

2001 FIRST YEAR

LEGISLATIVE SUMMARY

The following is a list of bills adopted by the Legislature during the first year of the 2001-2002 Legislative Session that changed state law in the area of revenue and taxation. The measures are listed in bill number order, with 2001 chapter numbers provided, and the provisions of each bill impacting revenue and tax briefly summarized.

The list also includes bills adopted by the Legislature and vetoed by the Governor.

The Assembly Revenue and Taxation Committee heard the majority of the bills in this report.

Copies of analyses of bills heard by the Assembly Revenue and Taxation Committee can be obtained by accessing the California State Assembly's web page at www.assembly.ca.gov, by contacting the Committee office at (916) 319-2098 or by writing to the Assembly Committee on Revenue and Taxation, State Capitol, Room 4121, Sacramento, CA 95814.

This publication is intended to be a useful summary of the Legislature's work in the area of revenue and taxation during 2001 and a helpful reference document for any who need to know about state and local taxation law and policy.

**ASSEMBLY COMMITTEE
ON
REVENUE & TAXATION**

**2001
LEGISLATIVE SUMMARY**

MEMBERS

Honorable Ellen M. Corbett, Chair
Honorable Tom Harman, Vice Chair
Honorable Elaine Alquist
Honorable Dion Aroner
Honorable Gil Cedillo
Honorable Barbara Matthews
Honorable Helen Thomson
Honorable Mark Wyland

STAFF

Kimberly Bott, Chief Consultant
Eileen Roush, Principal Consultant

Irene Frausto, Committee Secretary

December 2001

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ASSEMBLY REVENUE AND TAXATION COMMITTEE

2001

LEGISLATIVE SUMMARY

AB 10 (Corbett), Chapter 4, Statutes of 2001. BANK AND CORPORATION TAXES: Conforms state tax law to federal law in the area of real estate investment trusts (REITs).

AB 25 (Migden), Chapter 893, Statutes of 2001. DOMESTIC PARTNERSHIPS: Expands the legal rights available to all registered domestic partners. In the area of taxation law, revises the definition of "spouse" to include registered domestic partners for health-and medical-related exclusions from gross income and deductions.

AB 44 (Wiggins), Chapter 618, Statutes of 2001. DISASTER RELIEF: EARTHQUAKE: Allows taxpayers who suffered disaster losses as a result of the September 2000 Napa earth quake to carry forward 100% of any excess losses for up to five taxable years and, if any excess loss remains after that period, to carry forward 50% of the amount remaining for up to 10 additional years.

AB 63 (Cedillo), Chapter 915, Statutes of 2001. TAXATION: DISCLOSURE: Extends the circumstances and outlines the procedures under which a state tax authority [Franchise Tax Board] may disclose limited tax information to tax officials of any city, until December 31, 2008.

AB 110 (Zettel), Chapter 410, Statutes of 2001. PERSONAL INCOME TAXES: Provides that any individual who is found by the Franchise Tax Board to have mistakenly claimed a teacher retention tax credit during the 2000 tax year must repay the amount of the credit claimed plus interest. The teacher is not liable for any fines or other penalties, provided the denied claim was not fraudulent.

AB 136 (Corbett), Chapter 161, Statutes of 2001. PERSONAL PROPERTY TAX: Increases the value of the personal property tax exemption for hand tools to \$50,000 beginning on January 1, 2002. Qualifying hand tools must be owned by an employee who is required to supply his or her own hand tools in the course of his or her employment.

AB 180 (Cedillo), Chapter 383, Statutes of 2001. SALES AND USE TAX: Extends until January 1, 2007 and expands a current exemption to the imposition of sales and use taxes for retail items sold by thrift stores operated by nonprofit organizations providing medical, hospice and social services to persons with HIV disease or AIDS.

AB 184 (Liu), Chapter 330, Statutes of 2001. SEISMIC IMPROVEMENTS: Makes technical changes to the section of property tax law that provides a new construction exclusion for seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies.

AB 238 (Rod Pacheco), Chapter 623, Statutes of 2001. INCOME AND BANK AND CORPORATION TAXES: Allows special net operating loss treatment to losses sustained by farmers related to an occurrence of Pierce's disease and its vectors.

AB 309 (Longville), Chapter 429, Statutes of 2001. SALES TAX: FUEL TAXES: Requires the prepayment of the retail sales tax on motor vehicle fuel, diesel fuel and aircraft jet fuel to be paid at the first point of distribution, known as the terminal rack; authorizes returns to be filed via electronic media; allows the Board of Equalization to receive information from the federal system tracking terminal activity.

