

## CHAPTER 8

### GLOSSARY OF TAX TERMINOLOGY

The terminology of taxation can be overwhelming. The purpose of this glossary is to promote familiarity with this terminology for those who do not work with tax issues every day. We have attempted to include the major terms and abbreviations used when discussing taxation issues.

The definitions provided in this glossary are brief. Please refer to the appropriate chapters of this Reference Book for a more thorough explanation of the terms and concepts.

#### COMMON ABBREVIATIONS

AGI	Adjusted Gross Income
AMT	Alternative Minimum Tax
AV	Assessed Valuation
B&CT	Bank and Corporation Tax
BIE	Business Inventory Exemption
BOE	Board of Equalization
CPI	Consumer Price Index (the U.S. Index)
CCPI	California Consumer Price Index
DOF	Department of Finance
DMV	Department of Motor Vehicles
EDD	Employment Development Department
FTB	Franchise Tax Board
HOE	Homeowners' Exemption
IRA	Individual Retirement Account
IRC	Internal Revenue Code

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IRS	Internal Revenue Service
MIC	Manufacturer's Investment Credit
NOL	Net Operating Loss
OAL	Office of Administrative Law
PIT	Personal Income Tax
R&D	Research and Development Credit
R&TC	Revenue and Taxation Code
SDI	State Disability Insurance
TI	Taxable Income
TPZ	Timberland Production Zone
UBI	Unrelated Business Income
UI	Unemployment Insurance
VLF	Vehicle License Fee

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**A**

ABILITY TO PAY	Tax principle that ties the burden of taxation to the taxpayer's economic circumstances. Taxation based on "ability to pay" is an alternative to taxation based on benefits or services received.
ACCELERATED WRITE-OFF	Computation of an income tax deduction that reduces taxable income by allowing the deduction to be taken earlier than the rules would ordinarily permit. For example, accelerated depreciation allows deductions for the wear and tear of property to be taken over a shorter period than the accepted useful life of the asset.
ACQUISITION VALUE	Property tax concept referring to the value of property when acquired. Acquisition value is embodied in Proposition 13. This is an alternative to the "ad valorem" concept. This term was used by the California Supreme Court in its Amador Valley decision and does not appear in Proposition 13 or related statutes.
ADJUSTED GROSS INCOME (AGI)	Total gross income reported for income tax purposes, less certain specified deductions if applicable. Typically, California AGI equals federal AGI adjusted for differences in tax treatment of certain types of income (e.g., state income tax refunds, social security income, interest on state and municipal bonds from other states, etc). (See Chapter 2B for complete list of the components of AGI.)
AD VALOREM	According to value. Before Proposition 13, the property tax was considered an ad valorem tax, as it was based on current value of the property instead of its acquisition value.
AD VALOREM ASSESSMENT	Special assessment levied for operating purposes by many special districts, particularly water districts. The assessment is usually levied only on the value

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of land or land and improvements (not personal property).

**ALTERNATIVE MINIMUM  
TAX (AMT)**

An additional tax which must be computed by personal income, bank and corporation taxpayers that take advantage of certain tax preferences. If AMT liability exceeds regular tax liability, the excess must be paid in addition to the taxpayer's regular tax liability. The purpose is to ensure that taxpayers that take advantage of special tax preferences pay minimum tax on income receiving preferential treatment. Patterned after the AMT in federal law.

**AMORTIZATION**

An accounting procedure used to reduce the value of an intangible asset by periodic charge-offs against income. For tax purposes, amortization is similar to depreciation. Also refers to the principal reduction of an outstanding debt through regular payments of interest and principal.

**APPORTIONMENT**

Method by which California determines how much of a corporation's total net profits are subject to California income taxes. (See Chapter 2D.)

**APPROPRIATION**

An authorization of money from a specific fund to a specific agency or program for expenditures or to incur obligations for a specified purpose and period of time. The amount expended may be less than the amount appropriated.

**APPROPRIATIONS LIMIT**

Maximum amount of tax proceeds that may be appropriated in a fiscal year by state or local government under Article XIII B of the California Constitution (Proposition 4 of 1979). (See Chapter 5.)

**ARTICLES XIII C AND XIII D**

The articles of the California Constitution added by Proposition 218 of 1996.

**ARTICLE XIII A**

The article of the California Constitution added by Proposition 13 of 1978.

**ARTICLE XIII B**

The article of the California Constitution added by Proposition 4 of 1979 (Appropriations Limit).

