

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Scott Analyst: Jeff Garnier Bill Number: SB 657

Related Bills: See Legislative History Telephone: 845-5322 Amended Date: 1/29/02 & 2-26-02

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Conformity to Portions of 2001 Economic Growth & Tax Relief Reconciliation Act (EGTRRA) and Other Federal Provisions

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED JANUARY 7, 2002, APPLIES.

OTHER - See comments below.

SUMMARY

This bill would conform state law to federal treatment of:

1. The pension plan, Education IRA (Coverdell Education Saving Account or Coverdell Account), and Qualified Tuition Plan changes contained in the federal EGTRRA. (analyzed in January 7, 2002 analysis)
2. The deduction of club dues. (page 2)
3. The deduction of excess compensation for officers, (page 4) and
4. Most federal elections by requiring a California election to be the same as federal. (page 6)

SUMMARY OF AMENDMENTS

The January 29, 2002, amendments added language to conform to the federal treatment of club dues, of excess compensation, and of elections.

The February 26, 2002, amendments made technical corrections to the bill including specifying that an election to itemize deductions at the federal level will not be mandated at the state level. The amendments also added language mandating that additional federal elections apply for state purposes that were not addressed in the January 29, 2002, amendments.

The remainder of the January 7, 2002, analysis applies.

Board Position:

S _____ NA _____ NP
_____ SA _____ O _____ NAR
_____ N _____ OUA _____ PENDING

Department Director

Date

Alan Hunter for GHG

03/13/02

POSITION

On March 6, 2002, the Franchise Tax Board voted 2-0 to support this bill, as amended February 26, 2002.

REVENUE TABLE

Estimated Conformity Impact of AB 657			
As Proposed to be Amended 2/14/02			
Enactment Assumed After 6/30/02			
Fiscal Years			
(In Millions)			
Provision	2002-3	2003-4	2004-5
Coverdell Accounts	----- Negligible loss -----		
Qualified Tuition Plans	minor loss	-\$1	-\$1
IRA Provisions	-\$9	-\$9	-\$13
Pension Provisions	-\$35	-\$38	-\$45
Executive Compensation	\$4	\$4	\$5
Club Dues	\$7	\$9	\$10
Mandated State Elections	\$30	\$30	\$30
Waive Estimated Penalty	----- No Impact -----		
Total	-\$3	-\$5	-\$14

ANALYSIS

Conforming to federal tax law is generally desirable because it is less confusing for the taxpayer. With conformity, the taxpayer is required to know only one set of rules. Additionally, the taxpayer needs to maintain only one set of books. Conformity also eases the burden of the Franchise Tax Board to administer the law by utilizing many federal forms, instructions, and regulations. In addition, whenever possible the department uses federal information to verify that taxpayers pay the proper amount of tax. This eliminates the need for the taxpayer to submit the same information to both the IRS and the department.

2. CONFORMITY TO THE DENIAL OF CLUB MEMBERSHIP DUES DEDUCTION

Under federal law, prior to 1993, and current state law, a deduction for club dues was allowable if the taxpayer could establish that the use of the club was primarily for the furtherance of the taxpayer's trade or business and the specific expense was directly related to the active conduct of a trade or business.

In 1990, California limited the deduction for club dues by denying the deduction for any amounts paid to any club that has discriminatory practices. No expense made at or paid to a club that restricts membership or the use of services or its facilities based on age, sex, race, religion, color, ancestry, or national origin is deductible.

The federal Revenue Reconciliation Act of 1993 (RRA of 1993) provided that no deduction is permitted for club dues. The prohibition applies to all types of clubs, including business, social, athletic, luncheon, and sporting clubs. Specific business expenses (e.g., meals) incurred at the club are deductible only to the extent they are directly related to the active conduct of the taxpayer's trade or business.

California has not conformed to the 1993 federal change.

THIS BILL

This bill would conform California law to the RRA of 1993 change denying the deduction for club dues. For taxable years beginning in 2002, a deduction for 25% of club dues paid would be allowed. For taxable years beginning in 2003 and thereafter, no deduction for club dues would be allowed. In addition, California law would continue to deny deductions for any amounts paid to clubs engaged in discriminatory practices.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws. The review of these states' tax laws indicates that they do not permit the deduction of club dues.

ECONOMIC IMPACT

Revenue Estimate

Estimated Conformity Impact of AB 657 As Proposed to be Amended 2/14/02			
Enactment Assumed After June 30, 2002			
Fiscal Years			
(In Millions)			
Provision	2002-3	2003-4	2004-5
Club Dues	\$7	\$9	\$10

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

3. CONFORMITY TO THE DENIAL OF THE DEDUCTION OF EXCESS COMPENSATION FOR OFFICERS

Generally, for federal and state purposes, an employer is allowed a deduction for reasonable salaries and other compensation. Whether compensation is reasonable is determined on a case-by-case basis. The reasonableness standard has been used primarily to limit payments by closely-held companies where dividends may be disguised as deductible compensation.

In 1993, federal law capped the maximum amount of salaries paid to certain executives that a publicly held corporation could deduct. Under the RRA of 1993, for purposes of the regular income tax and the alternative minimum tax, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee (defined below) of a publicly held corporation is limited to no more than \$1 million per year.

Definition of publicly held corporation

For purposes of this provision, a corporation is publicly held if it is required to register under the Securities Exchange Act of 1934. In general, the Securities Exchange Act requires a corporation to register if: (1) the corporation's stock is listed on a national securities exchange or (2) the corporation has \$5 million or more of assets and 500 or more shareholders. A corporation is not considered publicly held under the provision if registration of its equity securities is voluntary.

Covered employees

For purposes of this provision, a covered employee is defined by reference to the Securities and Exchange Commission (SEC) rules governing disclosure of executive compensation. A person is a covered employee if (1) the employee is the chief executive officer of the corporation (or an individual acting in such capacity) as of the close of the taxable year or (2) the employee's total compensation is required to be reported for the taxable year under the Securities Exchange Act of 1934 because the employee is one of the four highest compensated officers for the taxable year (other than the chief executive officer).