AB 402 (Papan), Chapter 455, Statutes of 2001. TAXPAYER CONTRIBUTIONS: LUPUS FOUNDATION OF AMERICA - CALIFORNIA CHAPTERS: Authorizes the addition of a new personal income tax checkoff to fund the California-based operating chapters of the Lupus Foundation of America.

AB 426 (Cardoza), Chapter 156, Statutes of 2001. TAXATION: Enacts tax statutes to implement the policy of the 2001-2002 Budget. Specifically, this bill (1) reduces the required General Fund reserve to 3% for applicability of the 1/4% sales and use tax rate suspension; (2) exempts sales of liquefied petroleum gas for residential uses from the sales and use tax; (3) exempts sales of farm equipment and machinery from the state portion of the sales and use tax; (4) exempts sales of timber harvesting machinery from the state portion of the sales and use tax; (5) exempts sales of racehorse breeding stock from the state portion of the sales and use tax; and (6) exempts sales of diesel fuel used in farming activities from the state portion of the sales and use tax.

AB 594 (Harman), Chapter 86, Statutes of 2001. PROPERTY TAXATION: ELECTRONIC PAYMENTS: Codifies uniform, statewide rules for dating electronic payments of locally assessed real property taxes.

AB 645 (Horton), Chapter 238, Statutes of 2001. PROPERTY TAXATION: AUDITS AND EQUALIZATION: Extends the filing date for owners of real property who wish to apply for reductions in the assessed values of their properties and standardizes the assessment appeal rights of taxpayers who are the subject of a property tax audit.

AB 646 (Horton), Chapter 706, Statutes of 2001. SALES AND USE TAXES: MEDICAL SUPPLIES: Expands the definition of health facility, which is entitled to an exemption from sales and use tax for sales of medical supplies, to surgical clinics and similar outpatient clinics.

AB 816 (Thomson), Chapter 164, Statutes of 2001. PERSONAL INCOME TAX: CONFORMITY WITH FEDERAL LAW: Repeals the requirement for an individual to file an income tax return solely due to gain, recognized on the sale of his or her principal residence excluded from income.

AB 863 (Thomson), Chapter 263, Statutes of 2001. TRANSACTIONS AND USE TAX: Authorizes the City of West Sacramento, subject to voter approval, to levy a tax at a rate to be determined between 0.25% to 0.50%.

AB 866 (Diaz), Chapter 650, Statutes of 2001. PERSONAL INCOME AND BANK AND CORPORATION TAXES: CHILDCARE CREDITS: Extends the sunset date of the Employer Childcare Program Credit and the Childcare Contribution Credit to January 1, 2007.

AB 898 (Leach), Chapter 391, Statutes of 2001. INCOME TAXES: LLCS: FEE ADJUSTMENT: Permanently sets the amount of the limited liability company (LLC) annual fee and amends the definition of total income to remove income reported to California for purposes of the LLC annual fee by another LLC.

AB 952 (Kelley), Chapter 212, Statutes of 2001. INCOME TAXES: EXCLUSIONS: Excludes from gross income certain rebates or vouchers received from a local water agency or supplier for the purchase of energy efficient clothes washers and specific plumbing devices needed to serve recycled water uses.

AB 984 (Papan), Chapter 592, Statutes of 2001. SALES AND USE TAXES: PUBLIC PASSENGER TRANSPORTATION VEHICLES: Provides a state and local sales and use tax exemption until January 1, 2004 for public passenger transportation vehicles sold or leased by a transit authority, special district, or governmental entity and leased or subleased back to the authority, district, or entity. Requires the Legislative Analyst's Office, in consultation with the Board of Equalization and the Franchise Tax Board, to conduct a study and submit a report to the Legislature by January 1, 2003 on the impact of the exemption. The study must also include a recommendation as to whether the exemption should be extended beyond the January 1, 2004 sunset date.

AB 1115 (Committee on Revenue and Taxation), Chapter 920, Statutes of 2001. TAXATION: RESIDENCY REQUIREMENTS: PART-YEAR RESIDENT: ALTERNATIVE MINIMUM TAX: Clarifies the methodology to be used by nonresidents and part-year residents when computing the amount of California tax they owe and makes several technical changes intended to improve administration of the income tax laws administered by the Franchise Tax Board.

