



STATE OF CALIFORNIA  
**FRANCHISE TAX BOARD**  
**Legal Branch**  
PO Box 1720  
Rancho Cordova, CA 95741-1720  
(916) 845-3309 Fax (916) 845-3648

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**FTB NOTICE 94-5**

**November 23, 1994**

**SUBJECT:           REQUEST FOR PUBLIC COMMENT  
                      DRAFTING OF PROPOSED REGULATIONS  
                      MANUFACTURERS' INVESTMENT CREDIT**

Revenue and Taxation Code sections 17053.49 and 23649 were enacted by Senate Bill 671 (Stats. 1993, Ch. 881) and amended by Senate Bill 676 (Stats. 1994, Ch. 751). These sections generally provide a six percent credit for certain property used in a qualified manufacturing or similar activity conducted in California.

The Franchise Tax Board will soon release FTB Publication 1137 – The Manufacturers' Investment Credit, which provides more detailed information about this credit.

The Franchise Tax Board intends to draft and subsequently adopt regulations under sections 17053.49 and 23649 to interpret certain provisions of these sections and to provide further guidance to affected taxpayers. In particular, Franchise Tax Board staff has preliminarily identified the following issues as needing further clarification by regulation:

- 1) Defining the beginning and the end of the manufacturing process.
- 2) Clarifying the determination of who is a "qualified taxpayer."
- 3) Providing specific rules applicable to "turn-key" and other fixed-price construction contracts.
- 4) Further defining "recycling."
- 5) Further defining "research and development."
- 6) Clarifying the reporting requirements applicable to successor lessees.
- 7) Defining capitalized labor costs.

- 8) Defining binding contracts, including option contracts.
- 9) Further defining special purpose buildings.

The Board invites written input from the public on any of the issues identified above and encourages interested parties to identify any other issues to be addressed which are raised by the recent amendment of Revenue and Taxation Code sections 17053.49 and 23649 and which should be included in the regulations. Please forward any written input to E. Scott Ewing, Tax Counsel, Franchise Tax Board Legal Division, P.O. Box 1468, Sacramento, CA 95812-1468, **no later than January 10, 1995.**

The Board will also conduct a symposium on January 17, 1995 at 8:30 a.m. at Howard Johnson Hotel, 3343 Bradshaw Road, Sacramento, California, to solicit further input on the proposed regulatory action. Please contact Mr. Ewing at (916) 369-3323 if you have any questions about attending the symposium or this notice.