

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: McPherson Analyst: Colin Stevens Bill Number: SB 229

Related Bills: See Prior Analysis Telephone: 845-3036 Amended Date: 04/05/99

Attorney: Pat Kusiak Sponsor:

SUBJECT: Irrigation Equipment Credit

- 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 January 25, 1999.
- FURTHER AMENDMENTS NECESSARY.
- DEPARTMENT POSITION CHANGED TO neutral.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED January 25, 1999 STILL APPLIES.
- OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would allow a tax credit equal to 15% of the cost paid or incurred to purchase and install qualified water application or distribution equipment that provides water conservation or savings. The equipment must be used for the production of farm income on agricultural land owned or leased by the taxpayer in this state. The credit for a parcel of land would not exceed the lesser of \$1,000 per acre of land served by the qualified equipment or \$1 million.

SUMMARY OF AMENDMENT

The April 5, 1999, amendments expanded the definition of "water conservation or savings" to include equipment that "reduces water diverted from a stream or watercourse or water applied to a crop." Other than the expanded definition for equipment that causes "water conservation or savings," and the new board position, the department's analysis of the bill as introduced January 25, 1999, still applies. The implementation considerations shown below still apply. This amendment would not impact the revenue estimate for this bill since the amended provision was considered in the revenue estimate of the bill as introduced January 25, 1999.

Implementation Considerations

It is unclear what is meant by "receive the credit once." The term could mean that a taxpayer could receive, in the aggregate over a lifetime, no more than \$1 million (or \$1,000/acre) in credits, regardless of how many parcels of land are owned, or the limitation could alternatively apply to each separate, non-contiguous parcel owned or leased by the taxpayer.

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Or the limitation could mean that the taxpayer could claim a credit only for one year. In that case, if water conservation equipment were installed in 1999 on one parcel, and a credit claimed that year, no credit would be available for equipment installed in future years.

Items that may be included in the cost of the equipment and installation are not identified. Without more specific guidelines, administration of the credit would be difficult. For example, it is unclear if the cost of obtaining the certification would be included in the cost of installation.

The phrase "independent of" is a subjective standard and may be open to interpretation. To clarify the term and eliminate differences in interpretation, the language should specify an objective relationship standard. Providing an objective relationship standard would make it clear that the certifying civil engineer, registered agricultural engineer or certified irrigation designer may not be an employee or otherwise related to the purchaser, seller or manufacturer of the water application or distribution equipment.

The bill would require water conservation or savings of at least 10% in comparison to the water used on the agricultural land in the prior taxable or income year. Arguably, water conservation equipment installed on land that has lain fallow or currently has no irrigation system would not be eligible for the credit if the use of a water application or distribution system actually would increase the amount of water used on the land.

This credit does not limit the carryover period. Current policy has been to provide a limited carryover period for most credits since carryovers are typically exhausted in eight years.

BOARD POSITION

Neutral.

At its March 23, 1999, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill, as introduced January 25, 1999.