

ASSEMBLY BILL

No. 2278

Introduced by Assembly Member Anderson
(Coauthor: Senator Dutton)

February 18, 2010

An act to amend Sections 17052.12 and 23609 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

AB 2278, as introduced, Anderson. Income and corporation tax credits: research and development.

The Personal Income Tax Law and the Corporation Tax Law, by reference to a specified federal statute, allow a credit against taxes imposed by those laws for increasing research expenses, as defined. In general, the amount of the credit under both laws is equal to 15% of the excess of the qualified research expenses, as defined, for the taxable year over the base amount, as defined, and, in addition, for purposes of the Corporation Tax Law, 24% of the basic research payments, as defined. The term "base amount" means the product of the average annual gross receipts of the taxpayer for each of the specified years preceding the taxable year and the fixed-base percentage, as defined, but in no event less than 50% of the qualified research expenses for the taxable year. A taxpayer may elect an alternative incremental credit for increasing research expenses in modified conformity to federal income tax laws.

This bill would increase the credit for increasing research expenses to 20% of the excess of the qualified research expenses. This bill would also provide complete conformity to the alternative incremental credit provided under those federal income tax laws.

This bill would take effect immediately as a tax levy.

Vote: majority. Appropriation: no. Fiscal committee: yes.

State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 17052.12 of the Revenue and Taxation
2 Code is amended to read:

3 17052.12. For each taxable year beginning on or after January
4 1, 1987, there shall be allowed as a credit against the “net tax” (as
5 defined by Section 17039) for the taxable year an amount
6 determined in accordance with Section 41 of the Internal Revenue
7 Code, except as follows:

8 (a) For each taxable year beginning before January 1, 1997, the
9 reference to “20 percent” in Section 41(a)(1) of the Internal
10 Revenue Code is modified to read “8 percent.”

11 (b) (1) For each taxable year beginning on or after January 1,
12 1997, and before January 1, 1999, the reference to “20 percent”
13 in Section 41(a)(1) of the Internal Revenue Code is modified to
14 read “11 percent.”

15 (2) For each taxable year beginning on or after January 1, 1999,
16 and before January 1, 2000, the reference to “20 percent” in Section
17 41(a)(1) of the Internal Revenue Code is modified to read “12
18 percent.”

19 (3) For each taxable year beginning on or after January 1, 2000,
20 *and before January 1, 2010*, the reference to “20 percent” in
21 Section 41(a)(1) of the Internal Revenue Code is modified to read
22 “15 percent.”

23 (4) *For each taxable year beginning on or after January 1,*
24 *2010, the reference to “20 percent” in Section 41(a)(1) of the*
25 *Internal Revenue Code shall apply.*

26 (c) Section 41(a)(2) of the Internal Revenue Code, relating to
27 basic research payments, shall not apply.

28 (d) “Qualified research” shall include only research conducted
29 in California.

30 (e) In the case where the credit allowed under this section
31 exceeds the “net tax,” the excess may be carried over to reduce
32 the “net tax” in the following year, and succeeding years if
33 necessary, until the credit has been exhausted.

(f) (1) With respect to any expense paid or incurred after the operative date of Section 6378, Section 41(b)(1) of the Internal Revenue Code is modified to exclude from the definition of “qualified research expense” any amount paid or incurred for tangible personal property that is eligible for the exemption from sales or use tax provided by Section 6378.

(2) For each taxable year beginning on or after January 1, 1998, the reference to “Section 501(a)” in Section 41(b)(3)(C) of the Internal Revenue Code, relating to contract research expenses, is modified to read “this part or Part 11 (commencing with Section 23001).”

(g) (1) For each taxable year beginning on or after January 1, ~~2000~~ 2000, and before January 1, 2010:

(A) The reference to “2.65 percent” in Section 41(c)(4)(A)(i) of the Internal Revenue Code is modified to read “one and forty-nine hundredths of one percent.”

(B) The reference to “3.2 percent” in Section 41(c)(4)(A)(ii) of the Internal Revenue Code is modified to read “one and ninety-eight hundredths of one percent.”

(C) The reference to “3.75 percent” in Section 41(c)(4)(A)(iii) of the Internal Revenue Code is modified to read “two and forty-eight hundredths of one percent.”

(2) *For each taxable year beginning on or after January 1, 2010, Section 41(c)(4) of the Internal Revenue Code, relating to election of alternative incremental credit, shall apply.*

~~(2)~~

(3) Section 41(c)(4)(B) shall not apply and in lieu thereof an election under Section 41(c)(4)(A) of the Internal Revenue Code may be made for any taxable year of the taxpayer beginning on or after January 1, 1998. That election shall apply to the taxable year for which made and all succeeding taxable years unless revoked with the consent of the Franchise Tax Board.