Compensation subject to the deduction limitation

In general

Unless specifically excluded, the deduction limitation applies to all remuneration for services, including cash and the cash value of all remuneration (including benefits) paid in a medium other than cash. If an individual is a covered employee for a taxable year, the deduction limitation applies to all compensation not explicitly excluded from the deduction limitation, regardless of whether the compensation is for services as a covered employee and regardless of when the compensation was earned. The \$1 million cap is reduced by excess parachute payments (as defined in Sec. 280G) that are not deductible by the corporation.

The deduction limitation applies when the deduction would otherwise be taken. Thus, for example, in the case of a nonqualified stock option, the deduction is normally taken in the year the option is exercised, even though the option was granted with respect to services performed in a prior year.

Certain types of compensation are not subject to the deduction limit and are not taken into account in determining whether other compensation exceeds \$1 million. The following types of compensation are not taken into account: (1) remuneration payable on a commission basis; (2) remuneration payable solely on account of the attainment of one or more performance goals if certain outside director and shareholder approval requirements are met; (3) payments to a tax-qualified retirement plan (including salary reduction contributions); (4) amounts that are excludable from the executive's gross income (such as employer provided health benefits and miscellaneous fringe benefits (Sec. 132)); and (5) any remuneration payable under a written binding contract which was in effect on February 17, 1993, and all times thereafter before such remuneration was paid and which was not modified thereafter in any material respect before such remuneration was paid.

Commissions

In order to qualify for the exception for compensation paid in the form of commissions, the commission must be payable solely on account of income generated directly by the individual performance of the executive receiving such compensation. Thus, for example, compensation that equals a percentage of sales made by the executive qualifies for the exception. Remuneration does not fail to be attributable directly to the executive merely because the executive utilizes support services, such as secretarial or research services, in generating the income. However, if compensation is paid on account of broader performance standards, such as income produced by a business unit of the corporation, the compensation would not qualify for the exception because it is not paid with regard to income that is directly attributable to the individual executive.

Other performance-based compensation

In general. ----Compensation qualifies for the exception for performance-based compensation only if (1) it is paid solely on account of the attainment of one or more performance goals, (2) the performance goals are established by a compensation committee consisting solely of two or more outside directors, (3) the material terms under which the compensation is to be paid, including the performance goals, are disclosed to and approved by the shareholders in a separate vote prior to payment, and (4) prior to payment, the compensation committee certifies that the performance goals and any other material terms were in fact satisfied. Treasury regulations contain detail rules and examples performance-based compensation that qualifies for the exception,

Compensation payable under a written binding contract. -- Remuneration payable under a written binding contract which was in effect on February 17, 1993, and at all times thereafter is not subject to the deduction limitation. The fact that a plan was in existence on February 17, 1993, is not by itself sufficient to qualify the plan for the exception for binding written contracts. This exception ceases to apply if the contract was materially modified or renewed.

THIS BILL

This bill would conform state law to federal law and deny the deduction of excess compensation for officers of a publicly-held company. The conformity is accomplished by amending the Corporation Tax Law to reference the Internal Revenue Code, and, therefore, compensation paid under a binding written contract in effect on or before February 17, 1993, will not be subject to this limitation.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws. The review of these states' tax laws indicates that they do not permit the deduction of compensation to certain executives in excess of \$1 million.

ECONOMIC IMPACT

Revenue Estimate

Estimated Conformity Impact of AB 657 As Proposed to be Amended 2/14/02 Enactment Assumed After June 30, 2002			
Fiscal Years (In Millions)			
Provision	2002-3	2003-4	2004-5
Executive Compensation	\$4	\$4	\$5

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Estimates for this proposal are based on original federal projections in the Revenue Reconciliation Act of 1993, adjusted to account for current business trends.

The Federal estimates did allow for the substitution of non-compensation benefits to key executives in some cases to minimize the tax impact of this deduction limitation.

4. CONFORMITY TO FEDERAL ELECTIONS

Under California law prior to 1983, taxpayers had to file elections (e.g., installment sales and accounting or depreciation method elections) for state purposes. This applied even if the taxpayer made the same election for federal and state purposes. In 1983, California recast much of the personal income tax law to conform to federal law by reference (i.e., incorporating federal law by adopting into California law individual sections or entire subchapters of the Internal Revenue Code by stating that those sections or subchapters apply, except as otherwise provided). At that time, a default rule was chosen regarding the applicability of federal elections. That default rule provided that if a federal election could also apply to California and the corresponding federal code section was adopted by reference, the federal election was deemed to have been made for California purposes, unless the taxpayer made a separate (and different) election for California purposes. This eased the burden on the taxpayer and the department by eliminating the need for filing and accepting California elections that simply duplicated federal elections. The separate California election was retained from prior law and was not perceived by the department as a problem at that time.

The general default rule allowing taxpayers to make separate elections for federal and state purposes continues today, yet during the past half-decade or so there has been an increasing legislative trend in California's federal conformity legislation towards specifically prohibiting separate state elections. Moreover, separate state elections do not promote the department's general policy of encouraging federal conformity where applicable, and separate elections frequently require the taxpayer to maintain two sets of books. Additionally, over time the department has found that separate state elections are frequently, if not exclusively, made for California tax planning purposes, and not for other valid business reasons.

Many elections relating to a particular item affect other areas of the tax law. For example, in regard to S corporations versus C corporations, the calculation of depreciation and earnings and profits are different.

Because of the shortcomings of allowing separate state elections, in the mid-to-late 1990's California's legislative policy has shifted to generally mandate that federal elections apply for state purposes. The elections relating to disregarded entities for limited liability companies and taxable real estate investments trust (REIT) subsidiaries are significant examples of instances where a taxpayer's California treatment is now bound by their federal election.

Federal income tax law has approximately 300 different elections. Most of the elections are made by the taxpayer simply filing a form (e.g., the election to itemize deductions is made by filing a Schedule A, Form 1040) or reporting an item in a certain way (e.g., electing out of the installment method of reporting the sale of property is made by the taxpayer reporting all of the gain in the year of disposition.)

