long-term contracts, past service pension costs, accounting methods for large family farms, treatment of publicly traded partnerships, deductions for dividends received by a corporation, mirror subsidiary transactions, and recapture of inventory value when a corporation elects to be treated as an "S Corporation".

This act modifies both the Personal Income Tax and Bank and Corporation Tax Laws to specify that uncodified provisions in federal

laws apply for state purposes to the extent that the underlying federal provisions have been incorporated into state law by reference. This change applies to federal laws enacted on or after January 1, 1987.

This act also makes numerous technical corrections to the Personal Income Tax Law and the Bank and Corporation Tax Law.

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The act amends, repeals, or adds many sections of the Personal Income Tax Law and the Bank and Corporation Tax Law, but that is only a portion of the total changes. Many other changes result from changing the "specified date" and are changes to provisions of the Internal Revenue Code which are incorporated into California law by reference. The language of the latter changes does not appear in AB 802, but rather in the Internal Revenue Code. In order to provide a comprehensive picture of the changes incorporated by this act, several approaches must be used. These approaches are organized as follows:

- o Immediately following this Table of Contents is a summary of changes to sections which are amended, added, or repealed by this act. This approach is organized in Revenue and Taxation Code Section number sequence.
- o Exhibit A, from the analysis of the bill in its final amended form, is in federal act section sequence (except TAMRA Sections 1001 - 2005). This approach includes references to sections being amended, added, or repealed and, in addition, identifies many of the changes that are incorporated into California law by changing the "specified date".
- o Exhibit B, from the analysis of the bill in its final amended form, is a detailed cross reference listing of TAMRA Sections 1001 through 2005 (the technical portions of TAMRA) which are incorporated into California law by Act Sec. 162 of AB 802.
- o A cross reference listing keyed to federal Act Sections, except those included in Exhibit B, described above.
- o A cross reference listing keyed to IRC Section order.
- o A cross reference listing keyed to PITL Section order.
- o A cross reference listing keyed to BCTL Section order.

SECTION-BY-SECTION DESCRIPTION OF THE AMENDMENTS BY AB 802

Section 17020.6 amended, effective for TYBOA 1/1/89

This act incorporates by reference the provisions of IRC Sec. 7702A which places new limitations on "modified endowment contracts." Amounts received under such a contract must be treated first as income, then recovery of basis. Loans are treated as amounts received under the contract and a 10 percent tax is imposed on certain amounts received that are includible in gross income. [TAMRA Sec. 5012(c)]

Section 17020.12 added, effective for TYBOA 1/1/89

This act incorporates by reference the provisions of IRC Sec. 7701(a)(20) which defines the term "employee". [TAMRA Sec. 1011B(e)]

Section 17024.5 amended, effective for TYBOA 1/1/89

This act changes the "specified date" from January 1, 1987, to January 1, 1989, thus incorporating most of the changes made to the Internal Revenue Code by the Revenue Act of 1987 (RA87) and the Technical and Miscellaneous Revenue Act of 1988 (TAMRA).

New exceptions (nonconformity) are added throughout the law with respect to the major revenue increase items included in the Revenue Act of 1987.

Many of the changes made are shown only in federal law (incorporated by reference) and do not appear in this section-by-section description. However, those changes are reflected in the attached cross reference listings.

This act specifies that uncodified provisions in federal laws will apply for state purposes to the extent that the underlying federal provisions have been incorporated into state law by reference. This change has an ongoing effect and applies to federal laws enacted on or after January 1, 1987. [Sec. 17024.5(a)(5)]

This act specifies that references in the Internal Revenue Code to "chapter" shall, for state purposes, mean Part 10 (commencing with Sec. 17001). [Sec. 17024.5(h)(3)]

This act deletes paragraph (4) of subdivision (d), relating to taxable years, and replaces it with language in Sec. 17565 in Chapter 6, relating to accounting periods and methods of accounting.

This act also makes several technical amendments to this section.

Section 17027 repealed, effective for TYBOA 1/1/89

This act repealed state definition of "employee" in order to conform to federal law. See Sec. 17020.12. [TAMRA Sec. 1011B(e)]

Section 17034 amended, effective for TYBOA 1/1/89

This act specifies that penalties (except for underpayment of estimated tax) will become effective for taxable years beginning on or

after January 1 of the year of enactment. This is the same manner in which changes in the computation of tax are applied and will permit all returns for a particular taxable year to be treated in the same manner. [Sec. 17034(a)]

This act also provides that any changes relating to payments of estimated tax (including the penalty for underpayment) will not become effective until the year beginning on or after January 1 of the year following enactment. This change will avoid retroactive application to payments made prior to the date of enactment. [Sec. 17034(b)]

Section 17039 amended, effective for TYBOA 1/1/89

This act adds the credits for research expenditures and clinical testing of orphan drugs to the list of credits that are allowed to reduce the regular tax below the tentative minimum tax. It also makes technical corrections to the general provisions allowing certain credits to reduce the regular tax below the tentative minimum tax. [Sec. 17039(c)]

This act specifies that personal exemption credits are not allowed to reduce the regular tax below the tentative minimum tax. [TAMRA Sec. 1007(b)]

This act conforms to federal law by clarifying that personal exemption credits may not be used to offset the separate tax on lump-sum distributions. [Sec. 17039(a)]

This act revises the order in which certain credits must be claimed against the tax to eliminate problems resulting from the interaction of various rules. [Sec. 17039(a)]

This act also provides a general rule stating that when a tax credit is repealed, any unused credit may continue to be carried forward and used until exhausted. [Sec. 17039(d)]

Section 17041 amended, effective for TYBOA 1/1/89

This act conforms to federal law which permits a parent to report the unearned income of a minor child (up to \$5,000) on the parent's return. [TAMRA Sec. 6006]

This act also adds an exception to the general rule requiring the unearned income of a child to be taxed at the marginal rates of the parent. The exception applies whenever the minor child is entitled to a 100 percent tax credit under Sec. 17069, relating to the credit for persons with low incomes. [Sec. 17041(g)(3)]

Section 17052.9 amended, effective for TYBOA 1/1/89

This act makes minor technical amendments to this section, relating to the tax credit for the elderly and disabled.

Section 17052.11 amended, effective for TYBOA 1/1/89

This act repeals an obsolete definition of "net tax" from subdivision (c) and makes minor technical amendments to this section.

Section 17052.12 amended, effective for TYBOA 1/1/89

This act amended state provisions relating to the credits for research expenditures to make the federal sunset date not applicable, since the state provision sunsets at a later date. It also conforms to new federal rules which allow a taxpayer to elect not to claim this credit. [TAMRA Sec. 4007 and 4008]

Section 17052.17 amended, effective for TYBOA 1/1/89

This act increases the maximum tax credit (from \$30,000 to \$50,000) for an employer who provides child care facilities to employees.

This act also makes technical amendments to the provisions allowing this credit.

Section 17052.18 amended, effective for TYBOA 1/1/89

This act increases the maximum tax credit (from \$300 to \$600 per dependent) for an employer who makes payments to, or reimburses employees, for participation in a part-time child care plan not operated by the employer.

This act also makes technical amendments to the provisions allowing this credit.

Section 17053.7 amended, effective for TYBOA 1/1/89

This act conforms to federal law which denies the targeted jobs tax credit for wages paid to nonunion employees during a labor dispute. [RAB7 Sec. 10601]

Section 17054.5 amended, effective for TYBOA 1/1/89

This act makes minor technical amendments to this section, relating to the tax credit for a "qualified joint custody head of household" or a married person who files a separate return and has a dependent parent.

Section 17055 amended, effective for TYBOA 1/1/89

This act makes technical amendments to clarify that, for persons filing the nonresident return, the political contributions credit and the joint custody head of household credit must be claimed before the tax is prorated. In general, all credits are required to be prorated, except those having a California situs.

Section 17057 amended, effective for TYBOA 1/1/89

This act amends state provisions relating to the credit for clinical testing of drugs for rare diseases to make the federal sunset date not applicable, since the state provision sunsets at a later date. It also amends this section to conform to certain "housekeeping" rules that, in general, apply to all credits against the tax. [TAMRA Sec. 1018(q) and 4008(c)]

Section 17061.5 amended, effective for TYBOA 1/1/89

This act amends this section, relating to the tax credit for capital gains from the sale of residential rental or farm property, to conform to certain "housekeeping" rules that, in general, apply to all credits against the tax.

Section 17062 amended, effective for TYBOA 1/1/89

This act makes technical amendments to this section to reflect that California has not conformed to federal rules for installment sales and to clarify that, in conformity with federal law, no standard deduction is allowed in computing taxable income for purposes of the alternative minimum tax. [RAB7 Sec. 10202]

Section 17063 amended, effective for TYBOA 1/1/89

This act clarifies that, for purposes of computing the minimum tax credit, the reference to "regular tax" is before the allowance of those credits which, for state purposes only, may reduce the regular tax below the tentative minimum tax.

Section 17072 amended, effective for TYBOA 1/1/89

This act deletes obsolete language from this section, relating to the definition of "adjusted gross income".

Section 17072.5 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting sunset dates that were added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to federal provisions specifying that the deductions for jury duty pay and certain expenses reimbursed by an employer or third party are deductions taken in arriving at adjusted gross income (above the line versus itemized deductions). [TAMRA 1001(b)(3)(A) AND 6007(b)]

Section 17076 amended, effective for TYBOA 1/1/89

This act conforms to federal law by delaying application of the two percent floor on miscellaneous itemized deductions, with respect to the indirect expenses of a shareholder in a regulated investment company (mutual fund), until January 1, 1990. This action was necessary because federal law contains a drafting error. This act amends Sec. 17076 to incorporate this change as it was intended, without the drafting error. [RAB7 Sec. 10104; TAMRA Sec. 1001(f) and 4011(a)]

Section 17085 amended, effective for TYBOA 1/1/89

This act conforms to federal technical amendments related to the new treatment of modified endowment contracts. See Sec. 17020.6. [TAMRA Sec. 5012(a)]

Section 17092 added, effective for TYBOA 1/1/89

This act conforms to federal law which provides that the nondiscrimination requirements of IRC Sec. 89 do not apply to statutory employee benefit plans maintained by a church for church employees. [TAMRA Sec. 6051]

Section 17094 added, effective for TYBOA 1/1/89

This act adds a provision to retain former Section 81 of the IRC, since California has not conformed to the repeal of federal rules for the accrual of vacation pay. For federal purposes, vacation pay must be paid within two and one-half months after the close of the taxable year. California retains the old law which allowed accrual of amounts paid within eight and one-half months after the close of the taxable year. [R87 Sec. 10201]

Section 17095 added, effective for TYBOA 1/1/89

This act specifies that IRC Sec. 89, relating to employee fringe benefits, shall not apply for state purposes, to taxable years beginning during 1989. It is expected that Congress will repeal the federal provision before the end of 1989.

Section 17133 amended, effective for TYBOA 1/1/89

This act deletes an obsolete reference to federal law in this section, relating to income which the state is prohibited from taxing.

Section 17134 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting sunset dates that were added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to federal provisions relating to (1) the exclusion of certain fringe benefits for highly compensated employees in nondiscriminatory plans, and (2) the exclusion of free air travel received by air cargo employees. [TAMRA Sec. 1011B and 6066]

Section 17153 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting the sunset date that was added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to federal provisions relating to the one-time exclusion of capital gain from the sale of a personal residence in certain situations where the taxpayer became physically or mentally incapable of self care. [TAMRA Sec. 6011]

Section 17154 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting sunset dates that were added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to federal rules allowing tuition reductions provided to employees of educational institutions to be excluded from the employee's gross income. [TAMRA Sec. 1011B and 4001]

Section 17158 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting sunset dates that were added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to federal provisions relating to rules for employee benefit "cafeteria plans". [TAMRA Sec. 1011B and 4002]

Section 17160 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting the sunset date that was added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to federal provisions allowing an exclusion from gross income for Christa McAuliffe fellowship awards. [TAMRA Sec. 6005]

Section 17232 added, effective for TYBOA 1/1/87

This act conforms to federal transition rules and effective dates relating to limitations on investment interest expense for taxable years beginning on or after 1/1/87. [TAMRA Sec. 1005(c)]

Section 17241 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting sunset dates that were added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to federal law which permits a deduction (as a charitable contribution) for 80 percent of amounts paid to an institution of higher education, even though the taxpayer receives the right to purchase seating at an athletic event conducted by the receiving institution. Although the federal change is retroactive to years beginning after 1983, the state change applies only to income years beginning on or after 1/1/88. (TAMRA Sec. 6001)

This act also conforms to changes related to prohibited political activities by charitable organizations. [RA87 Sec. 10711]

Section 17261 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting sunset dates that were added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to the uniform capitalization rules for free lance authors, photographers, and artists; producers of animals in farming; and growers of pistachio nuts. [TAMRA Sec. 6026]

Section 17270 amended, effective for TYBOA 1/1/89

This act conforms to federal law which requires that the deduction for research expenditures must be reduced by an amount equal to 50 percent of the amount of the research credit allowed. Because of the denial of the research expense, it makes the research credit elective, rather than required. [TAMRA Sec. 4008]

Section 17271 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting sunset dates that were added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to federal rules which permit full

deduction (rather than 80 percent) of meals to employees on offshore oil or gas rigs, effective for taxable years beginning on or after January 1, 1988, and to employees who are crew members of certain commercial vessels, effective for taxable years beginning on or after January 1, 1989. [TAMRA Sec. 6003]

Section 17272 repealed, effective for TYBOA 1/1/89

This act repeals language which is obsolete, since a specific rule in Sec. 17272 has been replaced by a general rule in Sec. 17024.5(h)(2).

Section 17272 added, effective for TYBOA 1/1/89

This act conforms to a federal rule which reverses a Tax Court decision which held that certain federal judges were not employees of the United States and therefore not active participants in an employer pension plan. Thus, judges making contributions to an IRA will now be subject to the special limitations that apply to active participants. [IR87 Sec. 10103]

Section 17273 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting the sunset date that was added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to a federal rule which allows a deduction for the amount of jury duty pay surrendered by an employee to an employer in return for the employer's compensation during the employee's jury service period. [TAMRA Sec. 6007]

Section 17276 amended, effective for TYBOA 1/1/89

This act deletes language from this section, relating to the computation of gross income from California sources, and moves it to Sec. 17041(i) which is a more appropriate placement in the law, since the gross income from California sources is used in determining the tax imposed upon a nonresident or part-year resident.

Section 17279 added, effective for TYBOA 1/1/89

This section specifies that the provisions of Sec. 10204 of the Revenue Act of 1987 are not applicable for state purposes. That act repealed an exception to the uniform capitalization rules that previously excluded past service pension costs from those rules. Thus, for state purposes, past service pension costs are not required to be capitalized.

For federal purposes, the accounting adjustment (income) resulting from this change is allowed to be spread ratably over four years, beginning in 1987. For state purposes, there is no accounting adjustment to be reported as income.

Section 17289 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting the sunset date that was added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to a federal rule which allows rural mail

carriers to claim 150 percent of the standard mileage allowance for automobile expenses. [TAMRA Sec. 6008]

Section 17502 added, effective for TYBOA 1/1/89

This section conforms to the federal effective date (pension plan amendments after 12/22/87) for new rules relating to strengthening of funding rules for defined benefit pension plans. [RAB7 Sec. 9341(c)]

This section conforms to federal effective dates, exceptions, and transition rules for permitting employees of government or churches to defer distributions until retirement, instead of requiring distributions to begin in the calendar year after attaining age 70.5. [TAMRA 6053]

This section conforms to federal effective dates, exceptions, and transition rules for considering police, firefighters, and emergency medical service employees separately from other employees for purposes of the minimum participation standards. [TAMRA Sec 6055]

Section 17504 amended, effective for TYBOA 1/1/87

This act makes numerous amendments to this section, relating to the separate tax imposed upon lump-sum distributions from pension plans, to incorporate federal rules and make state modifications, where appropriate, applicable to taxable years beginning on or after 1/1/87.

It clarifies that the rules relating to multiple distributions do not apply to distributions received in taxable years beginning prior to January 1, 1987, when California first enacted a separate tax on lump-sum distributions. [TAMRA 1011A(d) and technical clean-up to AB 53 (Stats. 1987, Ch. 1138)]

Section 17506 amended, effective for TYBOA 1/1/87

This act conforms to federal transition rules, as modified by Sec. 17504, relating to rollovers of pension funds, applicable to taxable years beginning on or after 1/1/87. [Technical clean-up to AB 53 (Stats. 1987, Ch. 1138)]

Section 17512 added, effective for TYBOA 1/1/89

This act conforms to federal law which allows employers in a plan to elect (in TYBOA 1/1/90) to apply rules that provide that, for years beginning after 12/31/82, the limitation on benefits under a defined benefit plan shall not be less than the accrued benefits of a qualified participant, determined without regard to any amendment of the plan after October 14, 1987. [TAMRA Sec. 6054]

This act conforms to federal effective dates, exceptions, and transition rules which decrease the minimum service requirement for police and firefighters from 20 to 15 years. [TAMRA Sec. 6059]

This act conforms to federal law which delayed the effective date of certain changes made by Sec. 1106 of the 1986 Tax Reform Act, relating to collectively bargained agreements. [TAMRA Sec. 6062]

Section 17515 repealed, effective for TYBOA 1/1/89

This act moves the provisions of Sec. 17515, relating to designated settlement funds, from Chapter 5 (deferred compensation) to Sec. 17570 in Chapter 6 (accounting periods and methods of accounting).

Section 17551 amended, effective for TYBOA 1/1/89

This act amends a cross reference to Sec. 444 of the Internal Revenue Code in conjunction with conforming to IRC Sec. 280H, relating to limitations on payments made to employee-owners of personal service corporations after the close of the taxable year. [RAB7 Sec. 10206 and TAMRA Sec. 2004(e)]

Section 17551.5 amended, effective for TYBOA 1/1/89

This act conforms to federal rules relating to computation of basis with respect to the four year spread of income in the short year resulting from a change of taxable year. [Sec. 17551.5(d); TAMRA 1008(e)]

This act also makes technical corrections to provisions enacted by AB 53 (Stats. 1987, Ch. 1138). [17551.5(a) and (b)]

Section 17559 added, effective for TYBOA 1/1/89

This act conforms to the federal effective date (sales or exchanges after December 31, 1987) for allowing a cash basis taxpayer who receives insurance proceeds as a result of destruction or damage to crops, under the Disaster Assistance Act of 1983, to elect to include the income in the year following the loss, if it can be shown that the income would normally have been reported in that year. [TAMRA Sec. 6030]

This act conforms to the federal effective date (before, on, or after 11/10/88) which allows deferral of income for payments under the Agricultural Act of 1949 to include payments under the Disaster Assistance Act of 1988. [TAMRA Sec. 6033]

Section 17560 amended, effective for TYBOA 1/1/89

This act adds exceptions to California law to specify that California has not conformed to certain federal rules relating to installment sales (RAB7 Sec. 10202; TAMRA Sec. 1006, 1008, 1018, 2004, and 5076):

California law still permits the installment method for dealers in real property (repealed for federal purposes). The four-year spread of income for federal purposes is not applicable for state purposes.

California law has not repealed the proportionate disallowance rules (repealed for federal purposes and replaced with interest charges for the deferral of tax). However, California does allow noncorporate taxpayers to elect to ignore the proportionate disallowance rules. If such an election is made, the federal rules for interest charges do not apply.

Because California has not conformed to the recent federal changes relating to treatment of installment sales, federal rules relating to nondealer real property installment obligations which are pledged as security for a loan after December 17, 1987, do not apply. [TAMRA Sec. 6031]

Section 17562 amended, effective for TYBOA 1/1/89

This act makes technical amendments to provisions enacted by AB 53 (Stats. 1987, Ch. 1138), relating to effective dates and transition rules for new limitations on the use of the cash method of accounting.

Section 17563 added, effective for TYBOA 1/1/89

This act does not conform to the federal repeal of the reserve for accrual of vacation pay, and retains the provisions of IRC Sec. 463, as amended by the 1986 Tax Reform Act. [RA87 Sec. 10201].

Section 17564 added, effective for TYBOA 1/1/89

This act adds a new section to conform to federal rules relating to long-term contracts, as amended by the 1986 Tax Reform Act, but does not conform to the 1987 and 1988 amendments:

Under the 1986 Tax Reform Act, the completed contract method of accounting was virtually abolished. Taxpayers may elect to use either the percentage of completion method or a hybrid method in which the percentage of completion method is applied to 40 percent of the contract and taxpayer's normal method of accounting to the remaining 60 percent.

California law has not been conformed to the 1987 change which increased, from 40 to 70 percent, the portion of a long-term contract that must compute income and expenses under the percentage of completion method of accounting for contracts entered into after October 13, 1987. [RA87 Sec. 10203]

California law has not been conformed to the 1988 change which increased, from 70 to 90 percent, the portion of a long-term contract that must compute income and expenses under the percentage of completion method of accounting for contracts entered into on or after June 21, 1988. [TAMRA Sec. 5041]

This act also modifies the federal "look-back" rules to specify that amounts allowed to be deferred for state purposes, due to differences in state and federal effective dates, shall be treated as if reported at the same time as under federal law. [17564(e)]

The announcement issued by the Franchise Tax Board which allows taxpayers to elect to follow the federal rules is currently under review, but no decision has been made regarding its retention, modification, or termination.

Section 17565 added, effective for TYBOA 1/1/89

This act adds language to Chapter 6 (accounting periods and methods of accounting) to specify that the taxable year of a taxpayer may not be

different than the taxable year used for federal purposes. [Technical clean-up to AB 53 (Stats. 1987, Ch. 1138)]

Section 17566 added, effective for TYBOA 1/1/88

This act conforms to the federal effective dates, exceptions, and transition rules with respect to changes to IRC Sec. 457, relating to deferred compensation plans of state and local government and tax-exempt organizations, effective, in general, for taxable years beginning on or after 1/1/88. [TAMRA Sec. 6064(d)]

Section 17570 added, effective for TYBOA 1/1/89

This act conforms to federal law with respect to the tax treatment of designated settlement funds (IRC Sec. 468B) by making modifications, for state purposes, to clarify existing law. [Technical clean-up to AB 53 (Stats. 1987, Ch. 1138)]

Section 17671 amended, effective for TYBOA 1/1/89

This act conforms to federal law with respect to the tax treatment of common trust funds (IRC Sec. 584), including federal rules allowing a four year spread of income from the short year resulting from a change in taxable year. [TAMRA Sec. 1008(e)(5)]

This act specifically provides that tax returns which are filed prior to January 1, 1990, and include the full amount of income subject to the four year spread, may be amended prior to January 1, 1990, to spread that income over the first four taxable years beginning after December 31, 1987.

Section 17858 added, effective for TYBOA 1/1/87

This act clarifies existing law with the respect to the computation of depreciation by partnerships having one or more corporate partners. It specifies that the normal rules for determining the depreciation deduction of a partner in a partnership shall apply for purposes of Part 10 (Individuals) and Part 11 (Banks and Corporations) of the Revenue and Taxation Code. Thus, the amount of depreciation is determined at the partnership level and is not required (or permitted) to be recalculated by individual partners.

This act also provides that this clarification is declarative of existing law and shall be applied to taxable (or income) years beginning on or after 1/1/87.

Section 17932 amended, effective for TYBOA 1/1/89

This act conforms to federal law which expanded the reporting requirements of a partnership which has one or more exempt partners subject to the unrelated business tax. [TAMRA Sec. 5074]

Section 18044 amended, effective for TYBOA 1/1/89

This act conforms to federal law by deleting the sunset date that was added to state law by AB 128 which conformed, but only for taxable years beginning during 1988, to federal rules which permit a surviving

spouse to roll over gain from the sale of a principal residence where the other spouse died after the sale and before occupying the replacement residence. [TAMRA Sec. 6002]

Section 18162 amended, effective for TYBOA 1/1/89

This act conforms, in concept (using state percentages and holding periods), to federal law which allows a capital gains deduction from gains on the sale of certain dairy cattle under the U.S. Department of Agriculture milk production termination program. [TAMRA 1004(b)]

Section 18180 added, effective for TYBOA 1/1/89

This act conforms to federal law with respect to the treatment of certain loans with below market interest rates (IRC Sec. 7872). [TAMRA Sec. 1005(c)(15) and 1018(u)]

Section 18408.5 amended, effective for TYBOA 1/1/89

This act modifies the rules relating to group returns of nonresident partners (or "S" Corporation shareholders) by allowing a deduction from earned income for contributions to qualified pension or deferred compensation plans.

Section 18681.9 amended, effective for TYBOA 1/1/87

This act conforms to federal law relating to information returns on nondeductible contributions to an Individual Retirement Account (IRA). Anyone who fails to file the information return is subject to a \$50 penalty, but an individual who overstates the amount of the nondeductible contribution is subject to a \$100 penalty. [TAMRA Sec. 1011(b)]

Section 18682 amended, effective for TYBOA 1/1/89

This act makes a technical correction to this section, relating to underpayment of estimated tax, to conform to federal law. [18682(i)]

Section 18682.5 amended, effective for TYBOA 1/1/89

This act conforms to federal law by providing that the penalty for underpayment of estimated tax for any period prior to 4/16/89 will be waived for any increase in tax due to the adoption of the technical amendments included in TAMRA Sec. 1001 through 2005. [TAMRA 1019(b)]

Section 18684 amended, effective for TYBOA 1/1/89

This act conforms to federal law relating to the penalties for negligence and fraud by restructuring the law and deleting the provisions that included in these penalties an amount equal to 50 percent of the interest on the underpayment of tax. [TAMRA Sec. 1015(b)]

Section 18687 amended, effective for TYBOA 1/1/89

This act conforms to federal law by specifying that the allowance of installment payments does not reduce the computation of interest on the unpaid tax. [TAMRA Sec. 6234]

Section 18689 amended, effective for TYBOA 1/1/89

This act conforms to clerical amendments to federal law, relating to the calculation of interest on negligence and fraud penalties. [TAMRA Sec. 1015(b)]

Section 18802.4 amended, effective for TYBOA 1/1/89

This act conforms to minor amendments relating to the definition of a "broker" for purposes of filing information returns. The term now includes governmental units, but does not include a person whose activities consist of managing a farm on behalf of another person. [TAMRA Sec. 1015(e)]

Section 18807 amended, effective for TYBOA 1/1/90

This act conforms to federal changes in the rules for withholding of tax on amounts paid by partnerships to foreign partners. The withholding is now based upon the amount of "effectively connected" income, rather than the amount distributed to the partner.