~~(3)~~

(4) Section 41(c)(6) of the Internal Revenue Code, relating to gross receipts, is modified to take into account only those gross receipts from the sale of property held primarily for sale to customers in the ordinary course of the taxpayer’s trade or business that is delivered or shipped to a purchaser within this state, regardless of f.o.b. point or any other condition of the sale.

1 (h) Section 41(h) of the Internal Revenue Code, relating to
2 termination, shall not apply.

3 (i) Section 41(g) of the Internal Revenue Code, relating to
4 special rule for passthrough of credit, is modified by each of the
5 following:

6 (1) The last sentence shall not apply.

7 (2) If the amount determined under Section 41(a) of the Internal
8 Revenue Code for any taxable year exceeds the limitation of
9 Section 41(g) of the Internal Revenue Code, that amount may be
10 carried over to other taxable years under the rules of subdivision
11 (e); except that the limitation of Section 41(g) of the Internal
12 Revenue Code shall be taken into account in each subsequent
13 taxable year.

14 SEC. 2. Section 23609 of the Revenue and Taxation Code is
15 amended to read:

16 23609. For each taxable year beginning on or after January 1,
17 1987, there shall be allowed as a credit against the “tax” (as defined
18 by Section 23036) an amount determined in accordance with
19 Section 41 of the Internal Revenue Code, except as follows:

20 (a) For each taxable year beginning before January 1, 1997,
21 both of the following modifications shall apply:

22 (1) The reference to “20 percent” in Section 41(a)(1) of the
23 Internal Revenue Code is modified to read “8 percent.”

24 (2) The reference to “20 percent” in Section 41(a)(2) of the
25 Internal Revenue Code is modified to read “12 percent.”

26 (b) (1) For each taxable year beginning on or after January 1,
27 1997, and before January 1, 1999, both of the following
28 modifications shall apply:

29 (A) The reference to “20 percent” in Section 41(a)(1) of the
30 Internal Revenue Code is modified to read “11 percent.”

31 (B) The reference to “20 percent” in Section 41(a)(2) of the
32 Internal Revenue Code is modified to read “24 percent.”

33 (2) For each taxable year beginning on or after January 1, 1999,
34 and before January 1, 2000, both of the following shall apply:

35 (A) The reference to “20 percent” in Section 41(a)(1) of the
36 Internal Revenue Code is modified to read “12 percent.”

37 (B) The reference to “20 percent” in Section 41(a)(2) of the
38 Internal Revenue Code is modified to read “24 percent.”

39 (3) For each taxable year beginning on or after January 1, 2000,
40 *and before January 1, 2010*, both of the following shall apply:

1 (A) The reference to “20 percent” in Section 41(a)(1) of the
2 Internal Revenue Code is modified to read “15 percent.”

3 (B) The reference to “20 percent” in Section 41(a)(2) of the
4 Internal Revenue Code is modified to read “24 percent.”

5 *(4) For each taxable year beginning on or after January 1,*
6 *2010, both of the following shall apply:*

7 *(A) The reference to “20 percent” in Section 41(a)(1) of the*
8 *Internal Revenue Code shall apply.*

9 *(B) The reference to “20 percent” in Section 41(a)(2) of the*
10 *Internal Revenue Code is modified to read “24 percent.”*

11 (c) (1) With respect to any expense paid or incurred after the
12 operative date of Section 6378, Section 41(b)(1) of the Internal
13 Revenue Code is modified to exclude from the definition of
14 “qualified research expense” any amount paid or incurred for
15 tangible personal property that is eligible for the exemption from
16 sales or use tax provided by Section 6378.

17 (2) “Qualified research” and “basic research” shall include only
18 research conducted in California.

19 (d) The provisions of Section 41(e)(7)(A) of the Internal
20 Revenue Code, shall be modified so that “basic research,” for
21 purposes of this section, includes any basic or applied research
22 including scientific inquiry or original investigation for the
23 advancement of scientific or engineering knowledge or the
24 improved effectiveness of commercial products, except that the
25 term does not include any of the following:

26 (1) Basic research conducted outside California.

27 (2) Basic research in the social sciences, arts, or humanities.

28 (3) Basic research for the purpose of improving a commercial
29 product if the improvements relate to style, taste, cosmetic, or
30 seasonal design factors.

31 (4) Any expenditure paid or incurred for the purpose of
32 ascertaining the existence, location, extent, or quality of any deposit
33 of ore or other mineral (including oil and gas).

