

**SUMMARY ANALYSIS OF AMENDED BILL**

Author:	<u>Aguiar-Curry, et al.</u>	Analyst:	<u>Davi Milam</u>	Bill Number:	<u>AB 832</u>
					<u>March 20, 2017 &amp;</u>
Related Bills:	<u>See Prior</u>	Telephone:	<u>845-2551</u>	Amended Dates:	<u>April 3, 2017</u>
	<u>Version</u>	Attorney:	<u>Bruce Langston</u>	Sponsor:	<u></u>

**SUBJECT:** Winter-Flooded Rice Credit

**SUMMARY**

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), create the Winter-Flooded Rice Credit.

**RECOMMENDATION – NO POSITION**

**SUMMARY OF AMENDMENTS**

The March 20, 2017, amendments modified two definitions and made other technical changes. The April 3, 2017, amendments revised the credit computation, modified the certification process, limited the credit carryover period, and made other technical changes.

The amendments resolved the department’s technical consideration, and some, but not all, of the implementation considerations and policy concerns discussed in the department’s analysis of the bill as introduced February 16, 2017. As a result of the amendments, the “This Bill,” “Implementation Considerations,” “Economic Impact,” and “Policy Concerns” sections have been revised. The “Support/Opposition” section has been updated to reflect current information. The remainder of the department’s analysis of the bill as introduced February 16, 2017, still applies. The “Fiscal Impact” section has been restated for convenience.

**THIS BILL**

For each taxable year beginning on or after January 1, 2018, and before January 1, 2022, this bill would, under the PITL and the CTL, allow a credit in an amount equal to 40 percent of the costs paid or incurred by a qualified taxpayer to maintain winter-flooded rice.

This bill would define the following terms:

- “Qualified taxpayer” means any taxpayer that grows and maintains rice, including winter-flooded rice.
- “Winter-flooded rice” means the intentional flooding of a California rice field that has been farmed to rice at least two of the last three growing seasons and is maintained in a flooded state for at least 70 days between October 15 and March 15 of the following year.

The credit would be claimed in the year in which the 70-day flooding requirement is satisfied.

The qualified taxpayer, within an unspecified number of days of satisfying the 70-day flooding requirement, would be required to submit to the Department of Food and Agriculture (DFA) for certification, the following information:

- Evidence of costs paid or incurred to maintain the winter-flooded rice;
- The taxpayer's name and property address; and
- The taxpayer's social security number or taxpayer identification number.

The DFA would be required to provide a copy of each credit certificate issued to the taxpayer and to the Franchise Tax Board (FTB), upon the request of the FTB.

Any unused credits could be carried forward for seven if necessary, until exhausted.

The credit would be repealed by its own terms on December 1, 2022.

### **IMPLEMENTATION CONSIDERATIONS**

Department staff has identified the following implementation consideration for purposes of a high-level discussion; additional concerns may be identified as the bill moves through the legislative process. Department staff is available to work with the author's office to resolve this and other concerns that may be identified.

Since the flooding-period between October 15 and March 15 exceeds 140 days, it would be possible for a qualified taxpayer to claim the credit both for the period from October 15 to December 31 and from January 1 to March 15 as both periods exceed the required 70 days. If this is inconsistent with the author's intent, it is recommended that the bill be amended.

### **FISCAL IMPACT**

The department's costs to implement this bill have yet to be determined. As the bill moves through the legislative process and the implementation concerns are resolved, costs will be identified and an appropriation will be requested, if necessary.

### **ECONOMIC IMPACT**

#### **Revenue Estimate**

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 832 As Amended on April 3, 2017 Assumed Enactment After June 30, 2017 (\$ in Millions)		
2017-18	2018-19	2019-20
- \$2.6	- \$10	- \$15

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

## Revenue Discussion

Based on data from the California DFA, it is estimated there would be approximately 375,000 acres of winter-flooded rice in California that would qualify for the credit in 2018. In each year, it is assumed that 100 percent of qualified taxpayers would receive certification for the credit and half would satisfy the 70-day flooded-state requirement between October 15 and the end of the year and the remainder in the following tax year.

It is estimated that the per acre cost of maintaining winter-flooded rice would be \$100 in 2018. This results in a per acre credit of \$40 at the 40 percent credit rate. It is assumed that a small number of qualified taxpayers would claim the credit both for the period from October 15 to December 31 and from January 1 to March 15 as both periods exceed 70 days, resulting in an estimated \$8.2 million in credits generated in taxable year 2018. It is estimated that 70 percent would be used by corporate taxpayers and 30 percent by personal income taxpayers. It is assumed that 70 percent, or \$5.3 million, of the credit would be used in the year generated and the remaining 30 percent would be used over the next several years.

The tax-year estimates are converted to fiscal-year estimates, and then rounded to arrive at the amounts shown in the above table.

## SUPPORT/OPPOSITION<sup>1</sup>

Support: Audubon California, California Rice Commission, Delta Waterfowl, and Northern California Water Association.

Opposition: California Tax Reform Association.

## POLICY CONCERNS

This bill would allow taxpayers in certain circumstances to claim multiple tax benefits as taxpayers could claim both the credit allowed by this bill and a deduction for the costs paid or incurred to maintain the rice fields, such as water used to flood the fields and equipment and labor needed to do so.

This bill fails to limit the amount of the credit that may be taken. Credits that could potentially be quite costly are sometimes limited either on a per-property or per-taxpayer basis.

## LEGISLATIVE STAFF CONTACT

Davi Milam  
Legislative Analyst, FTB  
(916) 845-2551  
[davi.milam@ftb.ca.gov](mailto:davi.milam@ftb.ca.gov)

Jame Eiserman  
Revenue Manager, FTB  
(916) 845-7484  
[jame.eiserman@ftb.ca.gov](mailto:jame.eiserman@ftb.ca.gov)

Diane Deatherage  
Legislative Director, FTB  
(916) 845-6333  
[diane.deatherage@ftb.ca.gov](mailto:diane.deatherage@ftb.ca.gov)

---

<sup>1</sup> As noted in the Assembly Revenue and Taxation Committee analysis dated March 24, 2017.