

**MEMO# 9535**

December 23, 1997

## **REPEAL OF THE CALIFORNIA 30% TEST: UPDATE**

1 See Institute Memorandum to Tax Members No. 40-97, dated October 21, 1997. 2 See Institute Memorandum to California Members, dated November 18, 1997. [9535] December 23, 1997 TO: TAX COMMITTEE No. 48-97 CALIFORNIA MEMBERS RE: REPEAL OF THE CALIFORNIA 30% TEST: UPDATE

As you may know, while the recently-enacted Taxpayer Relief Act of 1997 (the "Act") repealed the 30% test that investment companies had to satisfy under Subchapter M of the tax laws, the 30% test has not yet been repealed for purposes of the California tax laws.<sup>1</sup> The Institute held a conference call with members on November 21 to discuss our efforts to enact promptly legislation conforming the California tax laws to the repeal of the 30% test, with an identical effective date (i.e., for taxable years beginning after August 5, 1997).<sup>2</sup> This memorandum is intended to update you regarding the current status of this matter. Representatives of the relevant legislative staffs and the California Franchise Tax Board are in the process of identifying provisions of the Act to incorporate into the California tax laws. At a December 17 tax conformity meeting of representatives of the tax legislative committee staffs and the Franchise Tax Board, the repeal of the 30% test was included on a list of potential "fast-track" conformity items. Under fast-track procedures, it is possible that the repeal could be enacted as early as the end of March, but, given the uncertainty of the legislative process, this time frame cannot yet be considered to be assured. Representatives of the Franchise Tax Board and the tax committee staffs appear to be sympathetic to the industry's position, and to understand the need for quick corrective action. While California's preliminary revenue estimates indicate that the repeal would generate a small revenue loss, this amount, if adopted as the final revenue estimate, would not appear to create opposition to the proposal. We will continue to work with key staff and legislators for the repeal of the 30% test. Anne M. Barr Associate Counsel - Tax