Section 18934 amended, effective for TYBOA 1/1/87

This act specifically does not conform to federal changes relating to the reporting of taxpayer identification numbers for dependents. Under federal law, the age for such reporting was lowered from five to two. California law does not require the reporting of identification numbers of dependents, regardless of age. [Family Support Act Sec. 703 and 704]

Section 19270 amended, effective for TYBOA 1/1/89

This act changes the due date of a report submitted annually by the Franchise Tax Board to the Legislature, detailing changes made to federal income tax laws during the preceding calendar year. Whenever the federal changes are enacted after September 15, the due date of the report to the Legislature would be changed from January 10 to 120 days after the federal law has been signed by the President of the United States.

Section 20503 amended, effective for TYBOA 1/1/89

This act, for purposes of the Homeowner and Renter Assistance Claims, amends the definition of "income" to include winnings from the California Lottery when that amount exceeds \$600 for any calendar year.

This act also makes technical amendments to this section.

Section 23036 amended, effective for IYBOA 1/1/89

This act adds the credits for research expenditures and clinical testing of orphan drugs to the list of credits that are allowed to reduce the regular tax below the tentative minimum tax. [23036(d)(1)]

This act also specifies that the minimum tax credit, resulting from payment of alternative minimum tax in prior years, must be allowed before any credit is allowed to reduce the regular tax below the tentative minimum tax. [23036(d)(1)]

Section 23045 amended, effective for IYBOA 1/1/89

This act incorporates by reference the provisions of IRC Sec. 7702A which places new limitations on "modified endowment contracts." Amounts received under such a contract must be treated first as income, then recovery of basis. Loans are treated as amounts received under the contract and a 10 percent tax is imposed on certain amounts received that are includible in gross income. [TAMRA Sec. 5012(c)]

Section 23045.6 added, effective for IYBOA 1/1/89

This act incorporates by reference the provisions of IRC Sec. 7701(a)(20) which defines the term "employee". [TAMRA Sec. 1011B(e)]

Section 23051.5 amended, effective for IYBOA 1/1/89

Since Sec. 23051.5 contains a reference to the "specified date" in Sec. 17024.5, and this act changes that "specified date" from January 1, 1987, to January 1, 1989, it has the effect in the Bank and Corporation Tax Law of incorporating most of the changes made to the Internal Revenue Code by the Revenue Act of 1987 (RAB7) and the Technical and Miscellaneous Revenue Act of 1988 (TAMRA).

New exceptions (nonconformity) are added throughout the law with respect to the major revenue increase items included in the Revenue Act of 1987.

Many of the changes made are shown only in federal law (incorporated by reference) and do not appear in this section-by-section description. However, those changes are reflected in the attached cross reference listings.

This act specifies that uncodified provisions in federal laws will apply for state purposes to the extent that the underlying federal provisions have been incorporated into state law by reference. This change has an ongoing effect and applies to federal laws enacted on or after January 1, 1987. [Sec. 23051.5(a)(2)]

This act specifies that references in the Internal Revenue Code to "chapter" shall, for state purposes, mean Part 11 (commencing with Sec. 23001). [Sec. 23051.5(e)(6)]

This act deletes paragraph (4) of subdivision (g), relating to taxable years, and replaces it with language in Sec. 24632 in Chapter 13, relating to accounting periods and methods of accounting. This act also makes several technical amendments to this section.

Section 23058 amended, effective for IYBOA 1/1/89

This act specifies that penalties (except for underpayment of estimated tax) will become effective for taxable years beginning on or after January 1 of the year of enactment. This is the same manner in which changes in the computation of tax are applied and will permit all returns for a particular taxable year to be treated in the same manner. [Sec. 23058(a)]

This act also provides that any changes relating to payments of estimated tax (including the penalty for underpayment) will not become effective until the year beginning on or after January 1 of the year following enactment. This change will avoid retroactive application to payments made prior to the date of enactment. [Sec. 23058(b)]

Section 23453 amended, effective for IYBOA 1/1/89

This act clarifies that, for purposes of computing the minimum tax credit, the reference to "regular tax" is before the allowance of those credits which, for state purposes only, may reduce the regular tax below the tentative minimum tax.

Section 23456 amended, effective for IYBOA 1/1/89

This act makes technical amendments to this section to reflect that California has not conformed to federal rules for installment sales. [RAB7 Sec. 10202]

Section 23609 amended, effective for IYBOA 1/1/89

This act amends state provisions relating to the credits for research expenditures to make the federal sunset date not applicable, since the state provision sunsets at a later date. It also conforms to new federal rules which allow a taxpayer to elect not to claim this credit. [TAMRA Sec. 4007 and 4008]

Section 23609.5 amended, effective for IYBOA 1/1/89

This act amends state provisions relating to the credit for clinical testing of drugs for rare diseases to make the federal sunset date not applicable, since the state provision sunsets at a later date. It also amends this section to conform to certain "housekeeping" rules that, in general, apply to all credits against the tax. [TAMRA Sec. 1018(q) and 4008(c)]

Section 23612 amended, effective for IYBOA 1/1/89

This act amends this section, relating to the credit for sales tax paid on certain purchases of equipment in an Enterprise Zone or Program Area, to conform to certain "housekeeping" rules that, in general, apply to all credits against the tax.

Section 23617 amended, effective for IYBOA 1/1/89

This act increases the maximum tax credit (from \$30,000 to \$50,000) for an employer who provides child care facilities to employees.

This act also makes technical amendments to the provisions allowing this credit.

Section 23617.5 amended, effective for IYBOA 1/1/89

This act increases the maximum tax credit (from \$300 to \$600 per dependent) for an employer who makes payments to, or reimburses employees, for participation in a part-time child care plan not operated by the employer.

This act also makes technical amendments to the provisions allowing this credit.

Section 23621 amended, effective for IYBOA 1/1/89

This act conforms to federal law which denies the targeted jobs tax credit for wages paid to nonunion employees during a labor dispute. [RAB7 Sec. 10601]

Section 23701d amended, effective for IYBOA 1/1/89

This act conforms to federal law which broadened existing rules relating to prohibited political activities by exempt organizations to include activities "in opposition to" as well as "in support of". [RAB7 Sec. 10711]

Section 23701r amended, effective for IYBOA 1/1/89

This act conforms to federal rules which allow a political organization to reimburse candidates for expenses that, if incurred by the candidate, would qualify as "ordinary and necessary" business expenses. [TAMRA Sec. 1001(b)(3)(B)]

Section 23701s amended, effective for IYBOA 1/1/89

This act conforms to federal rules relating to limitations on elective deferrals of exempt trusts. [TAMRA Sec. 1011(c)]

Section 23701v amended, effective for IYBOA 1/1/89

This act clarifies that an organization of mobilehome park owners shall not lose its exemption merely because it manages, maintains, or cares for the mobilehome park it has purchased.

Section 23704 amended, effective for IYBOA 1/1/89

This act conforms to federal law which provides that tax-exempt hospital service organizations may acquire, on a group basis, malpractice and general liability insurance for its hospital members. [TAMRA Sec. 6202]

Section 23704.6 amended, effective for IYBOA 1/1/89

This act conforms to federal law which broadened existing rules relating to status of exempt organizations which have lost their exemption due to substantial lobbying activities to refer to activities "in opposition to" as well as "in support of". [RAB7 Sec. 10711]

Section 23732 amended, effective for IYBOA 1/1/89

This act amends current law to retain the provisions of IRC Sec. 512 (unrelated business taxable income) as amended by the Tax Reform Act of 1986. It does not conform to federal changes which added new rules for publicly traded partnerships. [RAB7 Sec. 10213]

Section 23733 repealed, effective for IYBOA 1/1/89

This act repeals this section (a counterpart to IRC Sec. 512(c)) which has become obsolete, since Sec. 23732 now incorporates IRC Sec. 512 by reference. [Technical clean-up to SB 572 (Stats. 1987, Ch. 1139)]

Section 23735 amended, effective for IYBOA 1/1/89

This act adds an exception to state law so that state law does not conform to new federal rules which provide that certain income from debt financed real property is allocable to exempt partners as income subject to the tax on unrelated business income. [RAB7 Sec. 10214]

Section 23772 amended, effective for IYBOA 1/1/89

This act conforms to federal law which requires that tax-exempt organizations disclose on their tax return information regarding transfers, transactions, and relationships with other tax-exempt organizations. [RAB7 Sec. 10703]

Section 23801 amended, effective for IYBOA 1/1/89

This act makes numerous changes in the rules relating to corporations that have elected to be treated as an "S corporation" for federal purposes. The new rules would apply to income years beginning on or after January 1, 1990.

Corporations qualified to do business in California and making "S" elections for federal purposes would have a new requirement to report that election to the Franchise Tax Board no later than the last date for making the federal election.

The provision that allows a federal "S corporation" to elect to be treated as a "C corporation" for state purposes would be modified to allow the election only to corporations that are qualified to do business in California and only within the time frames established under federal law. Previous elections by nonqualified corporations would be revoked for income years beginning on or after January 1, 1990.

Corporations that become qualified after making a federal "S" election could elect to be a "C" or report their "S" status within two and one-half months after qualification. If a timely "C" election is not made, the corporation will be treated as an "S" corporation.

"S corporations" for state purposes which terminate their election for federal purposes would be required to notify the Franchise Tax Board of such termination.

Section 23802 amended, effective for IYBOA 1/1/89

This act does not conform to new federal rules which require recapture of a portion of the inventory value (LIFO over FIFO) when a corporation elects to be treated as an "S corporation." For federal purposes, the tax to be recaptured is payable in installments over four years.

Section 23803 amended, effective for IYBOA 1/1/89

This act deletes an obsolete reference to the alternative minimum tax in this section, relating to "S" corporations, and makes clerical amendments.

Section 23805 repealed, effective for IYBOA 1/1/89

This act deletes a state modification which has become obsolete, since state law now incorporates the provisions of IRC Sec. 301 by reference.

Section 24274 amended, effective for IYBOA 1/1/89

This act amends state law to retain the provisions of former IRC Sec. 81 as it was after the Tax Reform Act of 1986, since state law has not been conformed to the federal repeal of the reserve for accrual of vacation pay. (RA87 SEC. 10201)

Section 24276 added, effective for IYBOA 1/1/89

This act conforms to federal law which requires that gross income include any illegal federal irrigation subsidy, that is, the excess of the amount required to be paid for the water over the amount actually paid. This change applies to water delivered after January 1, 1988, in income years beginning on or after January 1, 1989. [RA87 Sec. 10611]

Section 24306 amended, effective for IYBOA 1/1/89

This act modifies the effective date of technical corrections made to IRC Sec. 133 by Sec. 1011B(h) of Public Law 100-647 since, for state purposes, the provisions of IRC Sec. 133 are applicable only to income years beginning in 1990 through 1994. [TAMRA Sec. 6061]

Section 24343 amended, effective for IYBOA 1/1/89

This act repeals obsolete language and makes clerical amendments to conform more closely to federal rules for defining ordinary and necessary trade or business expenses.

Section 24349.1 amended, effective for IYBOA 1/1/89

This act repeals obsolete language to conform more closely to federal law with respect to limitations on depreciation of luxury automobiles.

Section 24353.1 repealed, effective for IYBOA 1/1/89

This act repeals rules relating to depreciation of certified historic structures. The federal counterparts (IRC Sec. 167(n) and 167(o)) were repealed in 1981.

Section 24356.1 repealed, effective for IYBOA 1/1/89

This act repeals obsolete transitional rules relating to returns filed for income years beginning in 1959.

Section 24357.10 added, effective for IYBOA 1/1/89

This act conforms to federal law which permits a deduction (as a charitable contribution) for 80 percent of amounts paid to an institution of higher education, even though the taxpayer receives the right to purchase seating at an athletic event conducted by the receiving institution. Although the federal change is retroactive to years beginning after 1983, the state change applies only to income years beginning on or after 1/1/89. (TAMRA Sec. 6001)

Section 24359 amended, effective for IYBOA 1/1/89

This act conforms to federal law which modifies existing rules relating to prohibited political activities by exempt organizations to include activities "in opposition to" as well as "in support of". [RAB7 Sec. 10711]

Section 24361 amended, effective for IYBOA 1/1/89

This act conforms to federal technical corrections, relating to amortizable bond premiums. [TAMRA Sec. 1006(j)]

Section 24362 amended, effective for IYBOA 1/1/89

This act amends a cross reference in this section, relating to amortization of bond premiums, to include a new section which is added by this act.

Section 24363 amended, effective for IYBOA 1/1/89

This act conforms to federal technical corrections, relating to amortizable bond premiums and amends a cross reference to include a new section which is added by this act. [TAMRA Sec. 1006(j)]

Section 24363.5 added, effective for IYBOA 1/1/89

This act conforms to federal law by adding new rules relating to the treatment of amortizable bond premiums. [TAMRA Sec. 1006(j)]

Section 24368.1 repealed, effective for IYBOA 1/1/89

This act repeals current rules relating to the treatment of expenditures for trademarks and trade names. See below.

Section 24368.1 added, effective for IYBOA 1/1/89

This act conforms to new federal rules relating to the treatment of expenditures for trademarks and trade names. [TAMRA Sec. 1002(i)]

Section 24373 repealed, effective for IYBOA 1/1/89

This act repeals current rules relating to amortization of leases. See below.

Section 24373 added, effective for IYBOA 1/1/89

This act conforms to federal rules relating to amortization of leases. [TAMRA Sec. 1002(a)]

Section 24374 repealed, effective for IYBOA 1/1/89

This act repeals this section, relating to amortization of leases, since Sec. 24373 now incorporates by reference the provisions of IRC Sec. 178. [TAMRA Sec. 1002(a)]

Section 24375 repealed, effective for IYBOA 1/1/89

This act repeals this section, relating to amortization of leases, since Sec. 24373 now incorporates by reference the provisions of IRC Sec. 178. [TAMRA Sec. 1002(a)]

Section 24376 repealed, effective for IYBOA 1/1/89

This act repeals this section, relating to amortization of leases, since Sec. 24373 now incorporates by reference the provisions of IRC Sec. 178. [TAMRA Sec. 1002(a)]

Section 24380 repealed, effective for IYBOA 1/1/89

This act repeals this obsolete section which applied only to expenditures in income years beginning prior to January 1, 1980.

Section 24381 repealed, effective for IYBOA 1/1/89

This act repeals this obsolete section which applied only to expenditures in income years beginning prior to January 1, 1984.

Section 24382 amended, effective for IYBOA 1/1/89

This act conforms to federal law which provides that no gain or loss shall be recognized by a cooperative housing association upon the distribution of a dwelling unit to a stockholder if it is in exchange for the stockholder's stock in the corporation and qualifies for rollover of the gain by the stockholder. [TAMRA Sec. 6282]

Section 24412 amended, effective for IYBOA 1/1/89

This act amends current rules relating to regulated investment companies to clarify the application of federal law for state purposes. In general, regulated investment companies would be taxed only upon their undistributed income, but not less than the minimum tax.

Section 24413 amended, effective for IYBOA 1/1/89

This act amends current rules relating to real estate investment trusts to clarify the application of federal law for state purposes. In general, real estate investment trusts would be taxed only upon their undistributed income, but not less than the minimum tax.

Section 24422.3 amended, effective for IYBOA 1/1/89

This section specifies that the provisions of Sec. 10204 of the Revenue Act of 1987 are not applicable for state purposes. That act repealed an exception to the uniform capitalization rules that previously excluded past service pension costs from those rules. Thus, for state purposes, past service pension costs are not required to be capitalized.

For federal purposes, the accounting adjustment (income) resulting from this change is allowed to be spread ratably over four years, beginning in 1987. For state purposes, there is no accounting adjustment to be reported as income.

Section 24440 amended, effective for IYBOA 1/1/89

This act conforms to federal law which requires that the deduction for research expenditures must be reduced by an amount equal to 50 percent of the amount of the research credit allowed. Because of the denial of the research expense, it makes the research credit elective, rather than required. [TAMRA Sec. 4008]

Section 24442.5 added, effective for IYBOA 1/1/89

This act conforms to federal treatment of salaries paid after the close of the taxable year to shareholder owners by a personal service corporation (IRC Sec. 280H). [R87 Sec. 10206]

Section 24443 amended, effective for IYBOA 1/1/89

This act conforms to federal law which permits full deduction (rather than 80 percent) of meals to employees on offshore oil or gas rigs and to employees who are crew members of certain commercial vessels. [TAMRA Sec. 6003]

Section 24451 amended, effective for IYBOA 1/1/89

This act conforms to federal changes which expanded the scope of special rules for computing earnings and profits in the case of distributions to a shareholder which owns at least 20 percent of the stock of the distributing corporation. [R87 Sec. 10222]

Section 24452 repealed, effective for IYBOA 1/1/89

This act repeals this section (a counterpart to IRC Sec. 301(a), since Sec. 24451, as amended, incorporates the provisions of IRC Sec. 301 into California law.

Section 24453 repealed, effective for IYBOA 1/1/89

This act repeals this section (a counterpart to IRC Sec. 301(b), since Sec. 24451, as amended, incorporates the provisions of IRC Sec. 301 into California law.

Section 24454 repealed, effective for IYBOA 1/1/89

This act repeals this section (a counterpart to IRC Sec. 301(c), since Sec. 24451, as amended, incorporates the provisions of IRC Sec. 301 into California law.

Section 24454.2 repealed, effective for IYBOA 1/1/89

This act repeals this section (a counterpart to IRC Sec. 301(e), since Sec. 24451, as amended, incorporates the provisions of IRC Sec. 301 into California law.

Section 24457 amended, effective for IYBOA 1/1/89

This act specifically makes not applicable the modification of federal rules relating to nonrecognition of gain for distributions to corporations owning 80 percent or more of the stock of the distributing corporation. [RAB7 Sec. 10223]

Section 24513 amended, generally effective for IYBOA 1/1/87

This act conforms to federal changes in the transition rules relating to the repeal of the General Utilities Doctrine, effective as if they had been included in the Tax Reform Act of 1986 (generally applicable to income years beginning on or after 1/1/87). [TAMRA Sec. 1006(g)]

Section 24521 amended, effective for IYBOA 1/1/89

This act conforms to federal modifications to rules relating to nonrecognition of gain on certain transfers of property to a controlled corporation. [TAMRA Sec. 1018(d)]

Section 24541 amended, effective for IYBOA 1/1/89

This act conforms to federal modifications to rules relating to determination of basis. [TAMRA Sec. 1018(d)]

Section 24562 amended, effective for IYBOA 1/1/89

This act conforms to federal modifications to rules relating to corporate reorganizations. [TAMRA Sec. 1018(q)]

Section 24585 repealed, effective for IYBOA 1/1/89

This act conforms to federal law by repealing the separate section relating to transfers of partnership and trust interests by corporations. [TAMRA Sec. 1006(e)]

Section 24592 amended, effective for IYBOA 1/1/89

This act conforms to new federal rules which provide that the limitations on NOL carryovers provided in the 1986 Tax Reform Act do not apply to a change in the ownership of a loss corporation that results from certain bankruptcy reorganizations or court proceedings. [TAMRA Sec. 6277]

This act also conforms to federal effective dates relating to new limitations on net operating loss carry forwards. [TAMRA Sec. 1006(d)]

This act specifically does not conform to the extension of federal rules relating to the exclusion from gross income of assistance payments made by the Federal Savings and Loan Insurance Corporation to troubled financial institutions. [TAMRA Sec. 4012]

This act specifically does not conform to federal changes which expand the above rules to include payments made by the Federal Deposit Insurance Corporation to troubled banks. [TAMRA Sec. 4012]

Section 24601 amended, effective for IYBOA 1/1/89

This act specifically does not conform to federal changes which repealed the deduction for additions to a reserve for the accrual of vacation pay. For federal purposes, the deduction is now limited to the amount paid during the taxable year, plus the amount vested as of the last day of the taxable year and paid within two and one-half months after the close of the taxable year. [R87 Sec. 10201]

For federal purposes, the accounting adjustment (income) resulting from this change is allowed to be spread ratably over four years, beginning in 1987. For state purposes, there is no accounting adjustment to be reported as income.

Section 24632 added, effective for IYBOA 1/1/89

This act adds language to Chapter 13 (accounting periods and methods of accounting) to specify that the taxable year of a taxpayer may not be different than the taxable year used for federal purposes. [Technical clean-up to SB 572 (Stats. 1987, Ch. 1139)]

Section 24633.5 amended, effective for IYBOA 1/1/89

This act conforms to federal rules relating to computation of basis with respect to the four year spread of income in the short year resulting from a change of taxable year. [TAMRA 1008(e)]

This act also makes technical corrections to provisions enacted by SB 572 (Stats. 1987, Ch. 1139).

Section 24637 amended, effective for IYBOA 1/1/89

This act amends a cross reference to Sec. 444 of the Internal Revenue Code in conjunction with conforming to IRC Sec. 280H, relating to limitations on payments made to employee-owners of personal service

corporations after the close of the income year. [RAB7 Sec. 10206 and TAMRA Sec. 2004(e)]

Section 24652 amended, effective for IYBOA 1/1/89

This act specifically does not conform to federal rules which require family farming corporations with gross receipts in excess of \$25 million to use the accrual method of accounting. For federal purposes, the accounting adjustment (income) resulting from this change was allowed to be placed into a suspense account and is included in gross income only when there is a reduction in gross receipts from the trade or business of farming. If the corporation ceases to be a family corporation, the remaining balance in the suspense account is required to be included in gross income at that time. [RAB7 Sec. 10205]

The announcement issued by the Franchise Tax Board which allows family farming corporations to elect to switch to the accrual method is currently under review, but no decision has been made regarding its retention, modification, or termination.

Section 24654 amended, effective for IYBOA 1/1/87

This act conforms to federal changes, effective for income years beginning on or after 1/1/87, relating to limitations on the cash method of accounting, which include consideration of indirect holdings through trusts in determining whether or not the ownership of a personal service corporation qualifies for an exception that permits the corporation to use the cash method of accounting. [TAMRA Sec. 6032]

Section 24661 amended, effective for IYBOA 1/1/89

This act conforms to the federal effective date (sales or exchanges after December 31, 1987) for allowing a cash basis taxpayer who receives insurance proceeds as a result of destruction or damage to crops, under the Disaster Assistance Act of 1983, to elect to include the income in the year following the loss, if it can be shown that the income would normally have been reported in that year. [TAMRA Sec. 6030]

This act conforms to the federal effective date (before, on, or after 11/10/88) which allows deferral of income for payments under the Agricultural Act of 1949 to include payments under the Disaster Assistance Act of 1988. [TAMRA Sec. 6033]

Section 24667 amended, effective for IYBOA 1/1/89

This act adds exceptions to California law to specify that California has not conformed to certain federal rules relating to installment sales (RAB7 Sec. 10202; TAMRA Sec. 1006, 1008, 1018, 2004, and 5076):

California law still permits the installment method for dealers in real property (repealed for federal purposes). The four-year spread of income for federal purposes is not applicable for state purposes.

California law has not repealed the proportionate disallowance rules (repealed for federal purposes and replaced with interest charges for the deferral of tax).

Because California has not conformed to the recent federal changes relating to treatment of installment sales, federal rules relating to nondealer real property installment obligations which are pledged as security for a loan after December 17, 1987, do not apply. [TAMRA Sec. 6031]

Section 24673.2 amended, effective for IYBOA 1/1/89

This act does not conform to the 1987 and 1988 amendments to federal law relating to the treatment of long-term contracts:

Under the 1986 Tax Reform Act, the completed contract method of accounting was virtually abolished. Taxpayers may elect to use either the percentage of completion method or a hybrid method in which the percentage of completion method is applied to 40 percent of the contract and taxpayer's normal method of accounting to the remaining 60 percent.

California law has not been conformed to the 1987 change which increased, from 40 to 70 percent, the portion of a long-term contract that must compute income and expenses under the percentage of completion method of accounting for contracts entered into after October 13, 1987. [RAB7 Sec. 10203]

California law has not been conformed to the 1988 change which increased, from 70 to 90 percent, the portion of a long-term contract that must compute income and expenses under the percentage of completion method of accounting for contracts entered into on or after June 21, 1988. [TAMRA Sec. 5041]

This act also modifies the federal "look-back" rules to specify that amounts allowed to be deferred for state purposes, due to differences in state and federal effective dates, shall be treated as if reported at the same time as under federal law. [24673.2(e)]

The announcement issued by the Franchise Tax Board which allows taxpayers to elect to follow the federal rules is currently under review, but no decision has been made regarding its retention, modification, or termination.

Section 24681 amended, effective for IYBOA 1/1/89

This act modifies state law to retain incorporation to the provisions of IRC Sec. 461 as it was amended by the Tax Reform Act of 1986. The repeal of the reserve for accrual of vacation pay does not apply for state purposes. [RAB7 Sec. 10201]

Section 24690 amended, effective for IYBOA 1/1/89

This act clarifies that the tax upon the gross income of a Nuclear Decommissioning Reserve Fund is an income tax. Thus the funds are not subject to the minimum tax and investments in exempt bonds are not taxed.

Section 24701 amended, effective for IYBOA 1/1/89

This act conforms by reference to IRC Sec. 472, relating to LIFO inventories.

Section 24702 repealed, effective for IYBOA 1/1/89

This act repeals this section (a counterpart to IRC Sec. 472(a), since Sec. 24701 now conforms to IRC Sec. 472 by reference.

Section 24703 repealed, effective for IYBOA 1/1/89

This act repeals this section (a counterpart to IRC Sec. 472(b), since Sec. 24701 now conforms to IRC Sec. 472 by reference.

Section 24704 repealed, effective for IYBOA 1/1/89

This act repeals this section (a counterpart to IRC Sec. 472(c), since Sec. 24701 now conforms to IRC Sec. 472 by reference.