Approximately 200 of the federal elections apply to California for income tax purposes. For a list of elections that apply for California purposes please see Appendix II¹. The election list denotes which elections are conformed to by reference (or the general rule) or standalone language and which elections are already bound to the federal election by specific California law.

THIS BILL

This bill would require all but four federal elections, where California adopts the underlying federal law by reference or by standalone language, to apply for California purposes and a separate state election would not be allowed. However, **this bill** would not preclude a taxpayer from making a separate state election to:

- (1) itemize deductions,
- (2) carry back an NOL due to a disaster,
- (3) extend the time to file a tax return, and
- (4) file joint returns.

¹ Information for Appendix II derived from the CCH Incorporated's Federal Tax Service.

Except for an S corporation election noted below, these provisions would apply to elections made on or after January 1, 2002, for taxable years beginning on or after January 1, 2002. For elections made prior to January 1, 2002, **this bill** would not disturb any existing elections, but would also allow taxpayers to elect to change to their federal election or accounting method. Any taxpayer that elects to change to their federal election or accounting method under this provision would be required to take into account any income or deduction caused by this change over a four-taxable-year period.

This bill would require corporations with a valid federal S corporation election in effect on January 1, 2002, to be an S corporation for California purposes. **This bill** would provide transitional relief regarding estimated tax payments. A California C corporation that becomes an S corporation, due to the provisions of this bill, may request to have part (the amount in excess of the S corporation's expected tax liability) of the estimated tax payment transferred to the principal income tax accounts of its shareholders.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Florida binds all federal elections where applicable. The Florida Department of Revenue may consent to a separate election if the Department of Revenue determines that the federal election would not clearly reflect income.

Illinois binds all federal elections where applicable.

Massachusetts generally binds all federal elections. Massachusetts does not allow separate S corporation elections. Massachusetts does not have a published position on whether a separate IRC Section 338 election is allowed. The Massachusetts Department of Revenue recommends that taxpayers request a ruling on specific transactions where a separate IRC 338 election is desired.

Michigan generally binds all federal elections. Michigan does not allow a separate IRC Section 338 election. Michigan treats S corporations as any other business entity for purposes of imposing the "single business tax," which is analogous to an income tax. Therefore, Michigan's tax law is not comparable to California tax law as it relates to S corporation elections.

Minnesota generally binds all federal elections. Minnesota does not allow separate S corporation elections. It is not known if Minnesota allows separate IRC Section 338 elections.

New York generally binds all federal elections. New York allows a separate election for S corporation status. New York generally binds an IRC Section 338 election. However, due to other underlying differences in New York and federal law, the treatment of gain from the sale of assets versus sale of stock may be inconsistent with federal gain reported.

A cursory review was done of all other states. Only Arkansas and Georgia allow separate S corporation elections. No other states could be found that allow a separate IRC section 338 election. Various information readily available to the public was reviewed including individual state tax forms and websites.

ECONOMIC IMPACT

Revenue Estimate

Estimated Conformity Impact of AB 1122 As Amended 2/13/02			
Years Beginning On or After January 1, 2002			
Enactment Assumed After June 30, 2002			
Fiscal Years			
(In Millions)			
Provision	2002-3	2003-4	2004-5
Mandated State Elections	\$30	\$30	\$30

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Preliminary estimate pending an update to the 1995 audit study for LP95-06 pertaining to Section 338 elections.

Represents only those elections identified as having the largest revenue impact (Section 338 elections and S vs C elections).

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

LEGISLATIVE HISTORY

AB 1743 (Campbell, 2001/2002) conforms to the EGTRRA provisions contained in this bill, except that AB 1743 would also fully conform to the new EGTRRA federal credits related to pension plans. However, AB 1743 would not prevent the disqualification of qualified plans due to future federal changes in retirement savings. AB 1743 would not conform to the EGTRRA changes made to the CDC credit. AB 1743 is in the Assembly Revenue and Taxation Committee.

AB 1122 (Corbett, 2001/2002) contains the same provisions as this bill, except that AB 1122 would not conform to the two new federal retirement related credits. AB 1122 also contains numerous other federal conformity provisions. Presently, AB 1122 is in the Senate Revenue and Taxation Committee.

AB 1744 (Corbett, 2001/2002) conforms to two provisions of EGTRRA, Act Sections 641 and 647, relating to certain IRC Section 457 changes. AB 1744 is in the Assembly Appropriations Committee

SB 1256 (Brulte, 2001/2002) contains the same EGTRRA provisions as this bill. Additionally, SB 1256 would not prevent the disqualification pension plans due to future federal changes in retirement savings. Presently, SB 1256 is in the Senate Appropriations Committee.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

