

CALTAX COMMENTARY: Tax Conformity Accomplished in California

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When people see the words “new law” and “taxes” used in proximity, they might think bad news is on the way. Not this time! Gov. Jerry Brown just signed a new law that makes several welcome changes to California’s tax code.

The legislation – [Assembly Bill 154](#), by Assemblyman Phil Ting of San Francisco – more closely aligns California’s tax laws with federal laws. This will help working Californians avoid costly tax mistakes and will improve tax compliance and enforcement.

Taxpayer groups have been pushing for this “conformity bill” for years because California’s tax laws have, for the most part, been out of sync with federal law since 2009. The last comprehensive conformity proposal was enacted in 2010. To complete their returns from 2010 to 2014, taxpayers had to look back to federal law as it read on January 1, 2009.

Having to dig back into obsolete federal law was more than just an inconvenience – it was a recipe for disaster for many taxpayers. As the independent taxpayers’ rights advocate within the state Franchise Tax Board reported, nonconformity was one of the leading causes of taxpayer errors and noncompliance.

Tax errors typically are not discovered until tax returns are audited several years later. By then, the original tax liability may have snowballed to an unmanageable level because of penalties and interest.

Nonconformity also required many businesses to keep multiple sets of records to comply with federal reporting requirements and to accommodate the differences in state tax laws. This unnecessarily increased the complexity and costs associated with paying taxes, taking business owners away from the more important task of actually running their companies.

One of the provisions in the new law conforms California to a federal provision that allows businesses with an anticipated net operating loss an extension of time to pay their taxes. This extension allows them to offset losses against their current income, which gives businesses access to their money now to shore up resources and make additional investments.

In addition to providing a big benefit for taxpayers, Assemblyman Ting’s legislation helps the tax collectors do their job more efficiently and with more accuracy.

For the Franchise Tax Board, which administers California's income and franchise taxes, nonconformity meant that the agency could not rely on federally audited returns, but instead had to make separate calculation and verifications of tax returns.

California's tax agencies also had to assign more staff to answer taxpayer questions, conduct separate audits and initiate collections on errors. Conformity reduces the need for many of these activities, saving the state time and money.

The conformity legislation had the support not only of the California Taxpayers Association, but also the California Asian Chamber of Commerce, California Bankers Association, California Chamber of Commerce, National Federation of Independent Business and other groups from the business community.

In the Legislature, it was supported by Democrats and Republicans alike.

Thank you, Assemblyman Ting, for carrying this legislation. Taxpayers should let their elected officials know that they appreciate their support of this important new law and that they hope the passage of a tax conformity bill will become an annual tradition in the state Capitol.