AB 1116 (Committee on Revenue and Taxation), Chapter 191, Statutes of 2001. INCOME TAXES: BANK AND CORPORATION TAXES: Allows the Franchise Tax Board to adjust personal income tax withholding rates the year a bill is operative and adds an explicit appeals process for taxpayers who have received zero-balance notices of proposed assessment.

AB 1123 (Committee on Revenue and Taxation), Chapter 251, Statutes of 2001. TAXATION: SALES AND USE TAXES: TRANSACTIONS TAXES: Makes several changes intended to correct and update the tax and fee laws administered by the Board of Equalization. Updates the Transactions and Use Tax Law to reflect precedential court rulings and initiative constitutional amendments. Adds section references to the Cigarette

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and Tobacco Products Tax Law to reflect passage of Proposition 10. Repeals obsolete code sections. Adds, deletes, and corrects section references. Corrects prior law drafting errors. Removes confusing references. Adds language intended to correct prior year chaptering problems.

AB 1370 (Wiggins), Chapter 266, Statutes of 2001. TAX FORMS: TAXPAYERS 65 OR OLDER: Corrects an unintentional drafting error in a 2001-2002 budget trailer bill (AB 426, Cardoza, Chapter 156, Statutes of 2001). Requires the Franchise Tax Board to conduct a study of all tax forms that affect taxpayers who are at least 65 years of age and determine the changes necessary and appropriate to ensure that the needs of these senior taxpayers are served to the greatest benefit. The report is due to the Legislature by January 1, 2002.

AB 1457 (Keeley), Chapter 772, Statutes of 2001. PROPERTY TAXATION: MOBILEHOMES: Requires county assessors to revalue mobilehome parks that meet certain criteria; forgives certain mobilehome owners from additional taxes for prior tax years; increases reporting requirements designed to notify county assessors regarding changes in ownership within resident-owned mobilehome parks; and requires county assessors to notify mobilehome parks that residents may be eligible for property tax assistance programs.

ABx1 29 (Kehoe), Chapter 8, Statutes of 2001. ENERGY: Funds energy conservation and efficiency programs and provides loans, loan guarantees, and grants for this purpose. Provides for a gross income exclusion for amounts received pursuant to any of the loan and grant programs it creates.

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SB 12 (Chesbro), Chapter 158, Statutes of 2001. DISASTER RELIEF: Provides state reimbursement of local property tax losses resulting from the September, 2000 Napa earthquake.

SB 22 (Chesbro), Chapter 5, Statutes of 2001. VEHICLE LICENSE FEE (VLF) OFFSETS: Effective July 1, 2001, provides for a single VLF offset of 67.5%. Eliminates the need for the state to issue rebate checks to persons who pay VLF in 2001 and 2002 at the 35% level as required by prior law.

SB 73 (Dunn), Chapter 668, Statutes of 2001. TAXATION: LOW-INCOME HOUSING: Increases the aggregate annual credit amount from \$50,000,000 to \$70,000,000 starting in 2001, and adjusts that amount annually for inflation. Requires the tax credit allocation committee to review and evaluate the geographic apportionment methodology and report back to the Legislature by June 30, 2002.

SB 198 (Chesbro), Chapter 533, Statutes of 2001. PROPERTY TAXATION: WELFARE EXEMPTION: NATURE RESOURCES AND OPEN-SPACE LANDS: Extends through the 2012 lien date the property tax exemption for open-space land owned by nonprofit organizations.

SB 215 (Burton), Chapter 274, Statutes of 2001. CALIFORNIA PEACE OFFICER MEMORIAL FOUNDATION: Contributions are allocated to the California Highway Patrol for allocation to the commission. Appropriates to the Highway Patrol all money previously transferred to the fund and requires the commission to report back to the Legislature as to the status of the memorial on or before December 31, 2003

SB 312 (Alpert), Chapter 426, Statutes of 2001. CIGARETTE AND TOBACCO PRODUCTS TAXES: Provides a mechanism to account for the taxes paid on tobacco products distributed in a manner creating a tax liability but subsequently returned to the distributor.

SB 366 (Haynes), Chapter 669, Statutes of 2001. TAXATION: LEVY AND LIEN: INNOCENT INVESTOR: Adds provisions to the Taxpayers' Bill of Rights Act to provide limited protection against specific tax collection actions for qualifying investors in certain circumstances.