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ASSESSED VALUE	The amount to which the property tax rate is applied. Generally it is market value, unless a standard other than market value has been established by the Constitution for real property or by statute for personal property.
ASSESSMENT ROLL	A countywide list of all taxable property. It identifies each property, its owner, and its value for assessment purposes.
ASSESSMENT YEAR	For property tax law, the period beginning with a lien date and ending immediately prior to the succeeding lien date. Under current law, the assessment year begins on January 1 and is coterminous with the calendar year.
AVERAGE DAILY ATTENDANCE (ADA)	A formula for measuring the full time equivalent number of students attending school. Most state aid to schools is based on ADA. An example of an ADA calculation for a regular full-time elementary school is the number of student-days of attendance divided by the number of actual school days.
<b>B</b>	
BASE	For property tax allocation purposes, the amount of property tax revenues received in the prior year (See also 'Increment'.) (For a different usage, see 'Tax Base'.)
BASE YEAR VALUE	The full cash value of real property in 1975-76, or in any subsequent year upon a purchase, change in ownership, or new construction. Under Proposition 13, assessed value for property tax purposes may increase by no more than 2% per year.
BASIS	For purposes of income taxes, basis generally means the cost of an asset to the taxpayer acquiring the property. It is used for calculating depreciation and capital gains and losses when the property is ultimately disposed of. Most inherited property is given a basis of its fair market value on the date of inheritance.
BENEFITS RECEIVED	Tax principle that those who receive the benefit of

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government services should pay for them.  
Alternative to "ability-to-pay".

**BOARD OF EQUALIZATION  
(BOE)**

State revenue agency, responsible for administration of the sales and use tax and other excise taxes. The BOE also oversees local administration of the property tax. The Board is directed by five members: The State Controller and four members elected by the voters. The BOE is a quasi-judicial body and serves as the appellate body for income tax disputes filed with the Franchise Tax Board.

**BONDING POWER**

The right of state or local government to borrow money by issuing bonds.

**BRADLEY-BURNS**

The 1955 act that allows a uniform 1.25% sales tax to be imposed by cities and counties. This tax is collected by the BOE and returned to local jurisdictions based on the location of the taxed transaction.

**BROAD-BASED TAX**

A tax levied upon a large tax base. Often such a tax is paid by the vast majority of the population.

**BUSINESS INVENTORIES**

Personal property of business that is held for sale or lease. Exempted by the Legislature from property taxation beginning in 1980-81.

**C**

**CALIFORNIA CONSUMER  
PRICE INDEX (CCPI)**

Measures inflation in California and is calculated by the State Department of Industrial Relations.

**CAPITAL ASSET**

Real property, personal property, stocks and bonds and other property held by a taxpayer. Examples of property that are not considered capital assets include copyrights and inventory held for sale.

**CAPITAL EXPENDITURES**

Expenditures for capital assets such as buildings, roads, airports, land, etc.

**CAPITAL GAINS**

Income or profit from the sale of capital assets.

**CAPITAL OUTLAY**

An appropriation for a fixed asset with a useful life of 10 years or more and a cost to acquire of

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\$100,000 or more.

**CARRYOVER**

In cases where a tax benefit from a credit, deduction or other write-off exceeds the allowable amount for a particular year, carryover permits the excess amounts to be preserved and applied against income or tax liability in subsequent tax years.

**CARRYBACK**

Allowed in federal law for net operating losses. Permits net losses in excess of income to be "carried back" to earlier tax years, so that tax for those years may be recomputed and refunds may be claimed. Carrybacks are not permitted under California law other than casualty losses from certain designated disaster areas.

**CHANGE OF OWNERSHIP**

Term used in Proposition 13. Refers to a transfer of property. Upon a change in ownership, real property is reassessed to its full cash value as of the date of transfer.

Several exceptions apply including inter-spousal transfer of a principal residence to a surviving spouse, or certain transfers between parents and children.

**CHECK-OFF  
CONTRIBUTIONS**

Donations to specified nonprofit organizations or activities that taxpayers are permitted to make on their state tax returns. Taxpayers remit the amount of voluntary contributions in addition to amount of tax due or as an application of a referral due on the return. Often called "check-offs".

**CLEAN-UP BILL**

Technical follow-up bill that often follows a major piece of legislation. Usually deals with erroneous cross-references, chaptering problems, legislative clarification of misinterpretations of the original bill, and other corrections.