Section 24705 repealed, effective for IYBOA 1/1/89

This act repeals this section (a counterpart to IRC Sec. 472(d), since Sec. 24701 now conforms to IRC Sec. 472 by reference.

Section 24706 repealed, effective for IYBOA 1/1/89

This act repeals this section (a counterpart to IRC Sec. 472(e), since Sec. 24701 now conforms to IRC Sec. 472 by reference.

Section 24707 repealed, effective for IYBOA 1/1/89

This act repeals this section (a counterpart to IRC Sec. 472(f), since Sec. 24701 now conforms to IRC Sec. 472 by reference.

Section 24833 amended, effective for IYBOA 1/1/89

This act makes technical amendments, relating to percentage depletion, to restore language that was inadvertently deleted by SB 572 (Stats. 1987, Ch. 1139).

Section 24916 amended, effective for IYBOA 1/1/89

This act makes technical amendments to cross references to other sections, relating to adjustments to basis.

Section 24994 amended, effective for IYBOA 1/1/87

This act makes technical amendments to rules relating to the treatment of a state adjustment related to past differences in state and federal treatment of original issue discount bonds. Prior law required the adjustment to be reported in the year in which the bond matured, was sold, or otherwise disposed of. This amendment permits the difference to be recognized over a four year period beginning in 1987.

Section 25107 amended, effective for IYBOA 1/1/89

This act makes a technical amendment, relating to apportionment of income for international banking facilities, to delete a reference to Sec. 23044.

Section 25561 amended, effective for IYBOA 1/1/89

This act corrects erroneous cross references in this section, relating to estimated tax requirements for general corporations.

Section 25901c amended, effective for IYBOA 1/1/89

This act conforms to clerical amendments to federal law, relating to the calculation of interest on negligence and fraud penalties. [TAMRA Sec. 1015(b)]

Section 25934 amended, effective for IYBOA 1/1/89

This act conforms to federal law relating to the penalties for negligence and fraud by restructuring the law and deleting the provisions that included in these penalties an amount equal to 50 percent of the interest on the underpayment of tax. [TAMRA Sec. 1015(b)]

Section 25951 amended, effective for IYBOA 1/1/89

This act conforms to federal law by deleting a provision which reduced the penalty for underpayment of estimated tax if at least 80 percent of the tax was paid (90 percent required). [RA87 Sec. 10301]

Section 25951.5 amended, effective for IYBOA 1/1/89

This act conforms to federal law by providing that the penalty for underpayment of estimated tax for any period prior to 3/16/89 will be waived for any increase in tax due to the adoption of the technical amendments included in TAMRA Sec. 1001 through 2005. [TAMRA 1019(b)]

Section 25954 amended, effective for IYBOA 1/1/89

This act substantially restructures the rules for computing the penalty for underpayment of estimated tax and conforms to federal changes which:

Delete the exception relating to use of last year's income and current year tax rates.

Allows large corporations to use the prior year tax as their basis for making the first installment of estimated tax for the current year.

PROGRAM CHANGES

This act will not result in any program changes for the department requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

**LEGISLATIVE CHANGE NO. 89-26
ASSEMBLY BILL 36X AND SENATE BILL 34X**

Author: Klehs and Garamendi (respectively)
Subject: Earthquake Related Disaster Loss Carryovers
Laws Affecting Franchise Tax Board: Sections 17207 and 24347.5 of the
Revenue and Taxation Code
Date Filed with Secretary of State: November 7, 1989
Chapter Number: 89-15x and 89-16x (respectively)

SUMMARY

Sections 17207 and 24347.5, as amended.

These acts allow special treatment of excess disaster losses resulting from earthquake, aftershock or any other related casualty occurring in 1989 in California which were sustained in a county or city proclaimed by the Governor to be in a state of disaster. Taxpayers are allowed to carry forward 100% of excess losses for a period of five years. Fifty percent of any losses remaining after five years could then be carried forward for the next ten years.

These acts also allow corporations to elect to deduct their disaster related losses on the prior year's return instead of on the return for the year in which the disaster occurred.

These acts will not result in departmental program changes requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.



AB 802
EXHIBIT A



GENERAL DESCRIPTION

Since 1983, many provisions of federal law (Internal Revenue Code) have been incorporated into state law by reference, as of a "specified date."

This bill would change the "specified date" from January 1, 1987 to January 1, 1989, for taxable (or income) years beginning on or after January 1, 1989 (Sec. 17024.5). In so doing, many of the recent federal changes, such as the Revenue Act of 1987 and the Technical and Miscellaneous Revenue Act of 1988, would be incorporated into the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (BCTL).

This exhibit provides a brief description of each of the changes that this bill would make to the PITL and BCTL.

DESCRIPTION OF REVENUE ACT OF 1987

ACT SEC. 9301-9346 - PENSION FUNDING, TERMINATION, AND OTHER CHANGES. These sections of the Act strengthen the funding rules for defined benefit pension plans and provide a ten percent excise tax on funding deficiencies.

Personal Income Tax Law. All of these changes (IRC Sec. 401, 404, 411, 412, 414), except the new excise tax, would be incorporated into the PITL (Sec. 17501) by changing the "specified date" for referencing provisions of federal law. Section 17502 would be added to incorporate federal effective dates specified in Section 9341(c) of Public Law 100-203.

Bank and Corporation Tax Law. Only the changes relating to deductions by employers (IRC Sec. 404) would be incorporated into the BCTL (Sec. 24601) by changing the "specified date" for referencing provisions of federal law. The other changes are not applicable to the BCTL.

ACT SEC. 10101 - CHILD & DEPENDENT CARE CREDIT. This section provides that overnight camp expenses will no longer be qualified expenses for purposes of the child and dependent care tax credit.

Personal Income Tax Law. This change (IRC Sec. 21) would be incorporated into the PITL (Sec. 17052.6) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 10102 - DEDUCTION FOR QUALIFIED RESIDENCE INTEREST. This section modifies the rules relating to the deduction of interest expense on indebtedness secured by a personal residence by establishing new limitations on "acquisition indebtedness" of \$1,000,000 and "home equity indebtedness" of \$100,000.

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Personal Income Tax Law. This change (IRC Sec. 163) would be incorporated into the PITL (Sec. 17201) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 10103 - TREATMENT OF FEDERAL JUDGES. This section reverses a Tax Court decision which held that certain federal judges were not employees of the United States and therefore not active participants in an employer pension plan. Thus, judges making contributions to an IRA will now be subject to the special limitations that apply to active participants.

Personal Income Tax Law. Section 17272 would be added to the PITL by this bill to incorporate this change.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 10201 - REPEAL OF RESERVE FOR ACCRUAL OF VACATION PAY. This change repealed the deduction for additions to a reserve for the accrual of vacation pay. The deduction is now limited to the amount paid during the taxable year, plus the amount vested as of the last day of the taxable year and paid within two and one-half months after the close of the taxable year. For federal purposes, the accounting adjustment (income) resulting from this change was allowed to be spread over four years (25%-5%-35%-35%).

Personal Income Tax Law. Section 17094 would be added to retain IRC Sec. 81 for state purposes. Section 17563 would be added to retain IRC Sec. 463 for state purposes. No exceptions are added for changes to IRC Sec. 404, 419, and 461.

Bank and Corporation Tax Law. Section 24274 would be amended to retain IRC Sec. 81 for state purposes. Section 24601 would be amended to make the provisions of Act Sec. 10201 not applicable for state purposes. Section 24681 would be amended to retain the existing provisions of IRC Sec. 461, as of January 1, 1987. Section 24685 (IRC Sec. 463) would not require change, since it is not coupled to federal law.

ACT SEC. 10202 - INSTALLMENT SALES. This section substantially modified federal rules relating to installment sales by repealing the installment method for dealers in real property, repealing the proportionate disallowance rules and replacing them with interest charges for the deferral of the tax, and relaxing the rules for purposes of computing alternative minimum taxable income to allow the installment method for nondealer dispositions of property. For federal purposes, the accounting adjustment (income) resulting from the repeal of the installment method for dealers in real property was allowed to be spread ratably over four years.

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Personal Income Tax Law. Section 17560 would be amended to retain federal law as it existed on January 1, 1987. The changes made by Act Sec. 10202 would not be incorporated into the PITL. Sec. 17062 would be amended to specify that changes to IRC Sec. 56(a)(6) would not apply.

Bank and Corporation Tax Law. Section 24667 would be amended to retain federal law as it existed on January 1, 1987. The changes made by Act Sec. 10202 would not be incorporated into the BCTL. Sec. 23456 would be amended to specify that changes to IRC Sec. 56(a)(6) would not apply.

ACT SEC. 10203 - LONG-TERM CONTRACTS. This section increases, from 40 to 70 percent, the portion of a long-term contract that must compute income and expenses under the percentage of completion method of accounting for contracts entered into after October 13, 1987.

Personal Income Tax Law. Section 17564 would be added to retain federal law as it existed on January 1, 1987.

Bank and Corporation Tax Law. Section 24673.2 would be amended to retain federal law as it existed on January 1, 1987.

ACT SEC. 10204 - AMORTIZATION OF PAST SERVICE PENSION COSTS. This section repeals an exception to the uniform capitalization rules and subjects past service pension costs to those rules. The accounting adjustment (income) resulting from this change is allowed to be spread ratably over four years.

Personal Income Tax Law. These changes (noncode) would not be incorporated into the PITL. Section 17279 would be added to specify that this noncode language is not applicable.

Bank and Corporation Tax Law. These changes (noncode) would not be incorporated into the BCTL. Section 24422.3 would be amended to specify that this noncode language is not applicable.

ACT SEC. 10205 - ACCRUAL ACCOUNTING FOR LARGE FAMILY FARMS. This section requires family farming corporations with gross receipts in excess of \$25 million to use the accrual method of accounting. The accounting adjustment (income) resulting from this change was allowed to be placed into a suspense account and is included in gross income only when there is a reduction in gross receipts from the trade or business of farming. If the corporation ceases to be a family corporation, the remaining balance in the suspense account is required to be included in gross income at that time.

Personal Income Tax Law. This change is not applicable to the PITL.

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Bank and Corporation Tax Law. Section 24652 would be amended to specify that these changes are not applicable to the BCTL.

ACT SEC. 10206 - ELECTION OF TAXABLE YEAR. This section relaxed the rules relating to retention of fiscal year accounting periods by pass-thru entities such as partnerships, "S corporations", etc., but added certain "required payments" in exchange for deferral of the tax.

Personal Income Tax Law. AB 2130 (Stats. 1988, Ch. 11) conformed to federal law, except for the "required payments" feature. This bill would amend Section 17270 to conform to federal treatment of salaries paid after the close of the taxable year to shareholder owners by a personal service corporation (IRC Sec. 280H). This bill would also make technical amendments to Sec. 17551, as enacted by AB 2130.

Bank and Corporation Tax Law. AB 2130 (Stats. 1988, Ch. 11) conformed to federal law, except for the "required payments" feature. This bill would add Section 24442.5 to conform to federal treatment of salaries paid after the close of the taxable year to shareholder owners by a personal service corporation (IRC Sec. 280H). This bill would also make technical amendments to Sec. 24637, as enacted by AB 2130.

ACT SEC. 10211-10213 PUBLICLY TRADED PARTNERSHIPS. These sections provide that, for income tax purposes, publicly traded partnerships will be treated as corporations. Additional rules are provided relating to limitations on passive activities and treatment of exempt organizations who have income from publicly traded partnerships.

Personal Income Tax Law. AB 2130 (Stats. 1988, Ch. 11) conformed to the provision relating to limitations on passive activities (IRC Sec. 469). The provisions of IRC Sec. 7704 would not be incorporated into the PITL. The provision relating to exempt organizations (IRC Sec. 512) is not applicable to the PITL. The other provisions (IRC Sec. 58 and 163) are technical nonsubstantive changes that would be incorporated into the PITL (Sec. 17062 and 17201) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. AB 2130 (Stats. 1988, Ch. 11) conformed to the provision relating to limitations on passive activities (IRC Sec. 469). The provisions of IRC Sec. 7704 would not be incorporated into the BCTL. The provision relating to exempt organizations (IRC Sec. 512) would not be incorporated into the BCTL (Sec. 23732 amended to retain federal law as of January 1, 1987). The other provisions (IRC Sec. 58 and 163) are technical nonsubstantive changes that do not require modification of the BCTL.

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ACT SEC. 10214 PARTNERSHIP ALLOCATIONS TO EXEMPT PARTNERS. This section provides that certain income from debt financed real property is allocable to exempt partners as income subject to the tax on unrelated business income.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. Section 23735 would be amended to specify that these changes would not be applicable to the BCTL.

ACT SEC. 10221 - REDUCTION OF DIVIDENDS RECEIVED DEDUCTION. This section reduces the deduction for dividends received (from 80 to 70 percent) for corporations that own less than 20 percent of the stock of the distributing corporation.

Personal Income Tax Law. These changes are not applicable to the PITL.

Bank and Corporation Tax Law. The minor changes relating to dividends received from a regulated investment company (IRC Sec. 854) would be incorporated into the BCTL (Sec. 24412) by changing the "specified date" for referencing provisions of federal law. However, the other more significant changes (IRC Sec. 243-246A, 805, and 861) would not be incorporated into the BCTL.

ACT SEC. 10222 - EARNINGS AND PROFITS CALCULATION. This section expands the scope of special rules for computing earnings and profits in the case of distributions to a shareholder which owns at least 20 percent of the stock of the distributing corporation.

Personal Income Tax Law. These changes are not applicable to the PITL.

Bank and Corporation Tax Law. The changes to IRC Sec. 301 would be incorporated into the BCTL by amending Sec. 24451 and repealing Sec. 23805, 24452, 24453, 24454, and 24454.2. The changes to IRC Sec. 1503 would not be incorporated into the BCTL.

ACT SEC. 10223 - MIRROR SUBSIDIARY TRANSACTIONS. This section modifies the rules relating to nonrecognition of gain for distributions to corporations owning 80 percent or more of the stock of the distributing corporation.

Personal Income Tax Law. These changes are not applicable to the PITL.

Bank and Corporation Tax Law. The changes to IRC Sec. 304 and 355 would not be incorporated into the BCTL (Sec. 24457 amended and Sec. 24533 not changed). The changes to IRC Sec. 337 would be incorporated by date change, but would have no significant effect upon the BCTL.

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ACT SEC. 10225 - LIMITATIONS ON NOL CARRY FORWARDS. This section limits the use of net operating loss carryovers by a loss corporation following a change in ownership.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. AB 2130 (Stats. 1988, Ch. 11) conformed the BCTL (Sec. 24592) to this change (IRC Sec. 382).

ACT SEC. 10226 - LIMITATION ON PRE-ACQUISITION LOSSES. This section limits the use of net operating loss carryovers by loss corporations which reorganize within five years after acquiring another corporation.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. AB 2130 (Stats. 1988, Ch. 11) conformed the BCTL (Sec. 24594) to this change (IRC Sec. 384).

ACT SEC. 10227 - RECAPTURE OF LIFO AMOUNT UPON "S" ELECTION. This section requires recapture of a portion of the inventory value (LIFO over FIFO) when a corporation elects to be treated as an "S corporation." However, the tax is payable in installments over four years.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. This change (IRC Sec. 1363) would not be incorporated into the BCTL (Sec. 23802 amended).

ACT SEC. 10301 - ESTIMATED TAX REQUIREMENTS - CORPORATIONS. This section consolidates into one section all of the rules relating to estimated tax of corporations. It repeals the reduced rate of penalty where between 80 and 90 percent of the estimated tax has been paid. It also repeals the penalty exception using last year's income and current year tax rates and allows large corporations to use the prior year tax as their basis for making the first installment of estimated tax for the current year.

Personal Income Tax Law. These changes are not applicable to the PITL.

Bank and Corporation Tax Law. Most of the restructuring changes (IRC Sec. 585, 6154, 6201, 6425, 6601, and 6651) would not be incorporated into the BCTL because there are a number of provisions that are unique to California, such as, the minimum tax, special rules for banks and financial corporations, and a different definition of a "large" corporation. However, Sec. 25951 and 25954 would be amended

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to allow large worldwide corporations to use the prior year tax as a basis for the first installment, to repeal the reduced penalty rate, and to repeal the exception that permits using last year's income with current year tax rates.

ACT SEC. 10601 - TARGETED JOBS TAX CREDIT. The section denies the targeted jobs tax credit for wages paid to nonunion employees during a labor dispute.

Personal Income Tax Law. Sec. 17053.7 would be amended to incorporate this change (IRC Sec. 51) into the PITL.

Bank and Corporation Tax Law. Sec. 23621 would be amended to incorporate this change (IRC Sec. 51) into the BCTL.

ACT SEC. 10611 - ILLEGAL IRRIGATION SUBSIDIES. This section requires that gross income include any illegal federal irrigation subsidy, that is, the excess of the amount required to be paid for the water over the amount actually paid.

Personal Income Tax Law. This change (IRC Sec. 90) would be incorporated into the PITL (Sec. 17081) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change (IRC Sec. 90) would be incorporated into the BCTL by adding Sec. 24276 to provide that this change applies to water delivered after January 1, 1988, in income years beginning on or after January 1, 1989.

ACT SEC. 10701 - DISCLOSURE OF NONDEDUCTIBLE CONTRIBUTIONS. This section requires certain tax-exempt organizations, such as lobbying groups and political action committees, to include on fundraising solicitations that contributions or gifts are not deductible as charitable contributions.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. This change (IRC Sec. 6113, 6114, and 6710) would not be incorporated into the BCTL, since the information will have already been disclosed in compliance with federal law.

ACT SEC. 10702 - PUBLIC INSPECTION OF RETURNS OF EXEMPT ORGANIZATIONS. This section requires tax-exempt organizations to allow public inspection of certain tax documents.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. This change (IRC Sec. 6104) would not be incorporated into the BCTL, since the

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information will have already been disclosed in compliance with federal law.

ACT SEC. 10703 - ADDITIONAL INFO ON RETURNS OF EXEMPT ORGANIZATIONS. This section requires that tax-exempt organizations disclose on their tax return information regarding transfers, transactions, and relationships with other tax-exempt organizations.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. Section 23772 would be amended to incorporate this change (IRC Sec. 6033) into the BCTL.

ACT SEC. 10704 - PENALTIES. This section adds and modifies penalty provisions relating to disclosure of nondeductibility of contributions, public inspection of tax documents, and disclosure that certain information or services are available from the federal government.

Personal Income Tax Law. These changes are not applicable to the PITL.

Bank and Corporation Tax Law. These changes (IRC Sec. 6652, 6685, and 7207) would not be incorporated into the BCTL, since the requirement provisions are not being incorporated into the BCTL.

ACT SEC. 10705 - DISCLOSURE REQUIREMENTS OF EXEMPT ORGANIZATIONS. This section requires tax-exempt organizations to disclose that certain information is available from the federal government.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. This change (IRC Sec. 6711) would not be incorporated into the BCTL, since the information will have already been disclosed in compliance with federal law.

ACT SEC. 10711 - PROHIBITED POLITICAL ACTIVITIES BY EXEMPT ORGANIZATIONS. This section modifies existing rules relating to prohibited political activities by exempt organizations.

Personal Income Tax Law. The changes to IRC Sec. 501 and 504 are not applicable to the PITL. The change to IRC Sec. 170 would be incorporated into the PITL (Sec. 17201) by changing the "specified date" for referencing provisions of federal law. Section 17241 would be amended to delete the automatic repeal date established by AB 128 (Stats. 1989, Ch. 9).

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Bank and Corporation Tax Law. Sec. 23701d, 23704.6, and 24359 would be amended to incorporate most of these changes (IRC Sec. 170, 501, and 504,) into the BCTL. The changes to IRC Sec. 2055, 2106, and 2522 are not applicable to the BCTL.

DESCRIPTION OF THE TECHNICAL & MISCELLANEOUS REVENUE ACT OF 1988

(ACT SEC. 1001-2005 - TECHNICAL CORRECTIONS TO OTHER ACTS. These sections made technical corrections to provisions of the Internal Revenue Code, the Tax Reform Act of 1986 (Public Law 99-514), the Omnibus Budget Reconciliation Act of 1986 (Public Law 99-509), and the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203).

To the extent that these corrections made changes to provisions of the IRC that are incorporated into California law by reference, this bill would adopt those changes (Act Section 162) as declaratory of existing law and apply them in the same manner as specified in Public Law 100-647.

To the extent that these corrections made changes to provisions of the IRC that are not incorporated into California law by reference, this bill would adopt those changes by specific action (Sec. 17020.12, 17027, 17039, 17041, 17062, 17232, 17504, 17512, 17551.5, 17560, 17562, 17671, 18162, 18180, 18681.9, 18682.5, 18684, 18689, 18802.4, 18807, 23045.6, 23701r, 23701s, 24361, 24363, 24363.5, 24368.1, 24373, 24374, 24375, 24376, 24513, 24521, 24541, 24562, 24585, 24592, 24633.5, 24654, 24667, 24916, 25901c, 25934, 25951.5, and 25954).

A cross-reference listing disclosing the treatment of the various technical corrections is attached as Exhibit B.

ACT SEC. 3011 - GROUP HEALTH PLANS. This section imposes an excise tax on employers or plan administrators at the rate of \$100 per day for each beneficiary when there is a failure to satisfy the health care continuous coverage rules. This section also repeals a provision that denies a business deduction to an employer for expenses of a group health plan that does not meet continuous coverage rules.

Personal Income Tax Law. The existing denial of deductions (IRC Sec. 162) would be repealed and related technical amendments (IRC Sec. 106 and 414) would be incorporated into the PITL (Sec. 17131, 17201, and 17501) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. The existing denial of deductions (IRC Sec. 162) would be repealed from the BCTL (Sec. 24343) by changing the "specified date" for

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referencing provisions of federal law. The related technical amendments are not applicable to the BCTL.

The excise tax provision (IRC Sec. 4980B) would not be incorporated into either the PITL or the BCTL.

ACT SEC. 3021 - DISCRIMINATION RULES FOR EMPLOYEE BENEFIT PLANS.

This section modifies rules that restrict employers from discrimination in providing benefits to their employees.

Personal Income Tax Law. The changes in discrimination rules (IRC Sec. 89, 129, 410, and 414) would be incorporated into the PITL (Sec. 17081, 17131, and 17501) by changing the "specified date" for referencing provisions of federal law. Section 17092 would be added to the PITL to incorporate federal effective dates. However, Section 17095 would be added to specify that the provisions of IRC Sec. 89 would not apply to taxable years beginning in 1989.

The provisions relating to returns and records (IRC Sec. 6039D) and imposition of tax for failure to file information returns (IRC Sec. 6652) would not be incorporated into the PITL, since California relies upon the federal government to approve and monitor employee benefit plans.

The amendments to IRC Sec. 2036 and 4976 are not applicable to the PITL.

Bank and Corporation Tax Law. These changes are not applicable to the BCTL.

ACT SEC. 4001 - EXCLUSION OF EMPLOYER PROVIDED EDUCATIONAL ASSISTANCE.

This exclusion is extended for one year, but does not apply to taxable years beginning after December 31, 1988. This section also amends rules relating to education at the graduate level.

Personal Income Tax Law. Both changes (IRC Sec. 117 and 127) would be incorporated into the PITL (Sec. 17131) by changing the "specified date" for referencing provisions of federal law. Section 17154 would be amended to delete the automatic repeal date established by AB 128 (Stats. 1989, Ch. 9).

Bank and Corporation Tax Law. These changes are not applicable to the BCTL.

ACT SEC. 4002 - EXCLUSION OF EMPLOYER PROVIDED GROUP LEGAL BENEFITS.

This exclusion is extended for one year, but does not apply to taxable years ending after December 31, 1988. A new provision limits this exclusion to \$70 per taxable year. This section also makes related technical amendments to the provisions relating to cafeteria plans.

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Personal Income Tax Law. All of these changes (IRC Sec. 120 and 125) would be incorporated into the PITL (Sec. 17131) by changing the "specified date" for referencing provisions of federal law. Section 17158 would be amended to delete the automatic repeal date established by AB 128 (Stats. 1989, Ch. 9).

Bank and Corporation Tax Law. These changes are not applicable to the BCTL.

ACT SEC. 4003 - ALLOCATIONS FOR LOW-INCOME HOUSING CREDITS. This section permits state low-income housing credits allocated in years after 1987 to be carried over if at least 10 percent of the expected costs have been incurred during the year of allocation and the property is placed in service within the next two years.

Personal Income Tax Law. Many of these changes (IRC Sec. 42) would be incorporated into the PITL (Sec. 17058) by changing the "specified date" for referencing provisions of federal law. However, no modifications for state purposes would be made by this bill. The state issues were addressed by SB 70 (Stats 1989, Ch. 46).

Bank and Corporation Tax Law. Many of these changes (IRC Sec. 42) would be incorporated into the BCTL (Sec. 23610.5) by changing the "specified date" for referencing provisions of federal law. However, no modifications for state purposes would be made by this bill. The state issues were addressed by SB 70 (Stats 1989, Ch. 46).

ACT SEC. 4004 - PARTNERSHIPS HOLDING LOW-INCOME HOUSING BUILDINGS. This section modifies rules relating to recapture of the credit where the property is owned by a partnership.

Personal Income Tax Law. Many of these changes (IRC Sec. 42) would be incorporated into the PITL (Sec. 17058) by changing the "specified date" for referencing provisions of federal law. However, no modifications for state purposes would be made by this bill. The state issues were addressed by SB 70 (Stats. 1989, Ch. 46).

Bank and Corporation Tax Law. Many of these changes (IRC Sec. 42) would be incorporated into the BCTL (Sec. 23610.5) by changing the "specified date" for referencing provisions of federal law. However, no modifications for state purposes would be made by this bill. The state issues were addressed by SB 70 (Stats. 1989, Ch. 46).

ACT SEC. 4007 - EXTENSION OF CREDIT FOR RESEARCH EXPENDITURES. This section extends the credit for increasing research activities, but would not apply to any amount incurred after December 31, 1989.

Personal Income Tax Law. This change (IRC Sec. 41) would be incorporated into the PITL (Sec. 17052.12) by changing the

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"specified date" for referencing provisions of federal law. However, Sec. 17052.12 would be amended for technical corrections and deletion of the federal sunset date which conflicts with current state law.