LEGISLATIVE STAFF CONTACT

Jeff Garnier
Franchise Tax Board
845-5322

Brian Putler
Franchise Tax Board
845-6333

	Election	Authority - Code, Reg., etc.	R&TC	Gen Rule	Stand Alone	Already Bound
A. TAX CREDITS						
1	Disabled Access Credit for Eligible Small Businesses	44(b)(2)	F17053.42; F23642	PC		
2	Enhanced Oil Recovery Credit (not to apply)	43(e) (Reg,1.43-6)	P17052.8; C23604			PC
3	Low-Income Housing Credit	42 and 38 (Temp. Reg. §1.42-1T)	P17057.5; F17058; C23610.4; F23610.5	PC		
4	Reduction for Increasing Research Activities	280C(c)(3) (Reg. §1.280C-4(a))	F17201; F17270(c); F24440(b)	PC		
5	Research and Experimentation Credit-Election of Alternative Incremental Credit	41(c)(4) and 38	F17052.12; F23609	PC		
B. COMPUTATION OF TAXABLE INCOME AND APPLICABLE TAX						
6	Acquired Intangibles Amortization	197 (Temp. Reg. §1.197-1T); RRA '93, Sec. 13261(g)	F17279, F24355.5			PC
7	Annuities: Treatment as Annuity not Lump Sum	72(h) (Reg. §1.72-12); Rev.Rul. 59-94	F17085, F17085.7, F17081, F24272.2	PC		
8	Bond Premium Amortization	171(c) (Reg. §1.171-3)	F17201, C24362	P	C	
9	Charitable Contributions: Accrual Method Corporations: election to treat contribution as paid during tax year	170(a)(2) (Reg. §1.170A-11(b))	F17201, C24357	P	C	
10	Charitable Contributions: Capital Gain Limitations for Individuals	170(b)(1)(C)	F17201,	P		
11	Child's Unearned Income: Inclusion in Parent's Income	1(g)(7)	F17041(g)	P		
12	Circulation Expenses: Capitalization	173(a) (Reg. §1.173-1(c))	F17201, C24364	P	C	
13	Commodity Credit Corporation Loan Treated as Income	77 (Reg. §1.77-1)	F17081, C24273	P	C	
14	Cooperative Housing Corporation's Allocation of Taxes and/or Interest	216(b)(3)(B) (Reg. §1.216-1(d)(2))	F18037.5, F24382	PC		
15	Depreciation: Applicable Method	168(b) (Temp. Reg. §301.9100-7T(a))	F17250, C24349, C24354.1	PC		
16	Depreciation: MACRS Alternative System	168(g)(7) (Temp. Reg. §301.9100-7T(a))	F17250, C24349, C24354.1	P		
17	Depreciation: MACRS Exclusion Election	168(f)(1) (Temp. Reg. §301.9100-7T(a))	F17250, C24349, C24354.1	P		

Appendix II
SB 657
Amended January 29, 2002 and February 26, 2002
Page 2

	Election	Authority - Code, Reg., etc.	R&TC	Gen Rule	Stand Alone	Already Bound
18	Disaster Losses: Deduction for Preceding Year	165(i) (Reg. §1.165-11(e))	P17207, C24347.5			
19	Discharge of Indebtedness: Application of Reduction to Depreciable Property	108(b)(5)	F17134, F17144, F24307			PC
20	Discharge of Indebtedness: Treatment as Qualified Real Property Business Indebtedness	108(c)(3) (Temp. Reg. §1.108(c)-1T)	F17134, F17144, F24307			PC
21	Election to Itemize	63(e)				
22	Environmental Clean-up Costs; current deduction election	198; P.L. 105-34	F17279.4, F24369.4			PC
23	Exclusion of Gain upon Certain Sales or Exchanges of Principal Residence pre 5/7/97 sales	121(c) (Reg. §1.121-4); P.L. 105-34, Act Sec. 312(d)[e](2)-(4)	F17152			P
24	Expensing Depreciable Business Assets in Lieu of ACRS/MACRS Deduction	179(c) (Reg. §1.179-4(a))	F17255, P17268, C24356, C24356.8	P		
25	Farmers' Fertilizer Expenditures	180(c) (Reg. §1.180-2)	C24377		C	
26	Farmers: Inclusion of Crop Insurance and Disaster Payments in Year After Disaster	451(d) (Reg. §1.451-6)	F17559, F24661.5, F24661	PC		
27	Insolvent Financial Institutions' Treatment of Certain Losses	165(l) (Temp. Reg. §301.9100-7T(f) and 301.9100-8T(d))	F24347	C		
28	Intangible Drilling Costs; Deductibility: Geothermal Wells	263(c) (Reg. §1.612-4(d))	F17260(b), F24423	P	C	
29	Investment Interest Deduction: Net Capital Gain Treated as Investment Income	163(d)(4) (Reg. §1.163(d)-1)	F17220, P17230	P		
30	IRA: Deduction for Contribution	219	F17507.6			P
31	Moving Expenses Deduction	217(d)(2) (Reg. §1.217-2(j)(3) (iv))	F17201	P		
32	Nonprofit Activities: Postponement of Motive Determination	183(e) (Reg. §12.9)	F17201	P		
33	Organizational Expenses: Amortization	248(a) and (c) (Reg. §1.248-1(c), (b))	C24407, C24408, C24409		C	
34	Pollution Control Facilities: Amortization	169(b) and (c) (Reg. §1.169-4)	F17250(e), F24372.3	PC		

	Election	Authority - Code, Reg., etc.	R&TC	Gen Rule	Stand Alone	Already Bound
35	Property Transferred in Connection with Services Treated as Income	83(b) (Reg. §1.83-2)	F17081, F24379	PC		
36	Qualified Clean Fuel Vehicle Refueling Property	179A(b)(2)(C)	F17256, F24356.5	PC		
37	Reforestation Expenditures: Amortization	194(a) (Reg. §1.194-4)	F17278.5, F24372.5	PC		
38	Research and Experimental Expenditures: Amortization	174(b) (Reg. §1.174-4(b))	F17201, F24365	PC		
39	Soil and Water Conservation Expenditures Deduction for Farmers	175(d)(2) (Reg. §1.175-6)	F17201, F24369	PC		
40	Start-Up Expenditures: Amortization	195(b)(1) and (d) (Reg. §1.195-1(b))	F17201, F24414	PC		
41	Tax Preferences: Intangible Drilling and Well Development Costs	57(b)(2)	F17062, F23457, F23400	PC		
42	Tax Preferences: Optional 10-Year Write-Off of Certain Preferences	59(e)(4)	F17062, F23459, F23400	PC		
43	Taxes and Carrying Charges on Property as Capital Assets	266 (Reg. §1.266-1(b) and (c))	F17201, C24426	P	C	
44	Uniform Capitalization Rules: Simplified Service Cost Method	263A (Reg. §1.263A-1(h)(9))	F17201, F24422.3	PC		
45	Uniform Capitalization Rules: Simplified Production Method	263A (Reg. §1.263A-2(b)(4))	F17201, F24422.3	PC		
46	Uniform Capitalization Rules: Simplified Resale Method	263A (Reg. §1.263A-3(d)(4))	F17201, F24422.3	PC		
47	Uniform Capitalization Rules: Production Period Interest	263A(f) (Reg. §1.263A-8; Rev. Proc. 95-19)	F17201, F24422.3	PC		
48	Uniform Capitalization Rules: Interest Expense: Avoidance of Debt-Tracing Rules	460 and 263A(f) (Reg. §1.263A-9(d))	F17564, F24673.2	PC		
49	Uniform Capitalization Rules Inapplicable to Plants and Animals	263A(d)(3) (Temp. Reg. §301.9100-7T(c))	F17201, F24422.3	PC		
50	U.S. Savings Bond Interest: Annual Reportage	454(a) (Reg. §1.454-1); Rev. Proc. 97-37	F17553, C24674	P	C	
	C. CORPORATE DISTRIBUTIONS AND ADJUSTMENTS					
51	Asset Acquisitions: Target Corporation's Gain or Loss	338(h)(10) (Reg. §1.338(h)(10)-1(d))	F17321, F24451	PC		
52	Collapsible Corporations: Stock Sales	341 (Reg. §1.341-7(b)(3))	F17321, F24451	PC		
53	Corporate Distributions: Basis of Stock Rights Acquired	307(b)(2) (Reg. §1.307-2)	F17321, F24451	PC		
54	New Loss Corporations: Net Operating Loss Carryforwards (election not to apply)	382(l)(5)(H) (Temp. Reg. §301.9100-8T(a))	F17321, F24472	PC		
55	Stock Purchases Treated as Asset Acquisitions: Stepped-Up Basis of Target Stock	338(b)(3), (e)(1) and (g) (Reg. §1.338-1(d))	F17321, F24451	PC		