**CONSUMER PRICE INDEX**

A measure of inflation. Can either refer to the United States Consumer Price Index calculated by the United States Department of Commerce or the California Consumer Price Index (CCPI) calculated by the Employment Development Department.

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**CONSUMPTION TAX** Generic term for a tax on commodities and transactions where the burden falls on the consumer in the price paid for goods and services, such as a sales tax.

**CORPORATE FRANCHISE TAX** A tax imposed upon corporations' right to do business in California. It is measured by a corporation's net earnings, but not imposed based on income. California's is the Bank and Corporation Tax.

**CREDIT** Amount that can be subtracted from the actual amount of tax owed, usually in the income tax. Credits represent tax expenditures aimed at benefiting specific groups (e.g., senior credit) or inducing certain behavior (e.g., an investment tax credit).

**D**

**DEDUCTIONS (AGI)** Amounts subtracted from adjusted gross income to yield the taxable income upon which income tax liability is based.

**DEFERRAL** Postponement of paying taxes because of specific provisions in the tax law. For example, the Senior Citizens Property Tax Postponement Program allows low and moderate income senior citizens to defer payment of property taxes until they sell their home, die, or move.

**DEPENDENT** In income tax law, a relative of the taxpayer (child, stepchild, parent, stepparent, sibling, etc.) for whom the taxpayer provided over half of his or her support during a calendar year. Can also include a non-relative who meets the support rule and who lives in the taxpayer's home.

**DEPLETION** Deductions permitted to owners or certain lessees of natural resources (such as oil or gas wells or timber property) to recover the costs of the resource as it is extracted, harvested or otherwise wasted or diminished. Comparable to depreciation for real or



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personal property.

**DEPRECIATION**

A decrease in the value of a capital asset due to wear, use, action of the elements, inadequacy, accident, or obsolescence. An income tax deduction for depreciation allows a write-off for a capital expenditure that roughly coincides with the decrease in value of the asset over time.

**DIRECT TAX**

Generic term for a tax which cannot be easily shifted or passed on to some other entity by the entity on whom it is levied; for example, the personal income tax.

**DEPARTMENT OF  
FINANCE (DOF)**

The DOF serves as the financial branch of the Governor's administration. The DOF prepares the Governor's proposed budget and publishes other budget documents, provides formal revenue estimates, and expresses the Governor's position on fiscal matters before the Legislature.

**E**

**EARMARKED FUNDS**

Revenue designated by statute or the Constitution for a specific and restricted purpose.

**EARNED INCOME**

Generally includes wages, salaries, and fees for services rendered. In most cases, does not include distribution of profits, such as dividends.

**EFFECTIVE TAX RATE**

Percentage of market value, income, or other tax base that the tax liability represents. Often differs from the nominal tax rate due to progressive tax rates.

**ELASTICITY**

As applied to taxes, the degree to which growth in revenue from a tax corresponds to changes in personal income.

**EMPLOYMENT  
DEVELOPMENT  
DEPARTMENT (EDD)**

State agency that administers unemployment insurance and disability taxes and personal income tax withholding.

**EQUITY**

Fairness or justice. It also refers to the value of property minus the liens and other claims against

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the property that offset its value. If the claims against a property exceeds its value, this is described as "negative equity".

**ESTATE TAX**

Generic term for a levy on the right to transfer property upon the death of the owner. Once the value of the estate is determined, a tax rate is applied to this base.

**EXCISE TAX**

Generic term for a levy on the manufacture, sale, or use of a particular commodity or service, for example, liquor, cigarettes, or telephone services. Excise taxes are levied on a per-unit basis (e.g., per gallon, per pack, per minute).

**EXCLUSION**

The part of a tax base that is excluded by law when computing the tax. For example, Social Security income is an exclusion for state income tax purposes.

**EXEMPTIONS**

Status of specified people, property, institutions, or sources of income or wealth not subject to taxation.

**F**

**FEDERAL CONFORMITY**

Degree to which a state's income tax base and computation corresponds to federal income tax. California utilizes a process of selective federal conformity.

**FISCAL COMMITTEE**

Designated committee in each house of the California Legislature which hears any bill with a fiscal impact on the state. In both the Assembly and the Senate, this committee is the Appropriations Committee.

**FISCAL YEAR**

Twelve-month period for budgeting, accounting or tax collection purposes. May differ from calendar year. The state and local governments' fiscal year is July 1 to June 30. The federal fiscal year is October 1 to September 30.

