

1987

1987 Summary of Legislation

Franchise Tax Board

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**Franchise Tax
Board**

**prepared by
Legislative Services
Bureau**

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1987 Summary of Legislation

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**SUMMARY OF
1987 LEGISLATION**

Prepared by: Legislative Services Bureau
Franchise Tax Board
January 20, 1988

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INTRODUCTION

This package 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 1987, and approved by the Governor. A section number in parenthesis below the number of the section summarized indicates a corresponding change was also made in the respective B&CTL or the PITL.

Also included are changes to the Government Code (GC), Probate Code (PR), and the Unemployment Insurance Code (UI), which are related to the PITL and the B&CTL.

Legislative Change Reports (LCs) giving a brief description of each legislative bill, are indicated in the right hand column of the section-by-section summary. For more detailed information, refer to the specific bill.

Preceding the section-by-section summary are the

Contacts	Composite Corporation Tax Rate Schedule
Exemption Credits	1987 Chaptered Bills
Standard Deduction Amounts	Major Bills Vetoed
Low-Income Credit Amounts	Sections Added, Amended, Repealed
Tax Rate Schedules - PIT	
Tax Tables - PIT	

for taxable and income years beginning on or after January 1, 1987, and ending on or before November 30, 1988.

CAUTIONARY NOTICE

A number of sections described herein will be amended or repealed and new sections added when the Legislature reconvenes in January, 1988. The purposes of these changes are to correct technical errors, eliminate conflicting provisions, and to clarify and expand on some of the new provisions, specifically in the areas of the Alternative Minimum Tax, Subchapter S Corporations, and NOLs. Some of these changes will be carried on one or more "fast-track" bills; i.e., bills that are expected to be chaptered before the due dates of the 1987 returns, thus making these changes, unless otherwise specified, applicable to 1987 returns.

CONTACTS

For information regarding changes in tax law:

Franchise Tax Board
Legislative Services Bureau
Jack Monroe
P.O. Box 942867
Sacramento, CA 94267-001
(916) 369-4334

For information regarding changes in form design, questions on specific forms, and availability of forms or reproduction proofs for printers and computerized processors:

Franchise Tax Board
Tax Forms Design Section
Frank Lanza
P.O. Box 1468
Sacramento, CA 95807-1468
(916) 369-3444

For practitioner's orders of Personal Income Tax forms:

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

For practitioner's orders of Corporation Tax Forms:

Franchise Tax Board
Tax Forms Request
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

TAXABLE YEARS BEGINNING ON OR AFTER JANUARY 1, 1987
AND ENDING ON OR BEFORE NOVEMBER 30, 1988

PERSONAL EXEMPTION CREDITS

Single or Married filing separate return	\$ 51
Married filing joint return, Head of household, or Qualifying widow(er)	\$102
Dependent (each)	\$ 51
65 or over (taxpayer and/or spouse - each)	\$ 51
Blind (taxpayer and/or spouse - each)	\$ 51

STANDARD DEDUCTION

Single or Married filing separate return	\$1,880
Married filing joint return, Head of household, or Qualifying widow(er)	\$3,760

LOW-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>
\$5,840 or less	100%
Over \$5,840, but not over \$6,750	80%
Over \$6,750, but not over \$7,670	60%
Over \$7,670, but not over \$8,580	40%
Over \$8,580, but not over \$9,490	20%
Over \$9,490	0%

Married filing joint return, and Qualifying widow(er)

<u>If Adjusted Gross Income Is</u>	<u>Percentage of Computational Tax</u>
\$11,690 or less	100%
Over \$11,690, but not over \$13,510	80%
Over \$13,510, but not over \$15,330	60%
Over \$15,330, but not over \$17,160	40%
Over \$17,160, but not over \$18,980	20%
Over \$18,980	0%

"Computational tax" is:

- Form 540 - Line 24, less sum of lines 25 and 26, or line 27
- Form 540A - Line 16, less sum of lines 17, 18, and 19
- Form 540NR - Line 25, less sum of lines 26 and 27, or line 28

CALIFORNIA TAX RATES FOR TAXABLE YEAR 1987
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	\$3650 . . .	\$0.00	PLUS	1.0%	\$0
\$3650	\$8650 . . .	\$36.50	PLUS	2.0%	\$3650
\$8650	\$13650 . . .	\$136.50	PLUS	4.0%	\$8650
\$13650	\$18950 . . .	\$336.50	PLUS	6.0%	\$13650
\$18950	\$23950 . . .	\$654.50	PLUS	8.0%	\$18950
\$23950	and over	\$1054.50	PLUS	9.3%	\$23950

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

IF THE TAXABLE
INCOME IS . . .

COMPUTED TAX IS...

OVER BUT NOT OVER					OF AMOUNT OVER . . .
\$0	\$7300 . . .	\$0.00	PLUS	1.0%	\$0
\$7300	\$17300 . . .	\$73.00	PLUS	2.0%	\$7300
\$17300	\$27300 . . .	\$273.00	PLUS	4.0%	\$17300
\$27300	\$37900 . . .	\$673.00	PLUS	6.0%	\$27300
\$37900	\$47900 . . .	\$1309.00	PLUS	8.0%	\$37900
\$47900	AND OVER.	\$2109.00	PLUS	9.3%	\$47900

SCHEDULE 3. UNMARRIED HEAD OF HOUSEHOLD

IF THE TAXABLE
INCOME IS . . .

COMPUTED TAX IS...

OVER BUT NOT OVER					OF AMOUNT OVER . . .
\$0	\$7300 . . .	\$0.00	PLUS	1.0%	\$0
\$7300	\$17300 . . .	\$73.00	PLUS	2.0%	\$7300
\$17300	\$22300 . . .	\$273.00	PLUS	4.0%	\$17300
\$22300	\$27600 . . .	\$473.00	PLUS	6.0%	\$22300
\$27600	\$32600 . . .	\$791.00	PLUS	8.0%	\$27600
\$32600	AND OVER.	\$1191.00	PLUS	9.3%	\$32600

California Tax Table

Use this tax table to find the amount of tax for your filing status.

- Single Filing status 1
- Married filing joint Filing status 2
- Married filing separate Filing status 3
- Head of household Filing status 4
- Qualifying widow(er) Filing status 5

If The Taxable Income Is ...		The Tax For Filing Status			If The Taxable Income Is ...		The Tax For Filing Status			If The 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	\$94	\$65	\$65	\$12,951	\$13,050	\$311	\$187	\$187
\$51	\$150	\$1	\$1	\$1	\$6,551	\$6,650	\$96	\$66	\$66	\$13,051	\$13,150	\$315	\$189	\$189
\$151	\$250	\$2	\$2	\$2	\$6,651	\$6,750	\$98	\$67	\$67	\$13,151	\$13,250	\$319	\$191	\$191
\$251	\$350	\$3	\$3	\$3	\$6,751	\$6,850	\$100	\$68	\$68	\$13,251	\$13,350	\$323	\$193	\$193
\$351	\$450	\$4	\$4	\$4	\$6,851	\$6,950	\$102	\$69	\$69	\$13,351	\$13,450	\$327	\$195	\$195
\$451	\$550	\$5	\$5	\$5	\$6,951	\$7,050	\$104	\$70	\$70	\$13,451	\$13,550	\$331	\$197	\$197
\$551	\$650	\$6	\$6	\$6	\$7,051	\$7,150	\$106	\$71	\$71	\$13,551	\$13,650	\$335	\$199	\$199
\$651	\$750	\$7	\$7	\$7	\$7,151	\$7,250	\$108	\$72	\$72	\$13,651	\$13,750	\$340	\$201	\$201
\$751	\$850	\$8	\$8	\$8	\$7,251	\$7,350	\$110	\$73	\$73	\$13,751	\$13,850	\$346	\$203	\$203
\$851	\$950	\$9	\$9	\$9	\$7,351	\$7,450	\$112	\$75	\$75	\$13,851	\$13,950	\$352	\$205	\$205
\$951	\$1,050	\$10	\$10	\$10	\$7,451	\$7,550	\$114	\$77	\$77	\$13,951	\$14,050	\$358	\$207	\$207
\$1,051	\$1,150	\$11	\$11	\$11	\$7,551	\$7,650	\$116	\$79	\$79	\$14,051	\$14,150	\$364	\$209	\$209
\$1,151	\$1,250	\$12	\$12	\$12	\$7,651	\$7,750	\$118	\$81	\$81	\$14,151	\$14,250	\$370	\$211	\$211
\$1,251	\$1,350	\$13	\$13	\$13	\$7,751	\$7,850	\$120	\$83	\$83	\$14,251	\$14,350	\$376	\$213	\$213
\$1,351	\$1,450	\$14	\$14	\$14	\$7,851	\$7,950	\$122	\$85	\$85	\$14,351	\$14,450	\$382	\$215	\$215
\$1,451	\$1,550	\$15	\$15	\$15	\$7,951	\$8,050	\$124	\$87	\$87	\$14,451	\$14,550	\$388	\$217	\$217
\$1,551	\$1,650	\$16	\$16	\$16	\$8,051	\$8,150	\$126	\$89	\$89	\$14,551	\$14,650	\$394	\$219	\$219
\$1,651	\$1,750	\$17	\$17	\$17	\$8,151	\$8,250	\$128	\$91	\$91	\$14,651	\$14,750	\$400	\$221	\$221
\$1,751	\$1,850	\$18	\$18	\$18	\$8,251	\$8,350	\$130	\$93	\$93	\$14,751	\$14,850	\$406	\$223	\$223
\$1,851	\$1,950	\$19	\$19	\$19	\$8,351	\$8,450	\$132	\$95	\$95	\$14,851	\$14,950	\$412	\$225	\$225
\$1,951	\$2,050	\$20	\$20	\$20	\$8,451	\$8,550	\$134	\$97	\$97	\$14,951	\$15,050	\$418	\$227	\$227
\$2,051	\$2,150	\$21	\$21	\$21	\$8,551	\$8,650	\$136	\$99	\$99	\$15,051	\$15,150	\$424	\$229	\$229
\$2,151	\$2,250	\$22	\$22	\$22	\$8,651	\$8,750	\$139	\$101	\$101	\$15,151	\$15,250	\$430	\$231	\$231
\$2,251	\$2,350	\$23	\$23	\$23	\$8,751	\$8,850	\$143	\$103	\$103	\$15,251	\$15,350	\$436	\$233	\$233
\$2,351	\$2,450	\$24	\$24	\$24	\$8,851	\$8,950	\$147	\$105	\$105	\$15,351	\$15,450	\$442	\$235	\$235
\$2,451	\$2,550	\$25	\$25	\$25	\$8,951	\$9,050	\$151	\$107	\$107	\$15,451	\$15,550	\$448	\$237	\$237
\$2,551	\$2,650	\$26	\$26	\$26	\$9,051	\$9,150	\$155	\$109	\$109	\$15,551	\$15,650	\$454	\$239	\$239
\$2,651	\$2,750	\$27	\$27	\$27	\$9,151	\$9,250	\$159	\$111	\$111	\$15,651	\$15,750	\$460	\$241	\$241
\$2,751	\$2,850	\$28	\$28	\$28	\$9,251	\$9,350	\$163	\$113	\$113	\$15,751	\$15,850	\$466	\$243	\$243
\$2,851	\$2,950	\$29	\$29	\$29	\$9,351	\$9,450	\$167	\$115	\$115	\$15,851	\$15,950	\$472	\$245	\$245
\$2,951	\$3,050	\$30	\$30	\$30	\$9,451	\$9,550	\$171	\$117	\$117	\$15,951	\$16,050	\$478	\$247	\$247
\$3,051	\$3,150	\$31	\$31	\$31	\$9,551	\$9,650	\$175	\$119	\$119	\$16,051	\$16,150	\$484	\$249	\$249
\$3,151	\$3,250	\$32	\$32	\$32	\$9,651	\$9,750	\$179	\$121	\$121	\$16,151	\$16,250	\$490	\$251	\$251
\$3,251	\$3,350	\$33	\$33	\$33	\$9,751	\$9,850	\$183	\$123	\$123	\$16,251	\$16,350	\$496	\$253	\$253
\$3,351	\$3,450	\$34	\$34	\$34	\$9,851	\$9,950	\$187	\$125	\$125	\$16,351	\$16,450	\$502	\$255	\$255
\$3,451	\$3,550	\$35	\$35	\$35	\$9,951	\$10,050	\$191	\$127	\$127	\$16,451	\$16,550	\$508	\$257	\$257
\$3,551	\$3,650	\$36	\$36	\$36	\$10,051	\$10,150	\$195	\$129	\$129	\$16,551	\$16,650	\$514	\$259	\$259
\$3,651	\$3,750	\$38	\$37	\$37	\$10,151	\$10,250	\$199	\$131	\$131	\$16,651	\$16,750	\$520	\$261	\$261
\$3,751	\$3,850	\$40	\$38	\$38	\$10,251	\$10,350	\$203	\$133	\$133	\$16,751	\$16,850	\$526	\$263	\$263
\$3,851	\$3,950	\$42	\$39	\$39	\$10,351	\$10,450	\$207	\$135	\$135	\$16,851	\$16,950	\$532	\$265	\$265
\$3,951	\$4,050	\$44	\$40	\$40	\$10,451	\$10,550	\$211	\$137	\$137	\$16,951	\$17,050	\$538	\$267	\$267
\$4,051	\$4,150	\$46	\$41	\$41	\$10,551	\$10,650	\$215	\$139	\$139	\$17,051	\$17,150	\$544	\$269	\$269
\$4,151	\$4,250	\$48	\$42	\$42	\$10,651	\$10,750	\$219	\$141	\$141	\$17,151	\$17,250	\$550	\$271	\$271
\$4,251	\$4,350	\$50	\$43	\$43	\$10,751	\$10,850	\$223	\$143	\$143	\$17,251	\$17,350	\$556	\$273	\$273
\$4,351	\$4,450	\$52	\$44	\$44	\$10,851	\$10,950	\$227	\$145	\$145	\$17,351	\$17,450	\$562	\$277	\$277
\$4,451	\$4,550	\$54	\$45	\$45	\$10,951	\$11,050	\$231	\$147	\$147	\$17,451	\$17,550	\$568	\$281	\$281
\$4,551	\$4,650	\$56	\$46	\$46	\$11,051	\$11,150	\$235	\$149	\$149	\$17,551	\$17,650	\$574	\$285	\$285
\$4,651	\$4,750	\$58	\$47	\$47	\$11,151	\$11,250	\$239	\$151	\$151	\$17,651	\$17,750	\$580	\$289	\$289
\$4,751	\$4,850	\$60	\$48	\$48	\$11,251	\$11,350	\$243	\$153	\$153	\$17,751	\$17,850	\$586	\$293	\$293
\$4,851	\$4,950	\$62	\$49	\$49	\$11,351	\$11,450	\$247	\$155	\$155	\$17,851	\$17,950	\$592	\$297	\$297
\$4,951	\$5,050	\$64	\$50	\$50	\$11,451	\$11,550	\$251	\$157	\$157	\$17,951	\$18,050	\$598	\$301	\$301
\$5,051	\$5,150	\$66	\$51	\$51	\$11,551	\$11,650	\$255	\$159	\$159	\$18,051	\$18,150	\$604	\$305	\$305
\$5,151	\$5,250	\$68	\$52	\$52	\$11,651	\$11,750	\$259	\$161	\$161	\$18,151	\$18,250	\$610	\$309	\$309
\$5,251	\$5,350	\$70	\$53	\$53	\$11,751	\$11,850	\$263	\$163	\$163	\$18,251	\$18,350	\$616	\$313	\$313
\$5,351	\$5,450	\$72	\$54	\$54	\$11,851	\$11,950	\$267	\$165	\$165	\$18,351	\$18,450	\$622	\$317	\$317
\$5,451	\$5,550	\$74	\$55	\$55	\$11,951	\$12,050	\$271	\$167	\$167	\$18,451	\$18,550	\$628	\$321	\$321
\$5,551	\$5,650	\$76	\$56	\$56	\$12,051	\$12,150	\$275	\$169	\$169	\$18,551	\$18,650	\$634	\$325	\$325
\$5,651	\$5,750	\$78	\$57	\$57	\$12,151	\$12,250	\$279	\$171	\$171	\$18,651	\$18,750	\$640	\$329	\$329
\$5,751	\$5,850	\$80	\$58	\$58	\$12,251	\$12,350	\$283	\$173	\$173	\$18,751	\$18,850	\$646	\$333	\$333
\$5,851	\$5,950	\$82	\$59	\$59	\$12,351	\$12,450	\$287	\$175	\$175	\$18,851	\$18,950	\$652	\$337	\$337
\$5,951	\$6,050	\$84	\$60	\$60	\$12,451	\$12,550	\$291	\$177	\$177	\$18,951	\$19,050	\$659	\$341	\$341
\$6,051	\$6,150	\$86	\$61	\$61	\$12,551	\$12,650	\$295	\$179	\$179	\$19,051	\$19,150	\$667	\$345	\$345
\$6,151	\$6,250	\$88	\$62	\$62	\$12,651	\$12,750	\$299	\$181	\$181	\$19,151	\$19,250	\$675	\$349	\$349
\$6,251	\$6,350	\$90	\$63	\$63	\$12,751	\$12,850	\$303	\$183	\$183	\$19,251	\$19,350	\$683	\$353	\$353
\$6,351	\$6,450	\$92	\$64	\$64	\$12,851	\$12,950	\$307	\$185	\$185	\$19,351	\$19,450	\$691	\$357	\$357

California Tax Table

To Find Your Tax:

1. Find the amount of your taxable income on line 15 of Form 540A or line 17 of Form 540.
2. Read down the column titled "If the 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 The Taxable Income Is ...		The Tax For Filing Status			If The Taxable Income Is ...		The Tax For Filing Status			If The 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	\$699	\$361	\$361	\$25,951	\$26,050	\$1,245	\$621	\$695	\$32,451	\$32,550	\$1,850	\$985	\$1,183
\$19,551	\$19,650	\$707	\$365	\$365	\$26,051	\$26,150	\$1,254	\$625	\$701	\$32,551	\$32,650	\$1,859	\$991	\$1,191
\$19,651	\$19,750	\$715	\$369	\$369	\$26,151	\$26,250	\$1,264	\$629	\$707	\$32,651	\$32,750	\$1,868	\$997	\$1,200
\$19,751	\$19,850	\$723	\$373	\$373	\$26,251	\$26,350	\$1,273	\$633	\$713	\$32,751	\$32,850	\$1,878	\$1,003	\$1,210
\$19,851	\$19,950	\$731	\$377	\$377	\$26,351	\$26,450	\$1,282	\$637	\$719	\$32,851	\$32,950	\$1,887	\$1,009	\$1,219
\$19,951	\$20,050	\$739	\$381	\$381	\$26,451	\$26,550	\$1,292	\$641	\$725	\$32,951	\$33,050	\$1,896	\$1,015	\$1,228
\$20,051	\$20,150	\$747	\$385	\$385	\$26,551	\$26,650	\$1,301	\$645	\$731	\$33,051	\$33,150	\$1,905	\$1,021	\$1,238
\$20,151	\$20,250	\$755	\$389	\$389	\$26,651	\$26,750	\$1,310	\$649	\$737	\$33,151	\$33,250	\$1,915	\$1,027	\$1,247
\$20,251	\$20,350	\$763	\$393	\$393	\$26,751	\$26,850	\$1,320	\$653	\$743	\$33,251	\$33,350	\$1,924	\$1,033	\$1,256
\$20,351	\$20,450	\$771	\$397	\$397	\$26,851	\$26,950	\$1,329	\$657	\$749	\$33,351	\$33,450	\$1,933	\$1,039	\$1,265
\$20,451	\$20,550	\$779	\$401	\$401	\$26,951	\$27,050	\$1,338	\$661	\$755	\$33,451	\$33,550	\$1,943	\$1,045	\$1,275
\$20,551	\$20,650	\$787	\$405	\$405	\$27,051	\$27,150	\$1,347	\$665	\$761	\$33,551	\$33,650	\$1,952	\$1,051	\$1,284
\$20,651	\$20,750	\$795	\$409	\$409	\$27,151	\$27,250	\$1,357	\$669	\$767	\$33,651	\$33,750	\$1,961	\$1,057	\$1,293
\$20,751	\$20,850	\$803	\$413	\$413	\$27,251	\$27,350	\$1,366	\$673	\$773	\$33,751	\$33,850	\$1,971	\$1,063	\$1,303
\$20,851	\$20,950	\$811	\$417	\$417	\$27,351	\$27,450	\$1,375	\$679	\$779	\$33,851	\$33,950	\$1,980	\$1,069	\$1,312
\$20,951	\$21,050	\$819	\$421	\$421	\$27,451	\$27,550	\$1,385	\$685	\$785	\$33,951	\$34,050	\$1,989	\$1,075	\$1,321
\$21,051	\$21,150	\$827	\$425	\$425	\$27,551	\$27,650	\$1,394	\$691	\$791	\$34,051	\$34,150	\$1,998	\$1,081	\$1,331
\$21,151	\$21,250	\$835	\$429	\$429	\$27,651	\$27,750	\$1,403	\$697	\$797	\$34,151	\$34,250	\$2,008	\$1,087	\$1,340
\$21,251	\$21,350	\$843	\$433	\$433	\$27,751	\$27,850	\$1,413	\$703	\$807	\$34,251	\$34,350	\$2,017	\$1,093	\$1,349
\$21,351	\$21,450	\$851	\$437	\$437	\$27,851	\$27,950	\$1,422	\$709	\$815	\$34,351	\$34,450	\$2,026	\$1,099	\$1,358
\$21,451	\$21,550	\$859	\$441	\$441	\$27,951	\$28,050	\$1,431	\$715	\$823	\$34,451	\$34,550	\$2,036	\$1,105	\$1,368
\$21,551	\$21,650	\$867	\$445	\$445	\$28,051	\$28,150	\$1,440	\$721	\$831	\$34,551	\$34,650	\$2,045	\$1,111	\$1,377
\$21,651	\$21,750	\$875	\$449	\$449	\$28,151	\$28,250	\$1,450	\$727	\$839	\$34,651	\$34,750	\$2,054	\$1,117	\$1,386
\$21,751	\$21,850	\$883	\$453	\$453	\$28,251	\$28,350	\$1,459	\$733	\$847	\$34,751	\$34,850	\$2,064	\$1,123	\$1,396
\$21,851	\$21,950	\$891	\$457	\$457	\$28,351	\$28,450	\$1,468	\$739	\$855	\$34,851	\$34,950	\$2,073	\$1,129	\$1,405
\$21,951	\$22,050	\$899	\$461	\$461	\$28,451	\$28,550	\$1,478	\$745	\$863	\$34,951	\$35,050	\$2,082	\$1,135	\$1,414
\$22,051	\$22,150	\$907	\$465	\$465	\$28,551	\$28,650	\$1,487	\$751	\$871	\$35,051	\$35,150	\$2,091	\$1,141	\$1,424
\$22,151	\$22,250	\$915	\$469	\$469	\$28,651	\$28,750	\$1,496	\$757	\$879	\$35,151	\$35,250	\$2,101	\$1,147	\$1,433
\$22,251	\$22,350	\$923	\$473	\$473	\$28,751	\$28,850	\$1,506	\$763	\$887	\$35,251	\$35,350	\$2,110	\$1,153	\$1,442
\$22,351	\$22,450	\$931	\$477	\$479	\$28,851	\$28,950	\$1,515	\$769	\$895	\$35,351	\$35,450	\$2,119	\$1,159	\$1,451
\$22,451	\$22,550	\$939	\$481	\$485	\$28,951	\$29,050	\$1,524	\$775	\$903	\$35,451	\$35,550	\$2,129	\$1,165	\$1,461
\$22,551	\$22,650	\$947	\$485	\$491	\$29,051	\$29,150	\$1,533	\$781	\$911	\$35,551	\$35,650	\$2,138	\$1,171	\$1,470
\$22,651	\$22,750	\$955	\$489	\$497	\$29,151	\$29,250	\$1,543	\$787	\$919	\$35,651	\$35,750	\$2,147	\$1,177	\$1,479
\$22,751	\$22,850	\$963	\$493	\$503	\$29,251	\$29,350	\$1,552	\$793	\$927	\$35,751	\$35,850	\$2,157	\$1,183	\$1,489
\$22,851	\$22,950	\$971	\$497	\$509	\$29,351	\$29,450	\$1,561	\$799	\$935	\$35,851	\$35,950	\$2,166	\$1,189	\$1,498
\$22,951	\$23,050	\$979	\$501	\$515	\$29,451	\$29,550	\$1,571	\$805	\$943	\$35,951	\$36,050	\$2,175	\$1,195	\$1,507
\$23,051	\$23,150	\$987	\$505	\$521	\$29,551	\$29,650	\$1,580	\$811	\$951	\$36,051	\$36,150	\$2,184	\$1,201	\$1,517
\$23,151	\$23,250	\$995	\$509	\$527	\$29,651	\$29,750	\$1,589	\$817	\$959	\$36,151	\$36,250	\$2,194	\$1,207	\$1,526
\$23,251	\$23,350	\$1,003	\$513	\$533	\$29,751	\$29,850	\$1,599	\$823	\$967	\$36,251	\$36,350	\$2,203	\$1,213	\$1,535
\$23,351	\$23,450	\$1,011	\$517	\$539	\$29,851	\$29,950	\$1,608	\$829	\$975	\$36,351	\$36,450	\$2,212	\$1,219	\$1,544
\$23,451	\$23,550	\$1,019	\$521	\$545	\$29,951	\$30,050	\$1,617	\$835	\$983	\$36,451	\$36,550	\$2,222	\$1,225	\$1,554
\$23,551	\$23,650	\$1,027	\$525	\$551	\$30,051	\$30,150	\$1,626	\$841	\$991	\$36,551	\$36,650	\$2,231	\$1,231	\$1,563
\$23,651	\$23,750	\$1,035	\$529	\$557	\$30,151	\$30,250	\$1,636	\$847	\$999	\$36,651	\$36,750	\$2,240	\$1,237	\$1,572
\$23,751	\$23,850	\$1,043	\$533	\$563	\$30,251	\$30,350	\$1,645	\$853	\$1,007	\$36,751	\$36,850	\$2,250	\$1,243	\$1,582
\$23,851	\$23,950	\$1,051	\$537	\$569	\$30,351	\$30,450	\$1,654	\$859	\$1,015	\$36,851	\$36,950	\$2,259	\$1,249	\$1,591
\$23,951	\$24,050	\$1,059	\$541	\$575	\$30,451	\$30,550	\$1,664	\$865	\$1,023	\$36,951	\$37,050	\$2,268	\$1,255	\$1,600
\$24,051	\$24,150	\$1,068	\$545	\$581	\$30,551	\$30,650	\$1,673	\$871	\$1,031	\$37,051	\$37,150	\$2,277	\$1,261	\$1,610
\$24,151	\$24,250	\$1,078	\$549	\$587	\$30,651	\$30,750	\$1,682	\$877	\$1,039	\$37,151	\$37,250	\$2,287	\$1,267	\$1,619
\$24,251	\$24,350	\$1,087	\$553	\$593	\$30,751	\$30,850	\$1,692	\$883	\$1,047	\$37,251	\$37,350	\$2,296	\$1,273	\$1,628
\$24,351	\$24,450	\$1,096	\$557	\$599	\$30,851	\$30,950	\$1,701	\$889	\$1,055	\$37,351	\$37,450	\$2,305	\$1,279	\$1,637
\$24,451	\$24,550	\$1,106	\$561	\$605	\$30,951	\$31,050	\$1,710	\$895	\$1,063	\$37,451	\$37,550	\$2,315	\$1,285	\$1,647
\$24,551	\$24,650	\$1,115	\$565	\$611	\$31,051	\$31,150	\$1,719	\$901	\$1,071	\$37,551	\$37,650	\$2,324	\$1,291	\$1,656
\$24,651	\$24,750	\$1,124	\$569	\$617	\$31,151	\$31,250	\$1,729	\$907	\$1,079	\$37,651	\$37,750	\$2,333	\$1,297	\$1,665
\$24,751	\$24,850	\$1,134	\$573	\$623	\$31,251	\$31,350	\$1,738	\$913	\$1,087	\$37,751	\$37,850	\$2,343	\$1,303	\$1,675
\$24,851	\$24,950	\$1,143	\$577	\$629	\$31,351	\$31,450	\$1,747	\$919	\$1,095	\$37,851	\$37,950	\$2,352	\$1,309	\$1,684
\$24,951	\$25,050	\$1,152	\$581	\$635	\$31,451	\$31,550	\$1,757	\$925	\$1,103	\$37,951	\$38,050	\$2,361	\$1,317	\$1,693
\$25,051	\$25,150	\$1,161	\$585	\$641	\$31,551	\$31,650	\$1,766	\$931	\$1,111	\$38,051	\$38,150	\$2,370	\$1,325	\$1,703
\$25,151	\$25,250	\$1,171	\$589	\$647	\$31,651	\$31,750	\$1,775	\$937	\$1,119	\$38,151	\$38,250	\$2,380	\$1,333	\$1,712
\$25,251	\$25,350	\$1,180	\$593	\$653	\$31,751	\$31,850	\$1,785	\$943	\$1,127	\$38,251	\$38,350	\$2,389	\$1,341	\$1,721
\$25,351	\$25,450	\$1,189	\$597	\$659	\$31,851	\$31,950	\$1,794	\$949	\$1,135	\$38,351	\$38,450	\$2,398	\$1,349	\$1,730
\$25,451	\$25,550	\$1,199	\$601	\$665	\$31,951	\$32,050	\$1,803	\$955	\$1,143	\$38,451	\$38,550	\$2,408	\$1,357	\$1,740
\$25,551	\$25,650	\$1,208	\$605	\$671	\$32,051	\$32,150	\$1,812	\$961	\$1,151	\$38,551	\$38,650	\$2,417	\$1,365	\$1,749
\$25,651	\$25,750	\$1,217	\$609	\$677	\$32,151	\$32,250	\$1,822	\$967	\$1,159	\$38,651	\$38,750	\$2,426	\$1,373	\$1,758
\$25,751	\$25,850	\$1,227	\$613	\$683	\$32,251	\$32,350	\$1,831	\$973	\$1,167	\$38,751	\$38,850	\$2,436	\$1,381	\$1,768
\$25,851	\$25,950	\$1,236	\$617	\$689	\$32,351	\$32,450	\$1,840	\$979	\$1,175	\$38,851	\$38,950	\$2,445	\$1,389	\$1,777

California Tax Table

To Find Your Tax:

