

INITIAL STATEMENT OF REASONS FOR THE
ADOPTION OF AMENDMENTS TO
CALIFORNIA CODE OF REGULATIONS,
TITLE 18, SECTION 18001-1, SUBSECTION (C)

PUBLIC PROBLEM, ADMINISTRATIVE REQUIREMENTS, OR OTHER CONDITION OR
CIRCUMSTANCE THAT THE REGULATION IS INTENDED TO ADDRESS

Currently, California Code of Regulations, title 18, section 18001-1, subsection (c), requires that the credit for income taxes paid to another state will only be applied against "net tax" imposed on the income in the same year. The governing statute, Revenue and Taxation Code section 18001, subdivision (a), however, does not require that the credit be applied only against the "net tax" on the income in the same year. The governing statute provides that the credit for taxes paid to another state may be properly claimed when the same income that was taxed by the other state is also taxed by California. The proposed amendments to California Code of Regulations, title 18, section 18001-1, subsection (c), will remove the language that requires the credit to be applied against the "net tax" imposed on the income in the same year.

SPECIFIC PURPOSE OF THE REGULATION

This proposed amendment to the regulation will eliminate the language which provides that the credit for income taxes paid to another state will only be applied against "net tax" imposed on the income in the same year. It will allow a qualifying taxpayer a credit for income taxes paid to another state when the same income that is taxed by the other state is also taxed by California, even when the same income is taxed in different years by the other state and California.

NECESSITY

The proposed amendment to the regulation is needed in order to eliminate the requirement that a credit for income taxes paid to another state must be applied only against the "net tax" imposed on the income in the same year. Although this requirement is contained in the text of California Code of Regulations, title 18, section 18001-1, subsection (c), the governing statute, Revenue and Taxation Code section 18001, subdivision (a), does not require that a credit for income taxes paid to another state be applied against "net tax" on the income in the same year. The proposed amendments will apply retroactively for all open years.

TECHNICAL, THEORETICAL, AND/OR EMPIRICAL STUDIES, REPORTS, OR
DOCUMENTS

In drafting the proposed regulation, the Franchise Tax Board relied upon Revenue and Taxation Code section 18001, and California Code of Regulations, title 18, section 18001-1, subsection (c).

Other than the items described in the preceding paragraph, the Franchise Tax Board did not rely upon any technical, theoretical, or empirical studies, reports or documents in proposing adoption of the proposed amendments to the regulation.

ALTERNATIVES TO THE PROPOSED REGULATORY ACTION THAT WOULD LESSEN ANY ADVERSE IMPACT ON PRIVATE PERSONS OR SMALL BUSINESS

In accordance with Government Code section 11346.5, subdivision (a)(13), the Franchise Tax Board has determined that no alternative considered by it would be more effective in carrying out the purpose for which the action is proposed or would be an effective and less burdensome to affected private persons than the proposed regulatory action.

ADVERSE ECONOMIC IMPACT ON BUSINESS

The proposed regulatory action will not have a significant adverse economic impact on business.