	Election	Authority - Code, Reg., etc.	R&TC	Gen Rule	Stand Alone	Already Bound
56	Stock Sales and Distributions Treated as Asset Transfers	338(e)	F17321, F24451	PC		
D. DEFERRED COMPENSATION						
57	Annuity Plans: Tax-Exempt Organizations	403(b)(2)(B) 415(c)(4)(D) (Reg. §1.415-6(e)(6))	F17501, F24601	PC		
58	Annuity Plans: Tax-Free Rollover of Lump-Sum Distributions	72(h), 402(a), 403(a)(4)	F17085, F24272.2, F17501, F24601	PC		
59	Collectively Bargained Pension Trusts	404(a)(1)(B) and 413(b) (Reg. §1.413-1)	F17501, F24601	PC		
60	Deduction for Contributions			PC		
61	Minimum Participation Standards: Applicability to Churches	410(d) (Reg. §1.410(d)-1)	F17501, F24601	PC		
62	Nondeductible IRAs	408(o)(2)(B) and (o)(4)	F17501, F24601	PC		
63	Pension, Profit-Sharing and Annuity Plans: Defined Benefit Plans, Cost-of-Living Protection	415(k)(2)(D)	F17501, F24601	PC		
64	Pension and Profit-Sharing Plans: 5- and 10-Year Averaging	402(d)(4)(B)	F17501, F24601	PC		
65	Pension, Profit-Sharing and Annuity Plans: Minimum Funding; Retro-active Plan Amendment	412(c)(8)(C) (Temp. Reg. §11.412 (c)-7(b))	F17501, F24601	PC		
66	Pension, Profit-Sharing and Annuity Plans: Minimum Funding; Valuation of Bonds	412(c)(2)(B) (Temp. Reg. §11.412(c)-11)	F17501, F24601	PC		
67	Pension and Profit Sharing Plans; Multi-Employer Funding	413(c)(4)(B) (Reg. §1.413-2)		PC		
68	Pension and Profit-Sharing Plans: Nonforfeitable Percentage Determined Without Regard to Plan Amendment	411(a)(10)(B) (Temp. Reg. §1.411(a)-8T(6))	F17501, F24601	PC		
69	Pension and Profit-Sharing Plans: Participation of Domestic Affiliates' Employees	407 (Reg. §1.407-1)	F17501, F24601	PC		
70	Pension and Profit-Sharing Plans: Participation of Foreign Affiliates' Employees	406 (Reg. §1.406-1(c)(1))	F17501, F24601	PC		
71	Pension and Profit-Sharing Plans: Tax-Free Rollover of Lump-Sum Distributions	72(h), 402(a)	F17085, F24272.2, F17501, F24601	PC		
72	Roth IRAs	408A(d)	F17501, F24601	PC		
73	Simple IRAs and 401(k) plans, employee elections (calendar years after 8/5/97)	408(p) and 401(k); Rev. Proc. 97-9; P.L. 105-34; Not. 98-4	F17501, F24601	PC		
74	Qualified Cash or Deferred Arrangement	401(k)(2)(B) (Reg. §1.401(k)-1(a)(F17501, F24601	PC		
75	Qualified Foreign Plan Deduction	404A(c), (f)(2) and (g)(2) (Prop. Reg. §1.404A-6 and -7)	F17501, F24601	PC		