1. Find the amount of your taxable income on line 15 of Form 540A or line 17 of Form 540.
2. Read down the column titled "If the 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 The Taxable Income Is . . .		The Tax For Filing Status			If The Taxable Income Is . . .		The Tax For Filing Status			If The 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
\$38,951	\$39,050	\$2,454	\$1,397	\$1,786	\$41,951	\$42,050	\$2,733	\$1,637	\$2,065	\$44,951	\$45,050	\$3,012	\$1,877	\$2,344
\$39,051	\$39,150	\$2,463	\$1,405	\$1,796	\$42,051	\$42,150	\$2,742	\$1,645	\$2,075	\$45,051	\$45,150	\$3,021	\$1,885	\$2,354
\$39,151	\$39,250	\$2,473	\$1,413	\$1,805	\$42,151	\$42,250	\$2,752	\$1,653	\$2,084	\$45,151	\$45,250	\$3,031	\$1,893	\$2,363
\$39,251	\$39,350	\$2,482	\$1,421	\$1,814	\$42,251	\$42,350	\$2,761	\$1,661	\$2,093	\$45,251	\$45,350	\$3,040	\$1,901	\$2,372
\$39,351	\$39,450	\$2,491	\$1,429	\$1,823	\$42,351	\$42,450	\$2,770	\$1,669	\$2,102	\$45,351	\$45,450	\$3,049	\$1,909	\$2,381
\$39,451	\$39,550	\$2,501	\$1,437	\$1,833	\$42,451	\$42,550	\$2,780	\$1,677	\$2,112	\$45,451	\$45,550	\$3,059	\$1,917	\$2,391
\$39,551	\$39,650	\$2,510	\$1,445	\$1,842	\$42,551	\$42,650	\$2,789	\$1,685	\$2,121	\$45,551	\$45,650	\$3,068	\$1,925	\$2,400
\$39,651	\$39,750	\$2,519	\$1,453	\$1,851	\$42,651	\$42,750	\$2,798	\$1,693	\$2,130	\$45,651	\$45,750	\$3,077	\$1,933	\$2,409
\$39,751	\$39,850	\$2,529	\$1,461	\$1,861	\$42,751	\$42,850	\$2,808	\$1,701	\$2,140	\$45,751	\$45,850	\$3,087	\$1,941	\$2,419
\$39,851	\$39,950	\$2,538	\$1,469	\$1,870	\$42,851	\$42,950	\$2,817	\$1,709	\$2,149	\$45,851	\$45,950	\$3,096	\$1,949	\$2,428
\$39,951	\$40,050	\$2,547	\$1,477	\$1,879	\$42,951	\$43,050	\$2,826	\$1,717	\$2,158	\$45,951	\$46,050	\$3,105	\$1,957	\$2,437
\$40,051	\$40,150	\$2,556	\$1,485	\$1,889	\$43,051	\$43,150	\$2,835	\$1,725	\$2,168	\$46,051	\$46,150	\$3,114	\$1,965	\$2,447
\$40,151	\$40,250	\$2,566	\$1,493	\$1,898	\$43,151	\$43,250	\$2,845	\$1,733	\$2,177	\$46,151	\$46,250	\$3,124	\$1,973	\$2,456
\$40,251	\$40,350	\$2,575	\$1,501	\$1,907	\$43,251	\$43,350	\$2,854	\$1,741	\$2,186	\$46,251	\$46,350	\$3,133	\$1,981	\$2,465
\$40,351	\$40,450	\$2,584	\$1,509	\$1,916	\$43,351	\$43,450	\$2,863	\$1,749	\$2,195	\$46,351	\$46,450	\$3,142	\$1,989	\$2,474
\$40,451	\$40,550	\$2,594	\$1,517	\$1,926	\$43,451	\$43,550	\$2,873	\$1,757	\$2,205	\$46,451	\$46,550	\$3,152	\$1,997	\$2,484
\$40,551	\$40,650	\$2,603	\$1,525	\$1,935	\$43,551	\$43,650	\$2,882	\$1,765	\$2,214	\$46,551	\$46,650	\$3,161	\$2,005	\$2,493
\$40,651	\$40,750	\$2,612	\$1,533	\$1,944	\$43,651	\$43,750	\$2,891	\$1,773	\$2,223	\$46,651	\$46,750	\$3,170	\$2,013	\$2,502
\$40,751	\$40,850	\$2,622	\$1,541	\$1,954	\$43,751	\$43,850	\$2,901	\$1,781	\$2,233	\$46,751	\$46,850	\$3,180	\$2,021	\$2,512
\$40,851	\$40,950	\$2,631	\$1,549	\$1,963	\$43,851	\$43,950	\$2,910	\$1,789	\$2,242	\$46,851	\$46,950	\$3,189	\$2,029	\$2,521
\$40,951	\$41,050	\$2,640	\$1,557	\$1,972	\$43,951	\$44,050	\$2,919	\$1,797	\$2,251	\$46,951	\$47,050	\$3,198	\$2,037	\$2,530
\$41,051	\$41,150	\$2,649	\$1,565	\$1,982	\$44,051	\$44,150	\$2,928	\$1,805	\$2,261	\$47,051	\$47,150	\$3,207	\$2,045	\$2,540
\$41,151	\$41,250	\$2,659	\$1,573	\$1,991	\$44,151	\$44,250	\$2,938	\$1,813	\$2,270	\$47,151	\$47,250	\$3,217	\$2,053	\$2,549
\$41,251	\$41,350	\$2,668	\$1,581	\$2,000	\$44,251	\$44,350	\$2,947	\$1,821	\$2,279	\$47,251	\$47,350	\$3,226	\$2,061	\$2,558
\$41,351	\$41,450	\$2,677	\$1,589	\$2,009	\$44,351	\$44,450	\$2,956	\$1,829	\$2,288	\$47,351	\$47,450	\$3,235	\$2,069	\$2,567
\$41,451	\$41,550	\$2,687	\$1,597	\$2,019	\$44,451	\$44,550	\$2,966	\$1,837	\$2,298	\$47,451	\$47,550	\$3,245	\$2,077	\$2,577
\$41,551	\$41,650	\$2,696	\$1,605	\$2,028	\$44,551	\$44,650	\$2,975	\$1,845	\$2,307	\$47,551	\$47,650	\$3,254	\$2,085	\$2,586
\$41,651	\$41,750	\$2,705	\$1,613	\$2,037	\$44,651	\$44,750	\$2,984	\$1,853	\$2,316	\$47,651	\$47,750	\$3,263	\$2,093	\$2,595
\$41,751	\$41,850	\$2,715	\$1,621	\$2,047	\$44,751	\$44,850	\$2,994	\$1,861	\$2,326	\$47,751	\$47,850	\$3,273	\$2,101	\$2,605
\$41,851	\$41,950	\$2,724	\$1,629	\$2,056	\$44,851	\$44,950	\$3,003	\$1,869	\$2,335	\$47,851	\$47,950	\$3,282	\$2,109	\$2,614
										\$47,951	\$48,050	\$3,291	\$2,118	\$2,623
										OVER	\$48,050	\$3,296	\$2,123	\$2,628
										PLUS 9.3% OF THE AMOUNT OVER \$48,050				

CORPORATE TAX RATE - 1987

Effective for income years ending in 1987, the general tax rate is reduced to 9.3 percent (was 9.6%) [Sec. 23151].

For corporations with fiscal income years ending in 1987, this change results in the tax rate being prorated; i.e., the tax rate is a composite of the 9.6 percent rate for 1986 and the 9.3 percent rate for 1987, based on the portions of the fiscal year falling in 1986 and 1987, respectively [Sec. 24251]. Following is a chart showing the rates based on when the accounting period ends.

Accounting Period Ending	Composite Rate	Accounting Period Ending	Composite Rate
January	9.575%	July	9.425%
February	9.550%	August	9.400%
March	9.525%	September	9.375%
April	9.500%	October	9.350%
May	9.475%	November	9.325%
June	9.450%	December	9.300%

The minimum franchise tax for 1987 was increased to \$300 (was \$200). No proration is applicable to this change in the minimum tax as it is specifically provided that the new minimum tax applies to income years beginning after December 31, 1986 [Secs. 23151, 23153, and 23181].

For corporations which have filed returns for calendar or fiscal years ending in 1987, the FTB will recalculate the tax (and any penalties or interest) and send either a refund or a notice of tax due. If the corporation has an outstanding tax liability, any refund will be offset against that amount, and the corporation notified of the adjustment.

Because of the large volume of returns affected by the change in the corporate tax rate and the minimum tax, and because a significant number of calculations will have to be done manually, the refund checks and notices are not expected to be mailed until late January or early February, 1988.

1987 CHAPTERED BILLS

Bill Number Order

<u>Bill No.</u>	<u>Chapter No.</u>	<u>LC No.</u>	<u>Bill No.</u>	<u>Chapter No.</u>	<u>LC No.</u>
AB 7X	3X	18	SB 2X	5X	19
AB 53	1138	9	SB 47	908	14
AB 129	918	7	SB 78	440	5
AB 239	1463	12	SB 98	399	3
AB 292	504	--	SB 214	944	8
AB 423	226	1	SB 570	1442	17
AB 426	1363	--	SB 572	1139	9
AB 430	1481	16	SB 574	339	2
AB 708	923	10			
AB 992	1193	11			
AB 1064	473	--			
AB 1581	1465	15			
AB 1865	945	6			
AB 2009	1428	13			
AB 2048	613	4			

Chapter Number Order

<u>Chapter No.</u>	<u>Bill No.</u>	<u>LC No.</u>	<u>Chapter No.</u>	<u>Bill No.</u>	<u>LC No.</u>
3X	AB 7X	18	944	SB 214	8
5X	SB 2X	19	945	AB 1865	6
226	AB 423	1	1138	AB 53	9
339	SB 574	2	1139	SB 572	9
399	SB 98	3	1193	AB 992	11
440	SB 78	5	1363	AB 426	--
473	AB 1064	--	1428	AB 2009	13
504	AB 292	--	1442	SB 570	17
613	AB 2048	4	1463	AB 239	12
908	SB 47	14	1465	AB 1581	15
918	AB 129	7	1481	AB 430	16
923	AB 708	10			

"X" denotes legislative bills enacted in the First Extraordinary Session of 1987.

Note: Legislative Changes (LCs) not issued for bills which made only minor technical corrections to the PITL and the B&CTL, or bills which made changes to the Government Code, relating to programs administered by the Franchise Tax Board.

MAJOR BILLS VETOED

AB 11 (Kelley) AGRICULTURAL PRODUCTS: DONATIONS: TAX DEDUCTIONS.
Would have reinstated a tax deduction for agricultural products donated to private charities.

Reason for Veto: This bill would undermine the gains made in landmark legislation passed by the Legislature which simplifies the preparation of California tax returns by closely conforming to Federal law.

This bill would undermine the gains made in that legislation by adding complexity to the tax structure. It would also invite additional requests for nonconformity on a piecemeal basis. These attempts must be resisted to ensure that we maintain the progress we have made in establishing a simpler tax law.

AB 278 (Hayden) CALIFORNIA EDUCATION TRUST. Would have created the California Education Trust, a program designed to permit families to save for the future payment of a student's college expenses by investing with the state.

Reason for Veto: The plan established in this bill is untested. Although the program is required to be actuarially sound, in the event a default should occur the state General Fund would have a moral obligation to make good its commitment to the families. Consequently, the plan may have a hidden General Fund cost.

AB 563 (Klehs) INCOME TAXES: CREDITS: CONTRIBUTIONS: AIDS RESEARCH.
Would have authorized a tax credit under both the Personal Income Tax Law and the Bank and Corporation Tax Law equal to 55 percent of contributions made to the AIDS Research Trust Fund. This fund would be administered by an independent AIDS Research Trust Board created by companion legislation, AB 603.

Reason for Veto: Together AB 563 and AB 603 establish a public entity to receive private contributions and, in reality, matching public funds. This entity, however, is not accountable to the public or to the Legislative or Executive branch of government. Their expenditures would not be subject to the normal budget review process that exists for all other agencies of state government. The comprehensive tax reform measure, recently signed into law, provides for a deduction for charitable contributions identical to that under federal law. These bills would provide a major departure for only one of many worthy causes. We have not provided special tax credits for devastating life threatening effects of numerous diseases and illnesses including polio, cancer, heart diseases, muscular dystrophy, arthritis, mental illness and others.

AB 603 (Klehs) AIDS RESEARCH TRUST BOARD. Would have created an independent AIDS Research Trust Board to administer the AIDS Research Trust Fund created by companion legislation, AB 563.

Reason for Veto: See AB 563, above.

AB 790 (Roos) INCOME TAXES: AMNESTY PROGRAM: ILLEGAL ALIENS. Would have enacted a state income tax penalty amnesty program for former illegal aliens granted lawful temporary resident status under the Federal Immigration Reform and Control Act of 1986 (Public Law 99-603).

Reason for Veto: This bill would convey an erroneous impression of tax law enforcement contrary to good public policy. Legislation signed in 1984 (Chapter 1490, Statutes of 1984) created a one-time tax penalty amnesty program coupled with tough new penalties to encourage future compliance. Initiating yet another amnesty program in so close a succession would undermine the public's confidence in the state's resolve to enforce its tax laws vigorously and fairly towards all residents.

AB 979 (Cortese) INCOME TAX RETURNS: CONTRIBUTIONS TO CALIFORNIA FIRE FOUNDATION. Would have established a checkoff on the personal income tax return for contributions to the California Fire Foundation.

Reason for Veto: Existing law provides for designating tax deductible contributions on the tax form to seven other special funds. There are clearly limits to the number of designations that can be reasonably accommodated. We have reached a saturation point beyond which the addition of more charitable designations diminishes the effectiveness of the existing designations.

AB 2131 (Cortese) CHILD CARE. Would have increased the personal income tax credit for child care expenses and provide that the credit is a return of revenues as required by Article XIII of the Constitution.

Reason for Veto: This legislation is unnecessary. AB 53, the Federal tax conformity measure recently signed into law, contains the provisions specified in this bill. In addition, tax rebate bills, AB 2609 and SB 47 signed into law, provide across the board rebates to all taxpayers which is preferable to the targeted approach offered in this bill.

SECTIONS ADDED, AMENDED, REPEALED

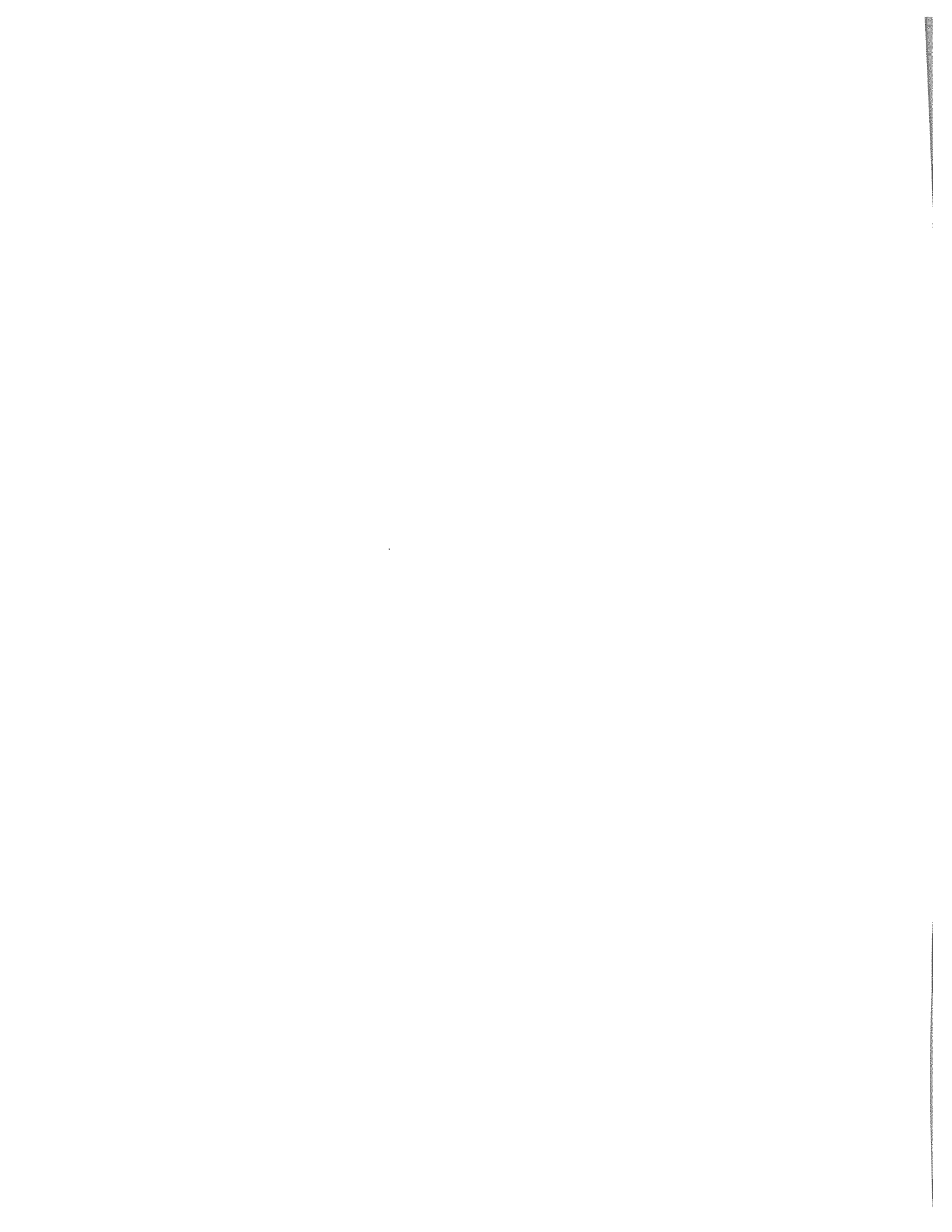
<u>Section</u>	<u>Action</u>	<u>Page</u>	<u>Section</u>	<u>Action</u>	<u>Page</u>
GOVERNMENT CODE			17063.3	Repealed	7
7082	Amended	61	17063.4	Repealed	7
12419.3	Amended	61	17063.11	Repealed	7
14913	Add/Repeal	61	17064.5	Repealed	7
			17064.7	Repealed	7
			17064.8	Repealed	7
PROBATE CODE			17069	Amend/Repeal	8
9150	Added	61	17070	Add/Repeal	8
			17070.1	Add/Repeal	8
			17070.2	Add/Repeal	8
REVENUE AND TAXATION CODE			17072	Amended	9
17020.1	Added	1	17073	Amended	9
17020.2	Added	1	17073.5	Added	9
17020.3	Added	1	17076	Added	9
17020.4	Added	1	17078	Added	9
17020.9	Added	1	17082	Repealed	10
17020.11	Added	1	17084	Repealed	10
17021.5	Amended	1	17085	Repeal/Add	10
17024.5	Amended	2	17087	Amended	10
17027	Amended	2	17087.5	Added	10
17029.5	Added	2	17088	Repealed	11
17041	Amended	2	17090	Repealed	11
17042	Amended	3	17091	Repealed	11
17042.5	Repealed	3	17133	Amended	11
17043	Added	3	17134	Repealed	11
17052.2	Repealed	3	17135	Added	11
17052.4	Add/Repeal	3	17137	Amended	11
17052.6	Amend/Repeal	4	17138	Repealed	12
17052.9	Amend/Repeal	4	17139	Repealed	12
17052.12	Add/Repeal	4	17140	Repealed	12
17052.13	Amend/Repeal	4	17142	Repealed	12
17053	Repealed	4	17143	Amended	12
17053.1	Repealed	4	17144	Repealed	12
17053.8	Amended	4	17149	Repealed	12
17053.9	Amend/Repeal	5	17205	Repealed	12
17053.11	Amended	5	17207	Amended	12
17053.13	Add/Repeal	5	17211	Repealed	13
17053.14	Add/Repeal	5	17220	Amended	13
17054	Amended	5	17224	Amended	13
17054.5	Repeal/Add	6	17225	Repealed	13
17054.6	Repealed	6	17225.5	Repealed	13
17057	Add/Repeal	6	17231	Amend/Repeal	13
17058	Add/Repeal	6	17240	Amended	14
17061.3	Repealed	7	17241	Repealed	14
17061.5	Repeal/Add	7	17243	Repealed	14
17062	Repeal/Add	7	17244	Repealed	14
17062	Amended	8	17245	Repealed	14
17062.1	Repealed	7	17250	Amended	14
17062.2	Repealed	7	17250.5	Repealed	14
17063	Repeal/Add	7, 8	17252	Repealed	15
17063.1	Repealed	7	17252.5	Repealed	15
17063.2	Amend/Repeal	7	17254	Repealed	15

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17255	Repealed	15	18153	Repealed	22
17260	Amended	15	18154	Repealed	22
17261	Repealed	15	18155	Repealed	22
17262	Repealed	15	18161	Add/Repeal	22
17265	Amend/Repeal	15	18162.5	Repealed	23
17269	Added	16	18169	Repealed	23
17270	Amended	16	18172	Repealed	23
17272	Add/Repeal	16	18173	Repealed	23
17276	Amended	16	18175	Repealed	23
17276.5	Repealed	16	18176	Repealed	23
17280	Amended	16	18177	Added	23
17288	Repealed	17	18178	Added	23
17323	Repealed	17	18241	Repealed	23
17503	Repealed	17	18242	Repealed	23
17504	Amended	17	18243	Repealed	23
17505	Repealed	17	18244	Repealed	23
17506	Amended	18	18245	Repealed	23
17507	Amended	18	18401	Amended	24
17508	Added	18	18402	Amended	24
17510	Repealed	18	18405	Amended	24
17513	Repealed	18	18408.5	Added	24
17515	Added	18	18410	Amended	24
17551.5	Added	19	18431.5	Added	24
17552.5	Repealed	19	18504	Repeal/Add	24
17560	Added	19	18513	Add/Repeal	24
17651	Amended	19	18513	Added	25
17672	Repealed	19	18513.1	Added	25
17681	Repeal/Add	19, 20	18513.2	Added	25
17682	Repeal/Add	19, 20	18521	Amended	25
17683	Added	20	18525	Repeal/Add	25
17684	Added	20	18534	Add/Repeal	25
17686	Repealed	19	18540	Add/Repeal	25
17686.5	Repealed	19	18541	Add/Repeal	25
17687	Repealed	19	18542	Add/Repeal	25
17687.5	Repealed	19	18543	Add/Repeal	25
17688	Repealed	19	18544	Add/Repeal	25
17689.5	Repealed	19	18545	Add/Repeal	25
17690	Repealed	19	18586.7	Amended	25
17711	Repealed	19	18654	Amended	25
17720	Repealed	19	18681.1	Amended	26
17737	Amended	20	18681.5	Added	26
17740	Repeal/Add	20	18681.6	Amended	26
17851	Amended	20	18681.7	Repealed	26
17852	Amended	20	18681.9	Amended	26
17932	Amended	20	18682	Amended	26
17940	Added	21	18682.5	Add/Repeal	27
18001.5	Added	21	18683.5	Added	27
18033	Repealed	21	18684	Repeal/Add	27
18035	Repealed	21	18684.2	Amended	27
18035.5	Added	21	18685	Repealed	27
18036	Amended	22	18685.07	Amended	27
18037	Amended	22	18688	Amended	27
18040	Amended	22	18698.5	Amended	28
18152	Repeal/Add	22	18765	Add/Repeal	28

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18802	Amended	28	23607	Repealed	36
18802.1	Amended	28	23609	Repeal/Add	36
18802.4	Amended	28	23609.5	Add/Repeal	36
18802.5	Amended	28	23610.5	Add/Repeal	37
18802.6	Amended	28	23612	Amend/Repeal	37
18802.8	Amended	28	23701m	Repeal/Add	37
18802.9	Added	29	23701n	Amended	37
18803	Repeal/Add	29	23701r	Amended	37
18803.2	Added	29	23701s	Amended	38
18805	Amended	29	23701u	Added	38
18807	Added	29	23701u	Added	38
18810	Added	29	23701v	Added	38
18817.3	Added	30	23710	Repealed	38
18838	Add/Repeal	30	23731	Amended	38
18839	Add/Repeal	30	23732	Repeal/Add	39
19265	Amended	30	23734	Repeal/Add	39
19269	Amended	30	23734a	Repealed	39
19286.8	Amended	30	23734b	Repealed	39
19310	Added	30	23734c	Repealed	39
19311	Added	30	23734d	Repealed	39
19414	Amended	31	23735	Repeal/Add	39
19420	Amended	31	23735a	Repealed	39
19421	Added	31	23735b	Repealed	39
20503	Amended	31	23735c	Repealed	39
20563	Amended	31	23778	Amended	39
23041	Amended	32	23800	Added	39
23042	Amended	32	23801	Added	39
23045.1	Added	32	22802	Added	39
23045.2	Added	32	23803	Added	39
23045.3	Added	32	23804	Added	39
23045.4	Added	32	23805	Added	39
23045.5	Added	32	23806	Added	39
23048	Added	32	23807	Added	39
23049	Added	32	23808	Added	39
23051.5	Amended	33	23809	Added	39
23051.7	Added	33	23810	Added	39
23053.5	Added	33	24271	Repeal/Add	40
23081	Added	34	24272.2	Added	40
23151	Amended	34	24272.5	Repealed	40
23153	Amended	34	24274	Repeal/Add	41
23181	Amended	34	24307	Repeal/Add	41
23184	Amended	34	24330	Amended	41
23333	Amended	35	24331	Amended	41
23400	Repeal/Add	35	24333	Amended	41
23400	Amended	35	24342	Repealed	41
23401	Repeal/Add	35	24343	Repeal/Add	42
23402	Repealed	35	24343.2	Added	42
23403	Repealed	35	24343.5	Repealed	42
23404	Repealed	35	24344	Amended	42
23405	Repealed	35	24344.5	Amended	42
23601.4	Add/Repeal	36	24345	Amended	42
23603	Amended	36	24349	Amended	43
23604	Repealed	36	24357	Amended	43
23605	Repealed	36	24357.8	Amended	43

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24373.5	Repealed	43	24585	Repeal/Add	49
24379	Added	43	24591	Amended	49
24382	Repeal/Add	43	24592	Amended	49
24405	Amended	44	24593	Amended	49
24413	Repeal/Add	44	24601	Repeal/Add	50
24413.2	Added	44	24602	Repeal/Add	50
24413.3	Added	44	24603	Repeal/Add	50
24416	Amended	44	24605	Repealed	50
24417	Repealed	44	24606	Repealed	50
24422.3	Added	45	24607	Repealed	50
24422.5	Repealed	45	24608	Repealed	50
24423	Amended	45	24609	Repealed	50
24424	Amended	45	24610	Repealed	50
24437	Repeal/Add	45	24610.5	Repealed	50
24439	Amended	45	24611	Repealed	50
24443	Repeal/Add	46	24612	Repealed	50
24444	Repealed	46	24613	Repealed	50
24445	Repealed	46	24614	Repealed	50
24445.5	Repealed	46	24615	Repealed	50
24446	Repealed	46	24633.5	Added	50
24449	Added	46	24651	Amended	50
24457	Repeal/Add	46	24652	Repeal/Add	50
24481	Repeal/Add	46	24653	Repealed	51
24482	Repealed	46	24654	Added	51
24483	Repealed	46	24661	Repeal/Add	51
24483.5	Repealed	46	24662	Repealed	51
24484	Repeal/Add	46	24667	Repeal/Add	51
24485	Repealed	46	24668	Repealed	52
24486	Repealed	46	24669	Repealed	52
24487	Repealed	46	24673.2	Added	52
24489	Repealed	46	24673.5	Repealed	52
24490	Repealed	46	24681	Repeal/Add	52
24491	Repealed	46	24682	Added	52
24491.1	Repealed	46	24683	Repealed	52
24492	Repealed	46	24684	Repealed	52
24493	Repealed	46	24685	Amended	53
24495	Repeal/Add	46	24686	Repealed	52
24496	Repeal/Add	47	24686.2	Repealed	52
24497	Repeal/Add	47	24686.4	Repealed	52
24502	Repeal/Add	47	24687	Repealed	53
24503	Repealed	47	24688	Repeal/Add	53
24504	Repeal/Add	47	24689	Repeal/Add	53
24511	Repeal/Add	47	24690	Repeal/Add	53
24512	Repeal/Add	47	24692	Added	54
24513	Repeal/Add	48	24701	Repeal/Add	54
24514	Repealed	48	24708	Added	54
24515	Repealed	48	24725	Repeal/Add	54
24516	Repealed	48	24726	Added	54
24517	Repealed	48	24831	Repeal/Add	54
24518	Repealed	48	24832	Repeal/Add	54
24519	Repeal/Add	48	24833	Repeal/Add	54
24520	Repeal/Add	48	24833.5	Repealed	54
24551	Repeal/Add	48	24834	Repeal/Add	54
24561	Repeal/Add	49	24835	Repealed	54

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24835.5	Repealed	54	24991	Added	58
24836	Repealed	54	24992	Added	58
24837	Repealed	54	24993	Added	58
24837.5	Repealed	54	24994	Added	58
24840	Repealed	54	25106.5	Added	59
24870	Added	55	25663d	Amended	59
24871	Added	55	25901b	Amended	59
24872	Added	55	25906	Added	59
24902.1	Added	55	25934	Repeal/Add	59
24902.2	Added	55	25934.2	Amended	59
24903	Repeal/Add	55	25935	Repealed	59
24904	Added	56	25951.5	Added	59
24916	Amended	56	25957.3	Added	60
24917	Amended	56	26131	Amended	60
24918	Repeal/Add	56	26132.05	Added	60
24953	Added	56	26132.3	Added	60
24953.5	Added	57	26255	Add/Repeal	60
24966.1	Added	57	26256	Add/Repeal	60
24966.2	Added	57	26491	Amended	60
24967	Added	57			
24981	Repeal/Add	57	UNEMPLOYMENT INSURANCE CODE		
24988	Repeal/Add	57	2739.5	Added	62
24989	Repeal/Add	58	13009	Amended	62
24990	Added	58	13050	Amended	62



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>	<u>LC</u>
<u>General Provisions and Definitions</u>			
17020.1 (New) (23045.1)	7701(a)(42)	"SUBSTITUTED BASIS PROPERTY" (SC) Conforms to federal law in the meaning given to the term "substituted basis property". Operative for taxable years beginning on or after January 1, 1987. (AB S3, Ch. 87-1138)	87-9
17020.2 (New) (23045.2)	7701(a)(43)	"TRANSFERRED BASIS PROPERTY" (SC) Conforms to federal law in the meaning given to the term "transferred basis property". Operative for taxable years beginning on or after January 1, 1987. (AB S3, Ch. 87-1138)	87-9
17020.3 (New) (23045.3)	7701(a)(44)	"EXCHANGED BASIS PROPERTY" (SC) Conforms to federal law in the meaning given to the term "exchanged basis property". Operative for taxable years beginning on or after January 1, 1987. (AB S3, Ch. 87-1138)	87-9
17020.4 (New) (23045.4)	7701(a)(45)	"NONRECOGNITION TRANSACTION" (SC) Conforms to federal law in the meaning given to the term "nonrecognition transaction". Operative for taxable years beginning on or after January 1, 1987. (AB S3, Ch. 87-1138)	87-9
17020.9 (New) (23045.5)	7701(a)(19)	"DOMESTIC BUILDING AND LOAN ASSOCIATION" (SC) Conforms to federal law in the meaning given to the term "domestic building and loan association". Operative for taxable years beginning on or after January 1, 1987. (AB S3, Ch. 87-1138)	87-9
17020.11 (New) (23049)	7701(h)	MOTOR VEHICLE OPERATING LEASES (SC) Provides that IRC Section 7701(h), relating to motor vehicle operating leases is applicable. Operative for taxable years beginning on or after January 1, 1987. (AB S3, Ch. 87-1138)	87-9
17021.5 (Amend)	7703	"MARITAL STATUS" (TC) Corrects reference to IRC Section 7703 (was Section 143). Operative September 26, 1987. (AB S3, Ch. 87-1138)	87-9

