

AMENDED IN ASSEMBLY JULY 7, 2025

AMENDED IN SENATE APRIL 29, 2025

AMENDED IN SENATE MARCH 26, 2025

SENATE BILL

No. 711

Introduced by Senator McNerney

February 21, 2025

An act to amend Sections 12206, 17024.5, 17052.6, 17052.12, 17053.91, 17058, 17062, 17063, 17076, 17085, 17087.5, 17131.4, 17131.8, 17140, 17140.3, 17144.5, 17201.6, 17204, 17220, 17225, 17241, 17250, 17255, 17270, 17271, 17276, 17323, 17501, 17551, 17559, 17560.5, 17564, 18031.5, 18036, 18042, 18409, 18622.5, 18631.7, 18666, 19058, 19141.5, 19144, 19167, 19183, 19852, 19900, 23400, 23453, 23455, 23456, 23609, 23610.5, 23691, 23711, 23806, 23809, 24308.6, 24344, 24349.1, 24356, 24357, 24358, 24365, 24416, 24440, 24459, 24465, 24601, 24661.5, 24661.6, 24673.2, 24721, 24872, and 24990.5 of, to amend and repeal Section 17737 of, to add Sections 17062.1, 17088.1, 17131.11, 17149.1, 17149.2, 17156.2, 17158.4, 17158.5, 17201.1, 17204.2, 17250.1, 17250.2, 17321.1, 17322.5, 17324, 17501.8, 17567, 18045, 18151.9, 19907, 21003.1, 24345.6, 24345.7, 24356.1, 24428, 24430, 24454.1, 24457, 24471.5, 24661.4, 24670, 24876, 24990.1, and 24990.9 to, to repeal Sections 17204.7, 17275.3, 17276.05, 17302, and 24416.05 of, and to repeal and add Sections 17062.3 and 23456.5 of, the Revenue and Taxation Code, relating to taxation, and declaring the urgency thereof, to take effect immediately.

LEGISLATIVE COUNSEL'S DIGEST

SB 711, as amended, McNerney. Taxation: federal conformity.

Under the Personal Income Tax Law and the Corporation Tax Law, various provisions of the federal Internal Revenue Code, as enacted as of a specified date, are referenced in various sections of the Revenue and Taxation Code. Those laws provide that for taxable years beginning on or after January 1, 2015, the specified date of those referenced Internal Revenue Code sections is January 1, 2015, unless otherwise specifically provided. Existing law requires, for any introduced bill that proposes changes in any of those dates, that the Franchise Tax Board prepare a complete analysis of the bill that describes all changes to state law that will automatically occur by reference to federal law as of the changed date. It further requires the Franchise Tax Board to immediately update and supplement that analysis upon any amendment to the bill, and requires that analysis be made available to the public and be submitted to the Legislature for publication in the daily journal of each house of the Legislature.

This bill would change the specified date of those referenced Internal Revenue Code sections to January 1, 2025, for taxable years beginning on or after January 1, 2025, and thereby would make numerous substantive changes to both the Personal Income Tax Law and the Corporation Tax Law with respect to those areas of preexisting conformity that are subject to changes under federal laws enacted after January 1, 2015, and that have not been, or are not being, excepted or modified. This bill would make certain other changes in federal income tax laws applicable, with specified exceptions and modifications, and make specified supplemental, technical, or clarifying changes for purposes of the Personal Income Tax Law or the Corporation Tax Law, or both, or the administration of those laws, with respect to, among other things, tax credits, deductions, net operating losses, Roth IRAs, and capital assets.

This bill would also repeal obsolete provisions.

This bill would declare that it is to take effect immediately as an urgency statute.

Vote: $\frac{2}{3}$. 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 12206 of the Revenue and Taxation Code
- 2 is amended to read:

1 12206. (a) (1) There shall be allowed as a credit against the
2 “tax,” described by Section 12201, a state low-income housing
3 tax credit in an amount equal to the amount determined in
4 subdivision (c), computed in accordance with Section 42 of the
5 Internal Revenue Code, relating to low-income housing credit,
6 except as otherwise provided in this section.

7 (2) “Taxpayer,” for purposes of this section, means the sole
8 owner in the case of a “C” corporation, the partners in the case of
9 a partnership, and the shareholders in the case of an “S”
10 corporation.