	Election	Authority - Code, Reg., etc.	R&TC	Gen Rule	Stand Alone	Already Bound
76	Waiver of Qualified Joint and Survivor Annuity or Qualified Preretirement Survivor Annuity	417(a)(1)	F17501, F24601	PC		
E. ACCOUNTING PERIODS AND METHODS OF ACCOUNTING						
77	Advance Payments: Accounting Methods	451 (Reg. §1.451-5(d))	F17551 F24661	PC		
78	Affiliated Groups: Election by Parent, Treatment as One Taxpayer	448(d)(4) (Temp. Reg. §1.448-1T(e)(5) and 301.9100-7(T))	F17551 F24654	PC		
79	Change in Accounting Method (Where Consent Required)	446 (Reg. §1.446-1(e)); See Rev. Proc. 97-27	F17551 C24651	P	C	
80	Change of Tax Year (Corporations)	442 (Reg. §1.442-1(c))	F17556 F17565 C24633 C24632			PC
81	Change of Tax Year (Individuals (including married taxpayers other than newlyweds), Corporations Requiring Approval, and Partnerships)	442 and 706 (Reg. §1.442-1)	F17556 F17565 C24633 C24632			PC
82	Change of Tax Year (Newly Married Couples)	442 (Reg. §1.442-1(e))	F17556	P		
83	Debt-Tracing Requirement Avoidance	Notice 88-99, Sec. 7; Ann. 89-72		PC		
84	Designated Settlement Funds (Election to Be Treated as Such)	468B (Reg. §1.468B, -5(b)(2) and Temp. Reg. §301.9100-7T(a))	F17551 F24693	PC		
85	Disaster Payments, Crop Insurance Proceeds: Year of Inclusion	451(d) (Reg. §1.451-6); Not. 90-28	F17551 F24661	PC		
86	Drought Livestock Sales: Proceeds	451(e) (Reg. §1.451-7); P.L. 105-34	F17551 F24661	PC		
87	52-53-Week Year: Adoption or Change to	441(f) (Temp. Reg. §1.441-2T(c))	F17551 F17565 C24631 C24633.5 C24632			PC
88	Installment Sales: Election Not to Use Installment Method	453(d) (Reg. §15A.453-1(d) and 301.9100-2)	F17560 F24667 F24668.1	PC		
89	Inventory Valuation: Method	471 (Reg. §1.471-2(d))	F17551 F24701(a)	PC		
90	LIFO Inventory Method: Dollar-Value LIFO Method: Small Businesses	474 (Temp. Reg. §301.9100-7T (a)(3)(v))	F17551 F24708	PC		
91	LIFO Inventory Valuation: Adoption	472 (Reg. §1.472-3)	F17551 F24701(b)	PC		
92	Long-Term Contracts: Accounting Methods	451 (Reg. §1.451-3(f))	F17551 F24661	PC		
93	Long-Term Contracts; 10% Percentage of Completion Method	460(b)(5) (Prop. Reg. §1.460-4(b)(6)) P.L. 105-34, Act Sec. 1211	F17551 , F17564 C24673 F24673.2	PC		

	Election	Authority - Code, Reg., etc.	R&TC	Gen Rule	Stand Alone	Already Bound
94	Mark to Market Election for Securities Dealers	475(f); P.L. 105-34, Act. Sec. 1001(b)	F17551, F17570 F24710			PC
95	Mining and Waste Disposal Reclamation and Closing Costs: Uniform Method of Deduction	468(a) and (c)	F17551 F24689	PC		
96	Passive Activities: Increase in Basis by Amount of Disallowed Credit	469(j)(9) (Temp. Reg. §301.9100-7T (a)(3) (iii), (a)(4))	F17551 F17561 F24692	PC		
97	Passive Activities: Self-Charged Interest Rules: Passthrough Entities	469 (Prop. Reg. §1.469-7T(f))	F17551 F17561 F24692	PC		
98	Prepaid Membership Dues	456 (Reg. §1.456-6)	F17551	P		
99	Prepaid Subscriptions	455 (Reg. §1.455-6)	F17551 C24676	P	C	
100	Real Property Taxes: Accrual	461(c) (Reg. §1.461-1(c)(3))	F17551 F24681	PC		
101	Returned Magazines, Paperbacks and Records	458 (Reg. §1.458-2)	F17551 C24676.5	P	C	
102	Short Tax Year: Alternative Tax Computation	443(b)(2) (Reg. §1.443-1(b) (2)(v)(a))	F17551 F17552 C24636(b)	P		
103	Tax Year Other Than a Required Year (Partnerships, S Corporations and Personal Service Corporations)	444 (Temp. Reg. §1.444-3T(b))	F17551 F24637	PC		
104	Treatment of Lump-Sum Payment as Received in an Earlier Year	86(e)(2)(B)	F17081 17087(a)			
105	Treatment of Undertakings as Separate Activities	469 (Reg. §1.469-4 and former Temp. Reg. §1.469-4T(o))	F17551 F17561 F24692	PC		
106	Uniform Capitalization Rules: Change in Accounting Method: Small Reseller/Reseller-Pr	263A, 446, 472 and 481 (Reg. §1.446-1(e)(3)(Rev. Proc. 95-33	F17201 F24422.3	PC		
F. EXEMPT ORGANIZATIONS						
107	Homeowners Associations	528(c)(1)(E)	F23701t			
108	Public Charities Lobbying Expenditures	501(h)(4) and (h)(6) (Reg. §1.501(h)-2)	C23704.5	C		

I. NATURAL RESOURCES					
109	Depletion: Daily Natural Gas Quantity	613A(c)(4) (Reg. §1.613A-5)	F17681, F24831	PC	
110	Depletion: Marginal Daily Production	613A(c)(6)(B); P.L. 101-508	F17681, F24831	PC	
111	Development Expenses: Deduction deferral	616 (Reg. §1.616-2)	F17681, F24831	PC	
112	Development Expenses, Foreign: Inclusion in Adjusted Basis	616(d) (Temp. Reg. §301.9100- 7T(a)(2)(iv))	F17681, F24831	PC	
113	Exploration Expenses: Deduction and Recapture	617 (Reg. §1.617-1(c))	F17681, F24831	PC	
114	Exploration Expenses, Foreign: Inclusion in Adjusted Basis	617(h) (Temp. Reg. §301.9100- 7T(a)(v))	F17681, F24831	PC	
115	Intangible Drilling Costs: Capitalize or Expense	612 (Reg. §1.612-4); Rev. Rul. 70-414 and 89-56	F17681, F24831	PC	
116	Operating Mineral Interests in Mines: Aggregation/Separate Properties	614(c)(1) and (2) (Reg. §1.614-3)	F17681, F24831	PC	
117	Operating Mineral Interests in Oil and Gas Wells or Geothermal Deposits: Single Interest Treated as Separate Property	614(b)(2) (Reg. §1.614-8)	F17681, F24831	PC	
118	Timber Cutting: Pre-cutting Payment as Date of Disposal	631(b) (Reg. §1.631-2(c) and (d))	F17681, F24831	PC	
119	Timber Cutting: Sale or Exchange Treatment	631(a) (Reg. §1.631-1)	F17681, F24831	PC	
J. ESTATES, TRUSTS, BENEFICIARIES AND DECEDENTS					
120	Administrative Expenses: Estates and Trusts	642(g) (Reg. §1.642(g)-1)	F17732; F17733; F17736; F17731	P	
121	Charitable Contributions: Year of Deduction - Preceding Year	642(c)(1) (Reg. §1.642(c)-1)	F17732; F17733; F17736; F17731	P	
122	Charitable Remainder Trusts: Asset Valuation Dates	664 (Reg. §1.664-3(a)(1)(iv))	F17731	P	
123	Executor's Revocation of Spouses' Joint Return Election	6013(a)(3) (Reg. §1.6013-1(d)(5))	A18521(g)		P
124	Medical and Dental Expenses of Decedents	213(c) (Reg. §1.213-1(d))	F17201	P	
125	Property Distributions by Estates and Trusts: Recognition of Gain or Loss	643(e)(3)	F17750; F17731	P	
126	Qualified Revocable Trusts: Election to be treated as part of estate	Code Sec. 645(c); P.L. 105-34 and 105-206; Rev. Proc. 98-13	F17731		P