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
17024.5 (Amend)	---	SPECIFIED DATES AND GENERAL PROVISIONS (SC) Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17024.5(a)(1) (23051.5(a))		Adds the terms "Internal Revenue Code of 1954" and "Internal Revenue Code of 1986" in the reference to Title 26 of the United States Code; and updates the specified date to January 1, 1987.	
17024.5(a)(3) (23051.5(b))		Provides that provisions relating to the treatment of debt instruments, contained in the Tax Reform Act of 1984 (Public Law 98-369) and Public Law 99-121, shall be applicable.	
17024.5(b)		Provides for the treatment of shareholders of S corporations similar to federal law; and deletes the nonapplicability of federal provisions relating to a separate tax on lump-sum distributions, short-term and long-term gains, expenses of "Section 179" property, and the deduction for two-earner married couples.	
17024.5(i) (23051.5(c)(4))		Adds that in applying the IRC, any reference to a specific provision therein shall include any modifications of that provision included in the PITL.	
17027 (Amend)	7701(a)(20)	"EMPLOYEE" (TC) Adds reference to IRC Section 125 when considering a full-time life insurance salesman as an employee for purposes of the Federal Insurance Contributions Act. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
17029.5 (New) (23051.7)	----	TRANSITION RULES (SC) Provides that no taxpayer will be denied any carryover of a credit, excess contributions, or loss deduction allowable by prior law. Other rules specify how to determine adjusted basis of assets acquired prior to 1987. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
<u>Imposition of Tax</u>			
17041 (Amend)	1	RATES AND INCOME BRACKETS (SC) Reduces the number of tax brackets from 11 to six (see page v), reduces the top marginal tax rate from 11 percent to 9.3 percent, and provides that when indexing	87-9

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		the income tax bracket amounts they shall be rounded to the nearest \$1 (was \$10). Deletes "zero bracket amounts". Finally, conforms to federal law on the taxation of unearned income of a minor child. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	
17042 (Amend)	2(b)	HEAD OF HOUSEHOLD, DEFINED (SC) Conforms to qualifying federal time period of "more than one-half of taxable year" (was "more than 219 days"). Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17042.5 (Repeal)	----	JOINT CUSTODY HEAD OF HOUSEHOLD (SC) Repeals the filing status "Joint custody head of household" and the attendant computation of tax and tax credit provisions. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138) NOTE: See PIT Section 17054.5, below, for Joint Custody Head of Household tax credit.	87-9
17043 (New)	----	FILING STATUS (SC) Requires individuals to use the same filing status when filing their state income tax returns as they used on their federal income tax returns for the same taxable year. Also requires a husband and wife, one a full-year resident and the other a nonresident for part or all of the taxable year, to file a joint nonresident income tax return (Form 540NR) if they file a joint federal income tax return. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9

Tax Credits

17052.2 (Repeal) (23604)	----	POLLUTION CONTROL - METAL FINISHERS (SC) Repeals provisions for "metal finishers" to claim a credit equal to 20% of their costs of certain pollution control equipment. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17052.4 (New) (23601.4)	----	SOLAR ENERGY - COMMERCIAL (SC) Reenacts the solar energy credit, which expired at the end of 1986, except that it applies only to installations on commercial premises. The amount of the credit is	87-9

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		12X for 1987 installations and 10X for 1988 installations. Operative for taxable years beginning on or after January 1, 1987 and before January 1, 1989. (AB 53, Ch. 87-1138)	
17052.6 (Amend)	21	CHILD CARE CREDIT (SC) Increases credit to 30X of allowable federal credit regardless of income level. Operative for taxable years beginning on or after January 1, 1987 and before January 1, 1993. (AB 53, Ch. 87-1138)	87-9
17052.9 (Amend)	22	CREDIT FOR THE ELDERLY (SC) Provides that this credit shall be repealed as of January 1, 1992. (AB 53, Ch. 87-1138)	87-9
17052.12 (New) (23609)	41	RESEARCH AND DEVELOPMENT EXPENSES (SC) Conforms to the federal credit (IRC Section 41), except (1) amount of credit is limited to 8 percent of the incremental expenses, and (2) is limited to research conducted in California. Operative for amounts incurred on or after January 1, 1988, and paid or incurred before January 1, 1993. Section is repealed effective January 1, 1994. (AB 53, Ch. 87-1138)	87-9
17052.13 (Amend) (23612)	----	SALES AND USE TAX CREDIT ON PURCHASE OF QUALIFIED PROPERTY (SC) Amended to deny adjustment to basis, required by IRC Section 164(a), with respect to sales and use tax paid and claimed as a tax credit. Also provides that this section is repealed as of January 1, 1993. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17053 (Repeal) (23605)	----	RIDESHARING TAX CREDIT (SC) Credit repealed as of January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17053.1 (Repeal)	----	RIDESHARING - THIRD PARTY (SC) Credit repealed as of January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17053.8 (Amend) (24331)	----	CREDIT FOR WAGES PAID TO DISADVANTAGED EMPLOYEE IN AN ENTERPRISE ZONE (SC) Provides that this credit is repealed as of January 1, 1993. (AB 53, Ch. 87-1138) NOTE: This provision was inadvertently chaptered out by AB 2009, Ch. 87-1428)	87-9
		Expands the definition of a qualified employee to include an individual certified under the Targeted Jobs Tax Credit	87-13

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		Program. Operative for taxable years beginning on or after January 1, 1987. (AB 2009, Ch. 87-1428)	
17053.9 (Amend)	----	CREDIT FOR WAGES RECEIVED BY A QUALIFIED DISADVANTAGED EMPLOYEE (SC) Provides that this credit is repealed as of January 1, 1993. (AB 53, Ch. 87-1138)	87-9
17053.11 (Amend) (24333)	----	CREDIT FOR HIRING OF UNEMPLOYED RESIDENT OF HIGH DENSITY UNEMPLOYMENT AREA (SC) Provides that this credit is repealed as of January 1, 1993. (AB 53, Ch. 87-1138) NOTE: This provision was inadvertently chaptered out by AB 2009, Ch. 87-1428.	87-9
		Modifies the definition of a business qualifying for this credit. Operative for taxable years beginning on or after January 1, 1987. (AB 2009, Ch. 87-1428)	87-13
17053.13 (New)	----	MILITARY COMPENSATION CREDIT (SC) Allows tax credit equal to 4 percent (maximum \$40) of compensation for military active duty, reserve pay, retirement pay, and National Guard and State Military Reserve emergency duty pay if AGI is less than \$27,000. Operative for taxable years beginning on or after January 1, 1987 and before January 1, 1992. (AB 53, Ch. 87-1138)	87-9
17053.14 (New)	24	POLITICAL CONTRIBUTIONS CREDIT (SC) Adds carryover credit for political contributions equal to 25 percent of amount contributed. Maximum credit is \$50 for married taxpayers filing a joint return, head of household, and surviving spouse; and \$25 for all other individuals. Operative for taxable years beginning on or after January 1, 1987 and before January 1, 1992. (AB 53, Ch. 87-1138)	87-9
17054 (Amend)	151 and 152	CREDIT FOR PERSONAL EXEMPTIONS (SC) Increases the personal exemption credits for single and married filing separate return to \$51 for taxable years beginning in 1987, and to \$52 for taxable years beginning in 1988. For married filing joint return, head of household, and surviving spouse the credit is \$102 for taxable years beginning in 1987 and \$104 for taxable years beginning in 1988. An additional credit of \$51 for 1987, and \$52 for 1988 is allowed if the taxpayer or spouse is blind or 65 or over.	87-9

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Dependent credit is increased to \$51 and \$52 for 1987 and 1988, respectively. For taxable years beginning on or after January 1, 1989, the 1988 credits will be indexed. No credit is allowed for any individual who is eligible to be claimed as a dependent on the return of another taxpayer. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)

17054.5 and 17054.6 (Repeal)	----	STUDENT CREDIT (SC) Credit for maintaining nonrelated, nondependent student in taxpayer's home repealed. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17054.5 (New)	---	JOINT CUSTODY HEAD OF HOUSEHOLD CREDIT (SC) Allows a tax credit for taxpayers qualifying for joint custody head of household. The qualifications are the same as under former Section 17042.5. The credit amount is equal to 30 percent of net tax, not to exceed \$200. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17057 (New) (23609.5)	28	CLINICAL TESTING - ORPHAN DRUGS (SC) Conforms to federal credit (IRC Section 28), except that (1) amount of credit is 15 percent of qualified clinical testing expenses, and (2) is limited to testing conducted in California. Operative for taxable years beginning on or after January 1, 1987 and ending before January 1, 1993. Credit repealed as of January 1, 1993. (AB 53, Ch. 87-1138)	87-9
17058 (New) (23610.5)	42	LOW-INCOME HOUSING CREDIT (SC) Conforms to federal credit (IRC Section 42), except (1) amount of credit is different, (2) the low-income housing project must be located in California, (3) the length of the compliance period is 30 years, and (4) there are limitations on taxpayer's cumulative cash distribution on cash investment. (See LC 87-9 for details.) The total credits allowable under both the PITL and the B&CTL cannot exceed \$35 million per year and are to be allocated by the Mortgage Bond and Tax Credit Allocation Committee. Operative for credits granted for taxable years beginning on or after January 1, 1987	87-9

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		and before January 1, 1990. Any unused credit may be carried over after that date. (AB 53, Ch. 87-1138)	
17061.3 (Repeal) (23609)	----	MOTOR VEHICLE TAX CREDIT (SC) Repeals inoperative credit for purchase of new motor vehicle manufactured or assembled and sold in California. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17061.5 (Repeal)	----	WORKER CONTRIBUTION CREDIT (SC) Repeals excess State Disability Insurance credit applicable to taxable year 1979. Operative September 26, 1987. (SB 78, Ch. 87-440) (AB 53, Ch. 87-1138)	87-5 and 87-9
17061.5 (New)	----	GAIN ON QUALIFIED ASSETS (SC) Allows tax credit equal to 3 percent of net gain realized on sale or exchange of qualified residential rental property and qualified farm property held 1-5 years, and credit equal to 4.5 percent of net gain realized on such property held over 5 years. Operative for taxable years beginning on or after January 1, 1987 and before January 1, 1992. (AB 53, Ch. 87-1138)	87-9

Tax on Preference Income

17062 to 17064.8 (Repeal) (23400 to 23405)	----	TAX ON PREFERENCE INCOME (SC) Repeals the provisions relating to the add-on tax on tax preference income items. Operative for taxable years beginning on or after January 1, 1987 (AB 53, Ch. 87-1138) (See Alternative Minimum Tax below.)	87-9
17063.2 (Amend)	56(b)	EXCESS ITEMIZED DEDUCTIONS (SC) Clarifies, for preference tax purposes, that only itemized deductions and not all deductions are used in determining the amount of excess itemized deductions subject to preference tax. (SB 78, Ch. 87-440) NOTE: This section was subsequently repealed by AB 53, Ch. 87-1138. See PIT Sections 17062-17064.8, above.	87-5

Alternative Minimum Tax

17062 (New) (23400)	55-59	ALTERNATIVE MINIMUM TAX (SC) Conforms to federal law (IRC Sections 55-59), except (1) the regular tax is tax imposed by Section 17041 reduced by all allowable	87-9
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credits other than renter's credit, excess SDI, and tax withheld at source; (2) no credits are allowable in computing AMT; (3) the tax rate is 7 percent; and (4) an adjustment for Private Activity Bonds is required only for those bonds on which interest is exempt under California law. (But see below.) NOTE: There will be a number of computational differences attributable to depreciation of assets placed in service before 1987 and NOL carryovers. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)

17062 (Amend) (23400)	57(a)	Provides that the provisions of IRC Section 57(a)(5), relating to tax-exempt interest (item 4 above), are not applicable; i.e., tax exempt interest is not an item of tax preference. Operative for taxable years beginning on or after January 1, 1987. (SB 2, Ch. 87-5, First Extraordinary Session)	87-19
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17063 (New) (23401)	53	ALTERNATIVE MINIMUM TAX CREDIT (SC) Allows a tax credit for the excess of the adjusted minimum tax imposed for all prior years beginning after 1986 less the amount allowable as a credit for those prior years over the regular tax for the current year. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
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Special Tax Credit

17069 (Amend)	----	SPECIAL LOW-INCOME CREDIT (SC) Modified to eliminate the gross income test, and to provide for repeal of this credit on January 1, 1992. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
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Tax Rebates

17070 17070.1 17070.2 (New)	----	TAX REBATES (SC) Provides for rebate of excess state revenue received during the 1986-1987 fiscal year. Operative September 21, 1987. Sunsets June 30, 1988. (SB 47, Ch. 87-908) (AB 2609, Ch. 87-915)	87-14
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Definitions of Gross Income, Adjusted Gross
Income, Taxable Income, Etc.

17072 (Amend)	62	ADJUSTED GROSS INCOME (SC) Conforms to federal law by allowing deductions for long-term capital gains, pension plans by S corporations, lump-sum distributions from pension plans, and repayments of supplemental unemployment compensation benefits; and, in addition, allows a deduction for gains from the sale or exchange of small business stock. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17073 (Amend)	63	TAXABLE INCOME (SC) Deletes deductions from taxable income of direct charitable deduction and the zero bracket amount, and allows a deduction for the standard deduction amount. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17073.5 (New)	63(c)	STANDARD DEDUCTION (SC) Replaces the zero bracket amount with a standard deduction. For 1987 the standard deduction for single or married filing separate return is \$1,880, and for all other individuals \$3,760. For 1988 and subsequent years the 1987 amounts will be indexed. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17076 (New)	67	2-PERCENT FLOOR ON MISCELLANEOUS ITEMIZED DEDUCTIONS (SC) Conforms to federal provisions for the limitation of certain itemized deductions to the extent they exceed 2 percent of federal AGI. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17078 (New)	988	FOREIGN CURRENCY TRANSACTIONS (SC) Provides that the treatment of foreign currency transactions shall be in accordance with IRC Section 988. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9

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Items Specifically Included in Gross Income

17082 (Repeal)	72(m)	ANNUITIES - PENALTIES FOR EARLY DISTRIBUTION OF EMPLOYEE ANNUITIES (SC) Section repealed; provisions transferred to Section 17085. Operative for taxable years beginning on or after January 1, 1987. (AB 53 Ch. 87-1138)	87-9
17084 (Repeal)	72(f)	ANNUITIES - SPECIAL RULES FOR COMPUTING EMPLOYEE CONTRIBUTIONS (SC) Section repealed; provisions transferred to Section 17085. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17085 (Repeal/ New)	72	ANNUITIES; CERTAIN PROCEEDS OF ENDOWMENT AND LIFE INSURANCE CONTRACTS (SC) Repeals separate rules for 5-year and 7-year income averaging, and conforms to IRC Section 72, except (1) the repeal of the special rule for employees' annuities [IRC Section 72(d)] applies only to an individual whose annuity starting date is after December 31, 1986, or, at the taxpayer's election, after July 1, 1986 and before January 1, 1987; (2) the amount of a distribution from an IRA or annuity shall be reduced by the unrecovered basis therein attributable to nondeductible deductions in prior years; (3) the penalties imposed by IRC Sections 72(m), (o), (q), and (t) shall be computed at the rate of 2-1/2 percent; and (4) the special rules for computing employees' contributions [IRC Section 72(f)(2)] shall apply without the exceptions which immediately follow that paragraph. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17087 (Amend)	86	EXCLUSION FROM INCOME - SOCIAL SECURITY, RAILROAD RETIREMENT AND SICK PAY BENEFITS (TC) Corrects reference to IRC Section 105(h) [was 105(i)]. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
17087.5 (New)	1366 to 1368	S CORPORATIONS - TAX TREATMENT OF SHAREHOLDERS (SC) Conforms to federal law in that the taxable income of shareholders of an S Corporation shall take into account amounts required to be recognized by the shareholder under Chapter 4.5 (commencing with Section 23800) of the	87-9

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		Bank and Corporation Tax Law, relating to S Corporations. Operative for taxable years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	
17088 (Repeal) (24379)	83	PROPERTY TRANSFERRED IN CONNECTION WITH PERFORMANCE OF SERVICES (SC) Section repealed, thus conforming with IRC Section 83. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch 87-1138)	87-9
17090 17091 (Repeal)	71 682	ALIMONY AND SEPARATE MAINTENANCE PAYMENTS ANNUITY, ENDOWMENT, OR LIFE INSURANCE PAYMENTS (SC) Sections relating to non-conformity to federal changes in the Tax Reform Act of 1984 repealed, thus conforming to federal law. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
<u>Items Specifically Excluded from Gross Income</u>			
17133 (Amend)	1286(d)	CONSTITUTIONALLY EXEMPT INCOME (SC) Deletes surplus language relating to income the state is prohibited from taxing. Adds provision conforming treatment of tax-exempt stripped bonds to federal law. Operative for taxable years beginning on or after January 1, 1987. (SB 78, Ch. 87-440)	87-5
17134 (Repeal)	----	EXCLUSION-- TAXPAYER OVER 65 (SC) Section allowing taxpayers 65 and older to exclude \$1,000 from gross income, repealed. See Section 17054 for new credit for taxpayers 65 and older. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17135 (New)	----	USE OF AUTOMOBILE - RECORDKEEPING REQUIREMENTS (SC) Provides that the use of automobiles by special agents of federal and state taxing agencies shall be treated in the manner provided by Section 1567 of Public Law 99-514. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17137 (Amend)	134	EARNINGS OF SHIP CONTRACTORS (TC) Corrects reference to IRC Section 135(a)(4) [was section 134(a)(4)]. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
17138	----	MILITARY EXCLUSION - ACTIVE DUTY (SC)	87-9
17139	----	MILITARY EXCLUSION - PENSIONS (SC)	
17140	----	MILITARY EXCLUSION - OTHER THAN ACTIVE DUTY (SC)	
17142 (Repeal)	----	MILITARY EXCLUSION - NATIONAL GUARD AND STATE MILITARY RESERVE (SC) Sections providing for the exclusion of up to \$1,000 of certain military pay repealed. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138) See PIT Section 17053.13 for new tax credit for military pay.	
17143 (Amend)	103	INTEREST - GOVERNMENT OBLIGATIONS (TC) Corrects reference to IRC Sections 141 to 150 [was Section 103A]. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
17144 (Repeal)	116	DIVIDENDS - PARTIAL EXCLUSION (SC) Repeals nonapplicability of IRC Section 116 (repealed by TRA 1986), relating to partial exclusion of dividends. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17149 (Repeal)	124	COMPENSATION, ETC. FOR PARTICIPATION IN EMPLOYER RIDESHARING ARRANGEMENT (SC) Repeals provisions allowing an exclusion from income for the benefits received by an employee participating in an employer sponsored ridesharing program. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
<u>Deductions</u>			
17205 (Repeal)	----	ALIMONY PAYMENTS (SC) Repeals modification to IRC Section 215(b), relating to deduction of alimony payments, to conform to repeal of Sections 17090 and 17091. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17207 (Amend)	165(c) 165(i)	DISASTER RELIEF (SC) Expands provisions relating to the election to claim casualty losses in the taxable year immediately preceding the taxable year in which the disaster occurred, to include losses sustained in a Presidentially declared disaster area or in any county proclaimed by the Governor to be a disaster area (1) during 1987 from forest fire or other related casualty and (2) during October	87-18

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		1987 to the taxpayer's personal residence as a result of earthquake, aftershock or other related casualty. Unused losses from these added disasters also qualify for carryover up to five succeeding taxable years. Operative for taxable years beginning on or after January 1, 1987. (AB 7, Ch. 87-3, First Extraordinary Session)	
17211 (Repeal)	222	ADOPTION EXPENSE (SC) Repeals provisions relating to deduction of adoption expenses in conformity with the repeal of IRC Section 222. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17220 (Amend) (24345)	164	TAXES (SC) Deletes the provision relating to the nondeductibility of sales and use taxes paid in connection with the purchase of qualified property for which a credit is claimed pursuant to Section 17052.13. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17224 (Amend) (24344.5)	163(e)	ORIGINAL ISSUE DISCOUNT INTEREST (SC) Changes the date in subdivision (a) from January 1, 1985 to January 1, 1987, and the dates in subdivision (b) from June 9, 1984 and January 1, 1985 to December 31, 1984 and January 1, 1987, respectively. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17225 (Repeal) (24382)	216	TENANT-STOCKHOLDER'S PROPORTIONATE SHARE (SC) Conforms to the new federal provisions that allow tenant stockholders to deduct their proportionate share of the cooperative's real estate taxes and interest. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17225.5 (Repeal)	----	DEDUCTION DISALLOWED FOR TAX ON COVENANT BONDS (SC) Repeals the provision relating to the denial of a deduction for taxes paid on covenant bonds. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-138)	87-9
17231 (Amend)	----	DEDUCTION FOR NET INTEREST AMOUNT (SC) Provides that the deduction of certain interest income from investments in	87-9

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enterprise zones and designated program areas shall be repealed as of January 1, 1993. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)

17240 (Amend)	170	CONTRIBUTIONS (SC)	87-9
17241	170(b)	CONTRIBUTIONS - LIMITATION (SC)	
17243	170(e)	CONTRIBUTIONS - ARTISTIC PROPERTY (SC)	
17244 (Repeal)	170(e)	CONTRIBUTIONS - ORDINARY INCOME AND CAPITAL GAIN PROPERTY (SC) 20-percent limitation on charitable contributions repealed. Exception which allowed the artist to value contributions at fair market value repealed. Conforms to federal provision allowing deduction of up to \$50 per month for maintaining certain students in the taxpayer's home as a charitable deduction. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	
17245 (Repeal)	----	CONTRIBUTIONS - POLITICAL (SC) Deduction for political contributions repealed. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138) See Section 17053.14 for new political contributions credit.	87-9
17250 (Amend)	168	DEPRECIATION AND AMORTIZATION (SC) Amended to conform to federal law with respect to assets placed in service on or after January 1, 1987. Assets placed in service prior to January 1, 1987 continue to be depreciated under the 1986 provisions. For 1986-87 fiscal year taxpayers who place assets in service on or after January 1, 1987, an election may be made on their FY 1987-88 return to amortize over 60 months the difference between allowable federal depreciation and allowable state depreciation. Provisions relating to amortization of certain railroad rolling stock and railroad grading and tunnel bores, and capitalization of expenses in the planting and development of fruit and nut groves have been deleted. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17250.5 (Repeal)	167	DEPRECIATION - ELIGIBLE RESIDENTIAL RENTAL PROPERTY (SC) Provisions relating to depreciation of eligible residential prop-	87-9

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		erty repealed. Operative for taxable years beginning on or after January 12, 1987. (AB 53, Ch. 87-1138)	
17252 17252.5 (Repeal)	179 179	DEPRECIATION - FIRST YEAR ADDITION (SC) DEPRECIATION - ENTERPRISE ZONE PROPERTY (SC) Provisions repealed inasmuch as IRC Section 179, to which California now conforms, allows a more liberal write-off. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17254 (Repeal)	188	DEPRECIATION - CHILD CARE FACILITIES (SC) Provisions repealed in conformity with sunseting of federal provisions (IRC Section 188) on January 1, 1982. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17255 (Repeal)	280F	LUXURY AUTOMOBILES AND MIXED USE PROPERTY (SC) Modifications of the provisions of IRC Section 280F repealed in conformity with amendments to Section 17250. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17260 (Amend)	179 and 193	CAPITAL EXPENDITURES (SC) Provisions relating to the exception to the write-off of certain depreciable business assets as provided for by IRC Section 179 deleted. The exception to the deduction of tertiary injectant expenses (IRC Section 193) remains. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17261 (Repeal) (24422.5)	278	CAPITAL EXPENDITURES - FRUIT AND NUT GROWERS (SC) Provisions repealed in conformity with repeal of IRC Section 278 by TRA 1986 (P.L. 99-514). Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17262 (Repeal)	190	CAPITAL EXPENDITURES - HANDICAPPED OR ELDERLY PERSONS (SC) Section repealed, thus conforming to IRC Section 190, which limits this expenditure to property used in a trade or business. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17265 (Amend)	----	CAPITAL EXPENDITURES - SECTION 17265 PROPERTY (SC) Section amended to provide that the accelerated write-off of certain	87-9

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property used in a designated program area shall be repealed as of January 1, 1993. (AB 53, Ch. 87-1138)

17269 (New) (24343.2)	-----	DISALLOWANCE OF EXPENSES - DISCRIMINATORY CLUBS (SC) Disallows business expense deductions for expenditures made at, or payment made to, a club which restricts membership or the use of its facilities or services on the basis of age, sex, race, religion, color, ancestry, or national origin. Operative for taxable years beginning on or after January 1, 1990. (SB 572, Ch. 87-1139) (AB 239, Ch. 87-1463) NOTE: Regulation Section 17201, effective January 1, 1988, provides for disallowance of business expenses under similar criteria.	87-9 and 87-12
17270 (Amend) (24443)	274(h) and 190	TRADE OR BUSINESS EXPENSES (SC) Deletes exception to federal provisions allowing deduction of travel expenses relating to conventions in the Caribbean Basin. Also deleted reference to former Section 17262 Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17272 (Repeal) (New)	219	RETIREMENT SAVINGS (SC) Now conforms to federal law relating to deductions for contributions to IRAs (using federal AGI where limitations apply) and acquisition of basis for nondeductible contributions. Operative for taxable years beginning on or after January 12, 1987. (AB 53, Ch. 87-1138)	87-9
17276 (Amend) 17276.5 (Repeal) (24416 and 24417)	172	NET OPERATING LOSSES (SC) NET OPERATING LOSS CARRYOVERS - QUALIFIED TAXPAYERS (SC) Provisions limiting the deduction of net operating losses to new small businesses, farmers, and qualified businesses in Program Areas and Enterprise Zones repealed. California now conforms, with specified limitations, to federal law. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17280 (Amend)	265(a)(6)	EXPENSES RELATED TO EXEMPT INCOME (SC) Codifies provisions relating to allowance of parsonage and military housing expenses in situations where they would otherwise be denied because of the receipt of tax-	87-9

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exempt housing allowances. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)

17288 2806 **GOLDEN PARACHUTE PAYMENTS (SC)** Exception to federal provisions repealed. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138) 87-9
(Repeal)

Corporate Distributions and Adjustments

17323 305(e) **DIVIDEND REINVESTMENT IN STOCK OF PUBLIC UTILITIES (SC)** Provisions relating to nonapplicability of dividend reinvestment in stock of public utilities repealed. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138) 87-9
(Repeal)

Deferred Compensation

17503 401(j) **PENSIONS - SELF-EMPLOYED INDIVIDUALS (SC)** Provisions modifying IRC Section 401(j), relating to defined benefit plans for self-employed individuals, repealed. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138) 87-9
(Repeal)

17504 402(a) **PENSIONS - TAXABILITY OF BENEFICIARY OF EXEMPT TRUST (SC)** Deletes modification of IRC Section 402(a) relating to distributions qualifying for capital gain treatment. Provides that the tax on lump-sum distributions shall be under tax rates set forth in Section 17041 in lieu of the federal rates; and that the age 59-1/2 requirement [IRC Section 402(e)(4)(B)(i)] shall not apply to any lump-sum distribution received with respect to an individual who has attained age 50 before January 1, 1986. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138) 87-9
(Amend) and 402(e)

17505 402(e) **PENSIONS - TAX ON LUMP-SUM DISTRIBUTIONS (SC)** Section repealed to conform to repeal of old Section 17085. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138) 87-9
(Repeal)

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
17506 (Amend)	403	PENSIONS - TAXATION OF EMPLOYEE ANNUITIES (SC) Deletes provisions relating to employee annuities qualifying for capital gain treatment; and provides that the amendments and transitional rules made by P. L. 99-514 [other than those rules relating to IRC Section 403(a)] shall apply for the same transactions and same years as for federal. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17507 (Amend)	408	PENSIONS - INDIVIDUAL RETIREMENT ACCOUNTS (TC) Makes technical changes relating to PIT Section 17085. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17508 (New)	408(a)	NONDEDUCTIBLE CONTRIBUTIONS TO IRA PLANS (SC) Incorporates the provisions of IRC Section 408(a), relating to nondeductible contributions to IRAs; and provides that required information reports shall be made to FTB. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17510 (Repeal)	415	PENSIONS - LIMITATIONS ON BENEFITS AND CONTRIBUTIONS UNDER QUALIFIED PLANS (SC) Provisions relating to limited deductions to Defined Benefit Plans and Defined Contribution Plans repealed. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17513 (Repeal)	401	PENSIONS - SPECIAL LIMITATIONS FOR SELF-EMPLOYED INDIVIDUALS (SC) Provisions relating to limited deductions to Keogh Plans repealed. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17515 (New)	468B	DESIGNATED SETTLEMENT FUNDS (SC) Conforms to federal rules relating to structured settlement agreements to claims involving physical injury or physical sickness; except that the tax imposed shall be at the maximum rate under Section 17041, and no deduction is allowed for state and local taxes on, or according to, or measured by, income or profits. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9

Accounting Periods and Methods of Accounting

<p>17551.5 (New) (24633.5)</p>	<p>442 and 443</p>	<p>REQUIRED CHANGE OF ACCOUNTING PERIOD (SC) Conforms to federal rules regarding adoption of a calendar year as the taxable year of trusts, partnerships and S Corporations. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)</p>	<p>87-9</p>
<p>17552.5 (Repeal)</p>	<p>453C</p>	<p>INSTALLMENT OBLIGATIONS (SC) Conforms to federal changes by repealing this section. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)</p>	<p>87-9</p>
<p>17560 (New)</p>	<p>----</p>	<p>EXCEPTION TO SECTION 17552.5 (SC) Allows taxpayers to elect not to have IRC Section 453C, relating to certain indebtedness treated as a payment on an installment obligation, apply. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)</p>	<p>87-9</p>

Exempt Trusts and Common Trust Funds

<p>17651 (Amend)</p>	<p>511</p>	<p>IMPOSITION OF TAX (TC) Makes nonsubstantive technical corrections. (AB 53, Ch. 87-1138)</p>	<p>87-9</p>
<p>17672 (Repeal)</p>	<p>----</p>	<p>DENIAL OF POLITICAL CONTRIBUTIONS (SC) Provisions relating to nondeductibility of political contributions repealed to conform to repeal of Section 17245. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)</p>	<p>87-9</p>