11 (3) “Housing sponsor,” for purposes of this section, means the
12 sole owner in the case of a “C” corporation, the partnership in the
13 case of a partnership, and the “S” corporation in the case of an “S”
14 corporation.

15 (b) (1) The amount of the credit allocated to any housing
16 sponsor shall be authorized by the California Tax Credit Allocation
17 Committee, or any successor thereof, based on a project’s need
18 for the credit for economic feasibility in accordance with the
19 requirements of this section.

20 (A) Except for projects to provide farmworker housing, as
21 defined in subdivision (h) of Section 50199.7 of the Health and
22 Safety Code, that are allocated credits solely under the set-aside
23 described in subdivision (c) of Section 50199.20 of the Health and
24 Safety Code, the low-income housing project shall be located in
25 California and shall meet either of the following requirements:

26 (i) The project’s housing sponsor has been allocated by the
27 California Tax Credit Allocation Committee a credit for federal
28 income tax purposes under Section 42 of the Internal Revenue
29 Code, relating to low-income housing credit.

30 (ii) It qualifies for a credit under Section 42(h)(4)(B) of the
31 Internal Revenue Code, relating to special rule where 50 percent
32 or more of building is financed with tax-exempt bonds subject to
33 volume cap.

34 (B) The California Tax Credit Allocation Committee shall not
35 require fees for the credit under this section in addition to those
36 fees required for applications for the tax credit pursuant to Section
37 42 of the Internal Revenue Code, relating to low-income housing
38 credit. The committee may require a fee if the application for the
39 credit under this section is submitted in a calendar year after the
40 year the application is submitted for the federal tax credit.

1 (C) (i) For a project that receives a preliminary reservation of
2 the state low-income housing tax credit, allowed pursuant to
3 subdivision (a), on or after January 1, 2009, the credit shall be
4 allocated to the partners of a partnership owning the project in
5 accordance with the partnership agreement, regardless of how the
6 federal low-income housing tax credit with respect to the project
7 is allocated to the partners, or whether the allocation of the credit
8 under the terms of the agreement has substantial economic effect,
9 within the meaning of Section 704(b) of the Internal Revenue
10 Code, relating to determination of distributive share.

11 (ii) This subparagraph shall not apply to a project that receives
12 a preliminary reservation of state low-income housing tax credits
13 under the set-aside described in subdivision (c) of Section 50199.20
14 of the Health and Safety Code unless the project also receives a
15 preliminary reservation of federal low-income housing tax credits.

16 (2) (A) The California Tax Credit Allocation Committee shall
17 certify to the housing sponsor the amount of tax credit under this
18 section allocated to the housing sponsor for each credit period.

19 (B) In the case of a partnership or an “S” corporation, the
20 housing sponsor shall provide a copy of the California Tax Credit
21 Allocation Committee certification to the taxpayer.

22 (C) (i) A taxpayer shall be eligible to claim the credit
23 commencing in the taxable year the building is placed in service
24 and the federal credit period commences, notwithstanding that the
25 certification pursuant to subparagraph (A) has not been issued by
26 the California Tax Credit Allocation Committee, provided that the
27 housing sponsor has filed a taxpayer certification with the
28 California Tax Credit Allocation Committee and delivered a copy
29 to the taxpayer. The amount of credit claimed by the taxpayer shall
30 not exceed the pro rata share with respect to the amount of credit
31 that the taxpayer purchased or is allocated per the partnership
32 agreement, as applicable, of the lesser of either of the following:

33 (I) The applicable percentages for each of the four credit years,
34 as specified in subdivision (c), multiplied by the qualified basis of
35 the building set forth in the preliminary reservation.

36 (II) The amount of credit the project is eligible for as stated in
37 the taxpayer certification.

38 (ii) The California Tax Credit Allocation Committee may, but
39 is not required to, review the taxpayer certification and other

1 information provided by the housing sponsor to confirm both of
2 the following:

3 (I) The calculations set forth in the taxpayer certification.

4 (II) The amount of credits allocated to the project is consistent
5 with applicable California Tax Credit Allocation Committee rules
6 and regulations for the purposes of making the certification
7 required pursuant to subparagraph (A).

8 (iii) If the California Tax Credit Allocation Committee issues
9 a certification pursuant to subparagraph (A) that is inconsistent
10 with the taxpayer certification upon which a credit has been
11 claimed, the taxpayer shall amend any previously filed tax returns
12 to reflect the credit amount certified by the California Tax Credit
13 Allocation Committee pursuant to subparagraph (A).