127	Trust and Estate Distributions: Year of Credit	663(b) (Reg. §1.663(b)-2); P.L. 105-34	F17731; P17752			P
128	Funeral Trusts	685(b)95)	17760.5			P
129	Trusts and Estates: Crediting Overpayments of Estimated Taxes by Trust or Estate, in final tax year, to Beneficiaries	643(g)	F17750; F17731	P		
K. PARTNERS & PARTNERSHIPS						
130	Adoption, Change, or Retention of a Tax Year (no limited deferral period)	706(b) (Reg. §1.706-1(b)(4) and Temp. Reg. §1.441-1T(b)(2))	F17851	P		
131	Allocation of Basis in a Manner Other than that Provided in Regulations	734(b), 743(b) (Reg. §1.755-1)	F17851	P		
132	Amortization of Organization Costs	709(b) (Reg. §1.709-1(c))	F17851	P		
133	Exclusion from Partnership Treatment	761(a) (Reg. §1.761-2(b)(2))	F17851	P		
134	Liquidation of Partnership Interest: Installment Reporting	736 (Reg. §1.736-1(b)(6))	F17851	P		
135	Optional Basis Adjustment: Distributed Property: Received by Partner	732(d) (Reg. §1.732-1(d)(2))	F17851	P		
136	Optional Basis Adjustment: Undistributed Property	734(b) and 754 (Reg. §1.754-1(b)(1))	F17851	P		
137	Optional Basis Adjustment: Upon Sale or Exchange, or Death of Partner	743(b) and 754 (Reg. §1.754-1(b)(1))	F17851	P		
138	Partnership Liabilities as Contribution, Treatment	752 (Reg. §1.752-5(b))	F17851	P		
139	Publicly Traded Partnership's Election to Pay Code Sec. 1446 Withholding Tax.	1446(f); Rev. Proc. 89-31 and 92-66; 1461 REGS, 6302-2 REGS.	F18666	P		
M. RICs, REITs & REMICs						
140	Real Estate Investment Trusts: Dividends	858(a) (Reg. §1.858-1(b))	F24870	C		
141	Real Estate Investment Trusts: Foreclosure of Property	856(e) (Reg. §1.856-6(c))	F24872.4			C
142	Real Estate Investment Trusts: Status	856(c) and (g) (Reg. §1.856-2(b))	F17088, F17088.6, F24870, F24872.4, F24872.5			C
143	Regulated Investment Companies: Computation of Taxable Income w/out Regard to Code Sec. 454(b)	852(b)(2)(F)	F17088, P17145, F24870, F24871	C		
144	Regulated Investment Companies: Dividends	855(a) (Reg. §1.855-1(b))	F24870	C		
145	Regulated Investment Companies: Status	851(b) (Reg. §1.851-2(a))	F17088, F17088.5, F17088.6, F24870, F24872.4, F24872.5			C

146	Real Estate Mortgage Investment Conduit: Status	860D(a)(1) (Reg. §1.860D-1(d))	F24870	C		
N. FOREIGN RELATED ITEMS						
147	Controlled Foreign Corporations: Determination of Earnings and Profits	964(a) (Reg. §1.964-1(c)(3))	C25110	C		
148	Controlled Foreign Corporations: Determination of Earnings and Profits: Adoption or Change of Tax Accounting Methods	964(a) (Reg. §§1.446-1(e)(3) 1.964-1(c)(3) and Temp. Reg. §1.964-1T(g)(2))	C25110	C		
149	Controlled Foreign Corporations: Determination of Earnings and Profits: Amortization of Intangibles	197 and 964(a) (Temp. Reg. §1.197-1T(c)(3) and Reg. §1.964-1(c)(3); Notice 94-90)	C25110, F24355.5	C		
150	Controlled Foreign Corporations: Limitation of Tax on Individual	962 (Reg. §1.962-2)	n/a	C		
151	Domestic International Sales Corporation: Status	992(b)(1) (Reg. §1.992-2(a))	C23051.5	C		
152	Export Trade Corporations: Determination of Asset Investment	970(c)(4) (Reg. §1.970-2)	C25110	C		
153	Foreign Corporations: Domestic Status	897(i) (Reg. §1.897-3)	C25110			
154	Foreign Corporations: Realty Income	882(d)(1) (Reg. §§1.871-10 and 1.882-2(a))	C25110	C		
155	Foreign Functional Currency	985(b)(3) (Reg. §1.985-2)	F24905	C		
156	Foreign Governments, International Organizations: Compensation Exemption (to waive exemption)	893 (Reg. §1.893-1(a)(4))	F17146	C		
157						
158	Specified Foreign Corporation: Change of Tax Year	898(c)(1)(B) (Prop. Reg. 1.898-1(c)(1)); Notice 95-13	C25110	C		
159	Specified Foreign Corporation: One Month Deferral	898; Rev. Proc. 90-26 and Notice 95-13	C25110	C		
160	Treaty-Based Return Position	6114 (Reg. §301.6114-1(a))	C25110	C		
O. GAIN OR LOSS ON DISPOSITION OF PROPERTY						
161	Condemnation of Residence: Sale Treatment	1034(i) (Reg. §1.1034-1(h) (2)(iii));	F18037.5 F18031 F18031	P		
162	Conflict of Interest Sales	1043(a)	F18031	P		
163	Corporations: Stock Sales to ESOPs: Nonrecognition of Gain	1042(a) (Temp. Reg. §1.1042-1T (Q&A-3))	F18042; F18031; F24954; F24954.1	P		
164	Discharge of Indebtedness: Reduction of Basis of Depreciable Property	108(d)(9) and 1017(b)(3)(E)	F17131 F24307; F17144 F17131 F24307; F18031 F24918; F18044 F18031			PC

