

**SUMMARY ANALYSIS OF AMENDED BILL**

Author: Mullin, et al. Analyst: Scott McFarlane Bill Number: AB 2330  
 Related Bills: See Prior Analysis Telephone: 845-6075 Amended Date: May 15, 2014  
 Attorney: Bruce Langston Sponsor: Franchise Tax Board

**SUBJECT:** Research Credit Simplification

**SUMMARY**

This bill would simplify the calculation of the California research credit.

**RECOMMENDATION**

Support.

On December 4, 2013, the three-member Franchise Tax Board voted 2-0, with the Director of Finance abstaining, to sponsor the language included in this bill as introduced February 21, 2014.

**SUMMARY OF AMENDMENTS**

The May 15, 2014, amendments would delay the start of this bill’s research credit simplification provisions for one year, meaning such provisions would apply to taxable years beginning on or after January 1, 2015, and would provide that the alternative simplified credit would no longer be allowed for taxable years beginning on or after January 1, 2022.

As a result of the May 15, 2014, amendments, the “Effective/Operative Date,” “This Bill,” and “Economic Impact” sections of the department’s analysis of this bill as amended April 30, 2014, are revised and provided below. The remainder of the department’s analysis of this bill as amended April 30, 2014, still applies.

**EFFECTIVE/OPERATIVE DATE**

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2015.

THIS BILL

This bill would simplify the calculation of the California research credit by generally conforming to federal calculation methods and to the recent federal changes to the credit’s rules for acquisitions, dispositions, and aggregations, as described below.

Board Position:	Legislative Director	Date
<input checked="" type="checkbox"/> S	Gail Hall	5/20/14
<input type="checkbox"/> NA		
<input type="checkbox"/> SA		
<input type="checkbox"/> N		
<input type="checkbox"/> NP		
<input type="checkbox"/> O		
<input type="checkbox"/> NAR		
<input type="checkbox"/> OUA		

### Calculating the General Research Credit

This bill would bring California into conformity with the federal calculation methods by eliminating the election to use the alternative incremental credit for taxable years beginning on or after January 1, 2015, and instead would allow taxpayers to elect to use the alternative simplified credit for taxable years beginning on or after January 1, 2015, and before January 1, 2022, with the following California modifications:

- Qualified research would mean research conducted in California; and
- The California simplified credit would allow a research credit that would be equal to 10.5 percent of California qualified research expenses over a base amount. The base amount would be calculated by multiplying the California qualified research expenses for the three preceding taxable years by 50 percent.<sup>1</sup>

An election to use the simplified credit would apply to all succeeding taxable years in which the election of the simplified credit would be allowed unless revoked with the consent of the Franchise Tax Board (FTB).

### Acquisitions, Dispositions, and Aggregation of Expenditures

For taxable years beginning on or after January 1, 2015, this bill would conform to the recent federal modifications to the special rules that apply for computing the research credit when a major portion of a trade or business (or unit thereof) changes hands, and for the aggregation of expenditures among commonly-controlled or otherwise-related entities.

### ECONOMIC IMPACT

#### Revenue Estimate

Estimated Revenue Impact of AB 2330 As Amended May 15, 2014 Assumed Enactment After June 30, 2014 (\$ in Millions)		
2014-15	2015-16	2016-17
- \$16	- \$65	- \$85

This estimate does not account for changes in employment, personal income, or gross state product that could result from this bill.

---

<sup>1</sup> The credit rate under the California simplified credit would be reduced to 4.5 percent if a taxpayer has no California qualified research expenses in any one of the three preceding taxable years.

## **SUPPORT/OPPOSITION<sup>2</sup>**

Support: California Chamber of Commerce, California Healthcare Institute, California Manufacturers & Technology Association, California Taxpayers Association, Hewlett-Packard Pharmaceutical Research, Manufacturers of America, Raytheon Company, Regional Economic Association Leaders Coalition, and the Silicon Valley Leadership Group.

Opposition: None on file.

## **LEGISLATIVE STAFF CONTACT**

Scott McFarlane

Legislative Analyst, FTB

(916) 845-6075

[scott.mcfarlane@ftb.ca.gov](mailto:scott.mcfarlane@ftb.ca.gov)

Mandy Hayes

Revenue Manager, FTB

(916) 845-5125

[mandy.hayes@ftb.ca.gov](mailto:mandy.hayes@ftb.ca.gov)

Gail Hall

Legislative Director, FTB

(916) 845-6333

[gail.hall@ftb.ca.gov](mailto:gail.hall@ftb.ca.gov)

---

<sup>2</sup> The source of Support/Opposition is the Assembly Revenue and Taxation Committee analysis of this bill as amended April 30, 2014.