14 (iv) For purposes of this subparagraph, “taxpayer certification”
15 means a certified statement from the certified public accountant
16 of the housing sponsor. The taxpayer certification shall contain
17 the amount of the credit the project is eligible for, the taxable year
18 the building is placed in service, and the taxable year in which the
19 federal credit period for the building has commenced.

20 (v) The taxpayer shall, upon request, provide a copy of the
21 taxpayer certification pursuant to clause (iv) or the California Tax
22 Credit Allocation Committee’s certification pursuant to
23 subparagraph (A), as applicable, to the Department of Insurance.

24 (vi) In the case of a failure to provide a copy of the taxpayer
25 certification pursuant to clause (iv) or the California Tax Credit
26 Allocation Committee’s certification pursuant to subparagraph
27 (A), if the Department of Insurance so requires, no credit under
28 this section shall be allowed for that taxable year until a copy of
29 that certification is provided.

30 (vii) The changes made to this subparagraph by the act adding
31 this clause shall apply for taxable years beginning on or after
32 January 1, 2023.

33 (D) All elections made by the taxpayer pursuant to Section 42
34 of the Internal Revenue Code, relating to low-income housing
35 credit, shall apply to this section.

36 (E) (i) Except as described in clause (ii) or (iii), for buildings
37 located in designated difficult development areas (DDAs) or
38 qualified census tracts (QCTs), as defined in Section 42(d)(5)(B)
39 of the Internal Revenue Code, relating to increase in credit for
40 buildings in high-cost areas, credits may be allocated under this

1 section in the amounts prescribed in subdivision (c), provided that
2 the amount of credit allocated under Section 42 of the Internal
3 Revenue Code, relating to low-income housing credit, is computed
4 on 100 percent of the qualified basis of the building.

5 (ii) Notwithstanding clause (i), the California Tax Credit
6 Allocation Committee may allocate the credit for buildings located
7 in DDAs or QCTs that are restricted to having 50 percent of the
8 building's occupants be special needs households, as defined in
9 the California Code of Regulations by the California Tax Credit
10 Allocation Committee, or receiving an allocation pursuant to
11 subparagraph (B) of paragraph (1) of subdivision (g), even if the
12 taxpayer receives federal credits pursuant to Section 42(d)(5)(B)
13 of the Internal Revenue Code, relating to increase in credit for
14 buildings in high-cost areas, provided that the credit allowed under
15 this section shall not exceed 30 percent of the eligible basis of the
16 building.

17 (iii) On and after January 1, 2018, notwithstanding clause (i),
18 the California Tax Credit Allocation Committee may allocate the
19 credit pursuant to paragraph (6) of subdivision (c) even if the
20 taxpayer receives federal credits, pursuant to Section 42(d)(5)(B)
21 of the Internal Revenue Code, relating to increase in credit for
22 buildings in high-cost areas.

23 (F) (i) The California Tax Credit Allocation Committee may
24 allocate a credit under this section in exchange for a credit allocated
25 pursuant to Section 42(d)(5)(B) of the Internal Revenue Code,
26 relating to increase in credit for buildings in high-cost areas, in
27 amounts up to 30 percent of the eligible basis of a building if the
28 credits allowed under Section 42 of the Internal Revenue Code,
29 relating to low-income housing credit, are reduced by an equivalent
30 amount.

31 (ii) An equivalent amount shall be determined by the California
32 Tax Credit Allocation Committee based upon the relative amount
33 required to produce an equivalent state tax credit to the taxpayer.

34 (c) Section 42(b) of the Internal Revenue Code, relating to
35 applicable percentage: 70 percent present value credit for certain
36 new buildings; 30 percent present value credit for certain other
37 buildings, shall be modified as follows:

38 (1) In the case of any qualified low-income building that receives
39 an allocation after 1989 and is a new building not federally
40 subsidized, the term "applicable percentage" means the following:

(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are not federally subsidized for the taxable year, determined in accordance with the requirements of Section 42(b)(2) of the Internal Revenue Code, relating to minimum credit rate for nonfederally subsidized new buildings, in lieu of the percentage prescribed in Section 42(b)(1)(A) of the Internal Revenue Code.

(B) For the fourth year, the difference between 30 percent and the sum of the applicable percentages for the first three years.