165	Estate Tax: Additional Taxes, Basis Adjustment	1016(c)(5)	F18036 F18031 C24916; C24916.2 C24917; F18036.5 ; F18037.5	P		
166	Exclusion of Gain from Sale of Principal Residence after 5/6/97	121(f); 1.121-4	F17152(c); F17131			P
167	Extraordinary Dividends: Fair Market Value	1059(c)(4); Rev. Proc. 87-33	F18031; C24966	PC		
168	Involuntary Conversions: Nonrecognition of Gain	1033(a)(2)(A) (Reg. §1.1033(a)-2)	F18031; F18037; A19061; C24943- 24949.5; C24944(a);	P	C	
169	Involuntary Conversions: Outdoor Advertising Displays	1033(g)(3) (Reg. §1.1033(g)-1 (b)(2)(i)(A))	F18037 F18031; C24949.2		PC	
170	One-Time Exclusion of Gain from Sale of Principal Residence before 5/7/97 (see Sale of Principal Residence)	121(c) (Reg. §1.121-4)	F17152, F17131	P		
171	Postponement of Gain from Sale/Exchange of Livestock Due to Drought	451(e) (Reg. §1.451-7)	F17551 P17554; F24661 F24661.5; F17559 F17551; 24661.5 24661	PC		
172	Regulated Investment Company Stock: Determination of Basis	1012(e) (Reg. §1.1012-1(e) (6))	R18031; C24912	PC		
173	Sale of Principal Residence: Rollover of Gain (see One-Time Exclusion of Gain)	1034	F18037.5 F18031; F17152(d)			P
174	SEC-Ordered Sales: Nonrecognition	1081(b), 1082(a)(2) (Reg. §1.1081-4(g))	F18031; F24981; F24988	PC		
175	Stock Sales and Distributions Treated as Asset Transfers	336(e)	F17321; F24451	PC		
176	Straddles: Mixed Straddle Account Election	1092(b) (Temp. Reg. §1.1092 (b)-4T(f))	F18031; F24998	PC		
177	U.S. Obligations: Tax-Free Exchanges	1037(a) (Reg. §1.1037-1(a)(1))	F18031	P		
	P. CAPITAL GAINS & LOSSES					
178	Real Property: Subdivided and Improved	1237 (Reg. §1.1237-1(c) (5)(iii))	F18151; F24990.4 F24990	PC		
179	Securities Dealers: Capital Gain, Identification of Securities	1236 (Reg. §1.1236- -1)	F18151; F24990	PC		
180	Small Corporation Stock: Ordinary Loss on Sale	1244 (Reg. §1.1244 (c)-1 and (e)-1)	F18151; F24990	PC		
181	Specialized Small Business Investment Companies: Rollover of Gain on Publicly Traded Securities	1044 (Reg. §1.1044(a)-1); Notice 94-50	18044 F18031; F24956	PC		
182	Straddles: Contracts Marked-to-Market	1256(d)	F18151; F24990	PC		

Q. BONDS & DEBT INSTRUMENTS					
183	Accrued Discount: Interest Deferral	1282 (Temp. Reg. §301.9100-6T)	F18151, F24990	PC	
184	Market Discount: Accrual	1276(b); Rev. Proc. 92-67	F18151, F24990	PC	
185	Market Discount: Current Inclusion	1278(b); Rev. Proc. 92-67	F18151, F24990	PC	
186	Nongovernmental Obligations: Original Issue Discount (not to apply)	1283(c) (Temp. Reg. §301.9100-6T)	F18151, F24990	PC	
R. S CORPORATIONS & THEIR SHAREHOLDERS					
187	Distributions During Post-Termination Transition Period	1371(e) (Temp. Reg. §18.1371-1)	F23800 F23806	C	
187	Election of S Corporation Status	1362(b) (Reg. §1.1362-6)	F23800 F23801	C	
187	Reelection Following Termination	1362(g) (Reg. §1.1362-5)	F23800 F23801	C	
187	Revocation of Election	1362(d)(1) (Reg. §1.1362-2)	F23800 F23801(f)(1)		C
187	Tax Year: Election of, Other than Calendar Year	1378 (Temp. Reg. §18.1378-1(b) (2)(ii))	F23800 C24632		C
187	Tax Year: Termination of	1377 (Temp. Reg. §18.1377-1)	F23800	C	
187	Trusts: Treatment as Qualified S Trust	1361(d) (Reg. §1.1361-1(j)(6) and (11))	F23800	C	
187	Election for Qualified Subchapter S subsidiary. *** This was not listed but should be included.	1361(b)(3)	F23800.5(b)(3)		C
W. ADMINISTRATION & PROCEDURE					
188	Extension of Time to File: Automatic (Corporate)	6081(b) (Reg. §1.6081-3)	A18604		
189	Extension of Time to File: Automatic (Individual)	6081(a) (Reg. §1.6081-4)	A18604		
190	Extension of Time to File: Automatic (Partnerships and Trusts)	6081 (Reg. §1.6081-2)	A18604		
191	Extension of Time to File: In Addition to Automatic (Individual)	6081	A18604		
192	Joint Returns	6013 (Reg. §1.6013-2(b))	A18521		
193	Election by Publicly Traded Partnership to Continue Partnership Status	7704(g); P.L. 105-34 and 105-206; Not.98-3	F17008.5, F23038.5(b)		

* R&TC - The letter before the R&TC section stands for:					
		P = conforms by stand alone language or PITL language			
		C = conforms by stand alone language or CTL language			
		A = conforms by stand alone language or AFITL language			
		F = conforms by reference or federal IRC language			
Legend:					
C = Applies to CTL taxpayers					
P = Applies to PITL taxpayers					