Natural Resources

<p>17681 to 17720 (Repeal) (24831 to 24840)</p>	<p>611 to 636</p>	<p>NATURAL RESOURCES (SC) California provisions relating to deductions, sales and exchanges, and mineral production payments repealed. (See new provisions below.) Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)</p>	<p>87-9</p>
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<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
17681 to 17684 (New) (24831 to 23834)	611 to 636	NATURAL RESOURCES (SC) Conforms to federal law relating to natural resources, except for percentage depletion for oil and gas wells and geothermal deposits (22 percent), and the limitation on depletion when the total exceeds \$1.5 million. Also the provisions of IRC Section 621, relating to payments to encourage exploration, development, and mining for defense purposes, are not applicable. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9

Estates, Trusts, Beneficiaries, and Decedents

17737 (Amend)	682	INCOME OF AN ESTATE OR TRUST IN CASE OF DIVORCE, ETC. (SC) Deleted nonconformity provision relating to alimony, thus conforming to federal law. Operative for taxable years beginning on after January 1987. (AB 53, Ch. 87-1138)	87-9
17740 (Repeal/ New)	858	DIVIDENDS RECEIVED FROM A REAL ESTATE INVESTMENT TRUST (SC) Conforms to federal law relating to the taxation of Real Estate Investment Trusts. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9

Partners and Partnerships

17851 (Amend) (23081)	701 to 761	PARTNERS AND PARTNERSHIPS - CONFORMITY TO IRC (SC) Adds reference to Section 23081, relating to taxation of limited partnerships. Operative for taxable years beginning on or after January 1, 1988. (AB 53, Ch. 87-1138)	87-9
17852 (Amend)	702	POLITICAL CONTRIBUTIONS (SC) Changes deduction to "credit for" partnership's political contributions. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
17932 (Amend)	6031	RETURN OF PARTNERSHIP INCOME (SC) Adds provisions in conformity with federal law relating to persons holding an interest in a partnership as a nominee. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9

Real Estate Mortgage Investment Conduits

17940 (New) (24870)	860(A)(b)	TAXATION OF REMIC'S (SC) Conforms to federal law providing that the income of a Real Estate Mortgage Investment Conduit (REMIC) shall be taxable to the holders of interest in the REMIC. Operative for taxable years beginning on or after January 1, 1987. (SB 574, Ch. 87-339)	87-2
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Credit for Taxes Paid

18001.5 (New)	----	CREDIT FOR TAXES PAID - SHAREHOLDERS OF S CORPORATIONS (SC) Provides that a tax credit, subject to all of the conditions and limitations of Section 18001, shall be allowed for taxes paid to another state by a resident shareholder of an S Corporation in both the other state and in California under Chapter 4.5 (commencing with Section 23800) of the B&CTL. Operative for taxable years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
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Gain or Loss on Disposition of Property

18033 (Repeal)	1014	BASIS OR PROPERTY ACQUIRED FROM A DECEDENT (SC) Provision that limited the surviving spouse's basis in community property to the decedent's one-half of the fair market value and the spouse's one-half of cost repealed. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
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18035 (Repeal) (24953)	1039	CERTAIN SALES OF LOW-INCOME HOUSING PROJECTS (SC) Section repealed, thus conforming to IRC Section 1039. Operative for taxable years beginning on after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
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18035.5 (New) (24953.5)	----	CERTAIN SALES OF QUALIFIED HOUSING PROJECTS (SC) Provisions added, relating to the nonrecognition of gain on the sale or disposition of a qualified housing project. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
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<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
18036 (Amend) (24916)	1016	ADJUSTMENT TO BASIS (SC) Provides that no adjustment to basis shall be made for sales or use tax that is paid or incurred in connection with the acquisition of property for which a tax credit is claimed pursuant to Section 17052.13. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
18037 (Amend)	1033	INVOLUNTARY CONVERSIONS (SC) Deletes reference to repealed Section 17252, relating to additional first year depreciation. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
18040 (Amend)	1061	NONRECOGNITION OF GAIN FOR CERTAIN VESSELS (TC) Corrects reference to IRC Section 1061 (was Section 1060). Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
<u>Capital Gains and Losses</u>			
18152 (Repeal)	1212	LIMITATION ON CAPITAL LOSSES (SC) State limitations on capital losses repealed, thus conforming to federal law. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
18152 (New)	----	LOSSES ON DISPOSITION OF SMALL BUSINESS STOCK (SC) Adds a new limitation on losses of small business stock acquired after September 16, 1981, and sold or exchanged before October 1, 1987. Operative for taxable years beginning on or after January 1, 1987. Section repealed as of January 1, 1989. (AB 53, Ch. 87-1138)	87-9
18153	1211	LIMITATION ON CAPITAL LOSSES (SC)	87-9
18154	1212	LIMITATION ON CAPITAL LOSS CARRYOVERS (SC)	
18155 (Repeal)	1212	DENIAL OF CAPITAL LOSS CARRYBACKS (SC) Provisions repealed, thus conforming to federal law. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	
18161 (New) (24904)	----	GAINS ON DISPOSITION OF SMALL BUSINESS STOCK (SC) Allows a deduction on gains of small business stock acquired after September 16, 1981, and sold or exchanged	87-9

<u>PIT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		before October 1, 1987. Operative for taxable years beginning on or after January 1, 1987. Section repealed as of January 1, 1989. (AB 53, Ch. 87-1138)	
18162.5	1202	TAXABILITY OF CAPITAL GAINS AND LOSSES (SC)	87-9
18169	1231	DEFINITION OF PROPERTY USED IN THE TRADE OR BUSINESS (SC)	
18172	1250	QUALIFIED LOW-INCOME HOUSING (SC)	
18173	1250	RESIDENTIAL RENTAL PROPERTY (SC)	
18175	1254	GAIN FROM DISPOSITION OF INTEREST IN OIL, GAS, OR GEOTHERMAL PROPERTY (SC)	
18176 (Repeal)	1256	REGULATED FUTURES CONTRACTS - COMMODITY STRADDLES (SC) Provisions repealed, thus conforming with federal law. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	
18177 (New) (24991)	1275	TAX EXEMPT OBLIGATIONS - DEFINITION (SC) Provides that the term "tax-exempt obligations" [IRC Section 1275(a)(3)] means obligations the interest of which is exempt from tax under California law. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
18178 (New) (24994)	1272	CURRENT INCLUSION IN INCOME OF ORIGINAL ISSUE DISCOUNT (SC) Conforms to federal law and provides that the difference between the amount included in federal income and the amount included in state income with respect to obligations issued after 1984, for years beginning before January 1, 1987, shall be included in income in the year the debt obligation matures, or is disposed of. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9

Income Averaging

18241 to	1301 to	INCOME AVERAGING (SC) Conforms to federal law on the repeal of income averaging. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9
18245 (Repeal)	1305		

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SUMMARY OF CHANGE

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Filing Requirements

18401	6012	RETURNS, FILING REQUIREMENTS (SC)	87-9
18402	6013	HUSBAND AND WIFE RETURNS (SC)	
18405 (Amend)	6012(b)	FIDUCIARY RETURNS (SC) Updates filing requirements to conform to new standard deductions and higher personal exemption credits. Also requires the fiduciary of an estate or trust to furnish each beneficiary (or nominee thereof) a statement in accordance with the provisions of IRC Section 6034A. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	
18408.5 (New)	----	NONRESIDENT PARTNERS - GROUP RETURN (SC) Allows nonresident partners of a partnership doing business in, or deriving income from sources in, California to file a group return with the partnership acting as the partners' agent. Operative for taxable years beginning on or after January 1, 1987. (AB 129, Ch. 87-918)	87-7
18410 (Amend)	6013	JOINT RETURN AFTER FILING SEPARATE RETURN (SC) Provides that an individual, after filing a separate return, may file a joint return with his or her spouse if a joint federal return is filed under the provisions of IRC Section 6013(b). Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 1138)	87-9
18431.5 (New)	----	TAX FORMS - DESIGNATED CONTRIBUTIONS (SC) Permits FTB to utilize a separate schedule (rather than the return form) for designation of voluntary contributions. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9

Designations of Contribution's to Special Funds

18504 (Repeal/ New)	----	STATE CHILDREN'S TRUST FUND - INOPERATIVE DATE (SC) Repeals the provisions for designating contributions to the State Children's Trust Fund effective January 1, 1992. (AB 53, Ch. 87-1138)	87-9
18513 (New)	----	CALIFORNIA FUND FOR SENIOR CITIZENS - INOPERATIVE DATE (SC) Repeals the provisions for designating contributions to the California Fund for Senior Citizens effective January 1, 1992. (AB 53, Ch. 87-1138)	87-9

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
18513	----	VIETNAM VETERANS MEMORIAL FUND (SC) Adds	87-11
18513.1	----	provision for the designation of contri-	
18513.2	----	butions to the Vietnam Veterans Memorial	
(New)		Fund. Operative for taxable years begin-	
		ning on or after January 1, 1987 and be-	
		fore January 1, 1991. (AB 992, Ch. 87-	
		1193)	
18521	----	RARE AND ENDANGERED SPECIES PRESERVATION	87-5
(Amend)		PROGRAM - ANNUAL DETERMINATION OF AMOUNT	
		DESIGNATED (SC) Authorizes the Controller	
		to transfer to the FTB its costs of col-	
		lecting and processing contributions to	
		the Fish and Game Preservation Fund.	
		Operative September 8, 1987. (SB 78, Ch.	
		87-440)	
18525	----	RARE AND ENDANGERED SPECIES PRESERVATION	87-9
(Repeal/		PROGRAM - INOPERATIVE DATE (SC) Repeals	
New)		the provisions for designating contri-	
		butions to Rare and Endangered Species	
		Preservation Program effective January	
		1, 1992. (AB 53, Ch. 87-1138)	
18534	----	U. S. OLYMPIC COMMITTEE FUND - INOPERATIVE	87-9
(New)		DATE (SC) Repeals the provisions for des-	
		ignating contributions to the U. S. Olympic	
		Committee Fund effective January 1, 1992.	
		(AB 53, Ch. 87-1138)	
18540	----	ALZHEIMER'S DISEASE AND RELATED DISORDERS	87-6
to		RESEARCH FUND (SC) Adds provisions for	and
18545		the designation of contributions to the	87-8
(New)		Alzheimer's Disease and Related Disorders	
		Fund. Operative for taxable years begin-	
		ning on or after January 1, 1987 and be-	
		fore January 1, 1992. (SB 214, Ch. 87-	
		944) (AB 1865, Ch. 87-945)	

Payments and Assessments

18586.7	7609(e)	SUSPENSION OF STATUTE OF LIMITATIONS (SC)	87-9
(Amend)		Conforms to federal changes regarding sus-	
(25663d)		pension of the statute of limitations be-	
		cause of third party delays during the	
		summons (subpoena) process. Operative	
		September 26, 1987. (AB 53, Ch. 87-1138)	
18654	6867	PRESUMPTION WHERE OWNER OF LARGE AMOUNT	87-9
(Amend)		OF CASH IS NOT IDENTIFIED (SC) Provides	
		that the income shall be treated as tax-	
		able at the maximum rate under Section	
		17041 (currently 9.3%; was 11%) Opera-	

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		tive for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	
18681.1 (Amend)	6652	FAILURE TO FILE INFORMATION RETURNS (SC) Excludes from the rules applicable to deficiency assessments, penalties assessed for failure to file specific information returns. Operative January 1, 1988. (AB 129, Ch. 87-918) NOTE: This provision was chaptered out by AB 53, Ch. 87-1138)	87-7
18681.1 (Amend)	6721 6722 6723 and 6724	Conforms to the IRC relating to penalties for failure to file specific information returns. Also provides that any penalty imposed under the PITL shall be paid on notice and demand by the FTB and in the same manner as tax. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18681.5 (New) (25957.3)	6706	ORIGINAL ISSUE DISCOUNT INFORMATION REQUIREMENTS (SC) Provides that a penalty shall be imposed in accordance with IRC Section 6706 for failure to meet the original issue discount reporting requirements of Section 18803.2. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18681.6 (Amend)	----	UNREPORTED COMPENSATION, PENALTY (TC) Changes the penalty to the maximum rate determined under Section 17041 (currently 9.3%; was 11%). Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18681.7 (Repeal)	6678	FAILURE TO FURNISH CERTAIN STATEMENTS (SC) Section repealed. Provisions transferred Section 18681.1. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18681.9 (Amend)	6693(b)	FAILURE TO PROVIDE REPORTS ON INDIVIDUAL RETIREMENT ACCOUNTS AND ANNUITIES (SC) Conforms to the federal penalty of \$100 for each overstatement of nondeductible contributions reportable under Section 17508. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18682 (Amend)	6654	FAILURE BY INDIVIDUAL TO PAY ESTIMATED INCOME TAX (SC) Modifies IRC Section 6654(d) by retaining the 80 percent provisions in lieu of the federal 90 percent. Operative for taxable years beginning on or after January 1, 1987. (AB 53, Ch. 87-1138)	87-9

<u>PIT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
18682.5 (New) (25951.5)	6654	WAIVER OF ESTIMATED TAX PENALTIES (SC) Provides that no penalty will be assessed for any period before April 16, 1988 with respect to underpayment of estimated tax that is attributable to changes in the law enacted by AB 53, Ch. 87-1138. Operative September 26, 1987. Provision repealed effective January 1, 1993. (AB 53, Ch. 87-1138)	87-9
18683.5 (New)	----	PENALTY FOR OVERSTATEMENT OF CONTRIBUTIONS TO AN ANNUITY (SC) Provides \$100 penalty for overstatement of contributions to an annuity or pension recoverable under the three-year rule. (AB 53, Ch. 87-1138) NOTE: This provision is inoperative because the specific provision referred to [subdivision (c) of Section 17085, relating to the three-year recovery rule] does not exist.	87-9
18684 (Repeal/ New) 18685 (Repeal) (25934) (24935)	6653	NEGLIGENCE AND FRAUD PENALTIES (SC) Conforms to the increase in the fraud penalty (from 50 to 75 percent) and partially conforms to other federal changes relating to these penalties. Provisions of former Section 18685 (fraud penalty), with changes indicated above made part of Section 18684. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18684.2 (Amend) (25934.2)	6651	FAILURE TO PAY TAX BY DUE DATE (SC) Adds nonpayment of tax required to be shown on the return (including mathematical errors) within 10 days of the notice and demand therefor as being subject to the penalties imposed by this section. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18685.07 (Amend)	6676	FAILURE TO SUPPLY IDENTIFYING NUMBER (SC) Increases the maximum penalty imposed on any person to \$20,000 (was \$10,000). Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18688 (Amend) (25901b)	6404(e)	DEFICIENCY ASSESSMENTS, INTEREST (SC) Provides for abatement of interest where the FTB has unduly delayed collection of the tax. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
18698.5 (Amend)	6653(f)	FAILURE TO REPORT UNREALIZED GAIN - COM-MODITY STRADDLES (SC) Amended to delete "intentional" in reference to disregard of rules and regulations. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9

California Election Campaign Fund

18765 (New)	----	REPEALER (SC) Provides that the provisions allowing for voluntary contributions to the California Election Campaign Fund will be repealed effective January 1, 1992. (AB 53, Ch. 87-1138)	87-9
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Collection of Tax

18802 (Amend)	6041(a)	INFORMATION RETURNS, GENERAL (SC) Provides that, in lieu of California information returns reporting payments made in the course of a trade or business, the FTB may require that copies of federal information returns be filed. Operative January 1, 1988. (AB 129, Ch. 87-918) NOTE: This provision was inadvertently chaptered out by AB 53, Ch. 87-1138, but the substitution of copies of federal information returns for California information returns is acceptable.	87-7
18802	6041	INFORMATION RETURNS, GENERAL (SC)	87-9
18802.1	6044	INFORMATION RETURNS, COOPERATIVES (SC)	
18802.4	6045	INFORMATION RETURNS, BROKERS (SC)	
18802.5	6052	RETURNS REGARDING PAYMENT OF WAGES IN THE FORM OF GROUP-TERM LIFE INSURANCE (SC)	
18802.8 (Amend)	6050A	REPORTING REQUIREMENTS OF CERTAIN FISHING BOAT OPERATORS (SC) Conforms to federal changes which stress "person required to make the return" and "the information required to be reported" rather than the one actually making the return and the information actually reported. Operative September 26, 1987. (AB 53, Ch. 87-1138)	
18802.6 (Amend)	6050N 6039C	COPIES OF FEDERAL INFORMATION RETURNS REQUIRED (SC) Adds federal information returns relating to the payment of royalties and information returns relating to foreign persons holding direct investments in United States real property interests if that person holds a direct investment in a California real property interest. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
18802.9 (New)	6050M	RETURNS RELATING TO PERSONS RECEIVING CONTRACTS FROM STATE AGENCIES (SC) Conforms, in concept, to federal law by requiring state information returns on contracts with the State of California. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18803 (Repeal/ New)	6042 6049	INFORMATION RETURNS - DIVIDENDS AND INTEREST (SC) Provides that any person required to file an information return with the IRS relating to the payment of dividends or interest is required to report that information to the FTB; and shall also furnish a statement to each person whose name is included in the information return. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18803.2 (New) (24992)	1275	INFORMATION RETURNS - ORIGINAL ISSUE DISCOUNT (SC) Requires a copy of the information return furnished pursuant to IRC Section 1275(c)(2), relating to issue of publicly offered debt instruments having original issue discount, to be filed with the FTB. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18805 (Amend) (26131)	1445	WITHHOLDING OF TAX ON DISPOSITIONS OF CALIFORNIA REAL PROPERTY INTERESTS (SC) Requires in the case of any disposition of a California real property interest by a foreign person, that California tax be withheld in an amount equal to one-third of the federal tax withheld. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18807 (New)	1446	WITHHOLDING OF TAX ON AMOUNTS PAID BY PARTNERSHIPS TO FOREIGN PARTNERS (SC) Provides that withholding of tax on amounts paid by partnerships to foreign partners shall be determined in accordance with IRC Section 1446, but at the maximum rate specified in Section 17041. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18810 (New) (26132.3)	----	FEDERAL FORMS W-4 AND W-4A (SC) Provides that the FTB may require employers to submit a copy of an employee's income tax withholding certificate, and provides for procedures (including appeals) to be followed if it is determined that the certificate is invalid. Operative January 1, 1988. (AB 129-918)	87-7

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
18817.3 (New) (26132.05)	6334	PROPERTY EXEMPT FROM LEVY (SC) Conforms to federal law in allowing certain exemptions to a tax levy. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
18838 (New) (26255)	----	PRIVATE COLLECTION AGENCIES (SC) Authorizes the FTB to enter into an agreement with a private collection agency to collect delinquent accounts of taxpayers within the state. Operative January 1, 1988. (AB 2048, Ch. 87-613)	87-4
18839 (New) (26256)	----	"DELINQUENT TAX COLLECTION FUND" (SC) Establishes a Delinquent Tax Collection Fund for deposit of monies collected by private collection agencies (Section 18838), and for reimbursement of FTB's implementation, administrative, and contract costs related to this program. Operative January 1, 1988. (AB 2048, Ch. 87-613)	87-4
<u>Administration of Tax</u>			
19265 (Amend)	----	LIABILITY OF FIDUCIARY FOR NONPAYMENT OF ESTATE OR TRUST TAXES (SC) Provides that wage claims, as defined in the Probate Code, may be paid by the fiduciary prior to the payment of an income tax debt. Operative July 1, 1988. (AB 708, Ch. 87-923)	87-10
19269 (Amend)	6621	INTEREST RATE (SC) Provides that the interest rate shall be determined in accordance with IRC Section 6621, except that the overpayment rate shall be the same as the underpayment rate. Operative September 26, 1987. (AB 53, Ch. 87-1138) The interest rate for the period January 1 thru September 30, 1987 is 8 percent, for the period October 1 through December 31, 1987, 10 percent, and for the period January 1 through March 31, 1988, 11 percent.	87-9
19286.8 (Amend)	----	INFORMATION REPORTING REQUIREMENTS (SC) Provides that the information reporting requirements applicable to certain cities shall be prescribed by forms and instructions (formerly by regulations). Operative January 1, 1988. (AB 129, Ch. 87-918)	87-7
19310 and 19311 (New)	----	TAX FORMS (SC) Specifies new provisions relating to the design of tax forms by the FTB. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9

<u>PIT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
<u>Violations</u>			
19414 (Amend)	6673	PENALTY FOR UNMERITORIOUS PROCEEDING BY TAXPAYER (SC) Conforms to federal changes in the penalty for failure to exhaust administrative remedies. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
19420 (Amend) (26491)	7430	AWARDING OF COURT COSTS AND CERTAIN FEES (SC) Conforms to federal changes relating to awards of attorney fees in litigation cases. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
19421 (New)	----	IMMIGRATION CONSULTANTS (SC) Provides that any employer or agent of an employer who provides a wage statement to any current or former undocumented worker at that individual's request for the purpose of documenting that person's eligibility for naturalization pursuant to the federal Immigration Reform Control Act, shall not be liable for any penalty or criminal or civil violation under the PITL based on any facts disclosed in that wage statement. Operative September 29, 1987. (AB 426, Ch. 87-1363)	----

SENIOR CITIZENS PROPERTY TAX ASSISTANCE AND POSTPONEMENT LAW

<u>SCPTA & PL SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
20503 (Amend)	"INCOME" (TC) Substitutes "alternative minimum tax" and "alternative minimum taxable income in excess of the regular taxable income" for "tax on preference income" and "tax preference income in excess of net business loss which resulted in the preference tax liability" in paragraph (16) of subdivision (a), defining income. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
20563 (Amend)	TIME FOR FILING AND FOR ASSISTANCE (SC) Removes the requirement that a medically incapacitated claimant be medically certified to file a late claim for homeowner's or renter's assistance. Operative for claims filed for fiscal years 1988-89 and subsequent. (SB 78, Ch. 87-440)	87-5

BANK AND CORPORATION TAX LAW

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
<u>General Provisions and Definitions</u>			
23041	7701(a)	"TAXABLE YEAR"	87-9
23042 (Amend)	(23)	"INCOME YEAR" (TC) Adds reference to Chapter 1.5 (commencing with Section 23081), relating to taxation of limited partnerships. Operative September 26, 1987. (SB 572, Ch. 87-1139)	
23045.1 (New) (17020.1)	7701(a) (42)	"SUBSTITUTED BASIS PROPERTY" (SC) See summary for PIT Section 17020.1. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23045.2 (New) (17020.2)	7701(a) (43)	"TRANSFERRED BASIS PROPERTY" (SC) See summary for PIT Section 17020.2. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23045.3 (New) (17020.3)	7701(a) (44)	"EXCHANGED BASIS PROPERTY" (SC) See summary for PIT Section 17020.3. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23045.4 (New) (17020.4)	7701(a) (45)	"NONRECOGNITION TRANSACTION" (SC) See summary for PIT Section 17020.4. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23045.5 (New) (17020.9)	7701(a) (19)	"DOMESTIC BUILDING AND LOAN ASSOCIATION" (SC) See summary for PIT Section 17020.9. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23048 (New)	7701(i)	TAXABLE MORTGAGE POOLS (SC) Provides that taxable mortgage pools will be treated in accordance with the provisions of IRC Section 7701(i). Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23049 (New) (17020.11)	7701(h)	MOTOR VEHICLE OPERATING LEASES (SC) See summary for PIT Section 17020.11. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
23051.5 (Amend)	----	EFFECTIVE DATES AND GENERAL PROVISIONS (SC) Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23051.5(a) (17024.5(a)(1))		See summary for PIT Section 17024.5(a)(1).	
23051.5(b) (17024.5(a)(3))		See summary for PIT Section 17024.5(a)(3).	
23051(c)(1)		Provides that in applying any section of the IRC for purposes of the B&CTL, due account shall be made for differences in federal and state terminology, effective dates, substitution of "income year" for "taxable year", substitution of "Franchise Tax Board" for "secretary", and other obvious differences.	
23051.5(c)(2) and (3)		Provides that any provision of the IRC that becomes operative (or inoperative) on or after the IRC specified date shall also become operative (or inoperative) on the same date for purposes of the B&CTL.	
23051.5(c)(4) (17024.5(i))		See summary for PIT Section 17024.5(i).	
23051.7 (New) (17029.5)	----	TRANSITION RULES (SC) See summary for PIT Section 17029.5. In addition, provides that carryover credits are not allowed against the alternative minimum tax. Also provides, for income years beginning on or after January 1, 1987 and before January 1, 1988, that references to "alternative minimum tax" shall be deemed to be references to the "tax on preference income". Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23053.5 (New)	1366	CREDIT CARRYOVERS - S CORPORATIONS (SC) Provides that for a corporation electing to be treated as an S corporation, any credit carryover from income years beginning prior to 1987 shall be allowed to be passed through to the shareholders during the first income year beginning on or after January 1, 1987. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

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Tax on Limited Partnerships

23081 ---- TAX ON LIMITED PARTNERSHIPS (SC) Pro- 87-9
(New) vides that limited partnerships, as de-
(17851) fined, are subject to the corporation
minimum tax. Operative for taxable years
beginning on or after January 1, 1988.
(SB 572, Ch. 87-1139)

Tax on Banks and Corporations

23151 ---- TAX ON GENERAL CORPORATIONS (SC) 87-9
23153 ---- MINIMUM TAX (SC) Reduces the tax on
(Amend) general corporations to 9.3 percent
(was 9.6 percent), and increases the
minimum tax from \$200 to \$300 for in-
come years beginning after December
31, 1986, to \$600 for income years
beginning after December 31, 1988,
and to \$800 for income years begin-
ning after December 31, 1989. Oper-
ative for income years beginning on
or after January 1, 1987. (SB 572,
Ch. 87-1139) NOTE: For income years
ending in 1987, the tax rate is a
composite rate based on the number
of months of the income year falling
in 1986 and the number of months
falling in 1987 (see page ix) [Section
24251]

23181 ---- TAX ON BANKS (SC) Increases the mini- 87-9
(Amend) mum tax on banks as specified above.
Operative for income years beginning
on or after January 1, 1987. (SB 572,
Ch. 87-1139) Note: This provision
was inadvertently chaptered out by
SB 570, Ch. 87-1442.

