

Senate Bill 1827

By Guy Crouch, C.P.A., E.A.

While domestic partnership has nowhere near the same level of equality as marriage recognized under state law provides hope in California.

On September 30, 2006, Governor Schwarzenegger signed a revolutionary bill that will create tax equality for registered domestic partners in the state of California. Senate Bill 1827, the State Income Tax Equality Act, takes effect on January 1, 2007 and requires that domestic partners file their tax returns jointly, while continuing to file federal taxes separately. The bill was written by Senator Carole Migden (D – San Francisco) and is sponsored by Equality California.

This bill will affect thousands of same-sex couples throughout the state, giving them the same state income tax rights and responsibilities as other married couples. These partnerships will receive tax breaks at the state level, but not the federal. And while it may not be total equality, it is definitely a step in the right direction. It will bring welcome relief to so many domestic partnerships, alleviating some of the unfair taxation, at least for California state taxpayers.

Senate Bill 1827 is a first step in the fight for equality, but tax issues for domestic partners are a delicate subject and many questions do arise:

When a domestic partnership is formed and one partner deeds a portion of his or her house to the other, is it considered a gift? Does it generate gift tax issues? These questions aren't given the slightest bit of thought for a federally recognized marriage, but with domestic partnership, they are important things to consider.

California law states that alimony needs to be paid when dissolution of a domestic partnership takes place. This can create a problem, however. Since the partnership is not recognized under federal law, alimony that is paid is not deductible to the payer. Alimony will then become taxable income, which is used for federal purposes, thereby creating double taxation.

Gay, lesbian, bisexual and transgender (LGBT) families deserve the same tax breaks as every other married couple and SB 1827 helps to make sure that happens. Under California state laws, domestic partnerships are not extended the same rights and privileges as federally recognized marriages. For example, a same-sex couple with two children where one partner is working, and the other is not, would end up having to pay more than a couple recognized by the federal government.

Although it has no bearing on 2006 tax returns, Senate Bill 1827 is an important thing to consider when filing taxes for 2007.

In order to provide answers about Senate Bill 1827 and other important topics associated with domestic partnership, a free seminar is be given on November 18, 2006

titled: "What's Love Got to Do With it? Recent Changes in California Law: Financial, Legal and Taxation issues for Same-sex Couples." Space is limited, so please RSVP to Jean Adams at jean@egca.org or (530) 210-6688.

Make educated decisions when it comes to your tax and financial needs. For more information, please contact Guy Crouch, CPA, EA at (916) 446-6600 or guycrouch@comcast.net.