**FRANCHISE**

A special privilege extended by the government to a private enterprise. The corporate franchise tax is levied on the franchise for the privilege of doing

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business in California and is measured by net income.

**FRANCHISE TAX BOARD  
(FTB)**

State agency responsible for administering the personal income and bank and corporation taxes. The three Board members include the State Controller, the Chair of the Board of Equalization, and the Director of the Department of Finance.

**FULL CASH VALUE**

The highest amount a willing and knowledgeable seller of a property could obtain from a willing and knowledgeable buyer, neither being under any compulsion to buy or sell. Same as "market value" or "fair market value".

**G**

**GROSS INCOME**

All sources of income except exempt income. Gross Income is the starting point for computing income tax prior to adjustments and deductions.

**GROSS PREMIUMS**

All insurance premiums received by an insurer. Used to compute the insurance tax after return premiums are subtracted.

**H**

**HEAD OF HOUSEHOLD**

An unmarried individual whose home is the principal place of abode of a son, stepson, daughter, stepdaughter, father, mother or any other dependent person for whom a dependent credit may be claimed. A head of household may also be someone who maintains any household as the principal place of abode for a father or mother provided that such parent qualifies as the taxpayer's dependent.

**HIDDEN TAX**

Generic term for an indirect tax that is incorporated into the price of goods and services and is therefore not apparent when paid.

**HOMEOWNERS' EXEMPTION**

A constitutionally provided property tax exemption for homeowners. The exemption reduces the assessed value of a principal residence by \$7,000 and in doing so reduces the property tax liabilities

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of most homeowners by approximately \$70.

IMPACT	The individual or business firm with the legal liability to initially pay a tax, whether or not it actually bears the final burden. (See also 'Incidence'.
INCIDENCE	Individuals or groups that bear the actual burden of a tax.
INCOME	Money or other consideration received during a given period by an individual, corporation, or other entity for labor or services or from property, investments, or other form of compensation.
INCOME TAX	A tax levied on the income of individuals and/or corporations; may be applied to gross (total) income or net income (gross income less deductions for certain expenses).
INCREMENT	For local property tax allocation purposes, the amount of property tax revenue generated by growth in assessed valuation from one year to the next. (See also 'Base' for another usage, see 'Tax Increment Financing'.)
INDEXING	Method by which tax rates, brackets, exemptions or benefits are automatically adjusted for inflation.
INFLATION	An increase in the price level or, conversely, a decline in the purchasing power of money.
INHERITANCE TAX	Generic term for a tax levied upon the value of property that individual beneficiaries receive from an estate of a deceased person. The voters of California repealed the State Inheritance Tax in June 1982. (See also 'Pickup Tax' and 'Estate Tax'.)
IN-LIEU TAX	Tax levied in place of another tax or group of taxes. May refer to provisions sheltering a class of taxpayers from other taxes. For example, the Constitution provides that the California on insurers tax is imposed in-lieu of other state taxes on insurers and their property.

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**INTANGIBLE PROPERTY** Assets that cannot be perceived by the senses, such as the goodwill of a business, customer base, or the workforce of a business.

**INTERACTION** Changes in the liability associated with one tax that affect the liability associated with another tax (e.g., a reduction in property taxes will likely increase income taxes, because itemized deductions for property taxes will be reduced).

**J**

**JOINT RETURN** A single personal income tax return filed by both members of a married couple.

**JURISDICTIONAL CHANGE** Procedure by which a city, county or special district transfers functions or changes boundaries; by which a new local agency forms; or by which two or more local agencies consolidate. Jurisdictional changes may result in changes in the allocation of property tax revenues.

**L**

**LEVY** The imposition or collection of a tax. Also may refer to the amount of tax imposed.

**LICENSE TAX** A tax on the right to do something, such as the sale of liquor, hunting, marriage license, or the right to operate a business.

**LIEN** A claim on property to satisfy a debt. Some taxes result in a lien against property.

**LIEN DATE** The time when the taxes become a lien on property and the date on which property is valued for tax purposes. Property taxes become a lien at 12:01 a.m. on January 1 preceding the fiscal year for which taxes are collected for both locally-assessed real property and state-assessed property.

**LOCAL ASSISTANCE** Portion of the state budget devoted to inter-governmental expenditures and shared taxes. State operations and capital outlay comprise the remainder of the state budget.