(2) In the case of any qualified low-income building that is a new building and is federally subsidized and receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g), the term “applicable percentage” means for the first three years, 9 percent of the qualified basis of the building, and for the fourth year, 3 percent of the qualified basis of the building.

(3) In the case of any qualified low-income building that receives an allocation after 1989 pursuant to subparagraph (A) of paragraph (1) of subdivision (g) and that is a new building that is federally subsidized or that is an existing building that is “at risk of conversion,” the term “applicable percentage” means the following:

(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are federally subsidized for the taxable year.

(B) For the fourth year, the difference between 13 percent and the sum of the applicable percentages for the first three years.

(4) In the case of any qualified low-income building that meets all of the requirements of subparagraphs (A) through (D), inclusive, the term “applicable percentage” means 30 percent for each of the first three years and 5 percent for the fourth year. A qualified low-income building receiving an allocation under this paragraph is ineligible to also receive an allocation under paragraph (2).

(A) The qualified low-income building is at least 15 years old.

(B) The qualified low-income building is either:

(i) Serving households of very low income or extremely low income such that the average maximum household income as restricted, pursuant to an existing regulatory agreement with a federal, state, county, local, or other governmental agency, is not more than 45 percent of the area median gross income, as determined under Section 42 of the Internal Revenue Code, relating

1 to low-income housing credit, adjusted by household size, and a
2 tax credit regulatory agreement is entered into for a period of not
3 less than 55 years restricting the average targeted household income
4 to no more than 45 percent of the area median income.

5 (ii) Financed under Section 514 or 521 of the National Housing
6 Act of 1949 (42 U.S.C. Sec. 1485).

7 (C) The qualified low-income building would have insufficient
8 credits under paragraphs (2) and (3) to complete substantial
9 rehabilitation due to a low appraised value.

10 (D) The qualified low-income building will complete the
11 substantial rehabilitation in connection with the credit allocation
12 herein.

13 (5) Section 42(b)(3) of the Internal Revenue Code, relating to
14 minimum credit rate, shall not apply.

15 (6) For purposes of this section, the term “at risk of conversion,”
16 with respect to an existing property, means a property that satisfies
17 all of the following criteria:

18 (A) The property is a multifamily rental housing development
19 in which at least 50 percent of the units receive governmental
20 assistance pursuant to any of the following:

21 (i) New construction, substantial rehabilitation, moderate
22 rehabilitation, property disposition, and loan management set-aside
23 programs, or any other program providing project-based assistance
24 pursuant to Section 8 of the United States Housing Act of 1937,
25 Section 1437f of Title 42 of the United States Code, as amended.

26 (ii) The Below-Market-Interest-Rate Program pursuant to
27 Section 221(d)(3) of the National Housing Act, Sections
28 1715l(d)(3) and (5) of Title 12 of the United States Code.

29 (iii) Section 236 of the National Housing Act, Section 1715z-1
30 of Title 12 of the United States Code.

31 (iv) Programs for rent supplement assistance pursuant to Section
32 101 of the Housing and Urban Development Act of 1965, Section
33 1701s of Title 12 of the United States Code, as amended.

34 (v) Programs under Sections 514, 515, 516, 533, and 538 of the
35 Housing Act of 1949 (Public Law 81-171), as amended.

36 (vi) The low-income housing credit program set forth in Section
37 42 of the Internal Revenue Code, relating to low-income housing
38 credit, this section, and Sections 17058 and 23610.5.

39 (vii) Programs for loans or grants administered by the
40 Department of Housing and Community Development.

(viii) Section 202 of the Housing Act of 1959 (12 U.S.C. Sec. 1701q), as amended.

(ix) Section 142(d) of the Internal Revenue Code or its predecessors.

(x) Section 147 of the Internal Revenue Code, as enacted by the Tax Reform Act of 1986 (Public Law 99-514), or as subsequently amended, including as amended by the Tax Cuts and Jobs ~~Act of 2017~~ *Act, 2017* (Public Law 115-97) and all amendments enacted prior to the Tax Cuts and Jobs ~~Act of 2017~~ *Act, 2017* (Public Law 115-97).

(xi) Title I of the Housing and Community Development Act of 1974, as amended.

(xii) Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as amended.

(xiii) Titles IV and V of the McKinney-Vento Homeless Assistance Act of 1987, as amended, including the Department of Housing and Urban Development's Supportive Housing Program, Shelter Plus Care Program, and surplus federal property disposition program.

