Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	La Malfa	Analyst:	LuAnna Hass	Bill Number:	AB 989
Related Bills:	See Legislative History	Telephone:	845-7478	Introduced Date:	February 20, 2003
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Rice Straw Credit/Aggregate Amount Change

SUMMARY

This bill would change the current maximum aggregate amount of rice straw credits allowed in a calendar year.

PURPOSE OF THE BILL

It appears the purpose of this bill is to change the limitation on the aggregate amount of rice straw credits allowable in a calendar year.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective upon enactment and operative for taxable years beginning on or after January 1, 2003.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Federal law and state law contain a variety of provisions specifically relating to farmers and agriculture. These provisions include special accounting and inventory methods, certain income deferral conditions, capital gain/ordinary loss treatment, the deduction of items normally capitalized, and exempt status for labor, agricultural, or horticultural organizations.

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Board Position:			Department Director	Date
______ S	______ NA	______ NP	Gerald H. Goldberg	03/13/03
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Current state law allows a tax credit equal to $15 for each ton of rice straw purchased by the taxpayer that was grown in California. Under both the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), the credit is limited to an aggregate annual amount of $400,000. By reference to the Health and Safety Code, “rice straw” is defined as the dry stems of cereal grains left after the seed heads have been removed. The purchaser must be the “end user” of the rice straw (i.e., anyone who uses the rice straw for processing, generation of energy, manufacturing, export, prevention of erosion, or for any other purpose, except open burning, which consumes the rice straw). Also, the taxpayer allowed the credit must not be related to the person who grew the rice straw. The Department of Food and Agriculture (DFA) is required to certify the credits on a “first come, first served” basis and ensure that the aggregate amount for the calendar year does not exceed $400,000. To qualify for the credit, the taxpayer must obtain, retain, and provide a copy of the certification provided by the Department of Food and Agriculture. DFA is required to provide an annual listing to the Franchise Tax Board (FTB) of the qualified taxpayers who were issued certificates.

THIS BILL

This bill would remove the current maximum aggregate annual amount of rice straw credits allowed, which is $400,000, and replace it with an unspecified amount.

IMPLEMENTATION CONSIDERATIONS

As written, this bill would have a minor impact on FTB since DFA is required to certify the credits prior to the taxpayer claiming the credit on the income tax return and ensure that the total amount for the calendar year claimed by all taxpayers does not exceed the maximum amount, which is unspecified in this bill.

LEGISLATIVE HISTORY

AB 1686 (Thomson, 2001/2002) would have created a Rice Straw Utilization Program to provide financial assistance to rice growers and end users of rice straw in the Sacramento Valley Air Basin. The Governor vetoed this bill because of the funding required in the bill.

AB 510 (Ashburn, Stats. 1998, Ch. 49) made a nonsubstantive, technical change relating to partnerships in the rice straw credit.

SB 38 (Lockyer, Stats. 1996, Ch. 954) created a tax credit equal to $15 for each ton of rice straw purchased by the taxpayer.

OTHER STATES’ INFORMATION

Florida, Illinois, Massachusetts, Michigan, Minnesota, and *New York* laws do not provide a credit comparable to the rice straw tax credit in California. The laws of these states were reviewed because their tax laws are similar to California’s income tax laws.

FISCAL IMPACT

This bill would not impact department costs.

ECONOMIC IMPACT

This bill would remove the current maximum aggregate amount of rice straw credits allowed in a year, which is $400,000. Since less than 25% of the existing limit of $400,000 is used in any given year, this bill would have no identifiable revenue impact under the Personal Income Tax and Corporation Tax Laws.

LEGISLATIVE STAFF CONTACT

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