Bank and Corporation Tax Law. This change (IRC Sec. 41) would be incorporated into the BCTL (Sec. 23609) by changing the "specified date" for referencing provisions of federal law. However, Sec. 23609 would be amended for technical corrections and deletion of the federal sunset date which conflicts with current state law.

ACT SEC. 4008 - DENIAL OF DEDUCTION FOR 50% OF RESEARCH CREDIT. This section denies a deduction for research expenditures equal to one-half of the amount of the research credit. It also makes the credit elective, rather than required, and makes related technical amendments to other sections.

Personal Income Tax Law. The elective provision and relevant technical amendments (IRC Sec. 28, 41, 196, and 280C) would be incorporated into the PITL (Sec. 17052.12, 17057, and 17201) by changing the "specified date" for referencing provisions of federal law. However, Sec. 17057 would be amended for technical corrections and deletion of the federal sunset date which conflicts with current state law. Sec. 17270 would also be amended.

Bank and Corporation Tax Law. The elective provision and relevant technical amendments (IRC Sec. 28, 41, 196, and 280C) would be incorporated into the BCTL (Sec. 23609, 23609.5, and 24440) by changing the "specified date" for referencing provisions of federal law. However, Sec. 23609.5 and 24440 would be amended for technical corrections and deletion of the federal sunset date which conflicts with current state law.

ACT SEC. 4011 - DELAY OF 2% FLOOR WITH RESPECT TO MUTUAL FUNDS. This section further delays application of the two percent floor on miscellaneous itemized deductions, with respect to the indirect expenses of a shareholder in a regulated investment company (mutual fund), until January 1, 1990.

Personal Income Tax Law. This change (IRC Sec. 67) would be incorporated into the PITL (Sec. 17076) by changing the "specified date" for referencing provisions of federal law. However, federal law contains a drafting error and this bill would amend Sec. 17076 to incorporate this change as it was intended, without the drafting error.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 4012 - EXCLUSIONS RELATING TO FSLIC AND FDIC PAYMENTS. This section extends the rules relating to the exclusion of assistance payments made by the Federal Savings and Loan

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Insurance Corporation to troubled financial institutions through December 31, 1989. This section also expands the rules to include payments made by the Federal Deposit Insurance Corporation to troubled banks.

Personal Income Tax Law. These changes are not applicable to the PITL.

Bank and Corporation Tax Law. The changes to IRC Sec. 382 would be incorporated into the BCTL (Sec. 24592) by changing the "specified date" for referencing provisions of federal law. However, this bill would amend Sec. 24592 to make those changes not applicable for state purposes. The changes to IRC Sec. 368 and 597 would not be incorporated into the BCTL by changing the "specified date" for referencing provisions of federal law, since the BCTL provisions (Sec. 24322 and 24562) are not tied to federal law by reference.

ACT SEC. 5001 - ESTIMATED TAX PAYMENTS OF CORPORATIONS. This section requires 100 percent, rather than 90 percent, recapture of any shortfall in earlier installments by a corporation using the annualized income method of estimating its tax.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. This change (IRC Sec. 6655) is not applicable to the BCTL.

ACT SEC. 5011 - LIMITATIONS ON MORTALITY AND OTHER EXPENSE CHARGES. This section modifies the reasonableness standards for treating certain policies as a life insurance contract, rather than as an investment.

Personal Income Tax Law. This change (IRC Sec. 7702) would be incorporated into the PITL (Sec. 17020.6) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change (IRC Sec. 7702) would be incorporated into the BCTL (Sec. 23045) by changing the "specified date" for referencing provisions of federal law.

ACT SEC. 5012 - LIMITATION ON LIFE INSURANCE CONTRACTS. This section places new limitations on "modified endowment contracts." Amounts received under such a contract must be treated first as income, then as recovery of basis. Loans are treated as amounts received under the contract and a 10 percent tax is imposed on certain amounts received that are includible in gross income.

Personal Income Tax Law. Sec. 17020.6 would be amended to incorporate this change (IRC Sec. 7702A) into the PITL. Sec. 17085 would be amended to reflect related technical amendments (IRC Sec. 72).

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Bank and Corporation Tax Law. Sec. 23045 would be amended to incorporate this change (IRC Sec. 7702A) into the BCTL. The related technical amendments are not applicable to the BCTL.

ACT SEC. 5013 - VALUATION OF GROUP-TERM LIFE INSURANCE. This section strikes out a provision that employees age 64 or older shall be treated as if they were age 63. Thus, the IRS will have to prescribe higher monthly costs (in five-year brackets) for ages 64 and over.

Personal Income Tax Law. This change (IRC Sec. 79) would be incorporated into the PITL (Sec. 17081) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 5041 - LONG-TERM CONTRACTS. This section increases, from 70 to 90 percent, the portion of a long-term contract that must compute income and expenses under the percentage of completion method of accounting for contracts entered into on or after June 21, 1988.

Personal Income Tax Law. These changes (IRC Sec. 56 and 460) would not be incorporated into the PITL (Sec. 17564 added). The PITL would continue to be conformed to the Tax Reform Act of 1986 (40 percent required to be computed under the percentage of completion method).

Bank and Corporation Tax Law. These changes (IRC Sec. 56 and 460) would not be incorporated into the BCTL (Sec. 24673.2 amended). The BCTL would continue to be conformed to the Tax Reform Act of 1986 (40 percent required to be computed under the percentage of completion method).

ACT SEC. 5073 - DENIAL OF DEDUCTION FOR RESIDENTIAL TELEPHONE. This section provides that where business is conducted in the home, no deduction will be allowed for charges relating to the first line into the taxpayer's home.

Personal Income Tax Law. This change (IRC Sec. 262) would be incorporated into the PITL (Sec. 17201) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 5074 - PARTNERSHIP REPORTING OF UNRELATED BUSINESS INCOME. This section expands the reporting requirements of a partnership which has one or more exempt partners subject to the unrelated business tax.

Personal Income Tax Law. Sec. 17932 would be amended to incorporate this change (IRC Sec. 6031) into the PITL.

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Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 5075 - OPTIONS SUBJECT TO WASH SALE RULES. This section expands the wash sale rules to apply to contracts or options to sell stock or securities, as well as to the actual sale of stock or securities.

Personal Income Tax Law. This change (IRC Sec. 1091) would be incorporated into the PITL (Sec. 18031) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change (IRC Sec. 1091) would be incorporated into the BCTL (Sec. 24998) by changing the "specified date" for referencing provisions of federal law.

ACT SEC. 5076 - INTEREST CHARGE ON CERTAIN INSTALLMENT SALES. This section expands the scope of the interest charge on nondealer sales to include all types of property, not just realty.

Personal Income Tax Law. This change (IRC Sec. 453A) would not be incorporated into the PITL (Sec. 17560 amended).

Bank and Corporation Tax Law. This change (IRC Sec. 453A) would not be incorporated into the BCTL (Sec. 24667 amended).

ACT SEC. 5077 - APPLICATION OF NOL RULES TO STOCK ACQUIRED BY AN ESOP. This section adds a requirement that in order to avoid the change of ownership rules when an ESOP acquires stock, immediately after the acquisition the plan must have a number of participants that is not less than 50 percent of the average number of employees of the loss corporation during the three year period prior to the acquisition.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. This change (IRC Sec. 382) would be incorporated into the BCTL (Sec. 24592) by changing the "specified date" for referencing provisions of federal law.

ACT SEC. 6001 - DEDUCTION OF CERTAIN PAYMENTS TO HIGHER EDUCATION. This section adds a provision that permits a deduction for 80 percent of amounts paid to an institution of higher education, even though the taxpayer receives the right to purchase seating at an athletic event conducted by the receiving institution. The federal change is retroactive to years beginning after 1983.

Personal Income Tax Law. This change (IRC Sec. 170) would be incorporated into the PITL (Sec. 17201), effective for

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taxable years beginning on or after January 1, 1989, by changing the "specified date" for referencing provisions of federal law. However, Sec. 17241, as added by AB 128 (Stats. 1989, Ch. 9) would be amended to delete its automatic repeal date.

Bank and Corporation Tax Law. Sec. 24357.10 would be added to the BCTL to incorporate this change (IRC Sec. 170) into the BCTL.

ACT SEC. 6002 - ROLLOVER OF GAIN ON SALE OF RESIDENCE. This section adds a provision that permits a surviving spouse to rollover gain from the sale of a principal residence where the other spouse died after the sale and before occupying the replacement residence.

Personal Income Tax Law. This change (IRC Sec. 1034) would be incorporated into the PITL (Sec. 18031) by changing the "specified date" for referencing provisions of federal law. However, Sec. 18044, as added by AB 128 (Stats. 1989, Ch. 9) would be amended to delete its automatic repeal date.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6003 - DEDUCTION OF MEALS PROVIDED BY EMPLOYER. This section adds a provision that permits full deduction (rather than 80 percent) of meals to employees on offshore oil or gas rigs, effective for taxable years beginning on or after January 1, 1988, and to employees who are crew members of certain commercial vessels, effective for taxable years beginning on or after January 1, 1989.

Personal Income Tax Law. This change (IRC Sec. 274) would be incorporated into the PITL (Sec. 17201) by changing the "specified date" for referencing provisions of federal law. However, Sec. 17271, as added by AB 128 (Stats. 1989, Ch. 9) would be amended to delete its automatic repeal date.

Bank and Corporation Tax Law. This change (IRC Sec. 274) would be incorporated into the BCTL (Sec. 24443) by changing the "specified date" for referencing provisions of federal law. However, Sec. 24443 would be amended to sunset separate state rules which applied to income years beginning in 1987 or 1988.

ACT SEC. 6004 - RELIEF FOR INNOCENT SPOUSE. This section adds a provision that extends relief to certain spouses whose net worth is less than \$10,000 retroactive to January 1, 1985.

Personal Income Tax Law. This change (noncode) would not be incorporated into the PITL, since it is retroactive in nature.

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Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6005 - CHRISTA MCAULIFFE FELLOWSHIP AWARDS. This section adds a provision that excludes from gross income amounts received as a Christa McAuliffe Fellowship Award as long as the award is directly used for the benefit of a school or school district.

Personal Income Tax Law. This change (noncode) was added to the PITL (Sec. 17160) by AB 128 (Stats. 1989, Ch. 9). This bill would amend Sec. 17160 to delete the automatic repeal date provided by that bill.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6006 - ELECTION TO INCLUDE INCOME OF MINOR ON PARENT'S RETURN. This section permits a parent to report the unearned income of a minor child (up to \$5,000) on the parent's return.

Personal Income Tax Law. This change (IRC Sec. 1) would be incorporated into the PITL (Sec. 17041) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6007 - DEDUCTION OF JURY DUTY PAY REMITTED TO EMPLOYER. This section allows an above-the-line deduction (not subject to the two percent floor) for jury duty pay which is remitted to the employer.

Personal Income Tax Law. These changes (IRC Sec. 62, 220, and 221) were incorporated into the PITL (Sec. 17072.5 and 17273) by AB 128 (Stats. 1989, Ch. 9). This bill would amend Sec. 17072.5 and 17273 to delete the automatic repeal date provided by that bill.

Bank and Corporation Tax Law. These changes are not applicable to the BCTL.

ACT SEC. 6008 - STANDARD MILEAGE RATE FOR RURAL MAIL CARRIERS. This section rural mail carriers to use a standard mileage rate that is equal to 150 percent of the standard rate used by other taxpayers.

Personal Income Tax Law. This change (noncode) was incorporated into the PITL (Sec. 17289) by AB 128 (Stats. 1989, Ch. 9). This bill would amend Sec. 17289 to delete the automatic repeal date provided by that bill.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

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ACT SEC. 6010 - RESTRICTION ON ADDITIONAL EXEMPTION FOR STUDENTS.

This section restricts the additional exemption for a student dependent to situations where the student is less than 24 years of age.

Personal Income Tax Law. This change (IRC Sec. 151) would be incorporated into the PITL (Sec. 17054) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6011 - ONE-TIME EXCLUSION ON SALE OF PERSONAL RESIDENCE.

This section allows the one-time exclusion of gain in certain situations where the taxpayer became physically or mentally incapable of self care.

Personal Income Tax Law. This change (IRC Sec. 121) was incorporated into the PITL (Sec. 17153) by AB 128 (Stats. 1989, Ch. 9). This bill would amend Sec. 17153 to delete the automatic repeal date provided by that bill.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6026 - UNIFORM CAPITALIZATION RULES. This section provides exceptions to the uniform capitalization rules for free lance authors, photographers, and artists; producers of animals in farming; and growers of pistachio nuts.

Personal Income Tax Law. These changes (IRC Sec. 263A) were incorporated into the PITL (Sec. 17261) by AB 128 (Stats. 1989, Ch. 9). This bill would amend Sec. 17261 to delete the automatic repeal date provided by that bill.

Bank and Corporation Tax Law. These changes (IRC Sec. 263A) would be incorporated into the BCTL (Sec. 24422.3) by changing the "specified date" for referencing provisions of federal law.

ACT SEC. 6027 - DEPRECIATION OF CERTAIN SINGLE PURPOSE STRUCTURES. This section provides a 10-year recovery period (instead of 7 years) for single purpose agricultural or horticultural structures.

Personal Income Tax Law. This change (IRC Sec. 168) would be incorporated into the PITL (Sec. 17201) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not generally applicable to the BCTL, since California has not conformed the BCTL to the federal Accelerated Cost Recovery System. However, this change (IRC Sec. 168) would be incorporated into the BCTL (Sec. 23802) with respect to "S" corporations

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by changing the "specified date" for referencing provisions of federal law.

ACT SEC. 6028 - TREATMENT OF PROPERTY USED IN FARMING. This section restricts depreciation of farm property to the 150% declining balance method (instead of 200%), unless an election has been made to deduct preproductive period expenses.

Personal Income Tax Law. This change (IRC Sec. 168) would be incorporated into the PITL (Sec. 17201) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not generally applicable to the BCTL, since California has not conformed the BCTL to the federal Accelerated Cost Recovery System. However, this change (IRC Sec. 168) would be incorporated into the BCTL (Sec. 23802) with respect to "S" corporations by changing the "specified date" for referencing provisions of federal law.

ACT SEC. 6029 - TREATMENT OF CERTAIN TREES. This section restricts depreciation of certain trees to the straight-line method over ten years.

Personal Income Tax Law. This change (IRC Sec. 168) would be incorporated into the PITL (Sec. 17201) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not generally applicable to the BCTL, since California has not conformed the BCTL to the federal Accelerated Cost Recovery System. However, this change (IRC Sec. 168) would be incorporated into the BCTL (Sec. 23802) with respect to "S" corporations by changing the "specified date" for referencing provisions of federal law.

ACT SEC. 6030 - DEFERRAL FOR SALE OF LIVESTOCK DUE TO DROUGHT. This section allows a cash basis taxpayer who receives insurance proceeds as a result of destruction or damage to crops, under the Disaster Assistance Act of 1983, to elect to include the income in the year following the loss, if it can be shown that the income would normally have been reported in that year.

Personal Income Tax Law. This change (IRC Sec. 451) would be incorporated into the PITL (Sec. 17551) by changing the "specified date" for referencing provisions of federal law. However, Sec. 17559 would be added by this bill to incorporate the effective date provisions of Sec. 6030(b) of Public Law 100-647 (sales or exchanges after December 31, 1987).

Bank and Corporation Tax Law. This change (IRC Sec. 451) would be incorporated into the BCTL (Sec. 24661) by changing the "specified date" for referencing provisions of federal law. However, Sec. 24661 would be amended by this bill to

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incorporate the effective date provisions of Sec. 6030(b) of Public Law 100-647 (sales or exchanges after December 31, 1987).

ACT SEC. 6031 - INSTALLMENT SALES - CERTAIN REPLEDGES PERMITTED.

This section modifies the rules for nondealer real property installment obligations which are pledged as security for a loan after December 17, 1987.

Personal Income Tax Law. This change (noncode) would not be incorporated into the PITL (Sec. 17560 amended).

Bank and Corporation Tax Law. This change (noncode) would not be incorporated into the BCTL (Sec. 24667 amended).

ACT SEC. 6032 - LIMITATIONS ON CASH METHOD OF ACCOUNTING. This section includes consideration of indirect holdings through trusts in determining whether or not the ownership of a personal service corporation qualifies for an exception that permits the corporation to use the cash method of accounting.

Personal Income Tax Law. This change (IRC Sec. 448) would be incorporated into the PITL (Sec. 17551) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change (IRC Sec. 448) would be incorporated into the BCTL (Sec. 24654) by changing the "specified date" for referencing provisions of federal law.

ACT SEC. 6033 - DEFERRAL OF CROP OR LIVESTOCK INCOME. This section broadens a provision that allows deferral of income to include payments under the Disaster Assistance Act of 1988.

Personal Income Tax Law. This change (IRC Sec. 451) would be incorporated into the PITL (Sec. 17551) by changing the "specified date" for referencing provisions of federal law. However, Sec. 17559 would be added by this bill to incorporate the effective date provisions of Sec. 6033(b) of Public Law 100-647.

Bank and Corporation Tax Law. This change (IRC Sec. 451) would be incorporated into the BCTL (Sec. 24661) by changing the "specified date" for referencing provisions of federal law. However, Sec. 24661 would be amended by this bill to incorporate the effective date provisions of Sec. 6033(b) of Public Law 100-647.

ACT SEC. 6051 - PENSIONS: NONDISCRIMINATION RULES FOR CHURCH PLANS. This section provides that the nondiscrimination requirements of IRC Sec. 89 do not apply to statutory employee benefit plans maintained by a church for church employees.

Personal Income Tax Law. These changes (IRC Sec. 89 and 125) would be incorporated into the PITL (Sec. 17081 and

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17131) by changing the "specified date" for referencing provisions of federal law. Sec. 17092 would be added to the PITL to incorporate the federal effective date as specified in Sec. 6051(c) of Public Law 100-647. However, Sec. 17095 would be added to provide that IRC Sec. 89 would not apply to taxable years beginning during 1989.

Bank and Corporation Tax Law. These changes are not applicable to the BCTL.

ACT SEC. 6052 - PENSIONS: MODIFICATION OF NONDISCRIMINATION RULES. This section modifies the nondiscrimination rules applicable to contributions to a tax sheltered annuity program not made pursuant to a salary reduction agreement.

Personal Income Tax Law. This change (IRC Sec. 403) would be incorporated into the PITL (Sec. 17501) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6053 - PENSIONS: REQUIRED DISTRIBUTION FOR GOVERNMENTAL PLANS. This section permits employees of government or churches to defer distributions until retirement, instead of requiring distributions to begin in the calendar year after attaining age 70.5.

Personal Income Tax Law. This change (IRC Sec. 401) would be incorporated into the PITL (Sec. 17501) by changing the "specified date" for referencing provisions of federal law. However, this bill would add Sec. 17502 to incorporate federal effective dates as specified in Sec. 1121(d) of Public Law 99-514.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6054 - PENSIONS: LIMITATIONS ON GOVERNMENTAL PLANS. This section provides that the limitation on benefits under a defined benefit plan shall not be less than the accrued benefits of a qualified participant, determined without regard to any amendment of the plan after October 14, 1987.

Personal Income Tax Law. This change (IRC Sec. 415) would be incorporated into the PITL (Sec. 17501) by changing the "specified date" for referencing provisions of federal law. Sec. 17512 would be added to the PITL to conform to the federal effective dates.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

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ACT SEC. 6055 - PENSIONS: MINIMUM PARTICIPATION STANDARDS. This section provides that police, firefighters, and emergency medical service employees may be considered separately from other employees for purposes of the minimum participation standards.

Personal Income Tax Law. This change (IRC Sec. 401) would be incorporated into the PITL (Sec. 17501) by changing the "specified date" for referencing provisions of federal law. However, Sec. 17502 would be added to incorporate the federal effective dates as specified in Sec. 1112(e) of Public Law 99-514.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6057 - PENSIONS: PROHIBITION ON COLLECTIBLES. This section provides that coins issued by states are not treated as collectibles and may be a part of a qualified individual retirement account (IRA).

Personal Income Tax Law. This change (IRC Sec. 408) would be incorporated into the PITL (Sec. 17501) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6058 - PENSIONS: FUNDING RULES FOR MULTIPLE EMPLOYERS. This section adds rules relating to employers participating in multiple employer pension plans.

Personal Income Tax Law. This change (IRC Sec. 413) would be incorporated into the PITL (Sec. 17501) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6059 - PENSIONS: LIMITATIONS FOR POLICE AND FIREFIGHTERS. This section decreases the minimum service requirement for police and firefighters from 20 to 15 years.

Personal Income Tax Law. This change (IRC Sec. 415) would be incorporated into the PITL (Sec. 17501) by changing the "specified date" for referencing provisions of federal law. However, this bill would add Sec. 17512 to incorporate the federal effective dates as specified in Sec. 1106(i) of Public Law 99-514.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6061 - LOANS TO ACQUIRE EMPLOYER SECURITIES. This section modifies the effective date of technical corrections made to IRC Sec. 133 by Sec. 1011B(h) of Public Law 100-647.

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Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. Sec. 24306 would be amended by this bill to incorporate this change (noncode) into the BCTL for income years beginning on or after January 1, 1990, and before January 1, 1995.

ACT SEC. 6062 - PENSIONS: COLLECTIVELY BARGAINED AGREEMENTS.

This section delays the effective date of changes made in the 1986 Act with respect to collectively bargained agreements.

Personal Income Tax Law. This change (noncode) would be incorporated into the PITL by changing the "specified date" for referencing provisions of federal law (17024.5).

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6063 - PENSIONS: DEPENDENT CARE ASSISTANCE PLANS. This section provides that a plan will not be treated as failing to be a cafeteria plan solely because the participant receives reimbursements which are required to be included in gross income under the Family Support Act of 1988.

Personal Income Tax Law. This change (noncode) would be incorporated into the PITL by changing the "specified date" for referencing provisions of federal law (17024.5).

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6064 - PENSIONS: DEFERRED COMPENSATION. PLANS OF STATE & LOCAL GOVERNMENT. This section provides that vacation, sick leave, compensatory time, severance pay, disability pay, and death benefits are not considered to be deferred compensation.

Personal Income Tax Law. Sec. 17566 would be added by this bill to incorporate this change (noncode) into the PITL.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6065 - PENSIONS: EXCEPTION FOR GOVERNMENTAL PLANS. This section provides that certain new participation requirements shall not apply prior to January 1, 1993, for employees who were participants in the plan on July 14, 1988.

Personal Income Tax Law. This change (noncode) would be incorporated into the PITL by changing the "specified date" for referencing provisions of federal law (17024.5).

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

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ACT SEC. 6066 - FRINGE BENEFITS - AIR CARGO EMPLOYEES. This section would broaden the free travel exclusion of airline employees to include employees of air cargo companies.

Personal Income Tax Law. This change (IRC Sec. 132) would be incorporated into the PITL (Sec. 17131) by changing the "specified date" for referencing provisions of federal law. Sec. 17134, as added by AB 128 (Stats. 1989, Ch. 9) would be amended to delete the automatic repeal date.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6067 - PENSIONS: SPIN-OFF RULES TO BRIDGE BANKS. This section adds new rules relating to spinoffs and similar transactions to banks that are established by the FDIC to assume the deposits and other liabilities of a closed bank.

Personal Income Tax Law. This change (IRC Sec. 414) would be incorporated into the PITL (Sec. 17501) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6068 - PENSIONS: LUMP-SUM DISTRIBUTIONS TO ALTERNATE PAYEES. This section adds a rule that protects the treatment of a lump-sum distribution where a portion of the proceeds is paid to a spouse (or former spouse) under court order.

Personal Income Tax Law. This change (IRC Sec. 402) would be incorporated into the PITL (Sec. 17501) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6070 - PENSIONS: DEFINITION OF PART-TIME EMPLOYEE. This section provides increased hour limits for temporary employees of employers having less than 10 employees.

Personal Income Tax Law. This change (noncode) would be incorporated into the PITL by changing the "specified date" for referencing provisions of federal law (17024.5).

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6071 - PENSIONS: RURAL TELEPHONE COOPERATIVES. This section provides that rural telephone cooperatives may have qualified cash or deferred arrangements for their employees.

Personal Income Tax Law. These changes (IRC Sec. 401 and 457) would be incorporated into the PITL (Sec. 17501 and

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17551) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. These changes are not applicable to the BCTL.

ACT SEC. 6076 - TREATMENT OF CERTAIN WORKER COMPENSATION FUNDS.

This section provides special rules relating to the timing of policyholder dividend deductions for taxable years beginning prior to January 1, 1987.

Personal Income Tax Law. This change (noncode) would not be incorporated into the PITL, since it affects only years beginning prior to 1987.

Bank and Corporation Tax Law. This change (noncode) would not be incorporated into the BCTL, since it affects only years beginning prior to 1987.

ACT SEC. 6078 - SELF-FUNDED DEATH BENEFIT PLANS OF CHURCHES.

This section provides that self-funded death benefit plans of churches will be treated as life insurance contracts.

Personal Income Tax Law. This change (IRC Sec. 7702) would be incorporated into the PITL (Sec. 17020.6) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change (IRC Sec. 7702) would be incorporated into the BCTL (Sec. 23045) by changing the "specified date" for referencing provisions of federal law.

ACT SEC. 6079 - TREATMENT OF STRUCTURED SETTLEMENTS. This section permits treatment as a qualified assignment, even though the assignee's rights may be greater than those of a general creditor.

Personal Income Tax Law. These changes (IRC Sec. 56 and 130) would be incorporated into the PITL (Sec. 17062 and 17131) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. These changes are not applicable to the BCTL.

ACT SEC. 6130 - FOREIGN CURRENCY RULES. This section modifies the rules for valuation of foreign currency transactions.

Personal Income Tax Law. The changes to IRC Sec. 988 and 1092 would be incorporated into the PITL (Sec. 18031) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. The changes to IRC Sec. 988 and 1092 would be incorporated into the BCTL (Sec. 24998) by

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changing the "specified date" for referencing provisions of federal law.

ACT SEC. 6202 - PURCHASE OF INSURANCE BY COOPERATIVE HOSPITALS.