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**LUXURY TAX**

Generic term for a tax imposed upon articles not considered essential to a normal standard of living. Currently there are no luxury taxes in California law, although the federal government periodically adopts various luxury taxes.

**M**

**MARGINAL TAX RATE**

Income tax rate to which the taxpayer's highest dollar of income is subject.

**MARKET VALUE**

Full, fair market value of an asset. Equals "full cash value" for Proposition 13 purposes in the property's "base year".

**MARRIAGE PENALTY**

Feature of the federal income tax structure that cause the combined tax on two single people with equal incomes to be less than the tax on a married couple composed of the same two people. The California income tax does not impose a marriage penalty.

**MINIMUM FRANCHISE  
TAX**

Minimum amount of tax imposed annually on any corporation under the California bank and corporation franchise tax. The minimum franchise tax is currently \$800. Since 1999, there has been no minimum franchise tax imposed on corporations during their first two years of incorporation. Limited partnerships and limited liability companies also pay an annual tax in an amount equal to the minimum franchise tax. However, limited partnerships, and limited liability companies are not included in the "new corporation" exemption.

**N**

**NET INCOME**

Income remaining from earnings gains profits after all allowable costs, expenses, losses, and allowances for depreciation have been deducted.

**NET OPERATING LOSS  
(NOL)**

Occurs when allowable deductions exceed gross income computed under the law in effect for the loss year. Both state and federal income tax law provide for the carryover of NOLs, although specific provisions vary.

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NEW CONSTRUCTION

Term used in Proposition 13. New construction is reappraised at its full cash value on the date it is complete and available for use.

**O**

ORDINARY INCOME

All income other than capital gain.

**P**

PAYROLL TAX

Generic term for a tax based on the payroll of a business. California's unemployment insurance tax is an example.

PER CAPITA

Amount per individual.

PERSONAL PROPERTY

Movable property and equipment, as opposed to immovable property such as land and buildings.

PICKUP ESTATE TAX

A California estate tax enacted after the elimination of the inheritance tax in 1982. It is imposed up to the level of the maximum state inheritance tax credit allowed against the federal estate tax. It does not change the taxpayer's combined state and federal estate tax liability but collected a portion of the federal state tax, in effect, to California.

PIGGYBACK

Generic term for a tax levied as a percentage of the liability imposed by another tax. There are no California piggyback taxes.

POSSESSORY INTEREST

Interest of a lessee in government-owned property. Lessees pay property taxes related to possessory interests.

PROGRESSIVE

Tax structure or policy in which either persons with high incomes pay a larger percentage of their income in tax than persons with lower incomes or where persons with high incomes receive a smaller share of tax relief than persons with lower incomes.

PROPERTY TAX

A tax on all real and tangible property located in the state and not specifically exempt.

PROPOSITION 4

Initiative constitutional amendment approved on the

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November 1979 ballot. Imposed limits on allowable appropriation of tax revenues by state and local governments. Added Article XIII B to the California Constitution.

**PROPOSITION 13**

Initiative constitutional amendment approved on the June 1978 ballot. Limited property tax rates to 1% of assessed value, limited the growth in assessed valuation to a maximum of 2% annually, placed restrictions on the imposition of new taxes. Added Article XIII A to the Constitution.

**PROPOSITION 62**

Initiative statute approved on the November 1986 ballot. The measure was intended to require a popular vote for any new locally-imposed tax or any increase in an existing locally-imposed tax. It was embroiled in a legal controversy until December 1995, when the California Supreme Court upheld its constitutionality.

**PROPOSITION 98**

Initiative statute and constitutional amendment approved on the November 1988 ballot. Established minimum funding guarantee for schools and community colleges, allocated a portion of state revenues in excess of the appropriations limit to education.

**PROPOSITION 111**

Legislative initiative that substantially modified the provisions of Propositions 4 and 98. (See Chapter 5 for details.)

**PROPOSITION 218**

Initiative constitutional amendment approved on the November 1996 ballot. Sets forth voter approval requirements for the imposition of special and general taxes by local governments. The application of Proposition 218 to certain existing local taxes is currently being litigated in the courts.

(FOR OTHER PROPOSITIONS, SEE APPENDIX TO CHAPTER 4 - LOCAL PROPERTY TAX.)

**R**

**REAL PROPERTY**

The ownership of, claim to, possession of or right to the possession of land and permanently attached



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improvements, such as buildings. Does not include "personal property" such as furniture and equipment.

