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◆ Introduction

This is Part Two of a two-part report on California's tax expenditure programs (TEPs). It is the fourth in a series of such reports produced by the Legislative Analyst's Office.

CONTENTS OF THE REPORT

Part One of the report, published as a separate document and entitled *California's Tax Expenditure Programs: Overview*, provides (1) a discussion regarding alternative definitions of the tax base, (2) a review of issues associated with the revenue estimation process for TEPs, (3) a brief discussion of tax incidence and distributional issues associated with TEPs, (4) the identification of TEPs with significant fiscal impacts, (5) the identification of TEPs recently enacted or eliminated, and (6) a discussion of the policy role for TEPs and the effectiveness of tax expenditure reporting.

This part of the report, entitled *California's Tax Expenditure Programs: Compendium of Individual Programs*, presents an overview of each type of tax and detailed descriptions and commentary regarding individual TEPs, by program type. For each program, the following information is provided:

- **Legal Authorization.** In most cases, the legal citation provided references the California Revenue and Taxation Code. There are some cases however, where program authorization is given by the California Constitution or other state code sections. For those income tax programs that conform

partially or fully to federal law, the appropriate Internal Revenue Code Section is noted.

- **Revenue Effect.** Estimates of the fiscal effect of each program, measured by the foregone tax revenues associated with it, are provided for 1996-97 through 1998-99. These estimates were developed by the state's two major tax agencies—the California Franchise Tax Board (FTB), for income taxes, and the State Board of Equalization (BOE), for all other taxes.

There are a significant number of programs for which no dollar revenue effect is available, due to data limitations or methodological considerations. These are designated by an "NA" (not available). In addition, for programs with no revenue effect for a particular year, or with revenue effects incorporated into another program, a dash has been used (—). The term "Minor," used in other cases, indicates a revenue reduction of less than \$1 million. The term "Major" indicates estimated revenue reductions of an indeterminate amount in excess of \$1 million.

- **Description.** A description of each TEP's basic provisions, and conditions under which they are applicable, is provided. A sunset date is provided if the program's authorization contains such a provision.

- **Rationale.** In most cases, the rationale for a TEP can be categorized as a tax incentive to encourage certain behavior and/or as tax relief to certain groups or individuals. Also, in certain cases, TEPs may facilitate effective and efficient tax administration. For each TEP, the rationale provided represents our attempt to identify the apparent logic or motivation behind the program's establishment and/or continuation. This rationale should not be viewed, however, as necessarily providing evidence as to a program's cost-effectiveness or value to the public.
- **Distributional Impacts.** For a limited number of TEPs relating to PIT and BCT, we present information regarding the distribution of program benefits by income class (for PIT), or size of firm and type of industry (for BCT). For purposes of these data, the amount or percent of TEP claims indicated is the amount or percent claimed *and* actually applied for tax purposes. In some cases, amounts claimed may be in excess of amounts actually applied. This may occur, for example, if a taxpayer has insufficient income to use certain tax credits.

In addition, depending on the type of program, the distributional data for PIT programs may not reflect the true *value* of the particular tax provision. This is because the value of the tax provision may vary depending on the

taxpayer's marginal tax rate. For example, for income deductions, adjustments, and exclusions, the value of the tax provision will increase along with the marginal tax rate. In such cases, the distributional data is for the amount of the deduction, adjustment, or exclusion claimed and applied.

- **Comments.** For many TEPs, we provide comments that may assist the Legislature or other readers in understanding a program's application or impact. These comments may relate, for example, to the TEP's legal history, its relationship to comparable federal programs, or empirical findings regarding the effectiveness of the TEP.

At the end of Part Two, we provide an index that cross-references by general subject area the TEPs contained in the report, in order to assist readers in locating those programs that might be of particular interest or concern to them.

ACKNOWLEDGMENTS

The principal author of this report was Mark A. Ibele. Michael Cohen was responsible for the section dealing with property taxes. The report's preparation was overseen by David Vasché. We gratefully acknowledge the assistance of the FTB, the BOE, and the California Department of Finance in providing various background information and fiscal data used in the report.