This section provides that tax-exempt hospital service organizations may acquire, on a group basis, malpractice and general liability insurance for its hospital members.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. This change (IRC Sec. 501) would be incorporated into the BCTL by amending Sec. 23704.

ACT SEC. 6203 - CANCELLATION OF CERTAIN DEBTS NOT TO AFFECT EXEMPTION.

This section provides that a rural mutual or cooperative telephone and electric company will not lose its tax exemption due to discharge of indebtedness arising from the prepayment of a certain loans.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. This change (noncode) would not be incorporated into the BCTL, since it relates to certain associations that are not exempted from taxation under state law.

ACT SEC. 6234 - INSTALLMENT PAYMENT OF TAX LIABILITY. This section is contained in the federal "taxpayer rights" provisions and sets forth federal rules relating to the payment of income taxes in installments. A conforming amendment clarifies that the allowance of installment payments does not reduce the computation of interest on the unpaid tax.

Personal Income Tax Law. California has its own "taxpayer bill of rights." However, the conforming amendment would be incorporated into the PITL by amending Sec. 18687.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 6253 - AUTHORITY OF SECRETARY TO PRESCRIBE CLASS LIVES.

This section repeals the authority for the Secretary to establish class lives. However, the Secretary would continue to be responsible for studying the actual experience of depreciable assets and reporting the findings to Congress.

Personal Income Tax Law. This change (IRC Sec. 168) would be incorporated into the PITL (Sec. 17201) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change (IRC Sec. 168) would be incorporated into the BCTL (Sec. 23802) by changing

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the "specified date" for referencing provisions of federal law.

ACT SEC. 6277 - NOL LIMITATIONS IN BANKRUPTCY REORGANIZATIONS.

This section provides that the limitations on NOL carryovers provided in the 1986 Tax Reform Act do not apply to a change in the ownership of a loss corporation that results from certain bankruptcy reorganizations or court proceedings.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. This change (noncode) would be incorporated into the BCTL by amending Sec. 24592.

ACT SEC. 6281 - APPRAISAL REQUIREMENT FOR CHARITABLE

CONTRIBUTIONS. This section permits the Secretary of the Treasury to waive the requirement for an appraisal of property with a claimed value in excess of \$5,000.

Personal Income Tax Law. This change (noncode) would not be incorporated into the PITL, since the state relies upon the federal government with respect to these appraisals.

Bank and Corporation Tax Law. This change (noncode) would not be incorporated into the PITL, since the state relies upon the federal government with respect to these appraisals.

ACT SEC. 6282 - DISTRIBUTIONS BY COOPERATIVE HOUSING

ASSOCIATIONS. This section provides that no gain or loss shall be recognized by a cooperative housing association upon the distribution of a dwelling unit to a stockholder if it is in exchange for the stockholder's stock in the corporation and qualifies for rollover of the gain by the stockholder.

Personal Income Tax Law. This change (IRC Sec. 216) would be incorporated into the PITL (Sec. 17201) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change (IRC Sec. 216) would be incorporated into the BCTL by amending Sec. 24382.

ACT SEC. 6303 - DISCHARGE OF CERTAIN DEBT NOT INCLUDED IN BOOK

INCOME. This section provides that book income shall not take into account any income resulting from the transfer of stock by the corporation to a creditor in satisfaction of its indebtedness.

Personal Income Tax Law. This change is not applicable to the PITL.

Bank and Corporation Tax Law. This change (IRC Sec. 56) would be incorporated into the BCTL (Sec. 23400) by changing

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the "specified date" for referencing provisions of federal law.

FAMILY SUPPORT ACT OF 1988

ACT SEC. 702 - REIMBURSEMENT ARRANGEMENTS TO AVOID 2% FLOOR. This section codifies the Treasury Regulations prescribed under the Tax Reform Act of 1986, relating to third party reimbursements. The "above-the-line" deduction is allowed only for expenses incurred under a reimbursement arrangement that requires the employee to substantiate covered expenses.

Personal Income Tax Law. This change (IRC Sec. 62) would be incorporated into the PITL (Sec. 17072) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

ACT SEC. 703 - CHILD AND DEPENDENT CARE CREDIT. This section reduces the eligibility age of the dependent from 15 to 13, requires expenses to be reduced by the amount of any payments by the employer which are excluded from the taxpayer's adjusted gross income, and requires reporting of the taxpayer identification number of persons or organizations providing care.

Personal Income Tax Law. These changes (IRC Sec. 21, 129, and 6109) would be incorporated into the PITL (Sec. 17052.6, 17131, and 18934) by changing the "specified date" for referencing provisions of federal law.

Bank and Corporation Tax Law. These changes are not applicable to the BCTL.

ACT SEC 704 - TAXPAYER IDENTIFICATION NUMBER OF DEPENDENTS. This section reduces the age requirement, from 5 to 2, for obtaining a taxpayer identification number of dependents and including it on the income tax return.

Personal Income Tax Law. Sec. 18934 is amended to provide that the taxpayer identification number is not required to be reported on state income tax returns.

Bank and Corporation Tax Law. This change is not applicable to the BCTL.

OTHER PROVISIONS OF THIS BILL

ANNUAL REPORT TO LEGISLATURE. This bill would amend Sec. 19270 to change the due date of a report submitted annually by the Franchise Tax Board to the Legislature, detailing changes made to federal income tax laws during the preceding calendar year. Whenever the federal changes are enacted after September 15, the due date of the report to the Legislature would be changed from

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January 10 to 120 days after the federal law has been signed by the President of the United States.

UNCODIFIED PROVISIONS OF FEDERAL LAW. This bill would amend both the Personal Income Tax and Bank and Corporation Tax Laws to specify that uncodified provisions in federal laws would apply for state purposes to the extent that the underlying federal provisions have been incorporated into state law by reference. This change would apply to federal laws enacted on or after January 1, 1987 (Sec. 17024.5 and 23051.5)

CHANGES IN RULES FOR ESTIMATED TAX. This bill would amend both the Personal Income Tax and Bank and Corporation Tax Laws to specify that any changes relating to payments of estimated tax (including penalties for underpayment) would not become effective until years beginning on or after January 1 of the year following enactment. This change would avoid application of new provisions to estimated tax payments required to be made during the year of enactment, thus avoiding retroactive application to payments made prior to the date of enactment (Sec. 17034 and 23058).

TAX CREDITS ALLOWED TO REDUCE TENTATIVE MINIMUM TAX. This bill would add the credits for research expenditures and clinical testing of orphan drugs to the list of credits that are allowed to reduce the regular tax below the tentative minimum tax (Sec. 17039 and 23036 amended).

EXPIRATION OF TAX CREDITS. This bill would amend state provisions relating to the credits for research expenditures and clinical testing of certain drugs (orphan drug credit) to make the federal sunset date not applicable. These provisions (Sec. 17052.12, 17057, 23609, and 23609.5) also contain a state sunset date which does not expire until after the federal sunset date.

PERSONAL EXEMPTIONS. This bill would conform to federal law by clarifying that personal exemption credits may not reduce the regular tax below zero (Sec. 17039 amended). Also, personal exemption credits would not be allowed to reduce the regular tax below the tentative minimum tax (Sec. 17039 amended).

"S" CORPORATIONS. This bill would make numerous changes in the rules relating to corporations that have elected to be treated as an "S corporation" for federal purposes. The new rules would apply to income years beginning on or after January 1, 1990 (Sec. 23801 amended).

Corporations qualified to do business in California and making "S" elections for federal purposes would have a new requirement to report that election to the Franchise Tax Board no later than the last date for making the federal election.

The provision that allows a federal "S corporation" to elect to be treated as a "C corporation" for state purposes would be modified to allow the election only to corporations that are qualified to do business in California and only within the time

GENERAL DESCRIPTION

frames established under federal law. Previous elections by nonqualified corporations would be revoked for income years beginning on or after January 1, 1990.

Corporations that become qualified after making a federal "S" election could elect to be a "C" or report their "S" status within two and one-half months after qualification. If a timely "C" election is not made, the corporation will be treated as an "S" corporation.

"S corporations" for state purposes which terminate their election for federal or state purposes, or both, would be required to notify the Franchise Tax Board of such termination.

REGULATED INVESTMENT COMPANIES. This bill would make exceptions to federal law in order to clarify the application of federal law for state purposes. In general, regulated investment companies would be taxed only upon their undistributed income, but not less than the minimum tax (Sec. 24412 amended).

REAL ESTATE INVESTMENT TRUSTS. This bill would make exceptions to federal law in order to clarify the application of federal law for state purposes. In general, real estate investment trusts would be taxed only upon their undistributed income, but not less than the minimum tax (Sec. 24413 amended).

CHILD CARE CREDITS. This bill would increase the limitations on tax credits for employers, relating to child care facilities and plans, and would make various technical amendments (Sec. 17052.17, 17052.18, 23617, and 23617.5 amended).

MISCELLANEOUS. This bill would make numerous technical corrections to the Personal Income Tax Law and the Bank and Corporation Tax Law (Sec. 17024.5, 17039, 17041, 17052.9, 17052.11, 17054.5, 17055, 17061.5, 17063, 17072, 17133, 17270, 17272, 17276, 17504, 17506, 17515, 17565, 17570, 17858, 18408.5, 18682, 20503, 23051.5, 23453, 23612, 23701v, 23733, 23772, 23802, 23803, 24343, 24349.1, 24353.1, 24356.1, 24362, 24380, 24381, 24632, 24690, 24701-24707, 24833, 24994, 25107, 25561, 25954, and Act. Sec. 163).

AB 802
EXHIBIT B



EXHIBIT B

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	CON PARA	PIT INSTR	PIT ACTION	P C	PITL SECTION	CON INSTR	CON C ACTION	C BCTL SECTION	ADDITIONAL COMMENTS
1001 (a) (1)	6867(b)	4895	N/A		N	18654	N/A		N/A	RATE OF TAX - UNCLAIMED CASH
1001 (a) (2)	531	1175	N/A			N/A	N/A		N/A	RATE OF TAX - ACCUMULATED EARNINGS TAX
1001 (a) (3)	1(g) (2)	405	N/C			N/A	N/A		N/A	PHASEOUT OF PERSONAL EXEMPTIONS
1001 (b) (1)	63(c) (5)	435	N/C		N	17073	N/A		N/A	STANDARD DEDUCTION FOR ELDERLY/BLIND DEPENDENTS
1001 (b) (2)	6012(a) (1)	440	N/A		N	18401	N/A		N/A	FILING THRESHOLD - ELDERLY/BLIND
1001 (b) (3)	62	500	CON	SEC162	Y	17072.5	N/A		N/A	THIRD-PARTY REIMBURSEMENTS
1001 (b) (3) (B)	527	3885	N/A			N/A	CON	AMEND	N 23701r	EMPLOYEE EXPENSES REIMBURSED BY POLITICAL ORGANIZATIONS ARE ABOVE THE LINE DEDUCTIONS
1001 (c)	32	505	N/A			N/A	N/A		N/A	EARNED INCOME CREDIT
1001 (d)	7701(b) (5)	4840	N/A			N/A	N/A		N/A	PRIVATE FOUNDATION RULES, DEFINITION (N/R ALIENS, WITHHOLDING ON N/R ALIENS
1001 (e)	86	5032	N/A		N	17067	N/A		N/A	EXCLUDES SOCIAL SECURITY BENEFITS FROM DEFINITION OF EARNED INCOME
1001 (f)	67	400	CON	SEC162	Y	17076	N/A		N/A	PROVIDES ORDERING RULES FOR APPLICATION OF LIMITS ON EXPENSES SUBJECT TO THE 2 FLOOR
1001 (g)	274	526	CON	SEC162	Y	17201	CON	SEC162	Y 24443	LIMITATIONS ON MEAL AND ENTERTAINMENT EXPENSES
1001 (h)	183	5076	CON	SEC162	Y	17201	N/A		N/A	SPECIAL RULE FOR DETERMINING IF AN ACTIVITY IS NOT ENGAGED IN FOR PROFIT CLARIFIED
1001 (h)	280A	520	CON	SEC162	Y	17201	N/A		N/A	HOME OFFICE DEDUCTION
1002 (a)	168	1130	CON	SEC162	Y	17201	CON	SEC162	Y 24349.5	CLARIFICATION OF THE MODIFIED ACCELERATED COST RECOVERY SYSTEM (MACRS)
1002 (a)	312	1158	N/A			N/A	CON	SEC162	Y 24484	FOREIGN CORPORATIONS MUST USE ALTERNATIVE DEPRECIATION SYSTEM FOR CALCULATING E & P
1002 (a)	1250(d) (11)	5261	CON	SEC162	Y	18151	CON	SEC162	Y 24990	GAIN FROM DISPOSITION OF CERTAIN DEPRECIABLE PROPERTY
1002 (a)	47	5016	N/A			N/A	N/A		N/A	CROSS REFERENCES UPDATED IN SECTION DEALING WITH RECAPTURE OF INVESTMENT CREDIT
1002 (a)	178	5074	CON	SEC162	Y	17201	CON	RP/ADD	N 24373	AMENDMENTS RELATED TO AMORTIZATION OF COST OF ACQUIRING A LEASE
1002 (a)	56	5022	CON	SEC162	Y	17062	CON	SEC162	Y 23400	ALTERNATIVE MINIMUM TAX CLARIFIED WITH RESPECT TO COORDINATION WITH TRANSITIONAL RULES
1002 (a)	381(c)	5114	N/A		Y	17321	N/A		Y 24591	CARRYOVERS IN CERTAIN CORPORATE ACQUISITIONS
1002 (a)	48	760	N/A			N/A	N/A		N/A	DEFINITIONS AND SPECIAL RULES FOR INVESTMENT TAX CREDIT
1002 (a)	46	5015	N/A			N/A	N/A		N/A	AMENDMENTS RELATED TO THE AMOUNT OF THE INVESTMENT TAX CREDIT
1002 (a)	178	5074	CON	SEC162	Y	17201	CON	REPEAL	N 24374	RELATED LESSEE AND LESSOR

EXHIBIT B

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	CH PARA	PIT INSTR	PIT ACTION	F C	PITL SECTION	CORP INSTR	CORP C ACTION	C BCTL SECTION	ADDITIONAL COMMENTS
1002 (a)	178	5074	CON	SEC162	Y	17201	CON	REPEAL	N 24375	REASONABLE CERTAINTY TEST
1002 (a)	178	5074	CON	SEC162	Y	17201	CON	REPEAL	N 24376	APPLICABLE DATE
1002 (b) (2)	280F	1160	CON	SEC162	Y	17201	CON	SEC162	Y 24349.1	LIMITATION ON DEPRECIATION ON CERTAIN PROPERTY USED FOR PERSONAL PURPOSES
1002 (b1&c8)	179	2365	CON	SEC162	Y	17201	CON	SEC162	Y 23802(F)	ELECTION TO EXPENSE DEPRECIABLE BUSINESS ASSETS
1002 (b1&c8)	179 *ACT*		N/A		Y	17201	N/A		Y 23802(F)	
1002 (e)	49	755	N/A			N/A	N/A		N/A	INVESTMENT CREDIT BASIS ADJUSTMENTS
1002 (e)	38	730	N/A			N/A	N/A		N/A	GENERAL BUSINESS CREDIT ORDERING RULES
1002 (h)	6411	740	N/A			N/A	N/A		N/A	RESEARCH CREDIT
1002 (h)	41	740	CON	SEC162	Y	17052.12	CON	SEC162	Y 23609	RESEARCH CREDIT LIMITATION ON INDIVIDUALS
1002 (i)	467	1130	CON	SEC162	Y	17551	CON	SEC162	Y 24688	PAYMENTS FOR THE USE OF PROPERTY OR SERVICES
1002 (i)	1245	1130	CON	SEC162	Y	18151	CON	SEC162	Y 24990	DEPRECIATION RECAPTURE
1002 (i) (1)	167(r)	1125	CON	SEC162	Y	17201	CON	R/ADD	Y 24368.1	TRADEMARK AND TRADE NAME
1002 (l)	42	745	CON	SEC162	Y	17058	CON	SEC162	Y 23610.5	LOW-INCOME RENTAL HOUSING CREDIT
1002 (l)	39	730	N/A		N	17039	N/A		N 23036	DENIES CARRYBACK OF LOW INCOME HOUSING CREDIT TO YEARS BEFORE 1987
1002 (l)	55	5021	N/A		Y	17062	N/A		Y 23400	DEFINITION OF REGULAR TAX FOR ALTERNATIVE MINIMUM TAX
1002 (n)	7518	5447	N/A			N/A	N/A		N/A	MERCHANT MARINE CAPITAL CONSTRUCTION FUND
1003 (a)	172	5071	N/A			17276	N/A		24416	CONFORMING AMENDMENTS DUE TO REPEAL OF CAPITAL GAINS PREFERENTIAL TREATMENT
1003 (a)	3402	5327	N/A			18804	N/A		N/A	CLERICAL AMENDMENT TO WITHHOLDING ALLOWANCE CALCULATIONS
1003 (a)	1212	482	N/A		Y	18155	N/A		24990.5	LIMITATION ON CAPITAL LOSSES OF NONCORPORATE TAXPAYERS
1003 (b)	1445	4855	CON	SEC162	Y	18805(a) (2)	CON	SEC162	Y 26131(a) (2)	WITHHOLDING OF TAX ON DISPOSITIONS OF US REAL PROPERTY INTERESTS (FIRPTA)
1003 (c)	1201	5255	N/A			N/A	N/A		Y 24990.5	CONFORMING AMENDMENTS TO THE REPEAL OF THE ALTERNATIVE TAX ON CORPORATE CAPITAL GAINS
1003 (c)	593	1050	N/A			N/A	N/A		N/A	CONFORMING AMENDMENTS TO THE REPEAL OF ALTERNATIVE TAX RATE FOR CORPORATE CAPITAL GAINS
1003 (d)	422A	1660	CON	SEC162	Y	17514	N/A		N/A	INCENTIVE STOCK OPTIONS (ISO)
1004 (a)	100	1190	CON	SEC162	Y	17131	CON	SEC162	Y 24307	INCOME FROM DISCHARGE OF FARM INDEBTEDNESS
1004 (a)	1017	1190	CON	SEC162	Y	18031	CON	SEC162	Y 24918	DISCHARGE OF FARM INDEBTEDNESS
1004 (b)	1202 *ACT*	1055	CON	AMEND	N	18162	N/A		N/A	CAPITAL GAIN TREATMENT FOR SALES OF DAIRY CATTLE UNDER MILK TERMINATION PROGRAM

EXHIBIT B

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	COH PARA	PIT INSTR	PIT ACTION	P C PRTL SECTION	CORP INSTR	CORP ACTION	C C BCTL SECTION	ADDITIONAL COMMENTS
1004 (c)	1254(a)	910	CON	SEC162	Y 18151	CON	SEC162	Y 24990	RECAPTURE OF MINING EXPLORATION EXPENSE UPON SALE OF INTEREST IN THE PROPERTY
1005 (a)	469	2230	CON	SEC162	Y 17561	CON	SEC162	Y 24692	PASSIVE LOSS RULES
1005 (c)	163	540	CON	SEC162	Y 17201	CON	SEC162	Y 24344	INTEREST EXPENSE LIMITATION
1005 (c)	163 *ACT*		CON	ADD	17232	N/A		Y 24344	PERSONAL INTEREST EXPENSE
1005 (c) (15)	7872(d)	543	CON	ADD	Y 18180	CON	SEC162	Y 24993	TREATMENT OF LOANS WITH BELOW MARKET INTEREST - GIFT LOANS
1006 (a)	15	700	N/A		N/A	N/A		N 23151	CORPORATE TAX RATE
1006 (b)	854	5197	N/A		N/A	CON	SEC162	Y 24412	LIMITATIONS APPLICABLE TO DIVIDENDS RECEIVED FROM REGULATED INVESTMENT COMPANY
1006 (c)	1059	890	N/A		N/A	CON	SEC162	Y 24966	EXTRAORDINARY DIVIDENDS
1006 (d)	382	1070	N/A		Y 17321	CON	SEC162	Y 24592	LIMITATIONS ON NOL'S AND OTHER CARRYFORWARDS
1006 (d)	382 *ACT*		N/A		Y 17321	CON	AMEND	N 24592	
1006 (e)	301(d)	830	N/A		Y 17321	CON	SEC162	Y 24451	DISTRIBUTIONS OF PROPERTY - BASIS
1006 (e)	301(e)	830	N/A		Y 17321	CON	SEC162	Y 24451	SPECIAL RULE FOR HOLDING PERIOD OF APPRECIATED PROPERTY DISTRIBUTED TO CORPORATION
1006 (e)	336	855	N/A		Y 17321	CON	SEC162	Y 24511	BASIS IN CORPORATE LIQUIDATIONS
1006 (e)	337	865	N/A		Y 17321	CON	SEC162	Y 24512	DISTRIBUTIONS TO TAX EXEMPT CORPORATION AND REGULATORY AUTHORITY TO PREVENT CIRCUMVENTION
1006 (e)	334	850	N/A		Y 17321	CON	SEC162	Y 24504	BASIS OF PARENT CORPORATION IN PROPERTY OF 80% OWNED LIQUIDATING SUBSIDIARY
1006 (e)	338	5106	N/A		Y 17321	CON	SEC162	Y 24519	CLEANUP OF REPEAL OF GENERAL UTILITIES RULE
1006 (e)	386	835	N/A		Y 17321	CON	REPEAL	Y 24585	IMPACT OF REPEAL OF GENERAL UTILITIES RULE ON DISTRIBUTIONS OF PARTNERSHIP AND TRUST INT
1006 (e)	453B	2305	CON	SEC162	Y 17551	CON	SEC162	Y 24667	INSTALLMENT METHOD OF ACCOUNTING - CERTAIN LIQUIDATING DISTRIBUTIONS BY S CORPORATIONS
1006 (e)	267	885	CON	SEC162	Y 17201	CON	SEC162	Y 24427	LIQUIDATIONS - RELATED PARTY RULES
1006 (e)	367	815	N/A		N 17024.5(b)(9)	CON	SEC162	Y 24561	REORGANIZATIONS - TRANSFERS TO FOREIGN CORPORATIONS
1006 (e)	1248	905	CON	SEC162	Y 18151	CON	SEC162	Y 24990	GAIN FROM DISTRIBUTIONS OF STOCK IN CERTAIN FOREIGN CORPORATIONS
1006 (e)	1223	5257	CON	SEC162	Y 18151	CON	SEC162	Y 24490	HOLDING PERIOD OF PROPERTY - REPEAL OF GENERAL UTILITIES RULE
1006 (e)	341	5107	N/A		Y 17321	N/A		N/A	CLEANUP OF REPEAL OF GENERAL UTILITIES RULE
1006 (e)	311	835	N/A		Y 17321	CON	SEC162	Y 24481	DISTRIBUTIONS NOT IN COMPLETE LIQUIDATION
1006 (e)	301(b)	830	N/A		Y 17321	CON	SEC162	Y 24451	CORPORATE DISTRIBUTIONS - PROPERTY DISTRIBUTED TO SHAREHOLDERS

EXHIBIT B

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	COB PARA	PIT INSTR	PIT ACTION	P C	PITL SECTION	CORP INSTR	CORP ACTION	C C BCTL SECTION	ADDITIONAL COMMENTS
1006 (e)	367 *ACT*		N/A			Y 17321	CON	D/C	Y 24561	
1006 (f)	1374	955	N/A			Y 17087.5	CON	SEC162 Y	23809	TAX ON BUILT-IN GAINS OF S CORPORATIONS
1006 (f)	1375	5281	N/A			Y 17087.5	CON	SEC162 Y	23811	TAX IMPOSED WHEN PASSIVE INVESTMENT INCOME OF CORP HAVING SUBCHAPTER C EARNINGS OVER 25%
1006 (f)	1366	5275	N/A			Y 17087.5	CON	SEC162 Y	23800	PASS-THRU OF ITEMS TO SHAREHOLDERS
1006 (f)	1362	5277	N/A			Y 17087.5	CON	SEC162 Y	23801	S CORPORATIONS - ELECTION, REVOCATION, TERMINATION
1006 (f)	1363(d)&(e)	1035	N/A			Y 17087.5	CON	SEC162 Y	23802	DISTRIBUTION OF APPRECIATED PROPERTY BY S CORPORATIONS
1006 (g)	337 *ACT*	990	N/A			N/A	CON	AMEND N	24513	TRANSITIONAL RULES FOR RECOGNITION OF GAIN OR LOSS ON LIQUIDATING SALES AND DISTRIBUTIONS.
1006 (h)	1060(d)	895	CON	SEC162	Y	18031	CON	SEC162 Y	24966.2	ALLOCATION OF PURCHASE PRICE IN CERTAIN SALES OF ASSETS
1006 (h)	6724	4735	CON	SEC162	Y	18081.1 (d)	N/A		N/A	INFORMATION RETURNS - CERTAIN ASSET ALLOCATIONS
1006 (i)	453	2300	N/C	AMEND	Y	17560	N/C	AMEND Y	24667	INSTALLMENT OBLIGATION AND RELATED PARTY SALES
1006 (j)	171	600	CON	SEC162	Y	17201	CON	ADD N	24363.5	AMORTIZABLE BOND PREMIUM
1006 (j)	1016	600	CON	SEC162	Y	18031, 18036	CON	AMEND N	24916(d)(2)	AMORTIZABLE BOND PREMIUM
1006 (j)	171		CON	D/C	Y	17201	T/A	AMEND N	24361	
1006 (j)	171		CON	D/C	Y	17201	CON	AMEND N	24363	CROSS-REFERENCE UPDATE AND TRAFFIC CHANGES
1006 (l)	855	5198	N/A			Y 17145	CON	SEC162 Y	24412	DIVIDENDS PAID BY REGULATED INVESTMENT COMPANIES
1006 (l)	852	4005	N/A			Y 17145	CON	SEC162 Y	24412	TAXATION OF REGULATED INVESTMENT COMPANIES
1006 (m)	851	4000	N/A			Y 17145	CON	SEC162 Y	24412	QUALIFICATION FOR REGULATED INVESTMENT COMPANY STATUS
1006 (n)	851		N/A			Y 17145	CON	SEC162 Y	24412	
1006 (o)	851		N/A			Y 17145	CON	SEC162 Y	24412	
1006 (p)	856	4025	N/A			Y 17740	CON	SEC162 Y	24413	QUALIFICATION AND TAXATION OF REAL ESTATE INVESTMENT TRUSTS
1006 (q)	856		N/A			Y 17740	CON	SEC162 Y	24413	
1006 (r)	857		N/A			Y 17740	CON	SEC162 Y	24413	
1006 (s)	857	4030	N/A			Y 17740	CON	SEC162 Y	24413	DISTRIBUTIONS BY REAL ESTATE INVESTMENT TRUSTS
1006 (t)	860C	4050	N/A			N/A	CON	SEC162 Y	24870	TAX ON FORECLOSURE INCOME OF REAL ESTATE MORTGAGE INVESTMENT CONDUITS
1006 (t)	860D	4035	N/A			N/A	CON	SEC162 Y	24870	QUALIFICATION AS A REAL ESTATE MORTGAGE INVESTMENT CONDUIT
1006 (t)	860F	4065	N/A			N/A	N/A		N 24871	PROHIBITED TRANSACTIONS AND RETURNS OF REAL ESTATE MORTGAGE INVESTMENT CONDUITS
1006 (t)	860G	4055	N/A			N/A	CON	SEC162 Y	24870	TAX ON CONTRIBUTIONS TO REAL ESTATE MORTGAGE INVESTMENT CONDUITS MADE AFTER STARTUP DAY