**REGRESSIVE TAX**

A tax that imposes a higher burden on lower-income taxpayers than it does on higher-income taxpayers. Opposite of "progressive".

**RETURN PREMIUMS**

Insurance premiums paid in part or in full by persons who have canceled their policy before its expiration date.

**REVENUE LIMIT**

Generally, a limit on the increase in the aggregate amount of revenue that can be raised from one year to the next. For school finance, this is a school district's income from state and local sources, exclusive of categorical aid.

**S**

**SALES TAX**

A tax levied on the gross receipts from the retail sale of tangible personal property unless otherwise exempted.

**SECURED ROLL**

That part of the local property tax assessment roll that contains real property where the taxes are adequately secured by a lien.

**SEVERANCE TAX**

Generic term for a tax imposed on the extraction of natural resources, usually based on volume or value of a resource extracted or harvested. **SIMILAR TO YIELD TAX.**

**SITUS**

Site or place. Applies to the location of property for the purpose of determining which government agency may impose taxes on it and which government agency receives tax revenue from it.

**SPECIAL ASSESSMENT**

A tax for local improvements imposed only on the properties benefited.

**SPECIAL TAX**

Term used in Proposition 13 and further defined in Proposition 218. Special taxes are those imposed and restricted for specific, rather than general, governmental purposes. Local agencies may

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impose special taxes upon approval of two-thirds of those voting on the measure.

**SPILOVER BENEFITS**

Benefits enjoyed by those not directly paying for them.

**SPLIT ROLL**

In the context of property taxes, means assessment or taxation of a certain class of property in a manner different than other property. Could refer to a split assessment ratio, a split tax rate, or a split exemption level. Does not currently apply in California.

**STANDARD DEDUCTION**

A flat amount that all income taxpayers are allowed to deduct in lieu of claiming itemized deductions. Intended to approximate expenses that reduce the taxpayer's ability to pay. A feature of federal income tax law; California uses a personal credit.

**STATE ASSESSED  
PROPERTY**

Property assessed by the Board of Equalization, rather than local county assessors. State assesses are primarily utilities and railroads.

**STATE MANDATED COSTS**

Costs incurred by local agencies or schools resulting from a new program, or higher level of service for an existing program, mandated by state legislation or an executive order. Under Proposition 4 (Article XIII B), the state is required to reimburse local agencies for these costs, with specified exceptions.

**S CORPORATIONS**

Closely held corporations (i.e., they have a limited number of shareholders) that receive special tax treatment under both federal and state law.

They are named after a specific section of federal tax law (Subchapter S of Subtitle A of the Internal Revenue Code).

**SUBVENTION**

Money transferred from the state to local government.

**SUPPLEMENTAL ROLL**

An additional assessment roll that contains property which changes ownership or is newly constructed

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after the regular January 1 lien date. Enacted in 1982.

**SURPLUS** Commonly refers to the carryover balance in the state's General Fund at the start of a new fiscal year, or to reserves held by the state for unforeseen contingencies. Also known as the Special Fund for Economic Uncertainties.

**SURTAX** An additional tax rate added onto the rate of an existing tax.

**T**

**TANGIBLE PERSONAL PROPERTY** Material assets such as household goods or business equipment that are readily movable and are not permanently attached to real property.

**TAX** A compulsory payment required by a government.

**TAX BASE** The part of the economy or the portion of the population against which a tax is levied or measured.

**TAX BURDEN** The impact of a tax, usually expressed in tax dollars per capita or dollars per amount of personal income. For an individual taxpayer, tax dollars per measure of income (household, AGI, other).

**TAX DEEDED PROPERTY** Property on which property taxes are delinquent and which has been deeded to the state until the time it is sold for back taxes or redeemed by the owner.

**TAX EXPENDITURE** A component of the tax law that deviates from the basic structure of the tax (e.g., an exemption, exclusion, deduction, credit, and/or deferral). The term "tax expenditure" is intended to reflect foregone revenues resulting from the preferential treatment.

**TAX INCREMENT FINANCING** A method used by redevelopment agencies to secure bonds, whereby property tax revenue from an increase in value in property over a base amount is used to pay off the bonds.