Provides that a franchise tax shall 87-17
be imposed on every bank doing busi-
ness (formerly located) in this state.
Operative for income years beginning
on or after January 1, 1988. (SB 570,
Ch. 87-1442)

23184 ---- FINANCIAL CORPORATION OFFSET (SC) In- 87-9
(Amend) creases the minimum tax on financial
corporations as specified above. Oper-
ative for income years beginning on
or after January 1, 1987. (SB 572, Ch.
87-1139)

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
23333 (Amend)	----	DISSOLUTION OR WITHDRAWAL OF BANK OR FINANCIAL CORPORATION BEFORE DETERMINATION OF THE TAX RATE (TC) Deletes an incorrect tax rate applicable to general corporations and incorporates the correct tax rate by reference. Operative for income years beginning on or after January 1, 1987. (SB 78, Ch. 87-440)	87-5
<u>Tax on Preference Income</u>			
23400 to 23405 (Repeal) (17062 to 17064.8)	----	TAX ON PREFERENCE INCOME (SC) Repeals the provisions relating to the add-on tax on tax preference income items. Operative for income years beginning on or after January 1, 1988. (SB 572, Ch. 87-1139) (See Alternative Minimum Tax below.)	87-9
<u>Alternative Minimum Tax</u>			
23400 (New) (17062)	55-59	ALTERNATIVE MINIMUM TAX (SC) Conforms to federal law (IRC Sections 55-59), except (1) the regular tax is tax imposed on general corporations under the B&CTL reduced by all credits allowable under the B&CTL; (2) the tax rate is 7 percent; (3) the provisions of IRC Section 56(c)(2), relating to Merchant Marine Capital Construction Funds are not applicable; (4) adjustment for Private Activity Bonds is required only for those bonds, the interest on which is exempt under California law (but see below); and (5) other specified differences relating to the timing of property placed in service and certain federal credits. Operative for income years beginning on or after January 1, 1988. (SB 572, Ch. 87-1139)	87-9
23400 (Amend) (17062)	57(a)	See summary for PIT Section 17062. Operative for income years beginning on or after January 1, 1988. (SB 2, Ch. 87-5, First Extraordinary Session)	87-19
23401 (New) (17063)	53	ALTERNATIVE MINIMUM TAX CREDIT (SC) See summary for PIT Section 17063 (but substitute 1987 for 1986). Operative for income years beginning on or after January 1, 1988. (SB 572, Ch. 87-1139)	87-9

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
<u>Tax Credits</u>			
23601.4 (New) (17052.4)	----	SOLAR ENERGY - COMMERCIAL (SC) See summary for PIT Section 17052.4. Operative for income years beginning on or after January 1, 1987 and before January 1, 1989. The references to "alternative minimum tax" are operative for income years beginning on or after January 1, 1988 [Section 23051.7(e)]. (SB 572, Ch. 87-1139)	87-9
23603 (Amend)	----	ALCOHOL FUEL DEVICE (TC) Substitutes "alternative minimum tax" for "tax on preference income". Operative for income years beginning on or after January 1, 1988. (SB 572, Ch. 87-1139)	87-9
23604 (Repeal) (17052.2)	----	POLLUTION CONTROL - METAL FINISHERS (SC) See summary for PIT Section 17052.2) Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23605 (Repeal) (17053)	----	RIDESHARING TAX CREDIT (SC) See summary for PIT Section 17053. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23607 (Repeal)	----	SOLAR PUMPS - AGRICULTURAL IRRIGATION (SC) Inoperative credit repealed as of January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23609 (Repeal) (17061.3)	----	MOTOR VEHICLE TAX CREDIT (SC) See summary for PIT Section 17061.3. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23609 (New) (17052.12)	41	RESEARCH AND DEVELOPMENT EXPENSES (SC) See summary for PIT Section 17052.12. In addition, corporations are allowed a credit of 12 percent (20% federal) of basic research payments. Operative for amounts incurred on or after January 1, 1988 and paid or incurred before January 1, 1993. Section is repealed effective January 1, 1994. (SB 572, Ch. 87-1139)	87-9
23609.5 (New) (17057)	28	CLINICAL TESTING - ORPHAN DRUGS (SC) See summary for PIT Section 17057. Operative for income years beginning on or after January 1, 1987. The references to "alternative minimum tax" are operative for income years beginning on or after January 1, 1988 [Sec-	87-9

<u>BCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		tion 23051.7(e)]. Section repealed effective January 1, 1993. (SB 572, Ch. 87-1139)	
23610.5 (New) (17058)	42	LOW-INCOME HOUSING CREDIT (SC) See summary for PIT Section 17058. Operative for credits granted for income years beginning on or after January 1, 1987 and before January 1, 1990. Any unused credit may be carried over after that date. The references to "alternative minimum tax" are operative for income years beginning on or after January 1, 1988 [Section 23051.7(e)]. (SB 572, Ch. 87-1139)	87-9
23612 (Amend) (17052.13)	----	SALES AND USE TAX CREDIT ON PURCHASE OF QUALIFIED PROPERTY (SC) See summary for PIT Section 17052.13. Also, for income years beginning on or after January 1, 1988, substitutes "alternative minimum tax" for "tax on preference income" [Section 23051.7(e)]. Operative for income years beginning on or after January 1, 1987, and repealed as of January 1, 1993. (SB 572, Ch. 87-1139)	87-9
<u>Exempt Organizations</u>			
23701m (Repeal/ New)	851 to 855	REGULATED INVESTMENT COMPANIES (SC) Repeals specific provisions relating to diversified and nondiversified management companies, and provides that IRC Sections 851 to 855, inclusive, [except IRC Section 852(b)(1)] shall apply. Operative for income years beginning on or after January 1, 1987. SB 572, Ch. 87-1139)	87-9
23701n (Amend)	501(c) (17)	SUPPLEMENTAL UNEMPLOYMENT COMPENSATION TRUSTS (TC) Conforms to technical changes to IRC Section 501(c)(17) by TRA 1986. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23701r (Amend)	527(g)	POLITICAL ORGANIZATIONS (SC) Conforms to change in IRC Section 527(h) relating to definition of a candidate for public office. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
23701s (Amend)	501(c) (18)	VOLUNTARY EMPLOYEES' PENSION TRUSTS (SC) Conforms to changes in IRC Section 501(c) (18), relating to plans under which em- ployees may designate certain contribu- tions as deductible. Operative for in- come years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23701u (New)	501(c) (25)	TITLE-HOLDING COMPANIES (SC) Provides an exemption from tax for certain title- holding companies described in IRC Sec- tion 501(c)(25). Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23701u (New)	----	NONPROFIT PUBLIC BENEFIT CORPORATION (SC) Provides an exemption from tax for a non- profit public benefit corporation organ- ized under the Nonprofit Public Benefit Law whose specific purpose is to render financial assistance to government. Oper- ative for income years beginning on or after January 1, 1987. (SB 570, Ch. 87-1442) (AB 430, Ch. 87-1481)	87-16 and 87-17
23701v (New)	----	MOBILEHOME PARKS - TENANT PURCHASES (SC) Exempts from taxation certain tenant or- ganizations which are formed for the pur- pose of purchasing mobilehome parks and converting them into condominiums or stock cooperatives. Operative for in- come years beginning on or after Jan- uary 1, 1987. (SB 98, Ch. 87-399)	87-3
23710 (Repeal)	513(f)	BINGO GAMES CONDUCTED BY EXEMPT ORGANI- ZATIONS (SC) Provisions relating to the nondisqualification of tax-exempt status of organizations conducting bingo games repealed. Operative for income years be- ginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23731 (Amend)	511	UNRELATED BUSINESS - IMPOSITION OF TAX (SC) Corrects the tax rate that exempt organization trusts must pay on their unrelated business income. Operative for income years beginning on or after January 1, 1987. (SB 78, Ch. 87-440)	87-5

<u>RCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
23732 (Repeal/ New)	512	UNRELATED BUSINESS TAXABLE INCOME (SC) Separate provisions relating to the taxation of unrelated business income of exempt organizations repealed and new provision added conforming to IRC Section 512. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
23734 (Repeal/ New)	513	UNRELATED TRADE OR BUSINESS (SC)	87-9
23734a	513(c)	ADVERTISING, ETC., ACTIVITIES (SC)	
23734b	513(d)	CERTAIN ACTIVITIES OF TRADE SHOWS, STATE FAIRS, ETC. (SC)	
23734c	513(e)	CERTAIN HOSPITAL SERVICES (SC)	
23734d (Repeal)	512	UNRELATED BUSINESS INCOME - LAWYER REFERRAL SERVICE (SC) Separate provisions relating to the definition of "unrelated trade or business" and specific activities repealed and new provision added conforming to IRC Section 513. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	
23735 (Repeal/ New)	514	UNRELATED DEBT-FINANCED INCOME (SC)	87-9
23735a	----	"ARTICLE 2 LEASE" (SC)	
23735b	----	"ARTICLE 2 LEASE INDEBTEDNESS" (SC)	
23735c (Repeal)	----	PERSONAL PROPERTY LEASED WITH REAL PROPERTY (SC) Separate provisions repealed and new provision added conforming to IRC Section 514. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	
23778 (Amend)	----	REINSTATEMENT OF EXEMPTION (SC) Corrects the filing fee for the reinstatement of an exemption of an organization whose exemption was revoked. Operative for income years beginning on or after January 1, 1987. (SB 78, Ch. 87-440)	87-5

Tax Treatment of S Corporations and Their Shareholders

23800 to 23810 (New)	1361 to 1379	TAXATION OF S CORPORATIONS AND THEIR SHAREHOLDERS (SC) Conforms to federal provisions relating to the treatment of S Corporations, with specific exceptions and modifications. An S Corporation (1) is subject to a 2.5 percent tax on its	87-9
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income, or minimum tax, whichever is greater; (2) for 1987, S Corporations are subject to a 0.5 percent "add-on" preference tax; for 1988 and subsequent years, the AMT tax rate is 2.0 percent; (3) must have a valid federal election; (4) cannot be a member of a combined report (unless ownership of all members is identical); and (5) must include consent forms and an estimated tax payment (9.3 percent) for the income allocable to nonresident shareholders. A shareholder's share of the corporation's credits shall include the credit for political contributions allowed under PIT Section 17053.14. IRC Section 1372 is modified so that references to partnership treatment shall include modifications under the PITL. Built-in capital gains are taxed at the rate applicable to general corporations (currently 9.3 percent). Other technical modifications are included in Sections 23801(b)(3)(4), 23801(d), 23803(b), 23804, 23805, 23806, 23808, and 23810. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)

Gross Income

24271 (Repeal/ New)	61	GROSS INCOME (SC) Repeals separate provisions and conforms to IRC Section 61. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24272.2 (New)	72(u)	TREATMENT OF ANNUITY CONTRACTS NOT HELD BY NATURAL PERSONS (SC) Provides that IRC Section 72(u), relating to the treatment of annuity contracts not held by natural persons, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24272.5 (Repeal)	1272	ORIGINAL ISSUE DISCOUNT BONDS (SC) Provisions relating to the amount included in gross income of a holder of an original issue discount bond repealed. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

<u>BCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
24274 (Repeal/ New)	81	INCREASES IN VACATION PAY SUSPENSE ACCOUNT (SC) Provides that IRC Section 81, relating to increases in vacation pay suspense account, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24307 (Repeal/ New)	108	INCOME FROM DISCHARGE OF INDEBTEDNESS (SC) Separate provisions repealed and new provision added that IRC Section 108 [except for subsection (b)(2)(B) and (E)] shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

Credits Against Tax

24330 (Amend)	51-52	TARGETED JOBS TAX CREDIT (TC) Substitutes "alternative minimum tax" for "tax on preference income". Operative for income years beginning on or after January 1, 1988. (SB 572, Ch. 87-1139)	87-9
24331 (Amend) (17053.8)	----	CREDIT FOR WAGES PAID TO DISADVANTAGED EMPLOYEES IN AN ENTERPRISE ZONE (SC) See summary for PIT Section 17053.8. Operative for income years beginning on or after January 1, 1987. The references to "alternative minimum tax" are operative for income years beginning on or after January 1, 1988 [Section 23051.7(e)]. (SB 572, Ch. 87-1139) (AB 2009, Ch. 87-1428)	87-9 and 87-13
24333 (Amend) (17053.11)	----	CREDIT FOR HIRING UNEMPLOYED RESIDENT OF HIGH DENSITY UNEMPLOYMENT AREA (SC) See summary for PIT Section 17053.11. Operative for income years beginning on or after January 1, 1987. The references to "alternative minimum tax" are operative for income years beginning on or after January 1, 1988 [Section 23051.7(e)]. (SB 572, Ch. 87-1139) (AB 2009, Ch. 87-1428)	87-9 and 87-13

Deductions

24342 (Repeal)	----	SMALL BUSINESS STOCK (SC) Provisions relating to the taxation of small business stock repealed. (But see Section 24904) Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
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<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
24343 (Repeal/ New)	162	TRADE OR BUSINESS EXPENSES (SC) Separate provisions repealed and new provision added that the deduction for trade or business expenses shall be determined in accordance with IRC Section 162, except that IRC Section 162(g), relating to treble damage payments under anti-trust laws under specified circumstances shall not apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24343.2 (New) (17269)	----	DISALLOWANCE OF EXPENSES - DISCRIMINATORY CLUBS (SC) See summary for PIT Section 17269. Operative for income years beginning on or after January 1, 1990. (SB 572, Ch. 87-1139) (AB 239, Ch. 87-1463) NOTE: Regulation Section 24343, effective January 1, 1988, provides for the disallowance of business expenses under similar criteria.	87-9 and 87-12
24343.5 (Repeal)	----	RIDESHARING TAX DEDUCTION (SC) Deduction repealed as of January 1, 1987. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24344 (Amend)	163(a)	INTEREST (SC) Amends subdivision (a) to provide that the deduction for interest expenses is determined in accordance with IRC Section 163. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24344.5 (Amend) (17224)	163(e)	ORIGINAL ISSUE DISCOUNT BONDS (SC) See summary for PIT Section 17224. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24345 (Amend) (17220)	164	TAXES (SC) See summary for PIT Section 17220. Also conforms to federal law relating to the allowance of sales and use tax incurred in a trade or business or for the production of income, and the capitalization of such taxes (except where claimed as a tax credit under the provisions of Section 23612) in connection with the acquisition or disposition of property. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
24349 (Amend)	168(h)	DEPRECIATION (SC) Provides that the deduction for property leased to governments and other tax-exempt entities shall be limited to the amount determined under IRC Section 168(h). Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24357 (Amend)	170(k)	CHARITABLE CONTRIBUTIONS AND GIFTS (SC) Conforms to federal law denying charitable deduction for traveling expenses where there is a significant element of personal pleasure, recreation, or vacation in that travel. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24357.8 (Amend)	170(e) (4)	CHARITABLE CONTRIBUTIONS OF TECHNOLOGICAL EQUIPMENT TO SCHOOLS (SC) Extends the date for making contributions of qualified property to December 31, 1990 (was December 31, 1987). Operative for income years beginning on or after January 1, 1987. (AB 430, Ch. 87-1481)	87-16
24373.5 (Repeal)	189	AMORTIZATION OF REAL PROPERTY CONSTRUCTION PERIOD INTEREST AND TAXES (SC) Provisions repealed in conformity with the repeal of IRC Section 189 by the TRA 1986. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24379 (New) (17088)	83	PROPERTY TRANSFERRED IN CONNECTION WITH PERFORMANCE OF SERVICES (SC) Reinstates provisions in former Section 24343(h), relating to the deduction of the value of property transferred in exchange for services provided only in the same year in which the amount is included in the transferee's gross income. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24382 (Repeal/ New) (17225)	216	TENANT-STOCKHOLDERS OF COOPERATIVE HOUSING CORPORATIONS (SC) See summary for PIT Section 17225. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

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Special Deductions

24405 (Amend)	-----	COOPERATIVE OR MUTUAL ASSOCIATIONS NOT PRINCIPALLY ENGAGED IN SELLING TANGIBLE PERSONAL PROPERTY (SC) Allows credit unions a deduction for income from "surplus member savings capital" investments. Operative for income years beginning on or after January 1, 1988. (AB 1581, Ch. 87-1465)	87-15
24413 (Repeal/ New)	856 to 858	REAL ESTATE INVESTMENT TRUSTS (SC) Conforms to IRC Sections 856 to 858, inclusive, with respect to the treatment of Real Estate Investment Trusts (REITs), except that IRC Section 857(b)(1), relating to the imposition of tax, is not applicable. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24413.2 (New)	858	DIVIDENDS PAID BY REAL ESTATE INVESTMENT TRUST AFTER CLOSE OF THE INCOME YEAR (SC) Provides that dividends paid by a real estate investment trust after the close of the income year shall be accounted for in accordance with IRC Section 858. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24413.3 (New)	859	ADOPTION OF ANNUAL ACCOUNTING PERIOD (SC) Provides that the annual accounting period of a real estate investment trust shall be adopted in accordance with IRC Section 859. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24416 (Amend)	172	NET OPERATING LOSSES (SC)	87-9
24417 (Repeal) (17276 and 17276.5)		NET OPERATING LOSS CARRYOVER - QUALIFIED TAXPAYERS (SC) See summaries for PIT Sections 17276 and 17276.5. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
<u>Items Not Deductible</u>			
24422.3 (New)	263A	CAPITALIZATION AND INCLUSION IN INVENTORY COSTS OF CERTAIN EXPENSES (SC) Provides that the capitalization and inclusion in inventory costs of certain expenses shall be determined in accordance with IRC Section 263A. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24422.5 (Repeal) (17261)	278	CAPITAL EXPENDITURES INCURRED IN PLANTING AND DEVELOPING FRUIT AND NUT GROVES (SC) See summary for PIT Section 17261. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24423 (Amend)	263(i)	INTANGIBLE DRILLING AND DEVELOPMENT COSTS IN THE CASE OF OIL AND GAS WELLS (SC) Provides that IRC Section 263(i), relating to special rules for intangible drilling and development costs incurred outside the United States, shall apply to costs paid or incurred after December 31, 1986. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24424 (Amend)	264(a) (4)	CERTAIN AMOUNTS PAID IN CONNECTION WITH INSURANCE CONTRACTS (SC) Conforms to IRC Section 264(a)(4), relating to the nondeductibility of interest with respect to insurance policy contracts purchased after June 20, 1986. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24437 (Repeal/ New)	277	DEDUCTIONS INCURRED BY CERTAIN MEMBERSHIP ORGANIZATIONS IN TRANSACTIONS WITH MEMBERS (SC) Provides that deductions incurred by certain membership organizations in transactions with members shall be limited in accordance with IRC Section 277. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24439 (Amend)	249	LIMITATION ON DEDUCTION OF BOND PREMIUM ON REPURCHASE (TC) Corrects reference to IRC Sections 1273(b) and 1274 [was IRC Section 1232(b)]. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

<u>BCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
24443 (Repeal/ New) 24444 24445 24445.5 24446 (Repeal) (17270)	274(h)	DISALLOWANCE OF CERTAIN ENTERTAINMENT, ETC., EXPENSES (SC) Provides that the provisions of IRC Section 274, relating to the disallowance of certain entertainment, gift, travel, etc., expenses, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24449 (New)	291	SPECIAL RULES RELATING TO CORPORATE PREFERENCE ITEMS (SC) Provides that IRC Section 291, relating to special rules relating to corporate preference items, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
<u>Corporate Distributions and Adjustments</u>			
24457 (Repeal/ New)	304	REDEMPTION THROUGH USE OF RELATED CORPORATIONS (SC) Provides that IRC Section 304, relating to redemption through the use of related corporations, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24481 (Repeal/ New) 24482 24483 24483.5 (Repeal)	311	TAXABILITY OF CORPORATION ON DISTRIBUTION (SC) Provides that the taxability of a corporation on distribution shall be determined in accordance with IRC Section 311. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24484 (Repeal/ New) 24485 24486 24487 24489 24490 24491 24491.1 24492 24493 (Repeal)	312	EFFECT ON EARNINGS AND PROFITS (SC) Provides that the effect of corporate distributions on earnings and profits shall be determined in accordance with IRC Section 312. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24495 (Repeal/ New)	316	DIVIDEND DEFINED (SC) Provides that IRC Section 316, relating to the definition of dividends, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

<u>BCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
24496 (Repeal/ New)	317	OTHER DEFINITIONS (SC) Provides that IRC Section 317, relating to other definitions, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24497 (Repeal/ New)	318	CONSTRUCTIVE OWNERSHIP OF STOCK (SC) Provides that IRC Section 318, relating to constructive ownership of stock, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
<u>Corporate Liquidations</u>			
24502 (Repeal/ New)	332	COMPLETE LIQUIDATIONS OF SUBSIDIARIES (SC) Provides that IRC Section 332, relating to complete liquidations of subsidiaries, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24503 (Repeal)	333	ELECTION AS TO RECOGNITION OF GAIN IN CERTAIN LIQUIDATIONS (SC) Provisions repealed in conformity with repeal of IRC Section 333 by TRA 1986. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24504 (Repeal/ New)	334	BASIS OF PROPERTY RECEIVED IN LIQUIDATIONS (SC) Provides that IRC Section 334, relating to the basis or property received in liquidations, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24511 (Repeal/ New)	336	GAIN OR LOSS RECOGNIZED ON PROPERTY DISTRIBUTED IN COMPLETE LIQUIDATION (SC) Provides that IRC Section 336, relating to gain or loss recognized on property distributed in complete liquidation, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24512 (Repeal/ New)	337	NONRECOGNITION FOR PROPERTY DISTRIBUTED TO PARENT IN COMPLETE LIQUIDATION OF SUBSIDIARY (SC) Provides that IRC Section 337, relating to nonrecognition for property distributed to parent in complete liquidation of	87-9

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		subsidiary, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	
24513 (Repeal/ New)	----	APPLICATION OF SECTION 633, P.L. 99-514 Provides that, for purposes of Sections 24511 and 24512, the provisions of Section 633 [except 633(e)], relating to other transition rules] of Public Law 99-514, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24514	337(c)	LIMITATIONS (SC)	87-9
24515	337(d)	SPECIAL RULE FOR MINORITY SHAREHOLDERS (SC)	
24516	337(e)	INVOLUNTARY CONVERSION LIQUIDATION (SC)	
24517	337(f)	SPECIAL RULE FOR LIFO INVENTORIES (SC)	
24518 (Repeal)	337(g)	NONRECOGNITION OF GAIN OR LOSS UPON LIQUIDATION (SC) Provisions repealed. See Section 24511 and Section 24512. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	
24519 (Repeal/ New)	338	CERTAIN STOCK PURCHASES TREATED AS ASSET ACQUISITIONS (SC) Provides that IRC Section 338, relating to certain stock purchases treated as asset acquisitions, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24520 (Repeal/ New)	346	DEFINITION AND SPECIAL RULE (SC) Provides that IRC Section 346, relating to definition and special rule, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

Corporate Organizations and Reorganizations

24551 (Repeal/ New)	361	NONRECOGNITION OF GAIN OR LOSS TO TRANSFEROR CORPORATION; OTHER TREATMENT OF TRANSFEROR CORPORATION; ETC. (SC) Provides that IRC Section 361, relating to nonrecognition of gain or loss as a transferor corporation and other related matters, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
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<u>BCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
24561 (Repeal/ New)	367	FOREIGN CORPORATIONS (SC) Provides that IRC Section 367, relating to foreign corporations, shall apply to Section 24502, 24521, 24531, 24535, 24537, 24538, 24539, or 24551. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

Miscellaneous Corporate Provisions

24585 (Repeal/ New)	386	TRANSFERS OF PARTNERSHIP AND TRUST INTERESTS BY CORPORATIONS (SC) Provides that IRC Section 386, relating to transfers of partnership and trust interests by corporations, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
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Carryovers

24591 (Amend)	381	CARRYOVERS IN CERTAIN CORPORATE ACQUISITIONS (SC) Provides that IRC Section 381, relating to carryovers in certain corporate acquisitions, shall apply to the acquisition of assets by another corporation to the extent the corporate attributes enumerated are applicable under the B&CTL. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24592 (Amend)	382	LIMITATION ON NET OPERATING LOSS CARRYFORWARDS AND CERTAIN BUILT-IN LOSSES FOLLOWING OWNERSHIP CHANGE (SC) Provides that IRC Section 382, relating to special limitation on net operating loss carryforwards and certain built-in losses following ownership change, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24593 (Amend)	383	SPECIAL LIMITATIONS ON EXCESS CREDITS (SC) Provides that IRC Section 383, relating to special limitations on certain excess credits, etc., shall apply to credits allowable under the B&CTL. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

<u>BCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
<u>Pension Plans</u>			
24601 to 24615 (Repeal)	404 to 419A	PENSION PLANS (SC) Provisions repealed. See Pension, Profit-Sharing, Stock Bonus Plans, below. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
<u>Pension, Profit-Sharing, Stock Bonus Plans</u>			
24601 (New)	404 404A 406 407 419 419A	PENSION, PROFIT-SHARING, STOCK BONUS PLANS (SC) Provides that IRC Sections 404, 404A, 406, 407, 419, and 419A shall apply, except as otherwise provided. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24602 (New)	404(a) (3)(B)	COMBINED REPORTS (SC) Provides that the reference to "a consolidated return" in IRC Section 404(a)(3)(B) shall be modified to refer to a combined report. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24603 (New)	404(k)	DIVIDENDS PAID DEDUCTION (SC) Provides that IRC Section 404(k), relating to dividends paid deduction, shall not apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
<u>Accounting Periods and Methods of Accounting</u>			
24633.5 (New) (17551.5)	442 and 443	REQUIRED CHANGE OF ACCOUNTING PERIOD (SC) See summary for PIT Section 17551.5. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24651 (Amend)	446	GENERAL RULE FOR METHODS OF ACCOUNTING (SC) Makes minor technical correction and adds reference to Section 24654. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24652 (Repeal/ New)	447	METHOD OF ACCOUNTING FOR CORPORATIONS ENGAGED IN FARMING (SC) Provides that the method of accounting for corporations engaged in farming shall be	87-9

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		determined in accordance with IRC Section 447. Operative for income years beginning on or after January 1, 1987. (SB 572, 87-1139)	
24653 (Repeal)	----	FARMS ON ACCRUAL ACCOUNTING (SC) Provisions repealed. See Section 24652. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24654 (New)	448	LIMITATION ON USE OF CASH METHOD OF ACCOUNTING (SC) Provides that the use of the cash method of accounting shall be limited in accordance with IRC Section 448. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24661 (Repeal/ New)	451	GENERAL RULE FOR INCOME YEAR OF INCLUSION (SC) Provides that IRC Section 451, relating to the general rule for year of inclusion shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24662 (Repeal)	451(d)(e)	INCOME YEAR FOR INCLUSION OF CROP INSURANCE PROCEEDS (SC) Provisions repealed. See Section 24661. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24667 (Repeal/ New)	453 to 453C	INSTALLMENT METHOD (SC) Provides that installment sales shall be treated in accordance with IRC Sections 453, 453A, 453B, and 453C, with the following modifications: (1) in the case of any taxpayer who made sales under a revolving credit plan and was on the installment method under former Section 24667 or 24668 for the taxpayer's last income year beginning after 1986, the provisions of this section shall be treated as an approved change in method of accounting; and (2) the period for taking into account adjustments under Article 6 (commencing with Section 24721) by reason of that change shall not exceed four years. Operative for income years beginning on or after January 1, 1988. (SB 572, Ch. 87-1139)	87-9

<u>BCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
24668	453A	INSTALLMENT METHOD FOR DEALERS IN PERSONAL PROPERTY (SC)	87-9
24669	453B	DISPOSITION OF INSTALLMENT OBLIGATIONS (SC)	
24673.5 (Repeal)	453A(b)	CARRYING CHARGES NOT INCLUDED IN TOTAL CONTRACT PRICE (SC) Provisions repealed. See Section 24667. Operative for income years beginning on or after January 1, 1988. (SB 572, Ch. 87-1139)	
24673.2 (New)	460	SPECIAL RULES FOR LONG-TERM CONTRACTS (SC) Provides that long-term contracts entered into after February 28, 1986 shall be accounted for in accordance with IRC Section 460. In the case of a contract entered into after February 28, 1986, during an income year beginning before January 1, 1987, an adjustment to income shall be made upon completion of the contract, if necessary, to insure that all profits from the contract have been included in gross income. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24681 (Repeal/ New)	461	GENERAL RULE FOR YEAR OF DEDUCTION (SC) Provides that IRC Section 461, relating to the general rule for year of deduction, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24682 (New)	464	LIMITATIONS ON DEDUCTIONS FOR CERTAIN FARMING EXPENSES (SC) Provides that the limitations on deductions for certain farming expenses shall be determined in accordance with IRC Section 464. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24683	461(d)	LIMITATION ON ACCELERATION OF ACCRUAL OF TAXES (SC)	87-9
24684	461(f)	CONTESTED LIABILITIES, TIMING OF DEDUCTION FOR (SC)	
24686	461(g)	PREPAID INTEREST (SC)	
24686.2	461(h)	CERTAIN LIABILITIES NOT INCURRED BEFORE ECONOMIC PERFORMANCE (SC)	
24686.4 (Repeal)	461(i)	SPECIAL RULES FOR TAX SHELTERS (SC) Provisions repealed. See Section 24681. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	

<u>RCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
24685 (Amend)	463	ACCRAUAL OF VACATION PAY (SC) Conforms to amendment to IRC Section 463, relating to the provision that accrual of vacation pay can be made only for amounts paid during the income year or within 6-1/2 months thereafter. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24687 (Repeal)	466	QUALIFIED DISCOUNT COUPONS REDEEMED AFTER CLOSE OF YEAR (SC) Provisions repealed. Conforms to repeal of IRC Section 466 by TRA 1986. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24688 (Repeal/ New)	467	CERTAIN PAYMENTS FOR THE USE OF PROPERTY OR SERVICES (SC) Provides that certain payments for the use of property or services shall be accounted for in accordance with IRC Section 467. Operative for income years beginning on or after January 1, 1987, (SB 572, Ch. 87-1139)	87-9
24689 (Repeal/ New)	468	SPECIAL RULES FOR MINING AND SOLID WASTE RECLAMATION AND CLOSING COSTS (SC) Provides that IRC Section 468, relating to special rules for mining and solid waste reclamation and closing costs, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24690 (Repeal/ New)	468A	SPECIAL RULES FOR NUCLEAR DECOMMISSIONING COSTS (SC) Provides that IRC Section 468A, relating to special rules for nuclear decommissioning costs, shall apply, except (1) the deduction allowed for the 1987 income year may include contributions to a fund up to the balance it would have contained if allowable contributions had been made for the 1985 and 1986 income years, and (2) the provisions of IRC Section 468A(e)(2) are modified to provide that the tax imposed upon the gross income of the Nuclear Decommissioning Reserve Fund for any taxable year shall be imposed at the rate in effect under Section 23501 (currently 9.3%). Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

<u>BCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
24692 (New)	469	PASSIVE ACTIVITY LOSSES AND CREDITS LIMITED (SC) Provides that the treatment of passive activity losses and credits shall be determined in accordance with IRC Section 469. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24701 (Repeal/ New)	471	GENERAL RULE FOR INVENTORIES (SC) Provides that IRC Section 471, relating to the general rule for inventories, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24708 (New)	474	SIMPLIFIED DOLLAR-VALUE LIFO METHOD FOR CERTAIN SMALL BUSINESSES (SC) Provides that certain small businesses may elect to use the simplified dollar-value LIFO method in accordance with IRC Section 474. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 897-1139)	87-9
24725 (Repeal/ New)	482	ALLOCATION OF INCOME AND DEDUCTIONS AMONG TAXPAYERS (SC) Provides that IRC Section 482, relating to allocation of income and deductions among taxpayers, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, 87-1139)	87-9
24726 (New)	483	INTEREST ON CERTAIN DEFERRED PAYMENTS Provides that the tax treatment of interest on certain deferred payments shall be determined in accordance with IRC Section 483. Operative for income years beginning on or after January 1, 1987. (SB 572, 87-1139)	87-9

Natural Resources

24831 to 24840 (Repeal) (17681 to 17720)	511 to 636	NATURAL RESOURCES (SC) See summary for PIT Sections 17681 to 17720, and new provisions below. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24831 to 24834 (New) (17681 to 17684)	511 to 636	NATURAL RESOURCES (SC) See summary for PIT Sections 17681 to 17684. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
<u>Real Estate Mortgage Investment Conduits</u>			
24870 and 24871 (New) (17940)	860A to 860B	TAXATION OF REAL ESTATE MORTGAGE INVESTMENT CONDUITS (SC) Provides that the taxation of a Real Estate Mortgage Investment Conduit (REMIC) and the holders of regular or residual interests therein shall be determined in accordance with the IRC, except that IRC Section 860F(a), relating to the 100% tax on prohibited transactions, shall not apply. Operative for income years beginning on or after January 1, 1987. (SB 574, Ch. 87-339)	87-9
24872 (New)	----	REMIC SUBJECT TO MINIMUM TAX (SC) Provides that a Real Estate Mortgage Investment Conduit (REMIC) is subject to the minimum tax applicable to general corporations (currently 9.3%). Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
<u>Gain or Loss Disposition of Property</u>			
24902.1 (New)	1256	CONTRACTS MARKED TO MARKET (SC) Provides that IRC Section 1256, relating to contracts marked to market, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24902.2 (New)	1257	DISPOSITION OF CONVERTED WETLANDS OR HIGHLY ERODIBLE CROPLANDS (SC) Provides that IRC Section 1257, relating to dispositions of converted wetlands or highly erodible croplands, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, 87-1139)	87-9
24903 (Repeal)	1232B	TAX TREATMENT OF STRIPPED BONDS (SC) Provisions repealed. Conforms to repeal of IRC Section 1232B (TRA 1986). Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24903 (New)	1221 to 1257	RULES FOR DETERMINING CAPITAL GAINS AND LOSSES (SC) Provides that the character of the gain or loss (capital or ordinary), resulting from the sale or exchange of property, shall be determined in accordance with	87-9