SB 394 (Sher), Chapter 343, Statutes of 2001. INTERNET TAX FREEDOM ACT: CONTINUATION: Extends the provisions of the existing California Internet Tax Freedom Act from January 1, 2002, until January 1, 2004, unless the California Commission on Tax Policy in the New Economy fails to submit an interim report, to the Governor and the Legislature on or before December 1, 2002. In that case, this part is repealed as of January 1, 2003.

SB 409 (Vincent), Chapter 535, Statutes of 2001. INCOME AND BANK AND CORPORATION TAXES: QUALIFIED DEPOSITS: Extends the sunset date of Community Development Financial Institution credits and clarifies the definition of investments eligible for the credits to include a deposit or loan that does not bear interest, an equity investment, or an equity-like debt instrument.

SB 445 (Burton), Chapter 670, Statutes of 2001. TAXATION: TAXPAYERS' BILL OF RIGHTS: Expands disclosure requirements and the conflict of interest rules for two state taxing agencies [Franchise Tax Board and Board of Equalization]. Adds legislative findings that the purpose of any proceeding between a taxing agency and a taxpayer is the determination of the correct amount of the tax liability.

SB 685 (Costa), Chapter 474, Statutes of 2001. FRESNO COUNTY TRANSPORTATION AUTHORITY (FCTA): Revises the stated purpose of the FCTA and allows the voters to decide to continue the ½% transactions and use tax and the FCTA for a period up to 30 years. Establishes requirements for the preparation, approval and maintenance of a county transportation expenditure plan.

SB 882 (O'Connell), Chapter 609, Statutes of 2001. PROPERTY TAXATION: WELFARE EXEMPTION: Establishes a series of requirements intended to allow certain public parks to qualify for the welfare exemption.

SB 896 (Poochigian), Chapter 638, Statutes of 2001. TELECOMMUNICATIONS SERVICES: Mobile telecommunications services: taxes, surcharges, and fees. Amends existing laws to reflect changes made by the federal Mobile Telecommunications Sourcing Act.

SB 1181 (Committee on Revenue and Taxation), Chapter 407, Statutes of 2001. TAXATION: Makes numerous technical changes to the property tax law in order to ease tax administration. Requires any assessor or auditor or any duly authorized deputy or employee of an assessor or auditor who obtains confidential information, records, and/or appraisal data from the Board of Equalization (BOE) regarding state-assessed property to keep that information confidential. Allows parent-child transfers of manufactured homes to qualify for the exemption from reassessment provided by Proposition 58 (adopted by the voters in November, 1986). Simplifies the appeals process for Private Railroad Car taxpayers by eliminating the step of filing a declaration of intent to appeal a private railcar assessment. Conforms the due date of tax recoupment fees imposed when land is removed from a Timberland Production Zone with the due dates of payments required under most of the other laws administered by BOE; clarifies the amount of time available to taxpayers who wish to appeal the valuation upon which tax recoupment fees are based. Changes the annual time period used to calculate the inflation adjustment in income cutoffs for the disabled veterans' exemption to February to February of the two prior assessment years. The change is intended to enable BOE to use the most recent inflation data available on its disabled veterans' exemption claim forms. Clarifies the rules regarding when and how submissions must be made and responses must be furnished during an assessment appeals hearing. Clearly distinguishes between two different penalties applied to state assessees by BOE (the penalty for failure to provide information needed by BOE to develop unit values and the penalty for failure to provide information in sufficient detail for BOE to allocate the unit value among property holdings). Enacts cleanup language to a previously enacted statute.

SB 1182 (Committee on Revenue and Taxation), Chapter 744, Statutes of 2001. PROPERTY TAXATION: Enacts cleanup language needed as a result of two measures chaptered during 2000. Repeals code sections rendered obsolete by passage of SB 2084 (Polanco), Chapter 861, Statutes of 2000. Enacts cleanup language to several sections of the Revenue and Taxation Code that were amended by SB 2170 (Committee on Revenue and Taxation), Chapter 647, Statutes of 2000. These changes clarify in what counties and under what circumstances a taxpayer may appeal an escape, supplemental, or penalty assessment, add clarifying references, delete misleading references, resolve misleading inconsistencies, correct typographical errors, and correct improperly referenced code sections.