(xiv) The following assistance provided by counties and cities in exchange for restrictions on the maximum rents that may be charged for units within a multifamily rental housing development and on the maximum tenant income as a condition of eligibility for occupancy of the unit subject to the rent restriction, as reflected by a recorded agreement with a county or city:

(I) Loans or grants provided using tax increment financing pursuant to the Community Redevelopment Law (Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code).

(II) Local housing trust funds, as referred to in paragraph (3) of subdivision (a) of Section 50843 of the Health and Safety Code.

(III) The sale or lease of public property at or below market rates.

(IV) The granting of density bonuses, or concessions or incentives, including fee waivers, parking variances, or amendments to general plans, zoning, or redevelopment project area plans, pursuant to Chapter 4.3 (commencing with Section 65915) of Division 1 of Title 7 of the Government Code.

(B) As used in subparagraph (A), "government assistance" shall not include the use of tenant-based housing choice vouchers under

1 subsection (o) of Section 1437f of Title 42 of the United States
2 Code, excluding paragraph (13), relating to project-based
3 assistance. Restrictions shall not include any rent control or rent
4 stabilization ordinance imposed by a county or city.

5 (C) If the development is subject to restrictions on rent and
6 income levels, 50 percent of the units are also restricted to initial
7 occupancy by lower income households, as defined in Section
8 50079.5 of the Health and Safety Code.

9 (D) The restrictions on rent and income levels, excluding any
10 restrictions recorded pursuant to paragraph (2) of subdivision (e)
11 of Section 65863.11 or Section 65863.13 of the Government Code
12 or in connection with interim or acquisition financing, will
13 terminate or the federally insured mortgage or rent subsidy contract
14 on the property is eligible for prepayment or termination any time
15 within five years before or after the date of application to the
16 California Tax Credit Allocation Committee.

17 (E) The entity acquiring the property enters into a regulatory
18 agreement that requires the property to be operated in accordance
19 with the requirements of Section 42 of the Internal Revenue Code
20 and any further requirements added by the California Tax Credit
21 Allocation Committee to implement the low-income housing tax
22 credit established by Section 42 of the Internal Revenue Code (26
23 U.S.C. Sec. 42), this section, and Sections 17058 and 23610.5
24 pursuant to Chapter 3.6 (commencing with Section 50199.4) of
25 Part 1 of Division 31 of the Health and Safety Code.

26 (F) The property satisfies the requirements of Section 42(e) of
27 the Internal Revenue Code, relating to rehabilitation expenditures
28 treated as separate new building, except that the provisions of
29 Section 42(e)(3)(A)(ii)(I) shall not apply.

30 (7) On and after January 1, 2018, in the case of any qualified
31 low-income building that is (A) farmworker housing, as defined
32 by paragraph (2) of subdivision (h) of Section 50199.7 of the
33 Health and Safety Code, and (B) is federally subsidized, the term
34 “applicable percentage” means for each of the first three years, 20
35 percent of the qualified basis of the building, and for the fourth
36 year, 15 percent of the qualified basis of the building.

37 (d) The term “qualified low-income housing project” as defined
38 in Section 42(c)(2) of the Internal Revenue Code, relating to
39 qualified low-income building, is modified by adding the following
40 requirements:

1 (1) The taxpayer shall be entitled to receive a cash distribution
2 from the operations of the project, after funding required reserves,
3 that, at the election of the taxpayer, is equal to:

4 (A) An amount not to exceed 8 percent of the lesser of:

5 (i) The owner equity that shall include the amount of the capital
6 contributions actually paid to the housing sponsor and shall not
7 include any amounts until they are paid on an investor note.

8 (ii) Twenty percent of the adjusted basis of the building as of
9 the close of the first taxable year of the credit period.

10 (B) The amount of the cashflow from those units in the building
11 that are not low-income units. For purposes of computing cashflow
12 under this subparagraph, operating costs shall be allocated to the
13 low-income units using the “floor space fraction,” as defined in
14 Section 42 of the Internal Revenue Code, relating to low-income
15 housing credit.

16 (C) Any amount allowed to be distributed under subparagraph
17 (A) that is not available for distribution during the first 5 years of
18 the compliance period may be accumulated and distributed any
19 time during the first 15 years of the compliance period but not
20 thereafter.