EXHIBIT E

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	CON PARA	PIT INSTR	PIT ACTION	P C FITL SECTION	CORP INSTR	CORP ACTION	C BCTL SECTION	ADDITIONAL COMMENTS
1006 (t)	860E	4060	N/A		N/A	CON	SEC162 Y	24870	TAX ON REMIC WITH TAX-EXEMPT RESIDUAL INTEREST HOLDER
1006 (t)	860A	5201	N/A		N/A	CON	SEC162 Y	24870	TAXATION OF REAL ESTATE MORTGAGE INVESTMENT CONDUITS
1006 (t)	856		N/A		17740	CON	SEC162 Y	24413	
1006 (t) (24)	6049		CON	SEC162 Y	18803	N/A		N/A	
1006 (u)	7701(a)(19)	4040	CON	SEC162 Y	17020.9	CON	SEC162 Y	23045.5	REAL ESTATE MORTGAGE INVESTMENT CONDUITS
1006 (u)	857		N/A		17740	CON	SEC162 Y	24413	
1006 (u) (3)	1288	5269	CON	SEC162 Y	18151	CON	SEC162 Y	24990	TREATMENT OF ORIGINAL ISSUE DISCOUNT ON TAX-EXEMPT OBLIGATIONS
1006 (u) (4)	1275	5264	CON	SEC162 Y	18151	CON	SEC162 Y	24990	OTHER DEFINITIONS AND SPECIAL RULES
1006 (u) (4)	1271	5263	CON	SEC162 Y	18151	CON	SEC162 Y	24990	TREATMENT OF AMOUNTS RECEIVED ON RETIREMENT OR SALE OR EXCHANGE OF DEBT INSTRUMENTS
1006 (v)	6049	4045	CON	SEC162 Y	18803	N/A		N/A	INTEREST INFO REPORTING REQUIREMENTS FOR REMICs
1007 (a)	55	3870	CON	SEC162 Y	17062	CON	SEC162 Y	23400	ALTERNATIVE MINIMUM TAX - ORGANIZATION SUBJECT TO UBI AND EXEMPTION FOR SEPARATE RETURNS
1007 (b)	56	4300	CON	AMEND Y	17062	N/A	SEC162 Y	23400	ALTERNATIVE MINIMUM TAX CHANGES
1007 (b)	56		CON	AMEND N	17039	N/A		Y 23400	DENY PERSONAL EXEMPTION CREDIT AGAINST TENTATIVE MINIMUM TAX
1007 (c)	57	4310	CON	SEC162 Y	17062	CON	SEC162 Y	23400	MINIMUM TAX PROVISIONS - TAX PREFERENCE ITEMS
1007 (d)	58	4310	CON	SEC162 Y	17062	CON	SEC162 Y	23400	DENIAL OF CERTAIN LOSSES FOR ALTERNATIVE MINIMUM TAX
1007 (e)	59	4300	CON	SEC162 Y	17062	CON	SEC162 Y	23400	MINIMUM TAX PROVISIONS - LOSS LIMITATIONS AND FOREIGN TAX CREDIT
1007 (g)	38	725	N/A		N/A	N/A		N/A	GENERAL BUSINESS CREDIT
1007 (g)	47	785	N/A		N/A	N/A		N/A	PRIOR YEAR MINIMUM TAX CREDIT CLARIFIED
1007 (g)	42	745	N/A		Y 17058	N/A		Y 23610.5	PRIOR YEAR MINIMUM TAX CREDIT
1007 (g)	53	5020	CON	SEC162 Y	17063	CON	SEC162 Y	23453	CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY
1007 (g)	173	5072	CON	SEC162 Y	17201	N/A		N 24364	CIRCULATION EXPENDITURES
1007 (g)	174	5073	CON	SEC162 Y	17201	N/A		N 24365	RESEARCH AND EXPERIMENTAL EXPENDITURES
1007 (g)	263	5006	CON	SEC162 Y	17201	N/A		N 24423	CAPITAL EXPENDITURES
1007 (g)	511	3870	N/A		N 17651	N/A		N 23731	UNRELATED BUSINESS INCOME TAX
1007 (g)	616	5171	CON	SEC162 Y	17681	CON	SEC162 Y	24831	DEVELOPMENT EXPENDITURES
1007 (g)	617	5172	CON	SEC162 Y	17681	CON	SEC162 Y	24831	DEDUCTION AND RECAPTURE OF CERTAIN MINING EXPLORATION EXPENDITURES
1007 (g)	1362	5277	N/A		N/A	CON	SEC162 Y	23801	TREATMENT OF S TERMINATION YEAR
1007 (g)	6154	5387	N/A		N/A	N/A		N 25561	CORPORATIONS REQUIRED TO PAY ESTIMATED TAX

EXHIBIT E

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	DD- PARA	PIT INSTR	PIT ACTION	P C PITL SECTION	CORP INSTR	CORP ACTION	C C BCTL SECTION	ADDITIONAL COMMENTS
1007 (g)	32	5009	N/A		N/A	N/A		N/A	EARNED INCOME CREDIT
1007 (g)	2(d)	5002	N/A		17024.5(b)	N/A		N/A	NONRESIDENT ALIEN SPECIAL RULES
1007 (g)	11	5003	N/A		N/A	N/A		N 23151	IMPOSITION OF TAX ON CORPORATIONS
1007 (g) (1)	26	5006	N/A		N 17039	N/A		N 23036	DEFINITION OF REGULAR TAX
1008 (a)	448	2340	CON	SEC162	Y 17562	CON	SEC162	Y 24654	LIMITATION ON USE OF CASH METHOD
1008 (a)	461	2355	CON	SEC162	Y 17551	CON	SEC162	Y 24681	OIL AND GAS TAX SHELTERS
1008 (a)	464	2350	CON	SEC162	Y 17551	CON	SEC162	Y 24682	LIMITATION ON DEDUCTIONS FOR CERTAIN FARMING EXPENSES
1008 (a)	448 *ACT*		CON	AMEND	Y 17562	CON	AMEND	Y 24654	
1008 (b)	447	5141	N/A		Y 17551	CON	SEC162	Y 24652	METHOD OF ACCOUNTING FOR CORPORATIONS ENGAGED IN FARMING
1008 (b)	263A	2215	CON	SEC162	Y 17201	CON	SEC162	Y 24422.3	UNIFORM CAPITALIZATION RULES
1008 (c)	460	2332	CON	SEC162	Y 17551	CON	SEC162	Y 24673.2	LONG-TERM CONTRACT LOOK-BACK RULES SIMPLIFIED
1008 (d)	166	5066	CON	SEC162	Y 17201	N/A		N 24348	BAD DEBTS RESERVE
1008 (d)	582	5166	N/A		N/A	N/A		N/A	BAD DEBTS, LOSSES AND GAINS WITH RESPECT TO SECURITIES HELD BY FINANCIAL INSTITUTION
1008 (e)	584	2375	CON	AMEND	Y 17671	N/A		N/A	TAXABLE YEARS OF COMMON TRUST FUNDS
1008 (e)	441	2335	CON	AMEND	Y 17551.5	CON	AMEND	Y 24633.5	PERSONAL SERVICE CORPORATION
1008 (e)	706	2280	CON	SEC162	Y 17851	N/A		N/A	TAX YEARS OF PARTNERSHIP AND S CORPORATIONS
1008 (f)	453C	2315	N/C	AMEND	Y 17560	N/C	AMEND	Y 24667	PROPORTIONATE DISALLOWANCE RULE (PRIOR TO REPEAL BY 87 REVENUE ACT)
1008 (g)	453	5144	N/C	AMEND	Y 17560	N/C	AMEND	Y 24667	INSTALLMENT METHOD
1008 (g)	453A	5145	N/C	AMEND	Y 17560	N/C	AMEND	Y 24667	INSTALLMENT METHOD FOR DEALERS IN PERSONAL PROPERTY
1008 (g)	453 *ACT*		N/C	AMEND	N 17560	N/C	AMEND	N 24667	
1008 (i)	703	5179	CON	SEC162	Y 17851	N/A		N/A	PARTNERSHIP COMPUTATIONS
1008 (j)	6501	5414	N/A		N 18586.6	N/A		N 25663	LIMITATIONS ON ASSESSMENT AND COLLECTION
1009 (a)	585	5168	N/A		N/A	N/A		N 24348	LARGE BANK EXCEPTION TO RESERVES FOR LOSSES ON LOANS OF BANKS
1009 (b)	265	3830	N/A		N/A	N/A		N 24425	EXPENSES AND INTEREST RELATING TO TAX-EXEMPT INCOME OF FINANCIAL INSTITUTIONS
1009 (b)	291	5098	N/A		N/A	N/A		Y 24449	SPECIAL RULES RELATING TO CORPORATE PREFERENCE ITEMS
1009 (c)	172	5071	CON	SEC162	Y 17276	CON	SEC162	Y 24416	NET OPERATING LOSS DEDUCTION
1009 (d)	165(1)	485	CON	SEC162	Y 17201	N/A		N/A	DEPOSITOR LOSSES FROM INSOLVENT FINANCIAL INSTITUTIONS
1009 (d)	451 *ACT*	5143	N/A		Y 17551	N/A		Y 24661	GENERAL RULE FOR TAXABLE YEAR OF INCLUSION

EXHIBIT B

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	CON PARA	PIT INSTR	PIT ACTION	P C FITL SECTION	CORP INSTR	CORP ACTION	C BCTL SECTION	ADDITIONAL COMMENTS
1009 (d)	451		CON		SEC162 Y 17551	CON		SEC162 Y 24661	
1010 (b)	501(m)	3880	N/A		N/A	N/A		N/A	TAX EXEMPT ORGANIZATIONS PROVIDING COMMERCIAL-TYPE INSURANCE
1010 (f)	543	3535	N/A		N/A	N/A		N/A	INSURANCE COMPANY GROSS INCOME
1011 (a)	219(g)	400	CON		SEC162 Y 17131	N/A		N/A	IRA DEDUCTION LIMIT - MARRIED FILING SEPARATE RETURNS
1011 (b)	408	1512	CON		SEC162 Y 17501	N/A		N/A	IRA RULES MODIFIED
1011 (b)	6693	4730	CON	AMEND	N 18681.9	N/A		N/A	INFORMATION RETURNS FOR NONDEDUCTIBLE IRA CONTRIBUTIONS
1011 (c)	403	1570	CON		SEC162 Y 17501	N/A		N/A	ELECTIVE DEFERRAL RULES UNDER CASH OR DEFERRED ARRANGEMENTS (CODAs)
1011 (c)	401	1210	CON		SEC162 Y 17501	N/A		N/A	QUALIFICATION OF PENSION PLANS
1011 (c)	501(c)(18)	3875	N/A		N/A	CON	AMEND	N 23701s	PENSION TRUST FUNDED BY EMPLOYEE CONTRIBUTIONS
1011 (c)	402		CON		SEC162 Y 17501	N/A		N/A	
1011 (d)	404	1460	CON		SEC162 Y 17501	N/A		N/A	DEDUCTIONS FOR PLAN CONTRIBUTIONS
1011 (d)	415	1420	CON		SEC162 Y 17501	N/A		N/A	MODIFY LIMITS ON BENEFITS AND CONTRIBUTIONS TO QUALIFIED PLANS
1011 (e)	457	1353	CON		SEC162 Y 17551	N/A		N/A	CLARIFICATION OF RULES FOR DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS
1011 (f)	408		CON		SEC162 Y 17551	N/A		N/A	
1011 (g)	401		CON		SEC162 Y 17551	N/A		N/A	
1011 (h)	402	1225	N/A		17504			N/A	SANCTIONS ON PENSION PLANS FOR FAILURE TO SATISFY COVERAGE OR 50-40 RULES
1011 (h)	410	1215	CON		SEC162 Y 17501	N/A		N/A	MINIMUM COVERAGE REQUIREMENTS FOR EMPLOYERS WHOSE EMPLOYEES ARE ALL HIGH COMPENSATED
1011 (h)	413	1220	CON		SEC162 Y 17501	N/A		N/A	COVERAGE REQUIREMENTS FOR COLLECTIVELY BARGAINED PLANS OF PROFESSIONAL EMPLOYEES
1011 (h)	401		CON		SEC162 Y 17501	N/A		N/A	
1011 (h)	402		CON		SEC162 Y 17501	N/A		N/A	
1011 (h)	414		CON		SEC162 Y 17501	N/A		N/A	
1011 (i)	414	1435	CON		SEC162 Y 17501	N/A		N/A	LIMITATION ON CONTRIBUTIONS AND BENEFIT OF PENSION PLANS
1011 (j)	414	1450	CON		SEC162 Y 17501	N/A		N/A	DEFINITIONS AND SPECIAL RULES
1011 (j)	416	1455	CON		SEC162 Y 17501	N/A		N/A	TOP HEAVY PLANS - DEFINITION OF KEY EMPLOYEE
1011 (j)	408		CON		SEC162 Y 17501	N/A		N/A	
1011 (k)	401		CON		SEC162 Y 17501	N/A		N/A	
1011 (l)	401		CON		SEC162 Y 17501	N/A		N/A	
1011 (m)	403		CON		SEC162 Y 17501	N/A		N/A	

EXHIBIT E

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	COH PARA	PIT INSTR	PIT ACTION	P C PITL SECTION	CORP INSTR	CORP ACTION	C C BCTL SECTION	ADDITIONAL COMMENTS
1011A(a)	402	1295	CON	SEC162	Y 17501	N/A		N/A	TREATMENT OF LUMP-SUM DISTRIBUTIONS AND ROLLOVERS
1011A(a)	408	1310	CON	SEC162	Y 17501	N/A		N/A	ROLLOVER FROM QUALIFIED PLAN INTO CONDUIT IRA BY 5% OWNER
1011A(b)	72	1292	CON	D/C	Y 17081	N/A		N/A	BASIS RECOVERY RULES FOR EMPLOYEE CONTRIBUTIONS TO DEFINED BENEFIT PLANS
1011A(b)	414	1285	CON	SEC162	Y 17501	N/A		N/A	BASIS RECOVERY RULES FOR EMPLOYEE CONTRIBUTIONS TO A DEFINED BENEFIT PLAN
1011A(b)	406	5123	CON	SEC162	Y 17501	N/A		24601	EMPLOYEES OF FOREIGN AFFILIATES
1011A(b)	407	5124	CON	SEC162	Y 17501	N/A		24601	CERTAIN EMPLOYEES OF DOMESTIC SUBSIDIARIES ENGAGED IN BUSINESS OUTSIDE THE U.S.
1011A(b)	402		CON	AMEND	Y 17504	N/A		N/A	
1011A(b)	402		CON	SEC162	Y 17501	N/A		N/A	
1011A(c)	26	5006	N/A		N 17039	N/A		N 23036	DEFINITION OF REGULAR TAX
1011A(c)	72	1365	CON	SEC162	Y 17001, 17005	N/A		N/A	EARLY WITHDRAWAL PENALTIES AND LIMITATIONS ON TREATMENT OF TAX FAVORED SAVINGS
1011A(d)	402		CON	AMEND	Y 17504	N/A		N/A	
1011A(e)	404	5121	CON	SEC162	Y 17501	CON		SEC162 Y 24601	LIMITATIONS ON DEDUCTIONS WHERE COMBINATION OF DEFINED CONT PLAN AND DEFINED BENEFIT PLAN
1011A(g)	691	1345	N/A		Y 17731	N/A		N/A	INCOME IN RESPECT OF DECEDENTS
1011A(g)	6018	2585	N/A		N/A	N/A		N/A	INFORMATION RETURN BY EXECUTOR REQUIRED FOR INCREASE IN FEDERAL ESTATE TAX
1011A(h)	72		CON	SEC162	Y 17081	N/A		N/A	LOANS TREATED AS DISTRIBUTIONS
1011A(i)	72		CON	SEC162	Y 17081	CON		SEC162 Y 24272.2	ANNUITY CONTRACTS
1011A(j)	401	1202	CON	SEC162	Y 17501	N/A		N/A	PROFIT SHARING PLANS
1011A(j)	409		CON	SEC162	Y 17501	N/A		N/A	
1011A(k)	409		CON	SEC162	Y 17501	N/A		N/A	
1011A(m)	7701(j)	5459	CON	SEC162	Y 17510	N/A		N/A	FEDERAL THRIFT SAVINGS FUND
1011B(a)	129	1025	CON	SEC162	Y 17131	N/A		N/A	DEPENDENT CARE ASSISTANCE
1011B(a)	414	5131	CON	SEC162	Y 17501	N/A		N/A	DEFINITIONS AND SPECIAL RULES RELATING TO EMPLOYEE BENEFIT PROVISIONS
1011B(a)	89	1685	CON	SEC162	Y 17081	N/A		N/A	NONDISCRIMINATION RULES FOR EMPLOYEE BENEFIT PROVISIONS
1011B(a)	125	1810	CON	SEC162	Y 17131	N/A		N/A	CAFETERIA PLANS
1011B(a)	6652	1755	N/A		N 18683	N/A		N 25933	PENALTY FOR FAILURE TO FILE CERTAIN INFORMATION RETURNS
1011B(a)	120	1805	CON	SEC162	Y 17131	N/A		N/A	GROUP LEGAL SERVICES PLANS
1011B(a)	127	1795	CON	SEC162	Y 17131	N/A		N/A	EDUCATIONAL ASSISTANCE PROGRAMS
1011B(a)	132	1790	CON	SEC162	Y 17131	N/A		N/A	STATUTORY FRINGE BENEFITS

EXHIBIT B

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	CON PARA	PIT INSTR	PIT ACTION	P C PITL SECTION	CORP INSTR	CORP ACTION	C BCTL SECTION	ADDITIONAL COMMENTS
1011B(a)	505	5157	N/A		N/A	CON	SEC162 Y	23705	ADDITIONAL REQUIREMENTS TO BE MET BY 501(c)(9), (17) or (20) ORGANIZATIONS
1011B(a)	117	1798	CON	SEC162 Y	17131	N/A		N/A	QUALIFIED TUITION REDUCTIONS
1011B(b)	162(a)	535	CON	SEC162 Y	17201	CON	SEC162 Y	24343	HEALTH INSURANCE COSTS OF SELF-EMPLOYE LIMITED
1011B(c)	6051	465	N/A		U.I.C. DIV. 6	N/A		N/A	DEPENDENT CARE ASSISTANCE PAYMENTS REPORTABLE ON FORM W-2
1011B(c)	129		CON	SEC162 Y	17131	N/A		N/A	LIMITATION OF EXCLUSION
1011B(d)	119	1000	CON	SEC162 Y	17131	N/A		N/A	LODGING FURNISHED BY EDUCATIONAL INSTITUTIONS TO EMPLOYEES
1011B(e)	7701(a)(20)	5459	CON	REPEAL	N 17027	N/A		N/A	DEFINITION OF EMPLOYEE (moved to 17020.12)
1011B(e)	7701(a)(20)		CON	ADD	Y 17020.12	CON	ADD	Y 23045.6	DEFINITION OF EMPLOYEE
1011B(f)	134	1030	CON	SEC162 Y	17131	N/A		N/A	MILITARY FRINGE BENEFITS
1011B(g)	409	1500	CON	SEC162 Y	17501	N/A		N/A	QUALIFICATIONS FOR TAX CREDIT ESOP
1011B(h)	404(k)	1645	N/A		Y 17501	N/A		N 24603	DEDUCTION FOR DIVIDENDS ON EMPLOYER STOCK HELD BY ESOP
1011B(h)	133	1640	CON	SEC162 Y	17131	N/A		N/A	ESOP LOANS
1011B(h)	852	5196	CON	SEC162 Y	17145	CON	SEC162 Y	24412	TAXATION OF REGULATED INVESTMENT COMPANIES AND THEIR SHAREHOLDERS
1011B(i)	409		CON	SEC162 Y	17501	N/A		N/A	
1011B(j)	401	1588	CON	SEC162 Y	17501	N/A		N/A	ESOP DIVERSIFICATION
1011B(k)	401		CON	SEC162 Y	17501	N/A		N/A	
1012 (aa)	7852	4705	N/A		N/A	N/A		N/A	TAX TREATIES
1012 (aa)	6712	4705	N/A		N/A	N/A		N/A	PENALTY IMPOSED FOR FAILURE TO DISCLOSE TREATY BASED RETURN POSITIONS
1012 (aa)	6115	4705	N/A		N/A	N/A		N/A	RENUMBER CODE SECTION 6114 TO 6115
1012 (aa)	6114	4705	N/A		N/A	N/A		N/A	REQUIREMENT TO DISCLOSE TAX TREATY BASE RETURN POSITIONS
1012 (b)	404A	5122	CON	SEC162 Y	17501	CON	SEC162 Y	24601	DEDUCTION FOR CERTAIN FOREIGN DEFERRED COMPENSATION PLANS
1012 (bb)	551	2800	N/A		N/A	N/A		N/A	FOREIGN PERSONAL HOLDING COMPANY INCOME TAXED TO U.S. SHAREHOLDERS
1012 (bb)	330	880	N/A		N/A	N/A		N/A	CERTAIN STOCK PURCHASES TREATED AS ASSE ACQUISITIONS
1012 (bb)	6103	4795	N/A		N 19282	N/A		N 26451	DISCLOSURE OF TAX RETURN INFORMATION TO FOREIGN GOVERNMENTS
1012 (bb)	552	2810	N/A		N/A	N/A		N/A	DEFINITION OF FOREIGN PERSONAL HOLDING COMPANY
1012 (i)	6046	4700	N/A		N/A	N/A		N/A	RETURNS AS TO ORG OR REORG OF FOREIGN CORP AND AS TO ACQUISITION OF THEIR STOCK
1012 (j)	901	2820	N/A		N/A	N/A		N/A	TAXES OF FOREIGN COUNTRIES AND OF POSSESSIONS OF THE UNITED STATES

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	CCH PARA	PIT INSTR	FIT ACTION	F C	PITL SECTION	CORP INSTR	CORP ACTION	C C	BCTL SECTION	ADDITIONAL COMMENTS
1012 (o)	6039E	3210	N/A			N/A	N/A			N/A	SPECIAL TAX PROVISIONS FOR U.S. PERSON
1012 (p)	1291	925	N/A			N/A	N/A			N 24995	PASSIVE FOREIGN INVESTMENT COMPANIES - NONQUALIFIED FUNDS
1012 (p)	1297	945	N/A			N/A	N/A			N 24995	PASSIVE FOREIGN INVESTMENT COMPANY - ATTRIBUTION OF STOCK OWNERSHIP
1012 (p)	1293	935	N/A			N/A	N/A			N 24995	PASSIVE FOREIGN INVESTMENT COMPANY - SHAREHOLDER INCOME
1012 (p)	1248	930	N/A			N 17024.5(b)(5)	CON	SEC162	Y	24990	PASSIVE FOREIGN INVESTMENT COMPANY WHICH IS ALSO A CONTROLLED FOREIGN CORPORATIO
1012 (p)	1246	5259	N/A			N 17024.5(b)(5)	CON	SEC162	Y	24990	GAIN ON FOREIGN INVESTMENT COMPANY STOC
1012 (p)	1294	940	N/A			N/A	N/A			N 24995	PASSIVE FOREIGN INVESTMENT COMPANY - EXTENSION OF TIME TO PAY CERTAIN TAXES
1012 (p)	1295	930	N/A			N/A	N/A			N 24995	PASSIVE FOREIGN INVESTMENT COMPANY
1012 (p)	1296	920	N/A			N/A	N/A			N 24995	PASSIVE FOREIGN INVESTMENT COMPANY
1012 (q)	26	705	N/A			N 17039	N/A			N 23036	DEFINITION OF REGULAR TAX MODIFIED TO EXCLUDE BRANCH PROFITS TAX
1012 (s)	1446	4850	CON	AMEND	Y	18807	N/A			N/A	WITHHOLDING ON FOREIGN PARTNERS' SHARE OF EFFECTIVELY CONNECTED INCOME
1012 (s)	6401	5407	N/A			N/A	N/A			N/A	AMOUNTS TREATED AS OVERPAYMENTS
1012 (t)	893	3010	CON	SEC162	Y	17145	N/A			N/A	COMPENSATION OF EMPLOYEES OF FOREIGN GOVERNMENTS OR INTERNATIONAL ORGANIZATIONS
1012 (v)	988	3170	CON	SEC162	Y	17078	CON	SEC162	Y	24905	FOREIGN CURRENCY TRANSACTIONS
1012 (y)	7654	5458	N/A			N/A	N/A			N/A	TAX TREATMENT OF RESIDENTS OF U.S. POSSESSIONS
1013	103	3700	N/A			N 17143	N/A			N 24272	TAX-EXEMPT BONDS
1013 (a)	25	3730	N/A			N/A	N/A			N/A	SUNSET DATES FOR MORTGAGE CREDIT CERTIFICATES (MCCs)
1013 (a)	48	5017	N/A			N/A	N/A			N/A	SPECIAL RULES FOR GENERAL BUSINESS CREDIT
1013 (a)	7478	7478	N/A			N/A	N/A			N/A	DECLARATORY JUDGEMENTS RELATING TO STATUS OF CERTAIN GOVERNMENTAL OBLIGATIONS
1014 (a)	672	2500	CON	SEC162	Y	17731	N/A			N/A	GRANTOR RETAINED INTEREST TRUSTS
1014 (a)	675	2500	CON	SEC162	Y	17731	N/A			N/A	ADMINISTRATIVE POWERS - BORROWING OF TRUST FUNDS
1014 (a)	674	2500	CON	SEC162	Y	17731	N/A			N/A	POWER TO CONTROL BENEFICIAL ENJOYMENT
1014 (b)	673	2505	CON	SEC162	Y	17731	N/A			N/A	VALUATION OF GRANTOR'S REVERSIONARY INTEREST
1014 (c)	664 *ACT*	2520	CON	SEC162	Y	17551.5	N/A			N/A	BENEFICIARIES OF TRUSTS WHICH CHANGED T A CALENDAR YEAR
1014 (d)	643	2510	CON	SEC162	Y	17731	N/A			N/A	MULTIPLE TRUSTS
1014 (d)	6654	2515	N/A			N 18682(h)	N/A			N/A	ESTIMATED TAX PAYMENTS BY PRIVATE FOUNDATIONS AND CHARITABLE TRUSTS