<u>RCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
		Parts III and IV of Subchapter P of the IRC, except as otherwise provided. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	
24904 (New) (18161)	----	GAINS ON DISPOSITION OF SMALL BUSINESS STOCK (SC) See summary for PIT Section 18161. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24916 (Amend) (18036)	1016	ADJUSTMENTS TO BASIS (SC) Provides that no adjustment to basis shall be made for (1) sales or use tax incurred in connection with acquisition of property for which a tax credit is claimed under Section 23612, and (2) taxes, carrying charges or other expenditures for which deductions have been taken in determining net income for the current or any prior income year. Deletes reference to expenditures treated as deferred expenses under Section 24368.1, relating to trade-name and trademark expenditures, and makes other technical changes. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24917 (Amend)	1016(b)	SUBSTITUTED BASIS (SC) Deletes last sentence relating to the meaning of the term "substituted basis". Conforms to similar deletion in IRC Section 1016(b) made by TRA 1986. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24918 (Repeal/ New)	1017	DISCHARGE OF INDEBTEDNESS (SC) Provides that IRC Section 1017, relating to discharge of indebtedness, shall apply, except that references to affiliated groups which file a consolidated return under IRC Section 1501, shall be treated as meaning members of the same unitary group which file a combined report under the B&CTL. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24953 (New) (18035)	1039	CERTAIN SALES OF LOW-INCOME HOUSING PROJECTS (SC) See summary for PIT Section 18035. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
24953.5 (New) (18035.5)	----	CERTAIN SALES OF QUALIFIED HOUSING PROJECTS (SC) See summary for PIT Section 18035.5. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24966.1 (New)	1059A	LIMITATION ON TAXPAYER'S BASIS OR INVENTORY COST IN PROPERTY IMPORTED FROM RELATED PERSONS (SC) Provides that IRC Section 1059A, relating to limitation on taxpayer's basis or inventory cost in property imported from related persons, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24966.2 (New)	1060	SPECIAL ALLOCATION RULES FOR CERTAIN ASSET ACQUISITIONS (SC) Provides that IRC Section 1060, relating to special allocation rules for certain asset acquisitions, shall apply. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24967 (New)	1059A	VALUE OF PROPERTY IMPORTED FROM ANOTHER COUNTRY (SC) Provides that the value of property imported from another country shall be determined in accordance with IRC Section 1059A. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24981 (Repeal/ New)	1081	NONRECOGNITION OF GAIN OR LOSS ON EXCHANGES OR DISTRIBUTIONS IN OBEDIENCE TO S.E.C. (SC) Provides that nonrecognition of gain or loss on exchanges or distributions made pursuant to an order of the federal Securities and Exchange Commission shall be determined in accordance with IRC Section 1081. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24988 (Repeal/ New)	1082	BASIS FOR DETERMINING GAIN OR LOSS (SC) Provides that the basis for determining gain or loss on transactions coming within the provisions of Section 24981 shall be determined in accordance with IRC Section 1082. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
24989 (Repeal/ New)	1056	BASIS LIMITATION FOR PLAYER CONTRACTS TRANSFERRED IN CONNECTION WITH THE SALE OF A FRANCHISE (SC) Provides that the basis of player contracts transferred in connection with the sale of a franchise shall be determined in accordance with IRC Section 1056. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

Special Rules for Bonds and Other Debt Instruments

24990 (New)	1271 to 1278	SPECIAL RULES FOR BONDS AND OTHER DEBT INSTRUMENTS (SC) Provides that the tax treatment of bonds and other debt instruments shall be determined in accordance with Part V of Chapter 1 of Subtitle A of the IRC, except as otherwise provided. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24991 (New) (18177)	1275	TAX EXEMPT OBLIGATIONS - DEFINITION (SC) See summary for PIT Section 18177. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24992 (New) (18803.2)	1275	INFORMATION RETURNS - ORIGINAL ISSUE DISCOUNT (SC) See summary for PIT Section 18803.2. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24993 (New)	7872	TREATMENT OF LOANS WITH BELOW-MARKET INTEREST RATES (SC) Provides that the treatment of loans with below-market interest rates shall be determined in accordance with IRC Section 7872. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9
24994 (New) (18178)	1272	CURRENT INCLUSION IN INCOME OF ORIGINAL ISSUE DISCOUNT (SC) See summary for PIT Section 18178. Operative for income years beginning on or after January 1, 1987. (SB 572, Ch. 87-1139)	87-9

<u>BCT</u> <u>SECTION</u>	<u>IRC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
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Allocation of Income

25106.5 (New)	----	REGULATIONS - AVOIDANCE OF TAX LIABILITY (SC) Provides that the FTB shall adopt regulations to prevent avoidance of tax liability by a taxpayer which is or was a member of a group of taxpayers whose income and apportionment factors are or were required to be determined by a combined report. Operative January 1, 1988. (AB 129, Ch. 87-918)	87-7
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Assessments

25663d (Amend) (18586.7)	7609(e)	SUSPENSION OF STATUTE OF LIMITATIONS (SC) See summary for PIT Section 18586.7. Operative September 26, 1987. (SB 572, Ch. 87-1139)	87-9
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Interest, Additions to Tax and Penal Provisions

25901b (Amend) (18688)	6404(e)	ASSESSMENT AND PAYMENT (SC) See summary for PIT Section 18688. Operative September 26, 1987. (SB 572, Ch. 87-1139)	87-9
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25906 (New)	6601(f)	INTEREST ON CREDIT OF OVERPAYMENTS (SC) Conforms to IRC Section 6601(f) and PIT Section 18694, regarding the computation of interest when a credit is applied. Operative January 1, 1988. (AB 129, Ch. 918)	87-7
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25934 (Repeal/ New)	6653	NEGLIGENCE AND FRAUD PENALTIES (SC) See summary for PIT Sections 18684 and 18685. Operative September 26, 1987. (SB 572.	87-9
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25935
(Repeal)
(18684)
(18685)

25934.2 (Amend) (18684.2)	6651	FAILURE TO PAY TAX BY DUE DATE (SC) See summary for PIT Section 18684.2. Operative September 26, 1987. (SB 572. Ch. 87-1139)	87-9
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25951.5 (New) (18682.5)	6654	WAIVER OF ESTIMATED TAX PENALTIES (SC) See summary for PIT Section 18682.5, substituting March 16, 1988 for April 16, 1988, and SB 572, Ch. 87-1139 for AB 53, Ch. 87-1138. Operative September 26, 1987. Provision repealed as of January 1, 1993. (SB 572, Ch. 87-1139)	87-9
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<u>BCT SECTION</u>	<u>IRC SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
25957.3 (New) (18681.5)	6706	ORIGINAL ISSUE DISCOUNT INFORMATION RE- QUIREMENTS (SC) See summary for PIT Section 18681.5, substituting Section 24992 for Section 18803.2. Operative September 26, 1987. (SB 572, Ch. 87-1139)	87-9

Collection of Tax

26131 (Amend) (18805)	1445	AUTHORITY TO REQUIRE WITHHOLDING (SC) See summary for PIT Section 18805. Operative September 26, 1987. (SB 572, Ch. 87-1139)	87-9
26132.05 (New) (18817.3)	6334	PROPERTY EXEMPT FROM LEVY (SC) See sum- mary for PIT Section 18817.3. Operative September 26, 1987. (SB 572, Ch. 87-1139)	87-9
26132.3 (New) (18810)	----	WITHHOLDING EXEMPTION CERTIFICATES (SC) See summary for PIT Section 18810. Oper- ative January 1, 1988. (AB 129, Ch. 87- 918)	87-9
26255 (New) (18838)	----	PRIVATE COLLECTION AGENCIES (SC) See summary for PIT Section 18838. Opera- tive January 1, 1988. (AB 2048, Ch. 87-613)	87-4
26256 (New) (18839)	----	"DELINQUENT TAX COLLECTION FUND" (SC) See summary for PIT Section 18839, sub- stituting Section 26255 for Section 18838. Operative January 1, 1988. (AB 2048, Ch. 87-613)	87-4

Administrative Provisions

26491 (Amend) (19420)	7430	AWARDING OF COURT COSTS (SC) See summary for PIT Section 19420. Operative Septem- ber 26, 1987. (SB 572, Ch. 87-1139)	87-9
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GOVERNMENT CODE

GOVERNMENT
CODE SECTION

SUMMARY OF CHANGE

LC

7082 (Amend)	EMPLOYMENT AND ECONOMIC INCENTIVE ACT - DEFINITIONS (LC) Redefines a qualified business as any person, corporation, or other entity certified during the taxable or income year by the Department of Commerce as meeting prescribed requirements. This change permits a qualified business to obtain incentive tax credits for equipment purchased for use in, but prior to engaging in, the active conduct of a trade or business in the program area. Operative for taxable and income years beginning on or after January 1, 1987. (AB 292, Ch. 87-504)	-----
12419.3 (Amend)	PRIORITY OF OFFSET ACCOUNTS - ANNUAL REPORT (SC) Extends until December 31, 1990 the specified priority of delinquent accounts for which the Controller must offset personal income tax refunds which have been certified by the FTB. Operative January 1, 1988. (AB 1064, Ch. 87-473)	-----
14913 (New)	LIBRARIES - AVAILABILITY OF TAX FORMS (SC) Requires all libraries in California to make state income tax forms available to the public. Operative January 1, 1987 through June 30, 1991. Section repealed as of January 1, 1992. (AB 129, Ch. 87-918)	87-7

PROBATE CODE

PRC
SECTION

SUMMARY OF CHANGE

LC

9150 (New)	DECEDENT'S ESTATES - FILING OF CLAIMS (SC) Requires the FTB, as a creditor, to file a claim with the court and mail a copy to the personal representative if the FTB is notified of the probate proceedings or if an assessment is proposed as a result of the fiduciary's request for audit. Operative July 1, 1988. (AB 708, Ch. 87-923)	87-10
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UNEMPLOYMENT INSURANCE CODE

<u>UIC</u> <u>SECTION</u>	<u>SUMMARY OF CHANGE</u>	<u>LC</u>
2739.5 (New)	OVERPAYMENTS OF DISABILITY INSURANCE (SC) Requires the FTB to aid the Director of the Employment Development Department in the recovery of overpayments of disability payments, through the exchange of information. Operative January 1, 1988. (AB 423, Ch. 87-226)	87-1
13009 (Amend)	WITHHOLDING TAX ON WAGES (SC) Changes reference in paragraph (4) of subdivision (i) to IRC Section 219 (was R&TC Section 17272); and adds paragraph (5) to subdivision (i), referencing wages paid under a cafeteria plan, within the meaning of IRC Section 125. Operative September 26, 1987. (AB 53, Ch. 87-1138)	87-9
13050 (Amend)	REPORTS, RETURNS AND STATEMENTS (SC) Adds paragraph (7) to subdivision (a), providing that the total amount of elective deferrals [within the meaning of IRC Section 402(g)(3)] and compensation deferred pursuant to IRC Section 457, shall be included in the annual statement of wages and amounts withheld therefrom furnished to employees. Operative September 26, 2987. (Ab 53, Ch. 87-1138)	87-9

1987 LEGISLATIVE CHANGE REPORTS

<u>LC No.</u>	<u>Subject</u>	<u>Bill No.</u>	<u>Chapter No.</u>	<u>Page</u>
87-1	Disclosure of FTB Information to EDD	AB 423	87-226	65
87-2	Real Estate Mortgage Investment Conduits (REMICs)	SB 574	87-339	65
87-3	Exempt Organization - Mobilehome Parks	SB 98	87-399	66
87-4	In-State Collection Agencies - Delinquent Tax Collection Fund	AB 2048	87-613	67
87-5	Miscellaneous Changes to PITL and B&DTL	SB 78	87-440	68
87-6	Contributions to Alzheimer's Disease and Related Disorders Research Fund	AB 1865	87-945	70
87-7	Omnibus Tax Bill	AB 129	87-918	71
87-8	Contributions to Alzheimer's Disease and Related Disorders Research Fund	SB 214	87-944	72
87-9	Tax Reform	AB 53 SB 572	87-1138 87-1139	74
87-10	Probate/Creditor Claims - Payment of Debts	AB 708	87-923	107
87-11	Contributions for Building the Vietnam Veterans Memorial	AB 992	87-1193	108
87-12	Disallowance of Business Expenses Incurred by Patrons of Clubs Which Discriminate	AB 239	87-1463	109
87-13	Enterprise Zone and Program Area Employer Hiring Credit	AB 2009	87-1428	110
87-14	Tax Rebate Act of 1987	SB 47	87-908	111
87-15	Credit Union Deductions	AB 1581	87-1465	113
87-16	Exempt Organizations and Charitable Contributions of Scientific Equipment	AB 430	87-1481	114
87-17	Exempt Organizations and Taxation of Out-of-State Banks	SB 570	87-1442	115

<u>LC No.</u>	<u>Subject</u>	<u>Bill No.</u>	<u>Chapter No.</u>	<u>Page</u>
87-18	Disaster Relief	AB 7X	87-3X	116
87-19	Alternative Minimum Tax	SB 2X	87-5X	117

No Legislative Reports Issued for the Following Bills:

Employment and Economic Incentive Act - Definitions (Section-by-Section Summary Page 61)	AB 292	87-504
Immigration Consultants (Section-by-Section Summary Page 31)	AB 426	87-1363
Priority of Offset Accounts - Annual Report (Section-by-Section Summary Page 61)	AB 1064	87-473

LEGISLATIVE CHANGE NO. 87-1
ASSEMBLY BILL NO. 423

Author: Seastrand
Subject: Disclosure of FTB Information to EDD
Laws Affecting Franchise Tax Board: Sections 2627.5, 2712.5, and 2739.5
of the Unemployment Insurance Code
Date Filed with Secretary of State: July 23, 1987
Chapter Number: 87-226

SUMMARY

This act makes a number of changes in the Unemployment Insurance code. This legislative change is limited to the provision that impacts the Franchise Tax Board.

Section 2739.5

This act requires the Franchise Tax Board to aid the Director of the Employment Development Department in the recovery of overpayments of disability payments through the exchange of information.

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.

The provisions of this act are effective January 1, 1988.

LEGISLATIVE CHANGE NO. 87-2
SENATE BILL NO. 574

Author: Garamendi
Subject: Real Estate Mortgage Investment Conduits
Laws Affecting Franchise Tax Board: Sections 17940, 24870, and 24871
of the Revenue and Taxation Code
Date Filed with Secretary of State: July 31, 1987
Chapter Number: 87-339

SUMMARY

This Act conforms both the Personal Income Tax Law and the Bank and Corporation Tax Law to federal law regarding Real Estate Mortgage Investment Conduits (REMICs). A REMIC is an entity which holds a fixed pool of mortgages and issues multiple classes of interests to investors. It is not subject to state income tax or franchise tax. The income of a REMIC is taxable to the holders of the interest in the REMIC.

This Act does not conform state law to the federal provision which imposes a 100 percent tax on the net income from prohibited transactions, as specified.

The operative date of this act is January 1, 1987.

This act does 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. 87-3
SENATE BILL NO. 98

Author: Craven
Subject: Exempt Organization - Mobilehome Parks
Laws Affecting Franchise Tax Board: Section 23701V of the Revenue and
Taxation Code
Date Filed with Secretary of State: September 3, 1987
Chapter Number: 87-399

SUMMARY

Section 23701V

This act makes certain tenant organizations, which are formed for the purpose of purchasing mobilehome parks and converting these parks into condominiums or stock cooperatives, exempt from taxes under the Bank and Corporation Tax Law.

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.

The act becomes law on January 1, 1988 but is operative for income years beginning on or after January 1, 1987. This means that exemptions cannot be granted under this provision until January 1, 1988, but at that time the exemption could be granted for the 1987 year.

LEGISLATIVE CHANGE NO. 87-4
ASSEMBLY BILL NO. 2048

Author: O'Connell

Subject: In-State Collection Agencies/Delinquent Tax Collection Fund

Laws Affected: Sections 18838, 18839, 26255 and 26256 of the Revenue
and Taxation Code

Date Filed with Secretary of State: 9/12/87

Chapter Number: 87-613

SUMMARY

Sections 18838 and 26255.

These provisions authorize the department, under the Personal Income Tax and Bank and Corporation Tax Laws, to enter into an agreement with private collection agencies to collect certain tax debts within the state, provided the agreement does not cause the net displacement of civil service employees. The contract costs charged by the collection agency cannot be added to the tax debt.

Sections 18839 and 26256.

These provisions require the Franchise tax Board to determine the amounts collected by the private collection agencies and the costs of implementing and administering this act, including the contracting costs. The Controller is required to reimburse the Franchise Tax Board for these costs from the amounts collected by the private collection agencies.

This act requires the Franchise Tax Board to submit an implementation report to the Legislature on or before July 1, 1990.

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.

This act is effective January 1, 1988 and will sunset January 1, 1992, if not otherwise extended.

LEGISLATIVE CHANGE NO. 87-5
SENATE BILL NO. 78

Author: Presley

Subject: Repeals, Clarifies, Deletes, and Changes Various Sections of the Personal Income Tax Law and the Bank and Corporation Tax Law

Laws Affected: Sections 35, 17061.5, 17063.2, 17133, 18521, 20563, 23333, 23731, and 23778 of the Revenue and Taxation Code and Section 45 of Chapter 1490 of the Statutes of 1984

Date Filed with Secretary of State: September 8, 1987

Chapter Number: 87-440

SUMMARY

This act was sponsored by the Franchise Tax Board and makes several changes to the Revenue and Taxation Code provisions administered by the department. The changes as they affect the department are as follows:

1. Section 17061.5: Repeals the tax credit that was available for tax year 1979 to those taxpayers whose employer withheld worker contributions to a disability fund from wages paid the employee during that calendar year. This provision is repealed as of January 1, 1987.
2. Section 17063.2: Clarifies, for preference tax purposes, that only itemized deductions and not other deductions are used in determining the amount of excess itemized deductions subject to preference tax. This provision is operative for taxable years beginning on or after January 1, 1987.
3. Section 17133: Deletes surplus language which stated that gross income does not include income which California is prohibited from taxing under the Constitution or laws of the United States of America or under the California Constitution and conforms to the current federal treatment of tax-exempt stripped bonds. That is, for tax-exempt stripped bonds and coupons, the original issue discount (OID) would be equal to the amount of OID that produces a yield to maturity, based on the purchase price of the coupon or bond on the purchase date, equal to the lower of:
 - o the coupon rate before separation of coupons; or
 - o the actual yield to maturity of the stripped bond or coupon.

The amount of OID would be tax exempt, but would be required to be taken into account in determining the taxpayer's adjusted basis. This provision is operative for taxable years beginning on or after January 1, 1987.

4. Section 18521: Authorizes the Controller to transfer to the Franchise Tax Board the actual costs of collecting and processing of contributions to the Rare and Endangered Species Preservation Program. This provision is operative September 8, 1987.

5. Section 20563: Removes the requirement that a medically incapacitated assistance claimant be medically certified to be permitted to file a late claim for homeowner's or renter's assistance. This provision is operative for claims filed for fiscal years 1988/89 and thereafter through operation of Sec. 20646.
6. Section 23333: Makes a technical change in the tax rate that is imposed when a bank or financial corporation dissolves or withdraws. Currently, a bank or financial corporation is taxed at the maximum rate and is entitled to a refund if the actual rate is later determined to be less. This change removes an incorrect tax rate and incorporates the general tax rate by reference. This provision is operative for income years beginning on or after January 1, 1987.
7. Section 23731: Corrects the Bank and Corporation Tax Law that sets the tax rates for exempt trusts on their unrelated business taxable income. This provision is operative for taxable years beginning on or after January 1, 1987.
8. Section 23778: Corrects a provision of the Bank and Corporation Tax Law that incorrectly recites the filing fee for the reinstatement of tax exemptions, by deleting the specific fee amount of ten dollars, which is no longer correct. This provision is operative September 8, 1987.
9. Section 45 of Chapter 1490 of the Statutes of 1984: Deletes the provision that regulations required by AB 3230 be adopted as emergency regulations. This provision is operative September 8, 1987.

In addition to those provisions sponsored by the department, a provision is contained in this act which is unrelated to the provisions of the Revenue and Taxation Code administered by the department. It provides that any general law city located in a county of the 11th class which has been given a population estimate of 38,925, as validated by the Department of Finance, will use that population number for purposes of the Controller and all state and county public agencies in the allocation and distribution of grant funds and subventions until the date of certification of the 1990 Federal Census. This stated population will, however, be adjusted annually by the percentage of population growth of the state as a whole. This provision will be operative September 8, 1987.

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. 87-6
ASSEMBLY BILL NO. 1865

Author: Filante
Subject: Taxpayers' Voluntary Contributions to the California
Alzheimer's Disease and Related Disorders Research Fund
Laws Affecting Franchise Tax Board: Sections 18540, 18541,
18542, 18543, 18544, and 18545 of the Revenue and Taxation
Code
Date Filed with Secretary of State: September 22, 1987
Chapter Number: 87-945

SUMMARY

Sections 18540, 18541, and 18542.

This act provides for taxpayers to voluntarily designate on the tax form, a contribution of money in excess of their tax liability to the California Alzheimer's and Related Disorders Research Fund, for research relating to the care, treatment, and cure of Alzheimer's disease victims and their families. Contributions must be made in full dollar amounts and once made are irrevocable. If the taxpayer makes contributions to more than one fund and does not provide enough money, then the contributions would be allocated on a pro rata bases.

These contributions would be deductible for the tax year during which the contribution was made. If a taxpayer makes a contribution on his or her 1987 form filed in 1988 a deduction would be allowed for that amount on his or her 1988 form filed in 1989.

Sections 18543 and 18544.

These sections provide language for:

- (1) The Franchise Tax Board to notify the Controller of both the amount of money paid by taxpayers in excess of their tax liability and the amount of taxpayer refund money, and
- (2) for these amounts to be transferred to the California Alzheimer's Disease and Related Disorders Research Fund.

Upon appropriation by the Legislature, all money transferred to the Fund shall be allocated to the Franchise Tax Board for reimbursement of its costs associated with the Fund and to the appropriate state department as established by the Secretary of the Health and Welfare Agency.

The voluntary contribution provision is effective January 1, 1988. The contribution may be designated on the 1987 tax return filed on or after January 1, 1988. Technically the operative date of the contribution deduction is for taxable years beginning on or after January 1, 1987. However, since deductions are allowed only for the year of designation the deduction would be taken on the 1988 return filed in 1989.

Section 18545.

This act will remain in effect only until January 1, 1992, unless a later enacted statute extends that date.

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. 87-7
ASSEMBLY BILL NO. 129

Author: Jones

Subject: Omnibus Tax Bill

Laws Affected: Section 14913 of the Government Code; Sections 18408.5, 18681.1, 18802, 18810, 19286.8, 25106.5, 25906, and 26132.3 of the Revenue and Taxation Code.

Date Filed with Secretary of State: September 22, 1987

Chapter Number: 87-918

SUMMARY

This act was sponsored by the Franchise Tax Board and makes several changes to the provisions administered by the department. The various changes to the Revenue and Taxation Code are as follows:

1. Section 18408.5 allows nonresident partners of a partnership doing business in California or deriving income from California sources to elect to file a group return with the partnership acting as agent for the electing partners. Operative for taxable years beginning on or after January 1, 1987.
2. Section 18681.1 excludes the penalties assessed on or after January 1, 1988, for failure to file specific information returns, from the rules applicable to deficiency assessments. Operative beginning January 1, 1988.
3. Section 18802 allows a copy of the federal information return to be filed in lieu of the information return required under the Personal Income Tax Law. Operative beginning January 1, 1988.
4. Sections 18810 and 26132.3 provide that the department may require employers to submit copies of employees' withholding certificates and provide for procedures (including appeals) to be followed if the department determines that the withholding certificate is invalid. Operative beginning January 1, 1988.

5. Section 19286.8 requires that the information reporting requirement for cities which use a computerized record-keeping or information system for assessing a business tax shall be prescribed by forms and instructions of the Franchise Tax Board. Operative beginning January 1, 1988.
6. Section 25106.5 authorizes the Franchise Tax Board to write regulations necessary to prevent the avoidance of tax liability when a taxpayer has deferred income and is or has been a member of a group of taxpayers whose income and apportionment factors are or were required to be determined by a combined report. Operative beginning January 1, 1988.
7. Section 25906 brings the Bank and Corporation Tax Law into compliance with federal law and provides language which parallels the Personal Income Tax Law regarding the computation of interest when a credit is applied. Operative beginning January 1, 1988.

Section 14913 of the Government Code requires that as of January 1, 1988, consistent with current policy, all libraries in California are to continue making California tax forms available to the people of the state. It further provides for a study by the Legislative Analyst of the use of libraries as distribution centers for tax forms to determine; (1) its effectiveness and efficiency, (2) the burden imposed on libraries, and (3) if the program is found to be effective and efficient, whether or not it is necessary for libraries to receive additional funding for continuation of the program. The Legislative Analyst is to submit this study to the Legislature on or before January 1, 1990. Operative beginning January 1, 1988.

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. 87-8
SENATE BILL NO. 214

Author: Mello
 Subject: Taxpayers' Voluntary Contributions to the California Alzheimer's Disease and Related Disorders Research Fund
 Laws Affecting Franchise Tax Board: Sections 18540, 18541, 18542, 18543, 18544, and 18545 of the Revenue and Taxation Code
 Date Filed with Secretary of State: September 22, 1987
 Chapter Number: 87-944

SUMMARY

Sections 18540, 18541, and 18542.

This act provides for taxpayers to voluntarily designate on the tax form, a contribution in excess of their tax liability to the California Alzheimers Disease and Related Disorders Research Fund, for research relating to the care, treatment, and cure, of Alzheimer's disease

victims and their families. Contributions must be made in full dollar amounts and once made are irrevocable. If the taxpayer makes contributions to more than one fund and does not provide enough money, then the contributions would be allocated on a pro rata bases.

These contributions would be deductible for the tax year during which the contribution was made. If a taxpayer makes a contribution on his or her 1987 form filed in 1988, a deduction would be allowed for that amount on his or her 1988 form filed in 1989.

Sections 18543 and 18544.

These sections provide language for:

- (1) the Franchise Tax Board to notify the Controller of both the amount of money paid by taxpayers in excess of their tax liability and the amount of taxpayer refund money, and
- (2) for these amounts to be transferred to the California Alzheimer's Disease and Related Disorders Research Fund.

Upon appropriation by the Legislature, all money transferred to the Fund shall be allocated to the Franchise Tax Board for reimbursement of its costs associated with the Fund and to the appropriate state department as established by the Secretary of the Health and Welfare Agency.

The voluntary contribution provision is effective January 1, 1988. The contribution may be designated on 1987 tax return filed on or after January 1, 1988. The operative date of the contribution deduction is for taxable years beginning on or after January 1, 1987. However, since deductions are allowed only for the year of designation the deduction would be taken on the 1988 return filed in 1989.

Section 18545.

This act will remain in effect only until January 1, 1992, unless a later enacted statute extends that date.

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. 87-9
ASSEMBLY BILL NO. 53 AND SENATE BILL 572

Author: Klehs and Hannigan (AB 53) and Garamendi (SB 572)
Subject: Tax Reform
Laws Affecting Franchise Tax Board: Many Sections
Date Filed with Secretary of State: September 25, 1987
Chapter Number: 1138 (AB 53) and 1139 (SB 572)

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I. INTRODUCTION

AB 53 (Klehs and Hannigan) and SB 572 (Garamendi) are companion tax reform bills dealing with the Personal Income Tax Law and the Bank and Corporation Tax Law. They have been consolidated into a single Legislative Change Notice in order to eliminate much duplication where the provisions are the same under both laws.

The combined impact of these bills results in the most significant reform of the Personal Income Tax Law and the Bank and Corporation Tax Law in the history of California. These bills place primary importance on "full" conformity to federal taxable income and mark a significant change in tax policy from the "selective" conformity of recent years.

Under the Personal Income Tax Law, tax returns will be modified to begin with federal Adjusted Gross Income. Taxpayers who have relatively simple financial transactions (about 60 percent of all filers) will have few, if any, adjustments for state purposes. Other taxpayers, in addition to copying figures from their federal return, will complete an adjustments schedule and attach copies of their federal return or portions thereof.

References in this document to the "Annual Report" are to the Summary of Income Tax Changes - 1986, submitted by the Franchise Tax Board to the Legislature on January 10, 1987, under the provisions of Section 19270 of the Revenue and Taxation Code.

II. CHANGES AFFECTING GROSS INCOME

A. Conformity to Tax Reform Act of 1986

1. Accounting Provisions (Title VIII of the Tax Reform Act of 1986).

- a) Limitations on Cash Method of Accounting. California conforms to the new federal limitations on the use of the cash method of accounting. [Sec. 17024.5, 24651, and 24654] Annual Report Page 801
- b) Simplified Dollar Value LIFO Inventories. California conforms to federal changes which allow use of multiple indexes and expand the definition of taxpayers eligible to use the Simplified Dollar Value LIFO method. [Sec. 17024.5 and 24708] Annual Report Page 803
- c) Installment Sales. For individuals, California conforms to the federal changes for the 1987 taxable year, except that an exception is added to California law to allow individuals to elect to have Section 453C of

the Internal Revenue Code, relating to certain indebtedness treated as payment on installment obligations, not to apply. [Sec. 17024.5, 17552.5, and 17560] Annual Report Page 805

The Bank and Corporation Tax Law is conformed, for income years beginning on or after January 1, 1988. That action was taken in SB 85 (Stats. 1986, Ch. 660) [Current Law Sec. 24667-24669, and 24673.5] Annual Report Page 805

- d) Capitalization Rules Relating to Inventory. California conforms to federal changes which include the adoption of uniform rules for capitalization of costs related to inventories. [Sec. 17024.5, 24373.5, 24422.3, 24652, 24653, 24681, 24701, and 24966.1] Annual Report Page 809
- e) Long-Term Contracts. California conforms to the federal changes relating to capitalization rules for long-term contracts and new limitations on use of the completed contract method. [Sec. 17024.5, 24673.2, 24683, 24684, 24686, 24686.2, and 24686.4] Annual Report Page 820
- f) Bad Debt Reserves (Nonfinancials). For individuals, California conforms to the new federal limitations on use of bad debt reserves for the 1987 taxable year.

The Bank and Corporation Tax Law is conformed, for income years beginning on or after January 1, 1988. That action was taken in SB 85 (Stats. 1986, Ch. 660) [Current Law Sec. 24348] Annual Report Page 805

- g) Taxable Years. California conforms to the new federal rules regarding adoption of a calendar year as the taxable year of trusts and certain pass-through entities. [Sec. 17024.5, 17551.5 and 24633.5] Annual Report Page 827 and 1402
- h) Qualified Discount Coupons. California conforms to the new federal limitation that denies a deduction for discount coupons redeemed after the close of the taxable year. [Sec. 17024.5 and 24687] Annual Report Page 830
- i) Accounting Method for Utility Services. California conforms to the federal changes which require a utility to include sales in the taxable year in which the services were

provided to the customer. [Sec. 17024.5, 24661, and 24662] Annual Report Page 832

- j) Discharge of Indebtedness. California conforms to federal changes which limit the exclusion from income to insolvent taxpayers and farmers who are treated as being insolvent. [Sec. 17024.5, 24307, and 24918] Annual Report Page 836
- k) Extension of At-Risk Rules to Real Estate. California conforms to the extension of the existing "at-risk" rules to real estate. [Sec. 17024.5] Annual Report Page 501.
- l) Treatment of Foreign Taxpayers. California conforms to federal changes (Act Section 1246) with respect to certain treatments of foreign taxpayers. [Sec. 18807 and 24967]
- m) Foreign Currency Transactions. California conforms to federal changes (Act Section 1261) with respect to foreign currency transactions. [Sec. 17078] Annual Report Page 1259

2. Pension Plans

- a) California conforms to the many changes in federal law relating to qualification of pension and employee benefit plans. [Sec. 17027, 23701n, 23701r, 23701s, 24272.2, 24601-24615, and U. I. Code Sec. 13009 and 13050]
- b) Taxation of Distributions. California conforms to federal changes relating to the taxation of partial and lump-sum distributions. [Sec. 17024.5, 17082, 17084, 17085, and 17503-17507] Annual Report Page 1164
- c) Deferred Annuity Contracts. California conforms to federal changes relating to computation of income on deferred annuity contracts. [Sec. 17024.5, 17082, 17085, and 24272.2] Annual Report Page 1118

3. Capital Gains

- a) Repeal of Capital Gain Deduction. California conforms to federal changes which include the entire amount of capital gains in gross income. [Sec. 17024.5, 17072, 17240, 17244, 18162.5, 18169, 18173, 18176, 24902.1, and 24903] Annual Report Page 301

Note: Additional changes relating to capital gains appear on Page 9.