SB 1183 (Committee on Revenue and Taxation), Chapter 121, Statutes of 2001. PROPERTY TAXES: LOCAL ROLLS: ASSESSMENTS: ADMINISTRATION: Enacts several administrative proposals suggested by the California Association of County Treasurers and Tax Collectors. Provides for a refund of tax paid when a taxpayer

erroneously pays tax on property he or she does not own. Corrects misleading references in certain summary judgement code sections by replacing the words "county clerk" with "clerk of the court". The change reflects the fact that the roles of county clerk and clerk of the court are now separate in most counties. Deletes unnecessary words in certain sections referencing the secured roll. Corrects misleading references in certain code sections relating to the sale of tax-defaulted property by replacing "resold" with "re-offered". This change clarifies that any parcel remaining unsold after an auction may be re-offered within a specified period. The change does not apply to properties that are sold in a defaulted property auction. Removes references to "the same or next-scheduled sale" in a code section relating to the sale of tax-defaulted property. The change allows a tax collector to re-offer tax-defaulted property for which no acceptable bids are received at a reduced minimum price with approval of the board of supervisors. Adds language allowing a tax collector to remove a parcel of tax-defaulted property from a scheduled auction when it is deemed that the removal is in the best interest of the county. This situation could arise in a case where the property is the subject of a toxic cleanup.

SB 1184 (Committee on Revenue and Taxation), Chapter 613, Statutes of 2001.

PROEPRTY TAXATION: Enacts administrative proposals suggested by the California Assessors' Association. Extends from six to eight the number of tax years that are subject to escape assessment when a penalty for willful concealment of tangible personal property is applied. Extends from six months to one year the time period in which to file a claim for reassessment after a disaster. Liberalizes the rules allowing certain contiguous tracts of land under the same ownership to be combined when they cross tax rate areas. Removes the requirement that both transferees and transferors or their legal representatives provide written certification that they are parents, children, grandparents, or grandchildren in cases where parent-child or grandparent-grandchild transfers of property are being conducted pursuant to existing sections of law that exclude these transfers from reassessment.

SB 1185 (Committee on Revenue and Taxation), Chapter 543, Statutes of 2001.

INCOME AND CORPORATION TAXES: Represents a comprehensive technical correction bill to the provisions of the Revenue and Taxation Code administered by the Franchise Tax Board and the Board of Equalization.

SB 1186 (Chesbro), Chapter 292, Statutes of 2001.

TRANSACTIONS AND USE TAX: Revises the vote requirements for the existing City of Sebastopol transactions and use tax.

SB 1187 (Costa), Chapter 285, Statutes of 2001.

LOCAL TRANSACTIONS AND USE TAXES: Authorizes the Board of Supervisors of Fresno County, subject to voter approval, to establish an authority for zoological purposes and levy a transactions and use tax at a rate of 0.1%.

SBx2 17 (Brulte), Chapter 12, Statutes of 2001.

INCOME AND BANK AND CORPORATION TAX CREDITS: SOLAR ENERGY SYSTEMS: Adds and repeals tax credits related to purchase of a solar energy system that produces electrical energy.

SBx2 75 (Ortiz), Chapter 5, Statutes of 2001. INCOME TAXES: DEDUCTION: INTEREST: Authorizes a below-the-line deduction for interest paid or incurred in connection with a loan received from a publicly owned utility for the purchase of energy-efficient products or equipment.

BILLS VETOED BY THE GOVERNOR

AB 121 (Leslie). PROPERTY TAXATION: Increases the household income limits used to define qualifying claimants under the Senior Citizens and Disabled Property Tax Postponement Program. The qualifying household income limit equals \$39,000 in 2002 and is increased for inflation in subsequent years.

AB 249 (Matthews). SALES AND USE TAXES: EXEMPTIONS: Provides a state and local sales and use tax exemption for blood glucose test strips and lancets, provided they are furnished by or at the direction of a registered pharmacist for the treatment of diabetes as directed by a physician. Provides a state and local sales and use tax exemption for specified substances furnished by specified acupuncturists in the performance of their professional services. Substances that would be eligible for the acupuncturists' exemption include herbs, herbal formulas or preparations, vitamins, minerals, dietary supplements, orthotic devices, and other naturally occurring substances included in the Encyclopedia of Chinese Materia Medica.

AB 1128 (Leslie). PROPERTY TAXATION: REGULATED RAILWAY COMPANIES: Changes the method of assessing regulated railway companies by creating a single countywide tax rate area within each county to which unitary assessed value is allocated. Beginning in the 2002-2003 fiscal year, requires the Board of Equalization to assign each regulated railway company a separate countywide tax rate area and to allocate to each countywide tax rate area an assessed value equal to the amount of assessed value received in the prior fiscal year adjusted for changes in track mileage.

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

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