34 (e) (1) In the case of a taxpayer engaged in any
35 biopharmaceutical research activities that are described in codes
36 2833 to 2836, inclusive, or any research activities that are described
37 in codes 3826, 3829, or 3841 to 3845, inclusive, of the Standard
38 Industrial Classification (SIC) Manual published by the United
39 States Office of Management and Budget, 1987 edition, or any
40 other biotechnology research and development activities, the

provisions of Section 41(e)(6) of the Internal Revenue Code shall be modified to include both of the following:

(A) A qualified organization as described in Section 170(b)(1)(A)(iii) of the Internal Revenue Code and owned by an institution of higher education as described in Section 3304(f) of the Internal Revenue Code.

(B) A charitable research hospital owned by an organization that is described in Section 501(c)(3) of the Internal Revenue Code, is exempt from taxation under Section 501(a) of the Internal Revenue Code, is not a private foundation, is designated a “specialized laboratory cancer center,” and has received Clinical Cancer Research Center status from the National Cancer Institute.

(2) For purposes of this subdivision:

(A) “Biopharmaceutical research activities” means those activities that use organisms or materials derived from organisms, and their cellular, subcellular, or molecular components, in order to provide pharmaceutical products for human or animal therapeutics and diagnostics. Biopharmaceutical activities make use of living organisms to make commercial products, as opposed to pharmaceutical activities that make use of chemical compounds to produce commercial products.

(B) “Other biotechnology research and development activities” means research and development activities consisting of the application of recombinant DNA technology to produce commercial products, as well as research and development activities regarding pharmaceutical delivery systems designed to provide a measure of control over the rate, duration, and site of pharmaceutical delivery.

(f) In the case where the credit allowed by this section exceeds the “tax,” the excess may be carried over to reduce the “tax” in the following year, and succeeding years if necessary, until the credit has been exhausted.

(g) For each taxable year beginning on or after January 1, 1998, the reference to “Section 501(a)” in Section 41(b)(3)(C) of the Internal Revenue Code, relating to contract research expenses, is modified to read “this part or Part 10 (commencing with Section 17001).”

(h) (1) For each taxable year beginning on or after January 1, ~~2000~~: 2000, and before January 1, 2010:

1 (A) The reference to “2.65 percent” in Section 41(c)(4)(A)(i)
2 of the Internal Revenue Code is modified to read “one and
3 forty-nine hundredths of one percent.”

4 (B) The reference to “3.2 percent” in Section 41(c)(4)(A)(ii) of
5 the Internal Revenue Code is modified to read “one and
6 ninety-eight hundredths of one percent.”

7 (C) The reference to “3.75 percent” in Section 41(c)(4)(A)(iii)
8 of the Internal Revenue Code is modified to read “two and
9 forty-eight hundredths of one percent.”

10 (2) *For each taxable year beginning on or after January 1,*
11 *2010, Section 41(c)(4) of the Internal Revenue Code, relating to*
12 *election of alternative incremental credit, shall apply.*

13 ~~(2)~~

14 (3) Section 41(c)(4)(B) shall not apply and in lieu thereof an
15 election under Section 41(c)(4)(A) of the Internal Revenue Code
16 may be made for any taxable year of the taxpayer beginning on or
17 after January 1, 1998. That election shall apply to the taxable year
18 for which made and all succeeding taxable years unless revoked
19 with the consent of the Franchise Tax Board.

20 ~~(3)~~

21 (4) Section 41(c)(6) of the Internal Revenue Code, relating to
22 gross receipts, is modified to take into account only those gross
23 receipts from the sale of property held primarily for sale to
24 customers in the ordinary course of the taxpayer’s trade or business
25 that is delivered or shipped to a purchaser within this state,
26 regardless of f.o.b. point or any other condition of the sale.

27 (i) Section 41(h) of the Internal Revenue Code, relating to
28 termination, shall not apply.

29 (j) Section 41(g) of the Internal Revenue Code, relating to
30 special rule for passthrough of credit, is modified by each of the
31 following:

32 (1) The last sentence shall not apply.

33 (2) If the amount determined under Section 41(a) of the Internal
34 Revenue Code for any taxable year exceeds the limitation of
35 Section 41(g) of the Internal Revenue Code, that amount may be
36 carried over to other taxable years under the rules of subdivision
37 (f), except that the limitation of Section 41(g) of the Internal
38 Revenue Code shall be taken into account in each subsequent
39 taxable year.

1 SEC. 3. This act provides for a tax levy within the meaning
2 of Article IV of the Constitution and shall go into immediate effect.

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