- b) Liberalization of Stock Option Rules.
California conforms to federal changes which apply the \$100,000 limitation to the year of first right to exercise, rather than year in which granted, and remove the restriction that options be exercised in the order granted. [Sec. 17024.5 and 23051.5] Annual Report Page 304
 - c) Year-End Rules for Qualified Covered Calls.
California conforms to federal changes regarding losses on disposition of stock. [Sec. 17024.5] Annual Report Page 306
4. Life Insurance -- California conforms to the federal repeal of the \$1,000 exclusion on amounts in excess of death benefits. [Sec. 17024.5 and 23051.5] Annual Report Page 1001
5. Other Provisions Affecting INDIVIDUALS
- a) Scholarships and Fellowship Grants.
California conforms to federal changes which limit the income exclusion to candidates for a degree and eliminate the exclusion for amounts received as payments for performance of present or future services. [Sec. 17024.5] Annual Report Page 120
 - b) Prizes and Awards. California conforms to the new federal limitations on achievement awards and limits the exclusion of qualified awards to an employee to the amount that is deductible by the employer. [17024.5 and 24443] Annual Report Page 122
6. Other Provisions Affecting CORPORATIONS
- a) Treatment of Extraordinary Dividends.
California conforms to federal changes which require a reduction of basis in situations where the stock has been held for less than two years. [Sec. 23051.5] Annual Report Page 606
 - b) Stock Redemption Payments. California conforms to federal changes which deny a deduction for amounts paid or incurred in connection with a redemption of stock. [Sec. 17024.5 and 24343] Annual Report Page 609
 - c) Limitations on Net Operating Loss Carryovers.
California conforms to new limitations on the

deduction of net operating losses after a change in ownership. [Sec. 24591-24593] Annual Report Page 611

- d) Gain or Loss on Liquidations (General Utilities Rule). California conforms to the repeal of the General Utilities Rule which allowed nonrecognition of gain in certain corporate liquidations. [Sec. 17024.5, 24457, 24481-24497, 24502-24520, 24551, 24561, 24585, and 24989] Annual Report Page 621
- e) Allocation of Purchase Price. California conforms to the denial of the formula method for allocating good will to the purchase of assets of a going concern. [Sec. 24966.2] Annual Report Page 626
- f) Related Party Sales. California conforms to federal changes which reduce the ownership requirement from 80 percent to 50 percent in determining related parties. [Sec. 17024.5 and 23051.5] Annual Report Page 628
- g) Real Estate Investment Trusts (REITs). California conforms to numerous federal changes with respect to the taxation of Real Estate Investment Trusts. [Sec. 17740, 24413, 24413.2, and 24413.3] Annual Report Page 633
- h) Regulated Investment Companies. California conforms the Bank and Corporation Tax Law to revisions in federal law relating to Regulated Investment Companies. [Sec. 23701m] Annual Report Page 638
- i) Structured Settlements. California conforms to federal changes that limit rules relating to structured settlement agreements to claims involving physical injury or physical sickness. [Sec. 17515 and 23051.5] Annual Report Page 1003

B. Nonconformity to Tax Reform Act of 1986

1. Foreign Provisions

- a) Sourcing Rules for Sales of Personal Property. California did not conform to federal changes regarding sourcing of income from sales of personal property. (Act Sec. 1211)
- b) Allocation Rules for Expenses. California did not conform to federal changes regarding sourcing of various expenses to foreign sources. (Act Sec. 1215)

- c) Allocation Rules for Research Expenses.
California did not conform to federal changes regarding allocation of research expenses between the United States and foreign sources. (Act Sec. 1216)
- d) Tax Haven Income. California did not conform to federal changes regarding taxation of "Tax Haven" income. (Act Sec. 1221)
- e) Intangibles Transferred to Related Parties.
California did not conform to federal changes regarding the transfer of intangibles to related parties. (Act Sec. 1231)

2. Individuals

- a) Unemployment Compensation -- California did not conform and retains a full exclusion from gross income. (Sec. 17083) Annual Report Page 118
- b) Tax-Exempt Bonds -- California did not conform to the provisions of Title XIII of the Tax Reform Act of 1986, relating to tax-exempt bonds. (Sec. 17143) Annual Report Page 1300

3. Corporations

- a) Contributions in Aid of Construction.
California did not conform to the federal repeal of the exclusion from income of contributions in aid of construction to a regulated public utility. Annual Report Page 834
- b) Banks and Financial Corporations -- California did not conform to Title IX of the Tax Reform Act of 1986, relating to banks and financial corporations.
 - 1) Bad Debt Reserves of Large Banks.
California did not conform to the federal repeal of the reserve method for computing bad debts of large banks. (Act Section 901) Annual Report Page 901
 - 2) Bad Debt Reserves of Thrift Institutions.
California did not conform to the new federal limitations on computation of bad debts for thrift institutions. (Act Section 901) Annual Report Page 906
 - 3) Interest Expense Allocable to Tax-Exempt Obligations. California did not conform to the new federal rules for financial

corporations regarding allocation of interest expense to tax-exempt obligations since, under The Bank and Corporation Franchise Tax, all interest income is included in the measure of tax. (Act Section 902) Annual Report Page 910

- 4) Net Operating Losses for Financial Institutions. This provision is not applicable to California, since California did not previously allow net operating losses. (Act Section 903)
- 5) Reorganization Rules for Financial Institutions. California did not conform to the repeal of special rules for reorganization of troubled financial institutions, since California had never adopted similar rules. (Act Section 904) Annual Report Page 914
- 6) Self-Insured Medical Malpractice Insurance Pools. No language is included in California to adopt the provisions of Act Section 1031 of the Tax Reform Act of 1986, which encourages membership in self-insured medical malpractice insurance pools. However, Section 24415 of current law appears to be adequate.

C. Repeal of Pre-Existing Differences

1. Electing Small Business Corporations -- California conforms to federal provisions relating to the treatment of S Corporations, with some modifications. (Sec. 17024.5, 17072, 17087.5, 18001.5, 18175, 23053.5, and 23800-23810)
 - a) S Corporation is subject to 2.5 percent tax on corporate income, or minimum tax, or alternative minimum tax, whichever is greater. For 1987 only, S Corporations are subject to a 0.5 percent "add-on" preference tax. For 1988 and subsequent years, the AMT tax rate for S Corporations is 2.0 percent.
 - b) Must have valid election for federal purposes.
 - c) Cannot be member of combined report (unless ownership of all members is identical).
 - d) If any nonresident shareholders (or fiduciaries), the corporate return must include consent forms and an estimated tax payment (9.3 percent) for the income allocable to the nonresidents.

2. Capital Gains

- a) Small Business Stock -- California repealed the special exclusion of gain from the sale or exchange of small business stock for transactions occurring after September 30, 1987. (Sec. 17072, 18152, 18161, 18162.5, 24342, and 24904)
- b) Residential Rentals -- Gains are fully included in gross income, but a new tax credit is available. See Page 26 (Sec. 17061.5)
- c) Farm Property -- Gains are fully included in gross income, but a new tax credit is available. See Page 26. (Sec. 17061.5)
- d) Community Property -- California repealed the exception that limited the surviving spouse's basis to one-half of the fair market value. (Sec. 18033)
- e) Low-Income Housing -- California repealed the exception to IRC Section 1039, relating to nonrecognition of gain on certain sales of low-income housing, and has enacted additional provisions that expand the nonrecognition of gain to other qualified projects. (Sec. 18035, 18035.5, 18172, 24953, and 24953.5)

3. Capital Losses

- a) Individuals -- California repealed its \$1,000 loss limitation and conforms to the \$3,000 limitation under federal law. (Sec. 17024.5 and 18152-18155)

California added a new limitation on losses of small business stock sold or exchanged prior to October 1, 1987. Losses on stock held more than one year, but not more than three years are reduced by 35 percent and losses from stock held more than three years are reduced to zero. [Sec. 18152]

- b) Corporations -- California retains the full deduction of capital losses. (Sec. 24902)

4. Imputed Interest -- California repealed existing exceptions to federal law and provides that the amount reported on the state return should be the same amount as reported on the federal return. An adjustment is required on the return for the year in which the obligation matures or is otherwise disposed. (Sec. 17020.1, 17020.2, 17020.3,

17020.4, 17024.5, 23045.1, 23045.2, 23045.3,
23045.4, 23051.5, and 24726)

5. Original Issue Discounts -- California repealed existing exceptions to federal law. (Sec. 17224, 18177, 18178, 18681.5, 18803.2, 24272.5, 24344.5, 24439, 24903, 24990-24994, and 25957.3)
6. Lump-Sum Distributions -- California repealed its separate rules for 5-year and 7-year averaging and conforms to federal law. Thus California will now impose a separate tax on lump-sum distributions and will allow such distributions to be subtracted from adjusted gross income. (Sec. 17024.5, 17072, 17085, and 17505)
7. Military Pay -- California repealed its \$1,000 exclusion from income for military pay from active duty, retirement, and the reserves. Also repealed is the exclusion for National Guard members during certain periods of active duty. However, a new tax credit is available to replace this exclusion. See Page 24. (Sec. 17138, 17139, 17140, and 17142)
8. Age 65 Exclusion -- California repealed its separate provision that allowed persons age 65 and older to exclude \$1,000 from gross income if their adjusted gross income was \$25,000 or less. However, a new tax credit (additional personal exemption) has been added to replace this exclusion. See Page 19. (Sec. 17134)
9. Alimony -- California repealed its nonconformity to federal changes in the Tax Reform Act of 1984 and now follows federal law. (Sec. 17090, 17091, 17205, and 17737)
10. Ridesharing -- California repealed its separate provision which allowed an exclusion from income for the benefits received by an employee engaged in a employer sponsored ridesharing program. (Sec. 17149)
11. Golden Parachutes -- California repealed its exception to federal law which establishes a threshold for determining whether or not certain lump-sum payments are classified as compensation. (Sec. 17288)
12. Enterprise Zones and Program Areas -- California has amended its provision relating to the exclusion of certain interest income from investments in Enterprise Zones and Program Areas to provide that the provision is automatically repealed as of January 1, 1993. (Sec. 17231)

13. Capital Gain Dividends. California conforms to federal law. [Sec. 23701m]
14. Property Transferred for Services. California conforms to federal law with respect to property transferred in connection with the performance of services. [Sec. 24379]

III. CHANGES AFFECTING DEDUCTIONS

A. Conformity to Tax Reform Act of 1986

1. Itemized Deductions -- California, in general, conformed to all of the federal changes relating to itemized deductions.

- a) Nonbusiness Interest Expense. California conforms to the federal denial of a deduction for nonbusiness interest expense, including the phase-in rules. [Sec. 17024.5]
- b) State and Local Sales Tax. California conforms to the elimination of the itemized deduction for sales tax (Sec. 17024.5 and 17220).

California also conforms to the federal change to require capitalization of sales tax incurred in the acquisition of property used in a trade or business (Sec. 17024.5, 24345, and 24916).

California also amends provisions relating to Enterprise Zones and Program Areas to deny an adjustment to basis for sales taxes claimed as a credit against California taxes (Sec. 17052.13, 18036 and 23612). Annual Report Page 124

- c) Increase in Floor for Medical Expense Deductions. California conforms to the federal change, increasing the floor from 5 to 7.5 percent of federal AGI. [Sec. 17024.5] Annual Report Page 126
- d) Repeal of Deduction for Adoption Expenses. California conforms to the federal repeal of this provision. [Sec. 17211] Annual Report Page 127
- e) Limitations on Employee Business Expenses and Miscellaneous Itemized Deductions. California conforms to federal changes which limit the deduction of certain expenditures, including those of outside salespersons, by (1) allowing such expenses to be deducted only as itemized

deductions and (2) further limiting the deduction of such expenses as itemized deductions to the amount which exceeds 2 percent of federal AGI. [Sec. 17076] Annual Report Page 136

- f) Certain Deductions of Clergy and Military Personnel. California conforms to the federal enactment of a specific provision to continue the allowance of deductions for housing expenses in situations where they would otherwise be denied because of the receipt of a tax-exempt housing allowance. [17024.5 and 17280] Annual Report Page 128
- g) Limitations on Hobby Losses. California conforms to federal changes which modify the presumption of profitability test and which subject these expenditures to the new 2 percent floor on miscellaneous deductions and limit such expenses to the amount of net income generated by the "business" activity. [Sec. 17024.5] Annual Report Page 141
- h) Losses on Deposits in Insolvent Financial Institutions. California conforms to the federal change that allows individuals to claim a casualty loss for losses on deposits in financial institutions. [Sec. 17024.5] Annual Report Page 916
- i) Cooperative Housing Corporations. California conforms to the new federal provisions that allow tenant stockholders to deduct their proportionate share of the cooperative's real estate taxes and interest. [Sec. 17225 and 24382] Annual Report Page 631

2. Business Expenses -- California, in general, conformed to all of the federal changes relating to deduction of business expenses.

- a) Limitations on Expenses for Meals and Entertainment. California conforms to federal changes which add new restrictions with respect to qualification for the deduction and also limit the deduction of qualified expenses to 80 percent of the actual expenditures. [Sec. 17024.5, 24443, 24444, 24445, 24445.5, and 24446] Annual Report Pages 129 and 131
- b) Limitations on Travel and Investment Expenses. California conforms to federal changes which add new restrictions with respect to qualification for the deduction and also limit the deduction of qualified expenses to 80

percent of the actual expenditures. [Sec. 17024.5, 24343, 24357, 24443, 24444, 24445, 24445.5, and 24446] Annual Report Page 133

- c) Limitations on Business Use of Home.
California conforms to federal changes which add new restrictions with respect to qualification for the deduction and also limit such expenses to the amount of net income generated by the business activity. [Sec. 17024.5] Annual Report Page 139
- e) Health Insurance Premiums for Self-Employed.
California conforms to the new federal provision which allows self-employed individuals to deduct as a business expense up to 25 percent of amounts paid for health insurance for the self-employed individual, spouse, and dependents. [Sec. 17024.5] Annual Report Page 1202
- f) Interest Deduction on Policyholder Loans.
California conforms to federal changes which deny an interest deduction on loans of more than \$50,000 to employees, officers, or owners. [Sec. 17024.5 and 24424] Annual Report Page 1004

- 3. Passive Losses and Credits -- California conformed to the federal changes relating to limitations on current deduction of passive losses and credits, including the limited exclusion for certain real estate losses. [Sec. 17024.5 and 24692] Annual Report Page 503
- 4. Farmers -- California, in general, conformed to all of the federal changes relating to farming.
 - a) Soil and Water Conservation Expenses.
California conforms to federal changes which require expenses to be consistent with conservation plans approved by the Soil Conservation Service of the Department of Agriculture. [Sec. 17024.5 and 23051.5] Annual Report Page 401
 - b) Land Clearing Expenses. California conforms to the repeal of the federal deduction for land clearing expenses. However, the state repeal is effective only for years beginning after December 31, 1986, whereas the federal provision was repealed for years beginning after December 31, 1985. [Sec. 17024.5] Annual Report Page 403

- c) Wetlands and Erodible Croplands. California conforms to federal changes which treat gain on disposition of certain wetlands as ordinary income and loss as long-term capital loss. [Sec. 17024.5 and 24902.2] Annual Report Page 404
 - d) Preproductive Period and Replanting Expenses. California conforms to federal changes relating to capitalization and current expensing of various farming expenses. [Sec. 17024.5, 17261, 24422.5 and 24682] Annual Report Page 406
 - e) Prepayments of Certain Farming Expenses. California conforms to federal changes relating to the prepayment of certain farming expenses. [Sec. 17024.5 and 24682] Annual Report Page 409
 - f) Discharge of Indebtedness by Certain Farmers. California conforms to federal changes relating to the discharge of indebtedness by certain farmers. [Sec. 17024.5, 24307, and 24918] Annual Report Page 411
5. Natural Resources -- California, in general, conformed to all of the federal changes relating to natural resources. However, California retained pre-existing differences relating to oil and gas.
- a) Taxation of Gains on Cutting of Timber. California does not directly incorporate the federal act language which allows revocation of the capital gains election without permission of the Secretary. However, since California law does not preclude such an election, the structure of California law is such that the federal election will also apply for state purposes. [17024.5 and 23051.5] Annual Report Page 413
 - b) Limitation on Intangible Drilling Costs. California conforms to the federal change which requires 30 percent of intangible drilling costs to be capitalized and amortized over 60 months and requires that foreign costs be capitalized and amortized over 10 years. [Sec. 24423 and 24449] Annual Report Page 415
 - c) Recapture of Intangible Drilling Costs. California conforms to the federal changes that require recapture of intangible drilling costs. [Sec. 17681 and 24831] Annual Report Page 417

- d) Lease Bonuses and Advance Royalties. California conforms to the federal changes which deny the deduction of percentage depletion for certain payments having no regard to actual production. [Sec. 17681 and 24831] Annual Report Page 416
- e) Limitation on Exploration and Development Costs. California conforms to the federal change which requires 30 percent of mining exploration and development costs to be capitalized and amortized over 60 months. [Sec. 17681 and 24831] Annual Report Page 419
- f) Recapture of Exploration and Development Costs. California conforms to the federal changes that require recapture of mining exploration and development costs. [Sec. 17681 and 24831] Annual Report Page 422
- g) Limitation on Percentage Depletion of Coal and Iron Ore. California conforms to the federal change that requires the percentage depletion for coal or iron ore in excess of adjusted basis to be reduced by 20 percent. [Sec. 17681 and 24831] Annual Report Page 421

6. Pensions

- a) Employee Funded Tax-Exempt Trusts. California conforms to federal changes allowing employees to make contributions to certain tax-exempt trusts. [Sec. 17024.5 and 23701s] Annual Report Page 1128
- b) Employer Deductions for Contributions. California conforms to federal changes relating to employer deductions for contributions to qualified plans. [Sec. 17024.5] Annual Report Page 1177
- c) Additions to Reserve for Accrued Vacation Pay. California conforms to federal changes limiting the time period for making contributions to a reserve account for vacation pay. [Sec. 17024.5, 24274, and 24685] Annual Report Page 1212

- 7. Amortizable Bond Premiums. California conforms to federal changes which treat amortizable bond premiums as payments of interest. [Sec. 17024.5] Annual Report Page 630

B. Nonconformity to Tax Reform Act of 1986

1. Corporate Bad Debts -- California partially conformed to the federal changes which eliminated the use of bad debt reserves, effective for income years beginning on or after January 1, 1988, in SB 85 (Stats. 1986, Ch. 660). California law applies the new limitations only to regular corporations. All banks and financial corporations are allowed to continue the reserve method. (Current Law Sec. 24348)
2. Business Expenses in Certain Clubs -- California adopted a new provision, effective January 1, 1990, which denies a deduction for expenses incurred in connection with a club which engages in discriminatory practices. (Sec. 17269 and 24343.2 of the Revenue and Taxation Code, and Section 23438 of the Business and Professions Code)
3. Amortization of Motor Carrier, Bus, and Freight Forwarding Operating Authorities. California did not conform to the federal changes, but continues existing state tax policy (no provision). Annual Report Page 239
4. Contributions of Scientific Property to Schools. California did not conform to federal changes, but retains the current state provisions which are similar to federal law. [Current Law Sec. 24357.8, 24357.9, and 24358] Annual Report Page 234

C. Repeal of Pre-Existing Differences

1. Net Operating Losses -- California repealed its provisions which limited the deduction of net operating losses to new small businesses, farmers, and qualified businesses in Program Areas and Enterprise Zones.

California now conforms to federal law, except that California allows only 50 percent of losses to be carried forward and does not allow any carryback to prior years. (Sec. 17276, 17276.5, 24416, and 24417)

Losses from 1985 and 1986 can be carried forward only to 1987, 1988, and 1989.

Losses incurred in taxable (income) years beginning on or after January 1, 1987, can be carried forward for 15 years, including losses of commercial banks which are limited to a 5 year carry forward under federal law.

As under federal law, an S Corporation is not entitled to a net operating loss deduction, nor can its losses be carried forward to another year.

2. Depreciation and Amortization

a) Individuals -- In general, California conforms to federal law for property placed in service on or after January 1, 1987.

1) Modification of Cost Recovery System (ACRS). California repealed its exception to federal law which limited the use of ACRS to certain residential rental property. Thus, California now conforms to the new federal recovery classes, allowable methods, accounting rules, and Alternative Cost Recovery System. [Sec. 17024.5, 17250, 17250.5, 17254, 17255, and 18037] Annual Report Page 202

2) Expensing of Certain Business Assets. California conforms to federal changes which allow expensing of up to \$10,000 of new business assets placed in service. [Sec. 17024.5, 17252, 17252.5, and 17260] Annual Report Page 222

3) Trademarks and Trade Names. California conforms to the federal repeal of the 60 month amortization of expenses for trademarks and trade names. [Sec. 17024.5] Annual Report Page 236

b) Corporations -- California has not conformed to federal law and continues to use the mid-range ADR provisions. (Current Law Sec. 24349- 24356.2)

However, the old ACRS or new ACRS, as applicable, can be used for residential rental property on which construction is commenced on or after July 1, 1985, and before July 1, 1988. (Current Law Sec. 24349.5)

3. Depletion -- California repealed its entire chapter relating to natural resources and adopted the federal provisions by reference for both individuals and corporations, except that California retains its different rules for percentage depletion of oil, gas, and geothermal wells. (Sec. 17681-17720 and 24831-24840)

4. Pension Plans

- a) Individual Retirement Accounts (IRA's) -- California conforms to the federal changes relating to deductions for contributions to IRAs and acquisition of basis for nondeductible contributions. (Sec. 17085, 17272, 17508, and 18681.9) Annual Report Page 1102
- b) Qualified Cash or Deferred Arrangements. California conforms to the new federal limitations on deductions to qualified cash or deferred arrangements. [Sec. 17024.5] Annual Report Page 1108
 - 1) Keogh's -- California repealed its exception to federal law which previously limited deductions to \$2,500. (Sec. 17513)
 - 2) Defined Benefit Plans -- California repealed its exceptions to federal law which previously limited deductions to an amount which was equivalent to the Keogh deduction. (Sec. 17503, 17510, and 17513)
 - 3) Defined Contribution Plans -- California repealed its exceptions to federal law which previously limited deductions to an amount which was equivalent to the Keogh deduction. (Sec. 17510 and 17513)
- c) Reduce Limitations on Contributions to Tax-Sheltered Annuities. California conforms to the new federal limitations on contributions to tax-sheltered annuities. [Sec. 17024.5] Annual Report Page 1121

5. Charitable Contributions

- a) AGI Limitation -- California repealed its 20 percent limitation on charitable contributions. (Sec. 17240 and 17241)
- b) Artistic Property -- California repealed its exception to federal law which allowed the artist to value contributions at fair market value. (Sec. 17240 and 17243)
- c) Certain Students -- California repealed the special tax credit for certain students residing with the taxpayer and now conforms to federal law which allows deduction of up to

\$50 per month as a charitable contribution.
(Sec. 17054.5, 17054.6, and 17240)

6. Political Contributions -- California repealed the deduction for political contributions, however, a new tax credit is available. See Page 27. (Sec. 17240, 17245, 17672, and 17852) Annual Report Page 142
7. Architectural Barriers for the Elderly and Handicapped California repealed its separate provision which permitted the deduction of nonbusiness expenses (unlike federal law) for removal of architectural barriers and certain other expenses related to the elderly and handicapped. (Sec. 17262 and 17270) Annual Report Page 241
8. Travel in the Caribbean Basin -- California repealed its exception to federal and now allows the deduction of travel expenses to the Caribbean Basin to the same extent as allowable under federal law. (Sec. 17270 and 24443)
9. Ridesharing -- California repealed its separate provision which allowed a deduction by employers to expenses to subsidize employees participating in vanpools and commuter buses. (Sec. 24343.5)
10. Vineyard and Orchards -- California repealed its separate provisions relating to the capitalization of certain expenses in connection with the planting and development of vineyard and certain fruit and nut groves. (Sec. 17261, 24422.5, and 24682)
11. Enterprise Zones -- California repealed (for individuals, but not corporations) the provision allowing immediate expensing of certain property in an Enterprise Zone. This provision was repealed because the immediate expensing under the revised California law (IRC Sec. 179) is greater than that allowed under the former state provision. (Sec. 17252.5)
12. Program Areas -- California retained (for both individuals and corporations) the provision allowing immediate expensing of certain property in a Program Area, because it is more beneficial than the deduction under IRC Sec. 179. However, California has added an automatic repeal date (for individuals, but not corporations) of January 1, 1993. (Sec. 17265)

IV. CHANGES AFFECTING COMPUTATION OF TAX

A. Individuals

1. New Tax Brackets and Rates -- California conforms in concept to the federal change by reducing the number of tax brackets from 12 to 6 and by reducing the top marginal tax rate from 11.0 percent to 9.3 percent. California indexing provisions are modified to provide that bracket amounts shall be rounded to the nearest \$1 (rather than nearest \$10). (Sec. 17041, 18654, and 18681.6) Annual Report Page 102

1987 TAX RATE SCHEDULE

<u>Tax Rate</u>	<u>Single or Separate</u>	<u>Joint or Surviving Spouse</u>	<u>Head of Household</u>
1 %	1 - 3,650	1 - 7,300	1 - 7,300
2 %	3,651 - 8,650	7,301 - 17,300	7,301 - 17,300
4 %	8,651 - 13,650	17,301 - 27,300	17,301 - 22,300
6 %	13,651 - 18,950	27,301 - 37,900	22,301 - 27,600
8 %	18,951 - 23,950	37,901 - 47,900	27,601 - 32,600
9.3 %	23,951 and over	47,901 and over	32,601 and over

2. Standard Deduction -- California has partially conformed to federal law by repealing the zero bracket amount and returning to a standard deduction. However, California has not conformed to the federal dollar amounts. For 1987 the dollar amounts will be similar, but not the same. For 1988 and subsequent years, the California amounts will be substantially lower than the federal amounts. The amounts for 1987 are shown below and will not be increased for 1988 other than being indexed for inflation. (Sec. 17041, 17073, and 17073.5) Annual Report Pages 105 and 107

Standard

Deduction

<u>Filing Status</u>	<u>1987 Amount</u>
Single or Married Separate	\$ 1,880
Married Joint, Head of Household, or Surviving Spouse	\$ 3,760

The amounts shown above are not increased (as under federal law) if the taxpayer is elderly or blind.

3. Personal Exemptions -- California conforms in concept to the federal changes which increase the dollar amount of personal exemptions and to deny an exemption for a person who is eligible to be claimed as a dependent upon the tax return of another person. However, California continues to allow credits against the tax rather than deductions from income (as under federal law). The new credit amounts for 1987 and 1988 are shown below. Beginning in 1989 the 1988 amounts will be indexed for inflation. (Sec. 17054) Annual Report Page 109

<u>Filing Status</u>	<u>1987 Amount</u>	<u>1988 Amount</u>
Single or Married Separate	\$ 51	\$ 52
Married Joint, Head of Household, or Surviving Spouse	\$102	\$104
Each Dependent ¹	\$ 51	\$ 52
Each Person Age 65 or Blind ¹	\$ 51	\$ 52

¹These credits are in addition to the basic credit for personal exemptions.

4. Filing Status -- California repealed its unique filing status for Joint Custody Head of Household. However, a new tax credit has been added for these individuals. See Page 26. (Sec. 17042, 17042.5, 17043, and 18410)
5. Taxation of Minor Children -- California conforms to federal rules which look to the marginal tax rate of the parent for taxing unearned income of minor children. (Sec. 17041) Annual Report Page 1408
6. Income Averaging -- California conforms to federal law by repealing the provisions allowing income averaging. (Sec. 18241-18245) Annual Report Page 115
7. Indexing of Tax Brackets, Exemptions, and Standard Deduction. California retains the existing state provisions for indexing of tax brackets (Sec 17041), exemptions (Sec. 17054), and the new standard deduction (Sec. 17073.5). Annual Report Page 112

B. Corporations

1. Tax Rates -- California conforms in concept to the federal changes by reducing the tax on general

corporations from 9.6 to 9.3 percent. Banks and financial corporations receive an equivalent reduction. (Sec. 23151, 23181, and 23501) Annual Report Page 601

2. Minimum Tax

- a) General and Financial Corporations -- California has increased the minimum tax as shown below. (Sec. 23151, 23153, 23181, and 23184)

<u>Income Years Beginning In</u>	<u>Minimum Tax</u>
1987 or 1988	\$ 300
1989	\$ 600
1990 and subsequent	\$ 800

- b) Limited Partnerships -- California has added a new tax on limited partnerships for the privilege of doing business in this state. Limited partnerships are now subject to the minimum tax shown above. (Sec. 17851, 23041, 23042, and 23081)
- c) Real Estate Mortgage Investment Conduits (REMIC) -- California law now provides that REMICs are subject to the minimum tax (as shown above). (Sec. 24872)

C. Nonconformity

- 1) Asset Reversions. California did not conform to the imposition of an excise tax on recipients of asset reversions under a qualified plan. Annual Report Page 1180
- 2) Penalty for Overstatement of Pension Liabilities. California did not conform to the new federal penalty for overstatement of the deduction for pension liabilities. Annual Report Page 1189

V. CHANGES AFFECTING PREFERENCE (ALTERNATIVE MINIMUM) TAX
(Sec. 17062-17064.8 and 23400-23405)

California has adopted the federal AMT provisions, effective for individuals with taxable years beginning on or after January 1, 1987, and for banks and corporations with income years beginning on or after January 1, 1988. The existing "add-on" preference tax will continue to apply to banks and corporations for income years beginning in 1987.

A. Alternative Minimum Taxable Income

1. Private Activity Bonds -- California has enacted an exception providing that an adjustment for Private Activity Bonds is required only for those bonds on which the interest is exempt from taxation under California Law. (Sec. 17062 and 23400)
2. Net Operating Losses (computational difference) Although California has adopted the federal rules, the amount of the carryovers will differ because California allows only 50 percent of the losses to be carried forward, does not allow carrybacks, has special rules for losses incurred in 1985 and 1986, and was not previously conformed to federal law.
3. Depreciation (computational difference) -- Although California has adopted the federal rules for assets placed in service on or after January 1, 1987, there were many differences between state and federal law for assets acquired prior to 1987. Thus, the difference between regular depreciation and the amount allowable under the Alternative Depreciation System will frequently be different.

