

# BILL ANALYSIS

Department, Board, Or Commission	Author	Bill Number
<b>Franchise Tax Board</b>	<b>Hagman</b>	<b>AB 434</b>

## SUBJECT

Preferred Shares: Rights and Preferences Distributions

## SUMMARY

This bill would eliminate amounts attributable to accrued preferential dividends in arrears and any preferential rights from the computations<sup>1</sup> a corporation's board of directors is required to make when determining if a corporation can make distributions to junior shareholders. This change would have no effect on the taxability of the dividends distributed.

This bill would not impact the Franchise Tax Board or state income tax revenues.

## VOTES

Assembly Floor      05/16/13      Y: 77 N: 0  
Senate Floor        06/13/13      Y: 37 N: 0

## LEGISLATIVE STAFF CONTACT

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<sup>1</sup> Under current law, prior to authorizing a distribution to junior shareholders, a corporation's board of directors must determine, in good faith, that either (1) the retained earnings of the corporation immediately prior to a distribution equals or exceeds the amount of the distribution plus accrued preferential dividends in arrears, or (2) immediately after a distribution, the total value of the corporation's assets equals or exceeds the total corporate liabilities plus preferential rights amounts.

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