EXHIBIT B

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	CON PARA	PIT INSTR	PIT ACTION	F C	SEC PITL SECTION	CON INSTR	CON ACTION	C C	BTCL SECTION	ADDITIONAL COMMENTS
1014 (e)	6103	5384	N/A		N	19282	N/A		N	26451	DISCLOSURE OF INFORMATION TO PERSON HAVING MATERIAL INTEREST
1014 (e)	1(i)	410	CON	SEC162	Y	17041(g)	N/A		N/A		COORDINATION OF KIDDIE TAX WITH THE TAXATION OF CERTAIN SALES OF TRUST PROPERTY
1014 (e)	59	4320	CON	SEC162	Y	17062	N/A	SEC162	Y	23400	UNEARNED INCOME OF MINOR CHILD SUBJECT TO ALTERNATIVE MINIMUM TAX AT PARENT'S AMT RATE
1015 (a)	6724	4740	CON	SEC162	Y	18681.1	N/A		N/A		NOMINEE REPORTING BY PARTNERSHIP CLARIFIED
1015 (b)	6653	4710	CON	AMEND	N	18684	CON	AMEND	N	25934	NEGLIGENCE AND FRAUD PENALTIES MODIFIED
1015 (b)	6013(b)(5)	4710	N/A		N	18410.5	N/A		N/A		NEGLIGENCE OR FRAUD PENALTIES COORDINATED WITH ELECTION TO FILE JOINT RETURN
1015 (b)	6601	4710	CON	AMEND	N	18683	CON	AMEND	N	25901c	EXTENDS INTEREST PERIOD FOR CALCULATING INTEREST ON NEGLIGENCE AND FRAUD PENALTIES
1015 (c)	6661 *ACT*	4720	N/A		Y	18684.4	N/A		Y	25934.4	PENALTY FOR SUBSTANTIAL UNDERPAYMENT OF TAX CLARIFIED TO BE 25%
1015 (d)	6621	5420	CON	SEC162	Y	19265	N/A		N	25901	DETERMINATION OF RATE OF INTEREST
1015 (e)	6045	4750	CON	AMEND	N	18802.4	N/A		N/A		RETURNS OF BROKERS
1015 (e)	6045		N/C		Y	18802.10	N/A		N	25401e	INFORMATION RETURNS - REAL ESTATE TRANSACTIONS
1015 (f)	6050M	4775	N/A		N	18802.5	N/A		N/A		INFORMATION REPORTING ON FEDERAL GOVERNMENT CONTRACTS
1015 (g)	6676	4725	N/A		N	18685.07	N/A		N/A		INFORMATION REPORTING - FAILURE TO SUPPLY TIN BY DIVIDEND AND ROYALTY PAYEE
1015 (h)	6154	715	N/A		Y	18662	N/A		N	25561	ESTIMATED TAX OF PRIVATE FOUNDATIONS AND CERTAIN TAX EXEMPT ORGANIZATIONS
1015 (i)	7430	4865	N/A		N	21021	N/A		N	21021	AWARDING OF COURT COSTS AND CERTAIN FEES BY TAX COURT
1015 (k)	7447	4880	N/A		N/A		N/A		N/A		RETIRED PAY OF TAX COURT JUDGES
1015 (l)	7605	5455	N/A		N	18588.7	N/A		N/A		SPECIAL PROCEDURES FOR THIRD-PARTY SUMMONSES
1015 (m)	6212	4890	N/A		N	18563	N/A		N	25662	STATUTE OF LIMITATION
1015 (n)	6404	5409	N/A		N	19131	N/A		N	25801	ABATEMENTS
1015 (o)	6334	5404	N/A		N/A		N/A		N/A		PROPERTY EXEMPT FROM LEVY
1015 (q)	6011	5372	N/A		N	18493	N/A		N/A		GENERAL REQUIREMENT OF RETURN, STATEMENT, OR LIST
1015 (r)	6201	5390	N/A		N	18602	N/A		N/A		CERTAIN REFUNDABLE CREDITS TO BE ASSESSED UNDER DEFICIENCY PROCEDURES
1015 (r)	6211	5391	N/A		N	18591.1	N/A			25662.1	CERTAIN REFUNDABLE CREDITS TO BE ASSESSED UNDER DEFICIENCY PROCEDURES
1015 (r)	6213	5393	N/A		N	18594	N/A		N	25667	PETITION TO TAX COURT
1015 (s)	6323	5399	N/A		N/A		N/A		N/A		NOTICE OF LIEN ON PERSONAL PROPERTY

EXHIBIT B

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	CCH PARA	PIT INSTR	PIT ACTION	P C	PITL SECTION	CORP INSTR	CORP ACTION	C BCTL SECTION	ADDITIONAL COMMENTS
1015 (t)	6332	5403	N/A			N/A	N/A		N/A	EFFECT OF HONORING LEVY
1015 (u)	6502	5415	N/A			N 18831	N/A		N 26251	COLLECTION AFTER COMMENCEMENT OF JUDICIAL PROCEEDINGS
1016 (a)	501	3855	N/A			N/A	CON	SEC162 Y	23701u	TAX-EXEMPT TITLE HOLDING CORPORATIONS
1016 (a)	514		N/A			N/A	N/C	SEC162 Y	23735	
1016 (b)	1600TRA 86	500	N/A			N/A	N/A		N/A	REPEAL OF SECTION 1600 OF THE REFORM ACT RELATING TO A TRANSITION RULE FOR CONTRIBUTIONS
1017	6427	5413	N/A			N/A	N/A		N/A	REFUND ON FUELS NOT USED FOR TAXABLE PURPOSES
1017 (a)	51	5019	N/A			N 17053.7	N/A		N 23621	TARGETED JOBS CREDIT
1017 (b)	6652(j)	5421	N/A			N/A	N/A		N/A	PENALTY FOR FAILURE TO GIVE WRITTEN NOTICE TO CERTAIN SELLERS OF DIESEL FUEL
1017 (c)	7210	5434	N/A			N/A	N/A		N/A	FAILURE TO OBEY SUMMONS
1017 (c)	34	5010	N/A			N/A	N/A		N/A	CREDIT FOR CERTAIN USES OF GASOLINE AND SPECIAL FUELS
1017 (c)	6421	5412	N/A			N/A	N/A		N/A	REFUNDS OF GASOLINE USED FOR CERTAIN PURPOSES
1017 (c)	7603	5452	N/A			N/A	N/A		N/A	SERVICE OF SUMMONS
1017 (c)	7604	5453	N/A			N/A	N/A		N/A	ENFORCEMENT OF SUMMONS
1017 (c)	7605	5454	N/A			N/A	N/A		N/A	TIME AND PLACE OF EXAMINATION IN SUMMONS PROCEEDING
1017 (c)	7609	5455	N/A			N 18586.7	N/A		N/A	SPECIAL PROCEDURES FOR THIRD-PARTY SUMMONSES
1017 (c)	7610	5456	N/A			N/A	N/A		N/A	FEES AND COSTS FOR SUMMONSED WITNESSES
1017 (c)	6511(h)	5416	N/A			N/A	N/A		N/A	LIMITATION ON CREDIT OR REFUND
1018	72	5030	CON			SEC162 Y 17001, 17005	N/A		N/A	CERTAIN PROCEEDS OF ENDOWMENT AND LIFE INSURANCE CONTRACTS
1018	404	5121	CON			SEC162 Y 17501	CON	SEC162 Y	24601	DEDUCTION FOR CONTRIBUTIONS OF AN EMPLOYER TO AN EMPLOYEES TRUST
1018	419(a)	5135	CON			SEC162 Y 17501	CON	SEC162 Y	24601	TREATMENT OF FUNDED WELFARE BENEFIT PLANS
1018	417(e)	5134	CON			SEC162 Y 17501	N/A		N/A	DEFINITIONS AND SPECIAL RULES FOR PURPOSES OF MINIMUM SURVIVOR ANNUITY REQUIREMENTS
1018 (b)	168	1154	N/A			Y 17201	N/A		Y 24349.5	ACRS TAX-EXEMPT ENTITY LEASING RULES CLARIFIED
1018 (c)	1278	5267	CON			SEC162 Y 18151	CON	SEC162 Y	24990	DEFINITIONS AND SPECIAL RULES - MARKET DISCOUNT BONDS
1018 (d)	312	840	N/A			SEC162 Y 17321	CON	SEC162 Y	24484	EFFECT OF DISTRIBUTION OF APPRECIATED PROPERTY ON CORPORATE EARNINGS AND PROFITS
1018 (e)	361	800	N/A			SEC162 Y 17321	CON	SEC162 Y	24551	NONRECOGNITION OF GAIN OR LOSS TO CORPORATIONS TREATMENT OF DISTRIBUTIONS

EXHIBIT B

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	CCH PARA	PIT INSTR	PIT ACTION	P C	PITL SECTION	CORP INSTR	CORP ACTION	C C BCTL SECTION	ADDITIONAL COMMENTS
1018 (d)	358	800	CON	SEC162	Y	17321	CON	AMEND	N 24541	BASIS TO DISTRIBUTEES
1018 (d)	355(c)	800	N/C	SEC162	Y	17321	N/C		N 24533	DISTRIBUTION OF STOCK AND SECURITIES OF A CONTROLLED CORPORATION
1018 (d)	336	5104	N/A	SEC162	Y	17321	CON	SEC162	Y 24511	GAIN OR LOSS RECOGNIZED ON PROPERTY DISTRIBUTED IN COMPLETE LIQUIDATION
1018 (d)	311	845	N/A	SEC162	Y	17321	CON	SEC162	Y 24481	TAXABILITY OF CORPORATION ON DISTRIBUTION
1018 (d)	351	805	CON	SEC162	Y	17321	CON	AMEND	N 24521	TRANSFER TO CONTROLLED CORPORATIONS
1018 (d)	2806	1162	CON	SEC162	Y	17201	N/A		N/A	GOLDEN PARACHUTE PAYMENTS
1018 (d)	338	5106	N/A	SEC162	Y	17321	CON	SEC162	Y 24519	CERTAIN STOCK PURCHASES TREATED AS ASSE ACQUISITIONS
1018 (f)	468B	2360	CON	SEC162	Y	17551	N/A		N/C	DESIGNATED SETTLEMENT FUNDS - YEAR OF DEDUCTION
1018 (g)	7701(b)(5)	5459	N/A			N 17024.5(b)(11)	N/A		N/A	DEFINITION OF RESIDENT ALIEN AND NONRESIDENT ALIEN
1018 (l)	425	5138	CON	SEC162	Y	17551	N/A		N/A	TRANSFERS BETWEEN SPOUSES OR INCIDENT 1 DIVORCE
1018 (l)	1041	430	N/A			N 17024.5 (b)	N/A		N/A	TRANSFERS TO FORMER SPOUSE WHO IS A NONRESIDENT ALIEN ARE TAXABLE EVENTS
1018 (o)	6229	5395	N/A			N 18586.6	N/A		N/A	PERIOD OF LIMITATIONS FOR MAKING ASSESSMENTS
1018 (o)	6230	5396	N/A			N 18586.6	N/A		N/A	ADDITIONAL ADMINISTRATIVE PROVISIONS RELATING TO PARTNERSHIPS
1018 (o)	1246	5259	N/A			N 17024.5(b)(5)	CON	SEC162	Y 24990	GAIN ON FOREIGN INVESTMENT COMPANY STOCK
1018 (p)	852	5196	N/A			N 17145	CON	SEC162	Y 24412	TAXATION OF REGULATED INVESTMENT COMPANIES AND THEIR SHAREHOLDERS
1018 (q)	28	5007	CON	SEC162	Y	17057	CON	SEC162	Y 23609.5	ORPHAN DRUG CREDIT
1018 (q)	1361	5276	N/A			N/A	CON	SEC162	Y 23803	S CORPORATION DEFINED
1018 (q)	1286	915	CON	SEC162	Y	18151	CON	SEC162	Y 24990	TAX TREATMENT OF STRIPPED BONDS
1018 (q)	368(a)	820	N/A	SEC162	Y	17321	CON	AMEND	N 24562	DEFINITIONS RELATING TO CORPORATE REORGANIZATIONS
1018 (t)	419A	5136	CON	SEC162	Y	17501	CON	SEC162	Y 24601	QUALIFIED ASSET ACCOUNT LIMITATION ON ADDITIONS TO ACCOUNT
1018 (t)	414	1405	CON	SEC162	Y	17501	N/A		N/A	DEFINITION AND SPECIAL RULES FOR TAX SHELTERED ANNUITIES
1018 (t)	415(k)	5132	CON	SEC162	Y	17501	N/A		N/A	LIMITATIONS ON BENEFITS AND CONTRIBUTIONS UNDER QUALIFIED PLANS
1018 (t)	1042	1504	N/A			N 18042	N/A		N/A	SALES OF STOCK TO ESOP OR CERTAIN COOPERATIVES
1018 (t)	125	1810	CON	SEC162	Y	17131	N/A		N/A	CAFETERIA PLANS
1018 (t)	106	5036	CON	SEC162	Y	17131	N/A		N/A	CONTRIBUTIONS BY EMPLOYER TO ACCIDENT AND HEALTH PLANS
1018 (t)	402	5119	CON	SEC162	Y	17501	N/A		N/A	TAXABILITY OF BENEFICIARY OF EMPLOYEES' TRUST

EXHIBIT B

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	CCH PARA	PIT INSTR	PIT ACTION	P C PITL SECTION	CORP INSTR	CORP ACTION	C C BCTL SECTION	ADDITIONAL COMMENTS
1018 (t)	408	5125	CON	SEC162 Y	17501	N/A		N/A	INDIVIDUAL RETIREMENT ACCOUNTS
1018 (t)	409	1618	CON	SEC162 Y	17501	N/A		N/A	QUALIFICATIONS FOR TAX CREDIT EMPLOYEE STOCK OWNERSHIP PLANS
1018 (t)	411	5128	CON	SEC162 Y	17501	N/A		N/A	MINIMUM VESTING STANDARDS
1018 (t)	512	5159	N/A		N/A	N/C	SEC162 Y	23732	UNRELATED BUSINESS TAXABLE INCOME
1018 (u)	280F	5095	CON	SEC162 Y	17201	CON	SEC162 Y	24349.1	RECAPTURE OF EXCESS DEPRECIATION ON LISTED PROPERTY
1018 (u)	1277	5266	CON	SEC162 Y	18151	CON	SEC162 Y	24990	DEFERRAL OF INTEREST DEDUCTION ALLOCABLE TO ACCRUED MARKET DISCOUNT
1018 (u)	6051	5383	N/A		N/A	N/A		N/A	RECEIPTS FOR EMPLOYEES (W-2)
1018 (u)	164	5064	N/C		N 17024.5(b)(13)	N/A		N/A	GENERATION SKIPPING TRANSFER TAX
1018 (u)	1276	5265	CON	SEC162 Y	18151	CON	SEC162 Y	24990	DISPOSITION GAIN REPRESENTING ACCRUED MARKET DISCOUNT TREATED AS ORDINARY INCOME
1018 (u)	7072	5468	CON	ADD	Y 18180	CON	SEC162 Y	24993	TREATMENT OF LOANS WITH BELOW-MARKET INTEREST RATES
1018 (u)	7611	5457	N/A		N/A	N/A		N/A	RESTRICTIONS ON CHURCH TAX INQUIRIES AND EXAMINATIONS
1018 (u)	7518	5447	N/A		N/A	N/A		N/A	TAX INCENTIVES RELATING TO MERCHANT MARINE CAPITAL CONSTRUCTION FUNDS
1018 (u)	1016	5246	CON	SEC162 Y	10031	N/A		N 24916	ADJUSTMENTS TO BASIS
1018 (u)	501	5156	N/A		N/A	N/A		N 23701	TAX-EXEMPT CORPORATIONS
1018 (u)	1296	5274	N/A		N/A	N/A		N/A	PASSIVE FOREIGN INVESTMENT COMPANY
1018 (u)	7703(b)	5462	CON	SEC162 Y	17021.5	N/A		N/A	DETERMINATION OF MARITAL STATUS
1018 (u)	6652	1755	N/A		N 18683	N/A		N 25933	SANCTIONS ON WELFARE BENEFIT FUNDS
1018 (u)	857	5200	CON	SEC162 Y	17740	CON	SEC162 Y	24413	TAXATION OF REAL ESTATE INVESTMENT TRUSTS AND THEIR BENEFICIARIES
1018 (u)	453	5144	N/C	AMEND	Y 17560	N/C	AMEND	Y 24667	DEFINITION OF RELATED PERSON FOR INSTALLMENT SALE PURPOSES
1018 (u)	6511(f)	5416	N/A		N 19053	N/A		N 26073	STATUTE OF LIMITATION ON CLAIM FOR REFUND OR CREDIT FOR TAX ON PRIVATE FOUNDATIONS
1019	6655 *ACT*	720	N/A		N/A	CON	AMEND	N 25951.5	ESTIMATED TAX PENALTIES WAIVED
1019	6655	720	N/A		N/A	CON	AMEND	N 25954	ESTIMATED TAX PENALTY
1019 (b)	6654 *ACT*	442	CON	AMEND	Y 18682.5	N/A		N/A	WAIVER OF ESTIMATED TAX PENALTIES
2001 (c)	59A	4525	N/A		N/A	N/A		N/A	ENVIRONMENTAL TAX IMPOSED BY SUPERFUND REVENUE ACT OF 1986 DOES NOT APPLY TO RIC OR REIT
2001 (c)	56(f)(2)(B)	5022	N/A		N/A	N/A		N/A	ADJUSTMENTS IN COMPUTING ALTERNATIVE MINIMUM TAXABLE INCOME
2001 (d)	6416	4400	N/A		N/A	N/A		N/A	LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAX
2001 (d)	6421	4400	N/A		N/A	N/A		N/A	LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAX

EXHIBIT B

TECHNICAL AMENDMENTS - TAMRA ACT SECTIONS 1001 - 2005

ACT SEC	IRC SECTION	CCH PARA	PIT INSTR	PIT ACTION	P C	PITL SECTION	CORP INSTR	CORP ACTION	C C	BOTL SECTION	ADDITIONAL COMMENTS
2001 (d)	6427	4400	N/A			N/A	N/A			N/A	LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAX
2003 (a)	501(c)(12)	3865	N/A			N/A	N/A			N/A	TAX EXEMPT STATUS OF RURAL MUTUAL OR COOPERATIVE TELEPHONE AND ELECTRIC COMPANIES
2004 (a)	163	5063	CON	SEC162	Y	17201	CON	SEC162	Y	24344	DEFINITION OF INTEREST AND SPECIAL RUL
2004 (b)	56	5022	CON	SEC162	Y	17062	N/A			Y 23400	DEFINITION OF QUALIFIED HOUSING INTERE FOR PURPOSES OF THE ALTERNATIVE MINIMU TAX
2004 (d)	453	2285	N/C	AMEND	Y	17560	N/C	AMEND	Y	24667	INSTALLMENT SALES - TREATMENT OF SALES BY DEALERS
2004 (d)	453A	2290	N/C	AMEND	Y	17560	N/C	AMEND	Y	24667	INSTALLMENT SALES BY NONDEALERS OF REAL PROPERTY
2004 (e)	444	2270	CON	SEC162	Y	17551	CON	SEC162	Y	24637	TIERED STRUCTURE RULES RELATING TO ELECTION OF TAX YEAR OTHER THAN CALENDI YEAR
2004 (e)	280H	5097	N/A			N/A	N/A			N/A	LIMITATION ON AMOUNTS PAID BY PERSONAL SERVICE CORPORATIONS TO EMPLOYEE-OWNER
2004 (e)	7519	2275	N/C	AB2130		17551	N/C	AB2130		24637	REQUIRED PAYMENTS FOR TAXPAYERS ELECTII YEAR OTHER THAN CALENDAR YEAR
2004 (f)	7704	1166	N/C				N/C				PUBLICLY TRADED PARTNERSHIPS TREATED AS CORPORATIONS
2004 (g)	469	2245	CON	SEC162	Y	17561	CON	SEC162	Y	24692	PASSIVE LOSS RULES - DISPOSITION OF INTEREST IN PUBLICLY TRADED PARTNERSHI
2004 (h)	514	3060	N/A			N/A	N/C	SEC162	Y	23735	PARTNERSHIP ALLOCATIONS - DEBT FINANCEI REAL PROPERTY
2004 (j)	301(e)	5099	N/A	SEC162	Y	17321	CON	SEC162	Y	24451	REDEMPTIONS RECEIVED AS DISTRIBUTIONS I 20 PERCENT CORPORATE SHAREHOLDER
2004 (k)	355(b)	810	N/C	SEC162	Y	17321	N/C			Y 24533	REDUCE TAX AVOIDANCE ON DISTRIBUTION OF STOCK AND SECURITIES BY A CONTROLLED CORPORATION
2004 (k)	304	5100	N/A	SEC162	Y	17321	CON	SEC162	Y	24457	REDEMPTION THROUGH USE OF RELATED CORPORATIONS
2004 (l)	1201	5255	N/A			N/A	N/A			24990.5 (a)	ALTERNATIVE TAX FOR CORPORATIONS
2004 (m)	384	1000	N/A			N/A	CON	SEC162	Y	24594	CORPORATE ACQUISITIONS - LIMITS USE OF PRE-ACQUISITION LOSSES TO OFFSET GAINS
2004 (n)	1363	985	CON	SEC162	Y	17087.5	CON	SEC162	Y	23802	RECAPTURE OF LIFO AMOUNT UPON S ELECTIO BY MEMBER OF AFFILIATED GROUP
2004 (r)	6655	715	N/A			N/A	N/A			25951	ESTIMATED TAX OF PRIVATE FOUNDATIONS AN CERTAIN TAX EXEMPT ORGANIZATIONS
2004 (s)	6427	4405	N/A			N/A	N/A			N/A	LEAKING UNDERGROUND STORAGE TANK TRUST FUND TAX
2005	412	5129	CON	SEC162	Y	17501	N/A			N/A	MINIMUM FUNDING STANDARDS FOR COLLECTIVELY BARGAINED PLANS
2005	404	1465	CON	SEC162	Y	17501	CON	SEC162	Y	24601	LIMITATIONS ON CONTRIBUTIONS AND BENEFITS OF PENSION PLANS
2005	414	1355	CON	SEC162	Y	17501	N/A			N/A	PENSION PLAN DEFINITION AND RULES

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SUMMARY OF LEGISLATION

A Report of Changes to the Personal Income Tax Law
Enacted by AB 128 (Ch. 89-99) to Reflect TAMRA (P.L. 100-647)
Applicable to 1988 Individual Income Tax Returns

Prepared by: Legislative Services Bureau
Franchise Tax Board
Sacramento, California
April 17, 1989

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INTRODUCTION

This report is a summary, in section number order, of changes to the Personal Income Tax Law (PITL) enacted by the Legislature in AB 128 (Ch. 89-), and chaptered on (Date), for the purpose of more closely conforming state law (and the 1988 individual income tax forms) to federal law. See Summary of 1988 Legislation, dated December 1, 1988, for other law changes affecting the 1988 individual income tax returns.

The Franchise Tax Board completed its design of income tax forms and related instructions prior to the enactment, on November 10, 1988, of the federal Technical and Miscellaneous Revenue Act of 1988 [TAMRA] (P.L. 100-647), which made numerous changes to the federal income tax laws. These forms and instructions correctly reflected California Personal Income Tax Law which, with specified exceptions, is conformed to the Internal Revenue Code as of January 1, 1987. Exceptions which existed prior to TAMRA are correctly reflected in these forms and instructions.

Since California law closely follows federal law and the individual income tax forms begin with federal adjusted gross income, the 1988 state forms and instructions were impacted by the late federal changes, as new differences between state and federal law were introduced which were not reflected in the instructions for the 1988 tax forms.

AB 128 amends the California Personal Income Tax Law to conform to those federal TAMRA changes which have the greatest impact upon the 1988 individual income tax forms and instructions. In addition, this bill adopts, by reference, the amendments to IRC Section 170 (relating to the definition of charitable deductions) made by Section 10711 of the Revenue Act 1987 (P.L. 100-203). See PITL Section 17241(a) in the Section-By-Section Summary of this report.

The substantive changes to the PITL in AB 128 are applicable only to taxable years beginning in 1988. Some of the nonsubstantive technical changes, included in this bill, are applicable to taxable years beginning in 1987. The operative dates for each section (or subdivision thereof) are shown in the summary report.

A Legislative Change Report (LC 89-1), giving a brief description of the changes made by AB 128, follows the Section-By-Section summary.