B. Alternative Minimum Tax Rate -- California has adopted a 7.0 percent flat rate for both individuals and corporations. No credits are allowed in computing AMT. Unlike federal law, S Corporations are also subject to the alternative minimum tax. The tax rate for S Corporations is 2.0 percent (0.5 percent preference tax for 1987). (Sec. 17062 and 23400)

C. Alternative Minimum Tax Credit -- California conforms in concept to federal law by allowing a tax credit for the difference between the alternative minimum tax and the regular tax. The amount of the credit will, of course, be different. (Sec. 17063 and 23401)

VI. CHANGES AFFECTING CREDITS AGAINST THE TAX

A. Repeal of Certain Tax Credits

1. Pollution Control Abatement Equipment of Metal Finishers. (Sec. 17052.2 and 23604)
2. Ridesharing Arrangements. (Sec. 17053, 17053.1, and 23605)
3. Solar Pumps. (Sec. 23607)

B. Modification of Certain Tax Credits

1. Household and Dependent Care -- California has increased the "Child Care" Credit to an amount equal to 30 percent of the federal credit,

regardless of income level. This credit is repealed as of January 1, 1993. (Sec. 17052.6)

2. Low-Income Credit -- California has modified this credit to eliminate the gross income test and added an automatic repeal date of January 1, 1992. (Sec. 17069)
3. Elderly and Disabled -- California has modified this credit by adding a automatic repeal date of January 1, 1992. (Sec. 17052.9)
4. Sales Tax on New Property - Enterprise Zones -- California has modified these credits to deny an adjustment to basis for the amount of sales taxes paid and by adding automatic repeal dates of January 1, 1993. (Sec. 17052.13 and 23612)
5. Wages Paid - Enterprise Zones -- California has modified these credits by adding automatic repeal dates of January 1, 1993. (Sec. 17053.8 and 24331)
6. Wages Paid - Program Areas -- California has modified these credits by adding automatic repeal dates of January 1, 1993. (Sec. 17053.11 and 24333)
7. Wages Received - Enterprise Zones -- California has modified this credit by adding an automatic repeal date of January 1, 1993. (Sec. 17053.9)

C. Addition of New Tax Credits

1. Research and Development Expenses. California conforms to the federal credit, except as shown below. (Sec. 17052.12 and 23609) Annual Report Page 232
 - a) The amount of the credit is equal to 8 percent of the incremental expenses and 12 percent of the basic (university) research payments.
 - b) The California credit is limited to amounts incurred on or after January 1, 1988, and paid or incurred before January 1, 1993.
 - c) The California credit is limited to research conducted in California.
 - d) The California credit for basic (university) research also includes payments for applied research.
2. Low-Income Housing -- California conforms to the federal credit, except as shown below. (Sec. 17058 and 23610.5) Annual Report Page 245

- a) The amount of the credit for new and existing property placed in service during 1987 is nine percent for each of the first three years and three percent for the fourth year, whether or not federally subsidized.

For property placed in service after 1987, the amount of the credit for the first three years is equal to the highest percentage allowable for federal purposes. For the fourth year, the amount of the credit is the difference between 30 percent and the sum of the percentages for the first three years.

No credit is allowed for state purposes after the fourth year (other than carryover credits).

- b) The low-income housing project must be located in California.
- c) The length of the compliance period for state purposes is 30 years rather than 15.
- d) The taxpayer's cumulative cash distribution on cash invested cannot exceed 8 percent per annum. Any cash in excess of this limitation must be used to reduce rents or to increase the number of rent restricted units.
- e) This section is repealed as of January 1, 1990, however taxpayers who have previously qualified will be allowed to continue to claim the credit for the remainder of the four year period. Any credits in excess of tax liability will continue to be available as carryover credits after January 1, 1990.

3. Clinical Testing of Certain Drugs -- California conforms to the federal credit, except as shown below. (Sec. 17057 and 23609.5)

- a) The amount of the credit is equal to 15 percent of the qualified clinical testing expenses.
- b) The California credit applies to taxable (income) years beginning on or after January 1, 1987, and before January 1, 1993.
- c) The California credit is limited to testing conducted in California.

4. Solar Energy -- This credit is basically a reenactment of the credit which expired at the end of 1986, except that it applies only to commercial

applications and the amount of the credit is equal to 12% for 1987 installations and 10% for 1988 installations. No credit (other than carryovers) is allowed after 1988. (Sec. 17052.4 and 23601.4)

5. Military Compensation -- This new credit replaces the previous exclusions from income. The amount of the credit is equal to four percent of the military compensation, not to exceed \$40. Qualifying compensation includes pay for active duty, reserve duty, retirement pay, and active duty pay of certain members of the National Guard. This credit is automatically repealed effective January 1, 1992. (Sec. 17053.13)

6. Capital Gains -- Although the capital gains exclusion has been repealed, a new credit against the tax has been enacted for two specific types of property. However, no credit is allowed (other than carryovers) after 1991.

a) Residential Rental Property -- For property held more than five years, this new credit is equal to 4.5 percent of the capital gain. For property held for more than one year, but not more than five years, the credit is equal to 3.0 percent of the capital gain. (Sec. 17061.5)

Qualifying residential rental property is property located in California which complies with the requirements of Section 167(j)(2)(B) of the Internal Revenue Code.

b) Farm Property -- For property held more than five years, this new credit is equal to 4.5 percent of the capital gain. For property held for more than one year, but not more than five years, the credit is equal to 3.0 percent of the capital gain. (Sec. 17061.5)

Qualifying farm property is property located in California which complies with the definition of "farm property" specified in Section 1252(a)(2) of the Internal Revenue Code.

7. Joint Custody Head of Household -- This new credit replaces the unique filing status of joint custody head of household. The amount of the credit is equal to 30 percent of the net tax, not to exceed \$200. The maximum limitation is indexed for inflation beginning in 1988. This credit does not include an automatic repeal date. (Sec. 17054.5)

B. Political Contributions -- This new credit is equal to 25 percent of the amount contributed, not to exceed \$25 (\$50 on a joint return). No credit (other than carryover credits) is allowed after 1991. (Sec. 17053.14)

D. New Federal Credits Not Adopted. California did not enact a credit for rehabilitation of historic structures. Annual Report Page 242

VII. OTHER CHANGES

A. Estimated Tax --

1) Increase Requirements for Estimated Tax Payments. California did not conform to the federal change which increases required payments of estimated tax from 80 to 90 percent of tax liability. [Sec. 18682] Annual Report Page 1528

2) Waiver of Estimated Tax Penalties. California conforms in concept to the federal provision that allows waiver of estimated tax penalties that are attributable to changes in the 1986 Tax Reform Act by waiving penalties attributable to changes in California. [Sec. 18682.5 and 25951.5] Annual Report Page 1532

B. Interest Rates -- California conformed to quarterly redetermination of the interest rates, but did not establish differential rates for overpayments and underpayments. (Sec. 19269 and 25901)

C. Penalties -- California generally conformed to federal changes relating to penalties.

1) Penalties Relating to Information Returns. California generally conforms to the simplification and consolidation penalties relating to failure to file information returns. [Sec. 17932, 18405, 18681.1, 18681.7, 18681.9, 18685.07, 18802, 18802.1, 18802.4, 18802.5, 18802.6, 18802.8, and 18803] Annual Report Page 1502

2) Penalty for Failure to Pay Tax. California did not conform to the federal change increasing the amount of this penalty. However, it does amend the Bank and Corporation Tax Law to conform to the Personal Income Tax Law. [Sec. 25934.2] Annual Report Page 1504

3) Negligence and Fraud Penalties. California conforms to the increase in the fraud penalty (from 50 to 75 percent) and partially conforms to other federal changes relating to these penalties. California does not, however, apply the negligence

penalty to failures to report when the amount disclosed on information returns is less than \$100. [Sec. 18684, 18685, 18698.5, 25934, and 25935] Annual Report Page 1506

- 4) Substantial Understatement of Tax Liability. California conforms to the federal increase in the penalty for substantial understatement of tax liability. [Sec. 17024.5 and 23051.5] Annual Report Page 1508

D. Tax Shelters

- 1) Registration of Tax Shelters. California conforms to federal changes with respect to the requirement to register tax shelters and the increase in the penalty for failure to register. [Sec. 17024.5] Annual Report Page 1521
- 2) Failure to Furnish Tax Shelter ID Number. California conforms to the increase in the federal penalty for failure to furnish on the return the tax shelter identification number. [Sec. 17024.5] Annual Report Page 1524
- 3) Failure to Maintain Lists of Investors. California did not conform to the federal change which increases the penalty for failure to maintain a list of investors, since the existing state penalty is already greater than the federal penalty. (Act Sec. 1534) Annual Report Page 1525
- 4) Interest on Tax Shelter Deficiencies. California conforms to the expansion of the special interest rate (120 percent of normal rate) to shams, as well as tax motivated transactions. [Sec. 19269] Annual Report Page 1526

E. Computation of Interest

- 1) Abatement of Interest. California conforms to the federal changes allowing abatement of interest where the Internal Revenue Service has unduly delayed collection of the tax. [Sec. 18688 and 25901b] Annual Report Page 1547
- 2) Suspension of Compounding of Interest. California did not conform to the federal changes relating to suspension of the compounding of interest when a taxpayer has waived rights to protest and appeal of an assessment. (Act Sec. 1564) Annual Report Page 1549

F. Information Returns -- California generally conformed to federal changes relating to information returns.

- 1) Information Returns on Real Estate Transactions. California did not conform to the new federal requirement for filing information returns on real estate transactions. (Act Sec. 1521) Annual Report Page 1512
 - 2) Information Returns on Government Contracts. California conforms, in concept, to the new federal requirement for filing information returns on contracts with the federal government by requiring state information returns on contracts with the State of California. [Sec. 18802.9] Annual Report Page 1514
 - 3) Information Returns for Royalty Income. California conforms to the federal change which requires information returns on royalty payments exceeding \$10. [Sec. 18802.6] Annual Report Page 1515
- G. Exempt Organizations -- California generally conformed to federal changes relating to exempt organizations, including the exemption of certain title-holding companies. [Sec. 23701u, 23732, and 23734-23735c]
- H. Transition Rules -- California enacted transition rules to insure that no taxpayer would be denied any carryover of a tax credit, excess contribution, or loss deduction to which the taxpayer was entitled under prior law. Other rules specify how to determine the adjusted basis of assets acquired prior to January 1, 1987. [Sec. 17029.5 and 23051.7]
- I. Voluntary Contributions -- California retained these provisions, but added automatic repealers as of January 1, 1992. (Sec. 18504, 18513, 18525, 18534, and 18765)
- J. Legal Procedures
- 1) Awards of Attorneys' Fees. California conforms to the federal changes relating to awards of attorney fees in litigation cases. [Sec. 19420 and 26491] Annual Report Page 1533
 - 2) Failure to Exhaust Administrative Remedies. California conforms to federal changes in the penalty for failure to exhaust administrative remedies. [Sec. 19414] Annual Report Page 1535
 - 3) Suspension of Statute of Limitations. California conforms to federal changes regarding suspension of the statute of limitations because of third party delays during the summons (subpoena) process. [Sec. 18586.7 and 25663d] Annual Report Page 1544.
 - 4) Exemption From Levy. California conforms to federal changes in allowing certain exemptions to a

tax levy. [Sec. 18817.3 and 26132.05] Annual Report Page 1551

K. Estates and Trusts

- 1) Tax Brackets of Estates and Trusts. California changes the tax brackets of estates and trusts, but only to the extent that they are modified for other taxpayers. [Sec. 17041] Annual Report Page 1401
- 2) Taxable Year of Trusts. California conforms to the federal requirement that all trusts must adopt a calendar taxable year. [Sec. 17024.5] Annual Report Page 1402
- 3) Ten-Year Exemption for Grantor Trusts. California conforms to the federal repeal of the 10-year exception for grantor trusts. [Sec. 17024.5] Annual Report Page 1404
- 4) Estimated Tax for Estates and Trusts. California did not conform to federal changes requiring payment of estimated taxes by estates and trusts. [Sec. 18682] Annual Report Page 1406

L. Internal Revenue Service Agents. California conforms to the federal provision which exempts IRS agents from certain recordkeeping requirements. Under California law, this provision also applies to special agents of state agencies. [Sec. 17135] Annual Report Page 1552

M. Tax Forms. California contains new provisions relating to the design of tax forms by the Franchise Tax Board. It directs the Franchise Tax Board to design forms which provide for taxpayers to copy figures from, or attach a copy of, their federal return (or portions thereof). It also directs the Franchise Tax Board to reduce the number of state schedules (by relying upon federal schedules) and to choose paper and ink that will facilitate the process of preparing tax returns (making copies). It also permits the Franchise Tax Board to utilize a separate schedule (rather than the primary return) for designation of voluntary contributions. [Sec. 18431.5, 19310, and 19311]

N. Disposition of California Real Estate. California adds new provisions relating to the disposition of California real estate by foreign persons. [Sec. 18805 and 26131]

O. Technical Corrections. California conforms to Act Sections 1800 through 1899A, inclusive, of the Tax Reform Act of 1986, relating to technical corrections of federal law. [AB 53 Act Sec. 187 and SB 572 Act Sec. 231]

P. Departmental Studies -- SB 572 (Garamendi) requires the Franchise Tax Board to conduct four studies:

- 1) Accelerated Cost Recovery System (ACRS) - by October 1, 1989. [SB 572 Act Sec. 236]
- 2) S Corporations - by October 1, 1989. [SB 572 Act Sec. 235]
- 3) Alternative Minimum Tax - by February 15, 1991. [SB 572 Act Sec. 233]
- 4) Net Operating Losses - by February 15, 1991. [SB 572 Act Sec. 234]

Q. Technical Corrections -- California also made technical changes in the following sections:

- 1) Sections 16702, 16704, and 16710. Generation Skipping Taxes.
- 2) Section 17020.9. Definition of a domestic building and loan association.
- 3) Section 17020.11. Definition of Motor Vehicle Lease.
- 4) Section 17021.5. Determination of marital status.
- 5) Section 17024.5. Two-Earner Married Deduction.
- 6) Section 17061.3. Tax Credit for Sales Tax on New Car (obsolete provision).
- 7) Section 17061.5. Tax Credit for 1979 SDI (obsolete).
- 8) Section 17072. Definition of Adjusted Gross Income.
- 9) Section 17073. Definition of taxable income.
- 10) Section 17087. Exclusion from income of Social Security and Railroad Retirement Benefits.
- 11) Section 17088. Transfer of property in connection with performance of services.
- 12) Section 17137. Exclusion from income for certain ship contractors.
- 13) Section 17143. Taxation of interest income on federal obligations.
- 14) Section 17144. Dividend Exclusion.

- 15) Section 17225.5. Denial of deduction for taxes paid by covenant bonds.
- 16) Section 17250. Depreciation of railroad property.
- 17) Section 17323. Reinvestment of dividends in a public utility.
- 18) Section 17651. Tax on unrelated business income.
- 19) Section 18040. Nonrecognition of gain on disposition of certain vessels.
- 20) Section 18401. Filing Requirements
- 21) Section 18402. Filing Requirements
- 22) Section 18684.2. Penalty for failure to pay tax.
- 23) Section 20503. Definition of Income (SCPTA Program).
- 24) Section 23045.5. Definition of Domestic Building and Loan Association.
- 25) Section 23048. Definition of Taxable Mortgage Pool.
- 26) Section 23049. Definition of Motor Vehicle Lease.
- 27) Section 23603. Tax Credit for Alcohol Fuel Conversion.
- 28) Section 23609. Tax Credit for Sales Tax on New Car (obsolete provision).
- 29) Section 23710. Bingo games conducted by exempt organizations.
- 30) Section 24271. Definition of Gross Income.
- 31) Section 24330. Targeted Jobs Tax Credit.
- 32) Section 24344. Interest Expense.
- 33) Section 24349. Depreciation.
- 34) Section 24437. Deductions for Transactions With Members.

- 35) Section 24688. Payments relating to use of property.
- 36) Section 24689. Mining and solid waste reclamation costs.
- 37) Section 24690. Nuclear decommissioning costs.
- 38) Section 24725. Allocation of income and deductions among taxpayers.
- 39) Section 24917. Adjustments to basis of property.
- 40) Section 24981. Nonrecognition of gain or loss on exchanges or distributions in obedience to orders of F.S.E.C.
- 41) Section 24986. Stock or securities received after 1942 pursuant to liquidation order of F.S.E.C.

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. 87-10
ASSEMBLY BILL NO. 708

Author: Harris
Subject: Probate/Creditor Claims; Payment of Debts
Laws Affected: Section 9150 of the Probate Code and Section 19265 of
the Revenue and Taxation Code
Date Filed with Secretary of State: September 22, 1987
Chapter Number: 87-923

SUMMARY

This act, as it affects the department, makes the following changes with respect to creditor claims and payments of debts during probate.

- o Section 9150 of the Probate Code.

Requires the department, as a creditor, to file a claim with the court and mail a copy to the personal representative, if the department is notified of the probate proceedings or if the department proposes an assessment as a result of the fiduciary's request for an audit.
- o Section 19265 of the Revenue and Taxation Code.

Allows wages, as defined in the Probate Code, to be paid by the fiduciary prior to payment of an income tax debt. This conforms to the existing Probate Code.

The above provisions are operative July 1, 1988.

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. 87-11
ASSEMBLY BILL NO. 992

Author: Hannigan

Subject: Taxpayer Contributions for the Building of the Vietnam Veterans Memorial

Laws Affected: Sections 18513, 18513.1 and 18513.2 of the Revenue and Taxation Code.

Date Filed with Secretary of State: September 26, 1987

Chapter Number: 87-1193

SUMMARY

Section 18513.

This act allows a taxpayer to contribute through the tax form a contribution to the Vietnam Veterans Memorial Account and once made would be irrevocable. The contributions would be used to build a Vietnam Veterans Memorial at the State Capitol.

The contribution must be in full dollar amounts and may be made by each signatory on the return. Should a taxpayer designate to more than one account and the contribution is insufficient to accommodate the amount designated, the contribution would then be allocated on a pro rata basis. If any payments and credits associated with the return do not exceed the tax liability, the return shall be treated as if no designation was made.

All contributions designated to this Fund would be deductible for state income tax purposes.

The Franchise Tax Board would be responsible for allocating space on the return labeled the Vietnam Veterans Memorial Fund.

The contributions may be made for any taxable year beginning on or after January 1, 1987, and before January 1, 1991. This allows for the contributions to be made on the 1987 tax return filed in 1988. A deduction would then be allowed on the 1988 tax return filed in 1989.

Sections 18513.1 and 18513.2.

The Franchise Tax Board shall determine annually the amount designated to the Fund and notify the Controller of the amount. The Controller

would then transfer from the Personal Income Tax Fund the amount designated to the Vietnam Veterans Memorial Account in the General Fund. All money transferred to the Vietnam Account would be allocated first to the Franchise Tax Board for its administrative costs associated with the Fund and to the Vietnam Veterans Memorial Commission, as specified.

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.

This act is operative for designations made for taxable years beginning on or after January 1, 1987 and before January 1, 1991.

LEGISLATIVE CHANGE NO. 87-12
ASSEMBLY BILL NO. 239

Author: Moore

Subject: Disallowance of Business Expense Deductions Incurred by Patrons of Clubs which Discriminate

Laws Affecting Franchise Tax Board: Section 23438 of the Business and Professions Code, and Sections

17269 and 24343.2 of the Revenue and Taxation Code

Date Filed with Secretary of State: September 30, 1987

Chapter Number: 87-1463

SUMMARY

Section 23438 of the Business and Professions Code.

Requires any alcoholic beverage club licensee which restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry or national origin when issuing a receipt for expenses (which may be used by taxpayers for tax deduction purposes) to incorporate a printed statement on the receipt as follows: "The expenditures covered by this receipt are nondeductible for state income tax purposes or franchise tax purposes.

Sections 17269 and 24343.2 of the Revenue and Taxation Code.

Disallows business expense deductions for expenditures made at, or payments made to, a club (except American national fraternal organizations) which restricts membership or the use of its facilities or services on the basis of age, sex, race, religion, color, ancestry, or national origin.

A club (except American National fraternal organizations) which holds an alcoholic beverage license is required to have printed on its receipts the following statement: "The expenditures covered by this receipt are nondeductible for state income tax purposes or franchise tax purposes."

"Expenses" include but are not limited to, club membership dues and assessments, food and beverage expenses, expenses for services furnished by the club, and reimbursement or salary adjustments to officers or employees for any of the preceding expenses.

A "national fraternal organization" is defined as any chapter, parlor, lodge or local unit of an American national fraternal organization which has as the owner, lessee, or occupant an establishment for fraternal purposes. These organizations must operate in 20 or more states and must have been in active continuous existence for 20 years or more.

The act specifies that it is not intended: (1) to affect the tax exempt status of any church or other organizations, as specified, nor (2) to preclude administrative regulations by the Franchise Tax Board which disallow business expense deductions based on public policy prior to the acts operative date of January 1, 1990.

Note: Under FTB regulations, effective January 1, 1988, business expenses incurred at all clubs which discriminate will be disallowed. The differences between the FTB regulations and this act are that the regulations do not: (1) exclude American National fraternal organizations; (2) require clubs holding liquor licenses to stamp their receipts with a statement regarding nondeductibility for state income tax purposes, and: (3) contain as broad of a definition of the term "club." The regulation is effective January 1, 1988, whereas this act is effective January 1, 1990.

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. 87-13
ASSEMBLY BILL NO. 2009

Author: Nolan
Subject: Enterprise Zone and Program Area Employer Hiring Credit
Laws Affected: Sections 17053.8, 17053.11, 24331, and 24333 of the
Revenue and Taxation Code
Date Filed with Secretary of State: September 30, 1987
Chapter Number: 87-1428

SUMMARY

This act makes the following changes to the Personal Income Tax Law and Bank and Corporation Tax Law regarding the allowance of tax credits for the hiring of certain employees by employers who operate in an enterprise zone or in a program area.

Sections 17053.8 & 24331. (Enterprise Zones)

- o Expands the definition of a qualified employee eligible for the employer's hiring credit to include individuals certified under the federal Targeted Jobs Tax Credit Program as long as that program is in effect.

Sections 17053.11 & 24333. (Program Areas)

- o Modifies the definition of a qualified business, for purposes of obtaining the employer's credit available to businesses operating in a designated program area.

The act also requires the Auditor General to submit a report regarding the Targeted Jobs Tax Credit program to the Legislature no later than June 30, 1988. It further requires this department and other state departments to cooperate with the Auditor General to the maximum extent feasible to ensure the Auditor General timely collection of data for the report.

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.

The provisions of this act will be operative for taxable or income years beginning on or after January 1, 1987.

LEGISLATIVE CHANGE NO. 87-14
SENATE BILL NO. 47

Author: Mello
Subject: Tax Rebate Act of 1987/refund
Laws Affected: Section 17070 of the Revenue and Taxation Code
Date Filed with Secretary of State: September 21, 1987
Chapter Number: 87-908

SUMMARY

This act and AB 2609 (Chpt. 915, Stats. 87) comprise the Condit-Mello-McClintock Tax Rebate Act of 1987. This act provides for a tax rebate through a refund.

This legislative change is based on legislative intent as determined through various meetings with legislative staff, as well as the law. Any amendments to this act that are necessary to reflect the intent will be made in January.

Section 17070.

This act provides a rebate to every qualified taxpayer. A qualified taxpayer is (1) an individual who has filed a timely income tax return for the calendar year 1986 or a taxable year ending in 1986, or in the

situation where a income tax return has not been filed, (2) a blind, or disabled, or age 62 claimant who has filed a claim for property tax assistance (homeowner or renter) for the fiscal year 1986-87 by October 15, 1987. (In the case where an individual files an income tax return for renter credit and also a renter assistance claim, a rebate will be issued only as a result of the filing of the income tax return.)

The rebate amount is equal to 15 percent of the tax imposed on income, including the tax on preference income, and early withdrawals of IRA's, Keoghs, and annuities, less all credits except for renter credit, excess SDI, withholding and any other refundable credits. However, there is a minimum and maximum rebate amount, as follows

o minimum amount --

\$32 for those who file an income tax return as either single (which includes joint custody head of household) or married filing separate, or a property tax assistance claim and have not filed an income tax return.

\$64 for those individuals filing a joint income tax return or an income tax return as head of household or surviving spouse.

o maximum amount --

An amount determined by the Franchise Tax Board that, after taking into consideration the minimum rebate amount, will result in a rebate of the excess revenue, as certified by the Controller no later than November 1, 1987.

The Franchise Tax Board will certify to the Controller no later than November 15, 1987 the names, addresses, and amount of the rebate. However, taxpayers whose accounts contain a bad address, or who file returns or claims requiring manual resolution (i.e., amended returns, returns or claims requiring questionnaires and other correspondence) will be certified to certified to the Controller no later than January 7, 1988. The rebate amounts for those taxpayers whose account previously contained a bad address will be certified to the Controller beginning January 7, 1988 and ending no later than the date the provision sunsets. In addition, the Franchise Tax Board will work with the Controller to reissue the rebates which were previous returned by the U.S. Postal Service.)

Once the amount is certified, it is not subject to adjustment (increase or decrease) unless the taxpayer contacts the department and it is determined that the rebate amount was incorrectly computed as a result of the department's processing of the taxpayer's return or claim.

The rebate is subject to offset against tax debts and other state obligations as provided under existing law.

Pursuant to direction received from the Internal Revenue Service (IRS), the Franchise Tax Board will report the rebate to the IRS and the taxpayer, with respect to taxpayers who itemized for Federal purposes in 1986, as a refund of income tax.

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. 87-15
ASSEMBLY BILL NO. 1581

Author: Baker
Subject: Credit Union Deductions
Laws Affected: Section 24405 of the Revenue and Taxation Code
Date Filed with Secretary of State: 9/30/87
Chapter Number: 87-1465

SUMMARY

Section 24405.

This act includes as a deduction in computing taxable income, the income from credit union "surplus member savings capital" in investments permitted for credit unions.

"Surplus member savings capital" is defined as the savings capital of credit union members which is in excess of the amount of savings capital which is loaned to its members.

This act specifically defines the activity of investing "surplus member savings capital" as "for or with" the members of the credit union.

This act takes immediate effect, and specifies that its provisions are applicable for income years beginning on or after January 1, 1988.

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. 87-16
ASSEMBLY BILL NO. 430

Author: O'Connell
Subject: Exempt Organizations and Charitable Contribution of Scientific
Equipment.
Laws Affected: Sections 23701u and 24357.8 of the Revenue and Taxation
Code
Date Filed with Secretary of State: September 30, 1987
Chapter Number: 87 - 1481

SUMMARY

Section 23701u.

This act adds an exemption for an organization that is organized exclusively for exempt purposes, as specified, the net earnings of which are devoted exclusively to charitable purposes if

- o such organization is a nonprofit public benefit corporation, as specified, and
- o the specific and primary purpose for which the corporation is formed is to render financial assistance to government by financing, refinancing, acquiring, constructing, improving, leasing, selling or otherwise conveying property of any kind to government.

"Government" is defined as meaning the State of California, a city, city and county, county, school district, board of education, public corporation, hospital district or any other special district located in California.

This act provides that the dedication of assets requires that, in the event of dissolution of an organization, or the impossibility of performing the specific organizational purposes, the assets would continue to be devoted to exempt purposes. Assets would be deemed irrevocably dedicated to exempt purposes if the articles of organization provide that upon dissolution the assets would be distributed

- o to an organization which is exempt, as specified,
- o to the federal government, or
- o in trust for exempt purposes by a provision in the articles of organization that is satisfactory to the Franchise Tax Board (FTB), or by establishing that the assets are irrevocably dedicated to exempt purposes by operation of law.

This provision applies with respect to taxable years beginning on or after January 1, 1987.

Note: AB 53, which was chaptered 5 days before this bill, also has a Section 23701u. This should be cleaned up in a technical correction bill.

Section 24357.8.

This act extends, until December 31, 1990, the provisions of the Bank and Corporation Tax Law pertaining to the deduction allowable for charitable contributions of scientific equipment or apparatus to institutions of higher learning.

This provision will be operative for income years beginning on or after January 1, 1987.

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. 87-17
SENATE BILL NO 570

Author: Garamendi

Subject: Exempt Organizations and Taxation of Out-of-State Banks
Laws Affecting Franchise Tax Board: Sections 23701u and 23181 of the
Revenue and Taxation Code

Date Filed with Secretary of State: September 30, 1987

Chapter Number: 87-1442

SUMMARY

Section 23701u.

This act exempts from tax under the Bank and Corporation Tax Law a nonprofit public benefit corporation organized under the provisions of the Nonprofit Public Benefit Law (Part 2 of Division 2 of Title 1 of the Corporation Code), if specified conditions are met. However, this Act was superseded by Assembly Bill 430 (Stats. 1987, Ch. 1481).

See Legislative Change No. 87-16 for a discussion of this provision.

Section 23181.

This act amends the Bank and Corporation Tax Law by changing the jurisdictional standard for taxing banks from "located" in California to "doing business" in California.

Under the "doing business" standard, an out-of-state bank which is regularly and systematically availing itself of the California marketplace but does not have an actual office here will be subject to California tax.

This act requires the department to adopt regulations dealing with apportionment and allocation of income with respect to banks and financial corporations which consider the laws and regulations of other

states with an objective of preventing multiple taxation or circumstances where income is taxed in no state.

The provisions pertaining to the change in the jurisdictional standard for taxing banks and the adoption of regulations as specified above are effective for income years beginning on or after January 1, 1988.

LEGISLATIVE CHANGE NO. 87-18
ASSEMBLY BILL NO. 7X

Author: Hill
Subject: Disaster Relief
Laws Affected: Section 17207 of the Revenue and Taxation Code
Date Filed with Secretary of State: November 16, 1987
Chapter Number: 87-3X

SUMMARY

Section 17207

Expands the disaster loss carryforward provisions to apply to losses sustained during 1987 as a result of forest fire or other related casualty, and to residential losses sustained during October 1987 as the result of the earthquake, aftershock, or any other related casualty. For the provision to apply, the loss must have occurred in a county of this state which was proclaimed by the Governor to be in a state of disaster.

Applies to taxable year beginning on or after January 1, 1987.

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. 87-19
SENATE BILL NO. 2X

Author: Garamendi
Subject: Alternative Minimum Tax
Laws Affected: Sections 17062 and 23400 of the Revenue and Taxation
Code
Date Filed with Secretary of State: November 16, 1987
Chapter Number: 87-5X

SUMMARY

Sections 17062 and 23400

Amends existing law with respect to alternative minimum tax to delete the provision which required interest income from certain bonds issued by the state and local governments in the state to be included in income for alternative minimum tax purposes.

Applies, for Personal Income Tax, to taxable years beginning on or after January 1, 1987, and, for Bank and Corporation Tax, to income years beginning on or after January 1, 1988.

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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