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TAX LEVY	A bill in the California Legislature that imposes a state tax, repeals a state tax, or otherwise changes in any material way the rate, base, or burden of a state tax. The Legislative Counsel determines whether a bill is a tax levy. Special rules regarding legislative deadlines and effective dates apply to tax levies.
TAX RATE	The ratio of the tax to the tax base. For property tax purposes, the rate is applied to assessed value to determine the amount of the tax. For income and franchise tax purposes, the rate is applied to taxable income to determine the amount of the tax.
TAX RATE AREA	Geographic area that is served by the same combination of governmental units and has the same property tax allocation factors.
TIDELANDS REVENUE	Revenues earned by the state from sale of oil extracted from state tidelands (between shoreline and three miles out into the Pacific Ocean). Primarily located adjacent to the city of Long Beach.
TIMBER YIELD TAX	A tax imposed in California in lieu of the property tax on standing timber. Tax applies when timber is harvested and is based on the value of the timber when cut.
TIMBERLAND PRODUCTION ZONE (TPZ)	Ten-year land use restriction on growing and harvesting timber in exchange for preferential property tax assessments for timberland.
<b>U</b>	
UNITARY APPORTIONMENT	Formula by which the share of a corporation's net income subject to tax in California is determined. California's share of the reportable income of a unitary corporation is apportioned to California using factors of property, payroll and sales. Often erroneously referred to as "unitary tax" -- it is not a separate tax, but a method of apportioning income.
UNRELATED BUSINESS INCOME (UBI)	Income earned by tax-exempt nonprofit organizations that is not related to the organization's exempt purpose but is derived from a trade or

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business activity that is regularly carried on by the organization. UBI is subject to income tax, even though the organization's exempt-purpose income is not.

**UNSECURED ROLL**

That part of the assessment roll, consisting largely of business personal property, on which the taxes are not secured by a lien on real property.

**UNSECURED TAX RATE**

Prior year's secured roll tax rate, which is levied against current year's unsecured roll.

**USE TAX**

A tax on goods purchased outside the state and delivered to California for use in the state. A use tax is designed to remove inequities between purchases made within and those made outside the state. Companion to the sales tax.

**USER CHARGE**

A charge levied for use of a government-provided commodity or service. For example, day-use fees at a marina or park.

**V**

**VALUE ADDED TAX (VAT)**

Generic term for a tax levied on a product at each stage of its manufacture or processing based on the increase in value attributable to the particular process. It is similar to a sales tax, but is paid at each stage of production and marketing and is incorporated into the final purchase price rather than added on at the time of sale. Used in many other countries, but not in the United States

**VEHICLE LICENSE FEE**

The VLF is a license fee imposed annually on all vehicles at a rate equal to 0.71% of depreciated market value. Legislation beginning in 1999 and continuing through 2001 reduced the VLF by 65.5% from its original 2% level.

**W**

**WAIVER (DISCLAIMER)**

Refers to a boilerplate statement, commonly at the end of a bill, that "waives" another statutory requirement, such as an automatic sunset or reimbursement of any state mandated costs created

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by that bill. If their rights to reimbursement are not waived, local governments may file claims for reimbursement of state-mandated costs and/or state-initiated revenue losses via Board of Control.

**WATER'S EDGE  
COMBINATION**

Method of combining the income of multinational corporations of determining the amount of net income taxable by California. The "water's edge" is defined as the 50 states of the United States and specified "tax havens". This method is an alternative to worldwide combination.

**WELFARE EXEMPTION**

Property tax exemption available for property owned by nonprofit charitable, educational, religious, and scientific organizations and that meets other tests.

**WILLIAMSON ACT**

Statutory provision for reduced property tax assessments on agricultural and other open space property in return for a contractual agreement that the property must be maintained in agricultural use for at least 10 years.

**WORLDWIDE  
COMBINATION**

Method of combining the income of multinational corporations for purposes of determining the amount of net income taxable by California. Corporations must use worldwide combination if they do not elect water's edge combination.

**Y**

**YIELD TAX**

Generic term for a tax levied on the value of a resource at the time of its extraction or harvest. California's timber yield tax is an example.  
**SIMILAR TO SEVERENCE TAX**

**Z**

**ZERO BRACKET AMOUNT  
(ZBA)**

A previous feature of state and federal income taxes. A flat deduction given to all taxpayers, the amount of which varied by tax filing status. The ZBA replaced the standard deduction and was incorporated in the tax tables, but was repealed and the standard deduction reinstated in 1987.

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ZERO SUM

With a fixed pool of money, if one party receives an increased share, other parties must lose a commensurate amount.