For a copy of AB 128 (one copy will be furnished free), contact:

Legislative Bill Room
State Capitol, Room B-32
Sacramento, CA 95814
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SECTIONS ADDED AND AMENDED
Personal Income Tax Law

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SECTION-BY-SECTION SUMMARY
(AB 128, Stats. 1989, Ch.)

SC = Substantive Change
TC = Technical Change

PERSONAL INCOME TAX LAW

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General Provisions and Definitions

17072.5(a) (New)	62(a) (2)(A)	REIMBURSED EXPENSES OF EMPLOYEES (TC) Subdivision (a) conforms to provision added by Section 1001(b)(3)(A) of P.L. 100-647 (TAMRA), providing that an employee who is reimbursed for business expenses incurred on behalf of his or her employer is permitted a business expense deduction regardless of whether the reimbursement is made by the employer or by a third party. To the extent these reimbursements do not exceed the expenses incurred, neither the expenses nor the reimbursements need be reported on the employee's tax return where proper accounting for the expenses is made by the employee to the employer or third party providing the reimbursements. Operative for taxable years beginning on or after January 1, 1987 and before January 1, 1989.
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17072.5(b) (New)	62(a) (13), 220	JURY DUTY PAY REMITTED TO EMPLOYER (SC) Subdivision (b) conforms to provisions added by Section 6007(b) of P.L. 100-647 (TAMRA), providing for an above-the-line deduction (computation of adjusted gross income) for the amount of jury duty pay surrendered by an employee to an employer in return for the employer's compensation during the employee's jury service period. Operative for taxable years beginning on or after January 1, 1988 and before January 1, 1989.
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Definitions of Gross Income, Adjusted Gross Income, Taxable Income, Etc.

17076(c) (New)	67(b), (e), (f)	2-PERCENT FLOOR ON MISCELLANEOUS ITEMIZED DEDUCTIONS (SC) Adds subdivision (c) conforming to changes made by Section 1001(f)(1)-(3) of P.L. 100-647 (TAMRA), which (1) provides that the two-percent floor on miscellaneous itemized deductions applies prior to application of the \$3,000 limitation on certain deductions for congressional members' away-from-home living expenses; (2) makes technical corrections to IRC Section 67(b)(4); and (3) provides that deductions under IRC Sections 642(c) [relating to items paid or permanently set
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aside for a charitable purpose], 651 and 661 [relating to certain amounts distributed by an estate or trust], and deductions for costs paid or incurred in connection with the administration of an estate or trust are treated as allowable in computing the adjusted gross income of the estate or trust, and are not miscellaneous itemized deductions subject to the two-percent floor. Operative for taxable years beginning on or after January 1, 1987.

17076(d)
(New)

67(c)

DISALLOWANCE OF INDIRECT DEDUCTIONS THROUGH PASS-THRU ENTITY (SC) Adds subdivision (d) delaying to taxable years beginning on or after January 1, 1989, the implementation of the two-percent floor provision on miscellaneous itemized deductions passed through to individuals by mutual funds.

NOTE: Paragraph (4) of IRC Section 67(c), relating to the termination date of subsection (c), is not applicable because of the drafting error in that paragraph.

Items Specifically Excluded from Gross Income

17134(a)
(New)

132(n)
(1)

CERTAIN FRINGE BENEFITS - EXCLUSIONS APPLICABLE TO OFFICERS, ETC., ONLY IF NO DISCRIMINATION (SC) Subdivision (a) conforms to federal law providing that the exclusion of certain employees from any fringe benefit furnished by an employer that qualifies as a no-additional-cost service, qualified employee discount, or working condition fringe benefit in accordance with the nondiscrimination rules of IRC Section 89(h) [relating to excluded employees under certain employee benefit plans], shall apply (formerly permissive). Operative for taxable years beginning on or after January 1, 1988 and before January 1, 1990.

17134(b)
(New)

132(h)
(8)

CERTAIN FRINGE BENEFITS - AIR CARGO EMPLOYEES (SC) Subdivision (b) conforms to the federal expansion of the exclusion of fringe benefits from gross income to include the fair market value of air transportation provided on a space available basis by air cargo companies to their employees. Operative for taxable years beginning on or after January 1, 1988 and before January 1, 1989.

17151(b)
(New)

127

EDUCATIONAL ASSISTANCE PROGRAMS (SC) Adds subdivision (b) providing (1) that the exclusion of certain employees from this benefit in accordance with the nondiscrimination rules of IRC Section 89(h) [relating to excluded employees under certain employee benefit plans], shall apply (formerly permissive); (2) the exclusion from this benefit of

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graduate level courses leading to advanced academic or professional degrees; and (3) to the extension of this income exclusion benefit through December 31, 1988. Operative for taxable years beginning on or after January 1, 1988 and before January 1, 1989.

17153
(New)

121(d)
(9)

ONE-TIME EXCLUSION OF GAIN FROM SALE OF PRINCIPAL RESIDENCE BY INDIVIDUAL WHO HAS ATTAINED AGE 55 - OUT OF RESIDENCE CARE (SC) Conforms to federal law to include an individual, otherwise qualified for this exclusion, who lives in his or her principal residence at least one but less than three years, is physically or mentally incapable of self-care, and is confined to a licensed facility providing care for that individual. Operative to any otherwise qualified sale or exchange of a principal residence after September 30, 1988, in taxable years beginning on or after January 1, 1988 and before January 1, 1989.

17154
(New)

117(d)

QUALIFIED SCHOLARSHIPS - SPECIAL RULES FOR TEACHING AND RESEARCH ASSISTANTS (SC) Conforms to federal law providing (1) that the exclusion of certain employees from this benefit in accordance with the nondiscrimination rules of IRC Section 89(h) [relating to excluded employees under certain employer benefit plans], shall apply (formerly permissive); and (2) tuition reductions provided to employees of educational institutions can be excluded from the employee's gross income. Operative for taxable years beginning on or after January 1, 1988 and before January 1, 1989.

17157
(New)

120(c),
(e)

AMOUNTS RECEIVED UNDER QUALIFIED GROUP LEGAL SERVICES PLANS (SC) Subdivision (a) conforms to federal law providing that the exclusion of certain employees from this benefit in accordance with the nondiscrimination rules of IRC Section 89(h) [relating to excluded employees under certain employer benefit plans], shall apply (formerly permissive). Subdivision (b) conforms to the extension of this income exclusion benefit through 1988. Subdivision (a) is operative for taxable years beginning on or after January 1, 1988 and before January 1, 1989. Subdivision (b) is operative for taxable years ending in 1988.

17158
(New)

125

CAFETERIA PLANS (SC) Adopts, by reference, changes relating to (1) the definitions of "cafeteria plan" and "qualified benefits"; (2) the sanctions for failure to meet the "nondiscrimination" and "key employee concentration" tests; (3) limits on highly compensated employees' elections; and (4) "excludable employees" as provided in IRC Section 89(h).

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Operative for taxable years beginning on or after January 1, 1988 and before January 1, 1989.

17160
(New)

INTERIM TREATMENT OF CERTAIN AMOUNTS AWARDED TO CHRISTA McAULIFFE FELLOWS (SC) Conforms to TAMRA Act Section 6005, relating to interim treatment of certain amounts awarded before January 1, 1990 to Christa McAuliffe Fellows. The amount of such an award received by a teacher and expended in accordance with the terms of the award on an approved school project is excludable from the gross income of that teacher. Any amount retained by or used for the personal benefit of the teacher, such as for a sabbatical trip or as compensation for services in connection with the approved school project, is includible in the teacher's gross income. Operative for taxable years beginning on or after January 1, 1988 and before January 1, 1989.

Deductions

17241 (a)
(New)

170 (c)
(2) (D)

CHARITABLE CONTRIBUTIONS DEFINED (TC) Subdivision (a) adopts Section 10711(a)(1) of the Revenue Act of 1987 (P.L. 100-203) which added "(or in opposition to)" in reference to political campaigns of candidates for public office, in the definition of charitable contributions. Operative for taxable years beginning on or after January 1, 1987 and before January 1, 1989.

17241 (b)
(New)

170 (m)

TREATMENT OF AMOUNTS PAID TO OR FOR THE BENEFIT OF HIGHER EDUCATION (SC) Subdivision (b) conforms to federal law providing that a charitable deduction, exclusive of any amount included for the purchase of tickets, is allowable for 80 percent of a contribution to or for the benefit of an institution of higher education where the donor receives the right to purchase tickets to athletic events in the institution's athletic stadium. Operative for taxable years beginning on or after January 1, 1988 (1984 for federal) and before January 1, 1989.

17261
(New)

263A

CAPITALIZATION AND INCLUSION IN INVENTORY COSTS OF CERTAIN EXPENSES (SC) Adopts TAMRA technical changes and the modifications to the required "capitalization of expenses" provisions relating to (1) plants and pistachio trees; and (2) free lance authors, photographers and artists. The technical changes, adopted by subdivision (a), are applicable to taxable years beginning on or after January 1, 1987 and before January 1, 1989. The modifications to the UNICAP provisions, conformed to in subdivision (b), apply to taxable years beginning on or after January 1, 1988 and before January 1, 1989.

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17271
(New)

274

DISALLOWANCE OF CERTAIN ENTERTAINMENT, ETC. EXPENSES (SC) Adopts TAMRA technical changes made to subsections (h), (k), and (m); and the addition to subsection (n)(2) of subparagraphs (E) [relating to the inclusion of employer paid or reimbursed moving expenses in the employee's gross income] and (F) [relating to the furnishing of meals to workers on certain oil or gas platforms and drilling rigs]. The technical changes, adopted by subdivision (a), are applicable to taxable years beginning on or after January 1, 1987 and before January 1, 1989. The "meal" provisions, conformed to in subdivision (b), apply to taxable years beginning on or after January 1, 1988 and before January 1, 1989.

17273
(New)

220

JURY DUTY PAY REMITTED TO EMPLOYER (SC) See Jury Duty Pay in PIT Section 17072, above. Operative for taxable years beginning on or after January 1, 1988 and before January 1, 1989.

17289
(New)

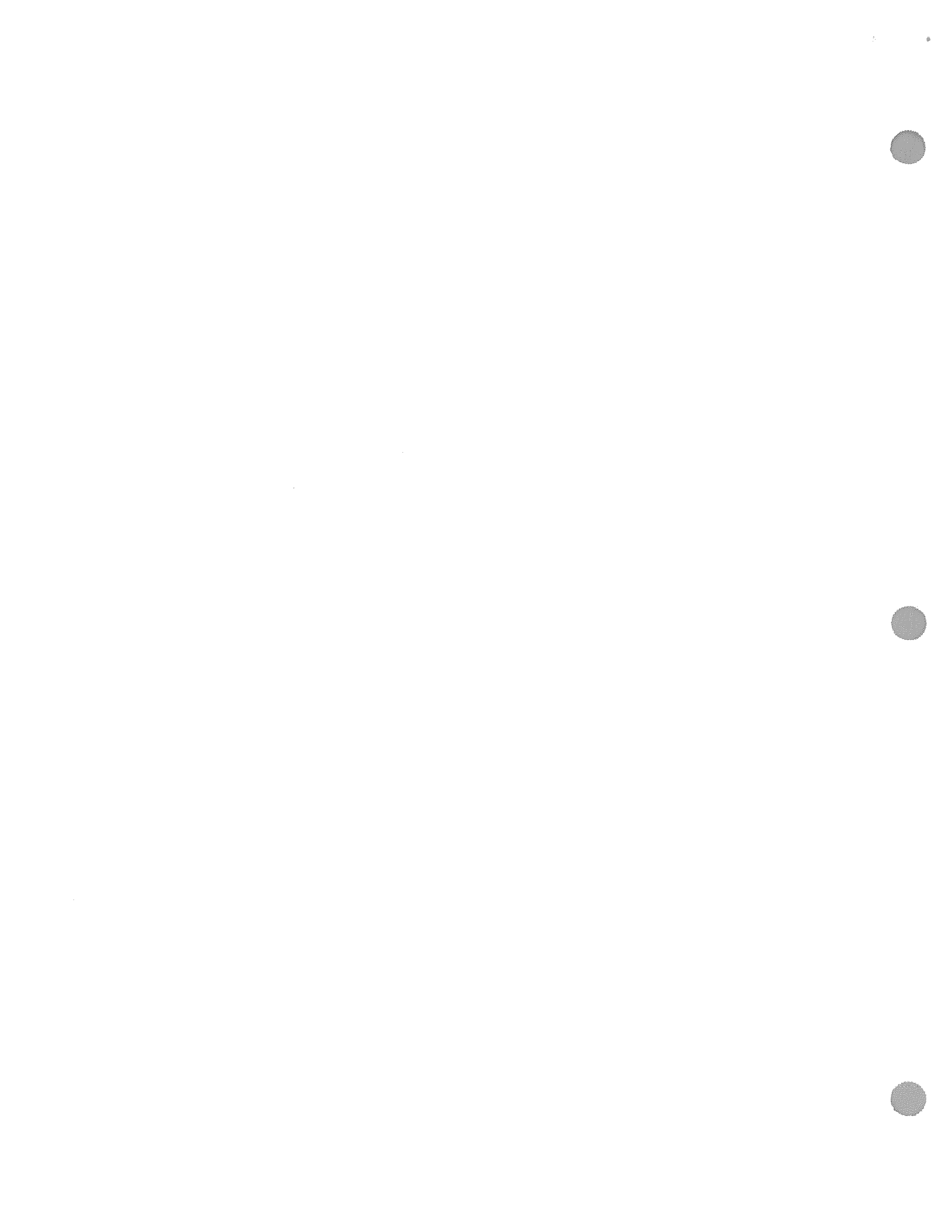
RURAL LETTER CARRIERS' AUTO EXPENSES (SC) Adopts federal noncode language (Section 6008 of P.L. 100-647) providing that rural mail carriers can claim automobile expenses at 150 percent of the standard mileage rate applicable to other taxpayers who use their automobiles in a trade or business; i.e., for taxable years beginning on or after January 1, 1988 and before January 1, 1989, all business use mileage by rural mail carriers may be computed at the rate of 36 cents (150% of 24 cents) per mile for the first 15,000 miles of business use of an automobile that is not fully depreciated and 11 cents per mile for each mile thereafter. This special computational method may not be used if the rural mail carrier claims a depreciation deduction for the vehicle for any tax year beginning after December 31, 1987. Operative for taxable years beginning on or after January 1, 1988 and before January 1, 1989.

Gain or Loss on Disposition of Property

18044
(New)

1034(g)

ROLLOVER OF GAIN ON SALE OF PRINCIPAL RESIDENCE (SC) Adopts TAMRA change expanding the "rollover of gain" provisions to permit a surviving spouse to defer the gain from the sale of the old residence where one spouse has died after the sale of that residence and before the occupancy of the replacement residence. Operative for taxable years beginning on or after January 1, 1988, and before January 1, 1989.



LEGISLATIVE CHANGE NO. 89-1
ASSEMBLY BILL 128

Author: Klehs

Subject: Conformity to Selected Provisions of TAMRA for 1988 PIT Returns

Laws Affecting Franchise Tax Board: Sections 17072.5, 17076, 17134, 17151, 17153, 17154, 17157, 17158, 17160, 17241, 17261, 17271, 17272, 17273, 17289, and 18044 of the Revenue and Taxation Code.

Date Filed with Secretary of State: April 14, 1989

Chapter Number: 89-9

SUMMARY

State income tax law is patterned and clearly follows federal law.

Current state income tax forms begin with federal adjusted gross income and provide for making adjustments that are required in computing taxable income for state purposes.

In early November, 1988, the Franchise Tax Board completed its design of most forms and instructions for individuals for the 1988 taxable year and submitted them to the Office of State Printing for reproduction. Those forms and instructions correctly reflect California law which, with certain exceptions, is conformed to the Internal Revenue Code as of January 1, 1987. Exceptions which existed prior to November, 1988, are correctly reflected in those forms and instructions.

On November 10, 1988, the President of the United States signed the Technical and Miscellaneous Revenue Act of 1988 (TAMRA), which made numerous changes to the federal income tax law. These late federal changes introduced new differences between state and federal law not reflected in the 1988 forms and instructions.

This act amends state law to conform to those federal changes expected to have the greatest impact upon state tax forms and instructions for individuals. Unless conformed to, some taxpayers would inadvertently file incorrect returns and pay the wrong amount of tax.

The provisions of this act apply only to taxable years beginning prior to January 1, 1989, with one exception. That one exception, dealing with the treatment of deductions relating to mutual funds, conforms to the intent of federal law (which contains a drafting error) by delaying the implementation of a 1986 Tax Reform Act change until January 1, 1990.

DESCRIPTION

Following is a description of the federal changes related to each provision of this act, together with an explanation of the action taken by this act.

Deduction For Jury Duty Pay Remitted to Employer

Many employers continue the pay of employees who are called to jury duty, but require the employee to turn over any fees (other than travel reimbursement) received for jury duty.

TAMRA amended federal law to allow an above-the-line deduction (computation of adjusted gross income) for the amount of fees turned over to the employer (TAMRA Sec. 6007; IRC Secs. 62, 220, and 221), effective as if included in the Tax Reform Act of 1986 (January 1, 1987).

TAMRA also made technical amendments to the definition of adjusted gross income (TAMRA Sec. 1001; IRC Sec. 62), effective as if included in the Tax Reform Act of 1986 (January 1, 1987).

This act conforms to the federal law change for taxable years beginning in 1988. However, the technical amendments are effective for taxable years beginning on or after January 1, 1987, as they are for federal purposes (R&TC Secs. 17072.5 and 17273).

Deduction of Expenses Relating to Investment in Mutual Fund

Investors in mutual funds receive dividends during the course of the year and, after the close of the year, an information return disclosing the total amount of dividends paid.

The 1986 Tax Reform Act provided that mutual fund companies would change the information returns to report gross income and certain indirect expenses separately so that the expenses would be allowed only as itemized deductions, subject to the new floor on miscellaneous deductions. Under that floor, the total of all miscellaneous deductions is limited to the portion of those deductions which exceeds two percent of adjusted gross income.

The Revenue Act of 1987 (to which California conformed) delayed implementation of the new limitation until January 1, 1988, because the mutual fund companies convinced Congress that they were unable to modify their accounting systems in time to comply with the law.

TAMRA intended to further delay implementation until January 1, 1990, but contained drafting errors which will require correction at a later date (TAMRA Sec. 4011; IRC Sec. 67).

TAMRA also made technical amendments to the rules providing for the two percent floor on miscellaneous deductions (TAMRA Sec. 1001; IRC Sec. 67), effective as if included in the Tax Reform Act of 1986 (January 1, 1987).

This act conforms to federal law only for taxable years beginning in 1988. However, the technical amendments are effective for taxable years beginning on or after January 1, 1987, as they are for federal purposes (R&TC Sec. 17076).

Exclusion of Fringe Benefits for Air Cargo Employees

Airline employees are allowed to exclude from income the fair market value of air transportation provided by their employer on a space available basis.

TAMRA expanded the exclusion available to airline employees to include employees of air cargo companies (TAMRA Sec. 6066; IRC Sec 132), effective for transportation furnished after December 31, 1987, in taxable years ending after that date.

TAMRA also made technical amendments to the rules relating to exclusion of certain fringe benefits (TAMRA Sec. 1011B; IRC Sec. 132), effective as if included in the Tax Reform Act of 1986 (not earlier than January 1, 1988).

This act conforms to the federal law changes for taxable years beginning in 1988 (R&TC Sec. 17134).

Exclusion of Employer Provided Educational Benefits

Employees who receive certain educational benefits from their employer are allowed to exclude the value of those benefits from their gross income.

TAMRA extended the sunset date for exclusion of employer provided educational benefits through December 31, 1988, and modified the definition of educational assistance (TAMRA Sec. 4001; IRC Secs. 117 and 127), effective for taxable years beginning after December 31, 1987.

TAMRA also made technical amendments to the rules relating to exclusion of educational benefits (TAMRA Sec. 1011B; IRC Secs. 117 and 127), effective as if included in the Tax Reform Act of 1986 (not earlier than January 1, 1988).

This act conforms to these federal law changes for taxable years beginning in 1988 (R&TC Secs 17151 and 17154).

Exclusion of Gain From Sale of Personal Residence (Over Age 55)

Persons over age 55 who sell their personal residence are allowed a one-time exclusion from income for the amount of capital gain up to \$125,000. In order to qualify for the exclusion, the taxpayer (and spouse, if married) must have owned and used the property as their principal residence for at least three years during the five years preceding the date of sale.

TAMRA modified the rules relating to use of the residence to treat as meeting the use requirement certain persons who are absent from the residence because they are physically or mentally incapable of self-care (TAMRA Sec. 6011; IRC Sec. 121), effective for any sale or exchange after September 30, 1988, in taxable years ending after that date.

This act conforms to the federal law change for taxable years beginning 1988 (R&TC Sec. 17153).

Exclusion of Employer Provided Group Legal Benefits

Employees who receive certain group legal benefits from their employer are allowed to exclude the value of those benefits from their gross income.

TAMRA extended the sunset date for exclusion of employer provided group legal services through December 31, 1988, and modified the rules relating to cafeteria plans (TAMRA Sec. 4002; IRC Secs. 120 and 125), effective for taxable years ending after December 31, 1987.

TAMRA also made technical amendments to the rules relating to exclusion of group legal services (TAMRA Sec. 1011B; IRC Secs. 120 and 125), effective as if included in the Tax Reform Act of 1986 (not earlier than January 1, 1988).

This act conforms to the federal law changes for taxable years ending in 1988 (R&TC Secs. 17157 and 17158).

Exclusion For Amounts Awarded to Christie McAuliffe Fellows

Under the Christie McAuliffe Fellowship Program, the federal government awards fellowships to outstanding teachers for development of innovative programs, consultation or assistance to other school districts, model teaching programs, and sabbaticals for study, research, or academic improvement. The tax treatment of these awards was not specified by the Act establishing this program; and nonscholarship awards are generally included in the gross income of the recipient.

TAMRA added a new exclusion from gross income for fellowships awarded to a Christie McAuliffe Fellow, as defined by the Higher Education Act of 1965 (TAMRA Sec. 6005), effective for amounts received before July 1, 1990, in taxable years beginning before that date.

This act conforms to this federal law change for taxable years beginning in 1988 (R&TC Sec. 17160).

Rollover (Deferral) of Gain on Sale of Personal Residence

Persons who sell their personal residence are allowed to defer reporting of the capital gain if they purchase another home for use as their principal residence within a period beginning two years before the sale of the old residence and ending two years after that date. Gain is recognized only to the extent that the adjusted sales price exceeds the cost of purchasing the new residence.

TAMRA modified the rules relating to use of residence by providing that an otherwise qualified rollover will be allowed in the instance where a married couple sells their personal residence, but one of them dies before the replacement home is occupied (TAMRA Sec. 6002; IRC Sec 1034), effective for sales and exchanges after December 31, 1984, in taxable years ending after that date.

This act conforms to this federal law change for taxable years beginning in 1988 (R&TC Sec. 18044).

Deduction of Certain Contributions to Institutions of Higher Education

The Revenue Act of 1987 modified the rules defining a charitable contribution (TRA 87, Sec. 10711; IRC Sec. 170), effective for activities on or after December 23, 1987 (day after enactment).

When a person makes a contribution to a university or college, and receives a right to purchase tickets to sporting events of that organization, only 80 percent of the amount contributed is allowed as a deduction. If the contributor receives seating or tickets (rather than rights), no portion of the contribution is deductible.

TAMRA modified these rules to provide that a deduction will be allowed for 80 percent of the contribution, after reduction for the value of any seating or tickets provided at no additional charge (TAMRA Sec. 6001; IRC Sec 170), effective for taxable years beginning after December 31, 1983. Federal law includes a waiver of the statute of limitations until November 10, 1989 (one year after enactment).

This act conforms to this federal law change for taxable years beginning in 1988, but does not waive the statute of limitations or permit amendment of returns for years prior to 1988. The technical amendments are effective for taxable years beginning on or after January 1, 1987, as they are for federal purposes (R&TC Sec. 17241).

Uniform Capitalization Rules

In general, the uniform capitalization rules require that certain expenses must be deducted ratably over several years, rather than deducted in full in the year of the expense.

TAMRA relaxed the rules relating to required capitalization of expenses relating to growers of pistachio trees, free lance authors, photographers, artists, and farm animals (TAMRA Sec. 6026; IRC Sec. 263A), effective as if included in the Tax Reform Act of 1986 (January 1, 1987), except that the provision for farm animals does not apply to costs incurred prior to January 1, 1989.

This act conforms to the federal law change for taxable years beginning in 1988. However, the technical amendments are effective for taxable years beginning on or after January 1, 1987, as they are for federal purposes (R&TC Sec. 17261).

Deduction of Employer Expenses For Meals

Meals provided by an employer are subject to a limitation which allows deduction for only 80 percent of the actual expense.

TAMRA added an exception to permit full deduction of the cost of meals furnished by an employer to crew members of certain commercial vessels, and workers on certain oil or gas platforms and drilling rigs (TAMRA Sec. 6003; IRC Sec. 274), effective for taxable years beginning after December 31, 1987 for meals on platforms and drilling rigs, and taxable years beginning after December 31, 1988, for meals provided to crew members of vessels.

TAMRA also made technical amendments relating to the disallowance of certain expenses for conventions, meals, and luxury water travel (TAMRA Sec. 1001; IRC Sec. 274), effective as if included in the Tax Reform Act of 1986 (January 1, 1987).

This act conforms to the federal law change for taxable years beginning in 1988. However, the technical amendments are effective for taxable years beginning on or after January 1, 1987, as they are for federal purposes (R&TC Sec. 17271).

Deduction of Rural Mail Carriers

Employees who use their personal autos for business purposes are permitted to deduct a standard mileage rate (currently 24 cents per mile for the first 15,000 miles) in lieu of actual expenses.

TAMRA modified the rules for deduction of automobile expenses to allow rural mail carriers to claim 150 percent of the standard mileage rate applicable to other persons (TAMRA Sec. 6008; uncodified), effective for taxable years beginning after December 31, 1987.

This bill conforms to the federal act language for taxable years beginning in 1988 (R&TC Sec 17289).

This act will not result in any program changes for the department requiring a report to the Legislature pursuant to Section 11017.5 of the Government Code.

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