

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Aghazarian Analyst: Rachel Coco Bill Number: AB 288

Related Bills: See Prior Analysis Telephone: 845-4328 Amended Date: March 10, 2003

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Agricultural Water Filter Systems & Equipment Deduction

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 February 5, 2003.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED \_\_\_\_\_ STILL APPLIES.

OTHER - See comments below.

## SUMMARY

This bill would allow a deduction for the cost of a water filter system and equipment used to prevent contaminated agricultural water from entering public waterways or underground aquifers.

## SUMMARY OF AMENDMENTS

The March 10, 2003, amendments deleted the provisions to provide a credit for the cost of a farm irrigation system improvement.

The March 10, 2003, amendments resolved some of the technical concerns provided in the department's analysis of the bill as introduced February 5, 2003. The remaining technical concerns, as well as the implementation considerations and policy concerns, are provided below. The remainder of the department's analysis of the bill as introduced February 5, 2003, still applies.

## POSITION

Pending.

### Summary of Suggested Amendments

Amendments are provided to address the department's technical concern. Department staff is currently working with the author's office to resolve the implementation and policy concerns described below.

Board Position:

S       NA       NP  
 SA       O       NAR  
 N       OUA       PENDING

Legislative Director  
Brian Putler

Date  
03/25/03

## IMPLEMENTATION CONSIDERATIONS

The following concerns were identified in the department's analysis of the bill as introduced February 5, 2003, and are provided below for convenience.

It is unclear what the criteria would be for the agricultural water filter systems and equipment to satisfy the requirement of preventing contaminated water from entering public waterways or underground aquifers. The bill does not provide any measure, such as a percentage, upon which prevention could be determined, nor does the department possess the necessary technical expertise to monitor compliance with any such standard.

Current law specifies that the allocation of income, deductions, credits, and losses for partnerships and S corporations shall be on the basis of a partner's distributive share pursuant to a partnership agreement or an S corporation shareholder's pro rata share. This provision specifies that the deduction shall be allocated in accordance with the interest of each owner in an agricultural business; however, the bill does not provide any clear rule, such as profits interest or capital interests, to be used in determining owner interests.

## **ARGUMENTS/POLICY CONCERNS**

Current state and federal environmental laws and regulations, such as the Clean Water Act, require businesses and individuals to minimize pollution from their businesses and other activities. This provision would allow a deduction for the construction or purchase of systems and equipment used to prevent contaminated agricultural water from entering public waterways. Tax benefits are typically enacted to encourage certain behavior, not to reward taxpayers that are simply complying with existing statutes and other laws.

Current federal and state laws allow taxpayers to elect to deduct certain expenses normally chargeable to a capital account. However, these deductions are subject to specified dollar limits (i.e., farm equipment is limited to \$25,000). The deduction that is allowed by this bill is unlimited.

## **LEGISLATIVE STAFF CONTACT**

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