21 (2) The limitation on return shall apply in the aggregate to the
22 partners if the housing sponsor is a partnership and in the aggregate
23 to the shareholders if the housing sponsor is an “S” corporation.

24 (3) The housing sponsor shall apply any cash available for
25 distribution in excess of the amount eligible to be distributed under
26 paragraph (1) to reduce the rent on rent-restricted units or to
27 increase the number of rent-restricted units subject to the tests of
28 Section 42(g)(1) of the Internal Revenue Code, relating to qualified
29 low-income housing project requirements.

30 (e) The provisions of Section 42(f) of the Internal Revenue
31 Code, relating to definition and special rules relating to credit
32 period, shall be modified as follows:

33 (1) The term “credit period” as defined in Section 42(f)(1) of
34 the Internal Revenue Code, relating to credit period defined, is
35 modified by substituting “four taxable years” for “10 taxable
36 years.”

37 (2) The special rule for the first taxable year of the credit period
38 under Section 42(f)(2) of the Internal Revenue Code, relating to
39 special rule for 1st year of credit period, shall not apply to the tax
40 credit under this section.

(3) Section 42(f)(3) of the Internal Revenue Code, relating to determination of applicable percentage with respect to increases in qualified basis after 1st year of credit period, is modified to read:

If, as of the close of any taxable year in the compliance period, after the first year of the credit period, the qualified basis of any building exceeds the qualified basis of that building as of the close of the first year of the credit period, the housing sponsor, to the extent of its tax credit allocation, shall be eligible for a credit on the excess in an amount equal to the applicable percentage determined pursuant to subdivision (c) for the four-year period beginning with the later of the taxable years in which the increase in qualified basis occurs.

(f) The provisions of Section 42(h) of the Internal Revenue Code, relating to limitation on aggregate credit allowable with respect to projects located in a state, shall be modified as follows:

(1) Section 42(h)(2) of the Internal Revenue Code, relating to allocated credit amount to apply to all taxable years ending during or after credit allocation year, does not apply and instead the following provisions apply:

The total amount for the four-year credit period of the housing credit dollars allocated in a calendar year to any building shall reduce the aggregate housing credit dollar amount of the California Tax Credit Allocation Committee for the calendar year in which the allocation is made.

(2) Paragraphs (3), (4), (5), (6)(E)(i)(II), (6)(F), (6)(G), (6)(I), (7), and (8) of Section 42(h) of the Internal Revenue Code, relating to limitation on aggregate credit allowable with respect to projects located in a state, do not apply to this section.

(g) The aggregate housing credit dollar amount that may be allocated annually by the California Tax Credit Allocation Committee pursuant to this section, Section 17058, and Section 23610.5 shall be an amount equal to the sum of all the following:

(1) (A) Seventy million dollars (\$70,000,000) for the 2001 calendar year, and, for the 2002 calendar year and each calendar year thereafter, seventy million dollars (\$70,000,000) increased by the percentage, if any, by which the Consumer Price Index for the preceding calendar year exceeds the Consumer Price Index for the 2001 calendar year. For the purposes of this paragraph, the term “Consumer Price Index” means the last Consumer Price Index

1 for All Urban Consumers published by the federal Department of
2 Labor.

3 (B) Five hundred million dollars (\$500,000,000) for the 2020
4 calendar year, and up to five hundred million dollars
5 (\$500,000,000) for the 2021 calendar year and every year
6 thereafter. Allocations shall only be available pursuant to this
7 subparagraph in the 2021 calendar year and thereafter if the annual
8 Budget Act, or if any bill providing for appropriations related to
9 the Budget Act, specifies an amount to be available for allocation
10 in that calendar year by the California Tax Credit Allocation
11 Committee, after the California Tax Credit Allocation Committee
12 and the California Debt Limit Allocation Committee have adopted
13 regulations, rules, or guidelines to align the programs of both
14 committees with the objective of increasing production and
15 containing costs as described in clause (iii). The California Tax
16 Credit Allocation Committee shall accept applications for the 2021
17 calendar year not sooner than 30 days after these regulations, rules,
18 or guidelines have been adopted. The California Debt Limit
19 Allocation Committee shall not accept applications for the 2021
20 calendar year for bond allocations for an eligible project under this
21 section prior to issuing, reviewing, and publishing a new
22 tax-exempt private activity bond demand survey. A housing
23 sponsor receiving a nonfederally subsidized allocation under
24 subdivision (c) shall not be eligible for receipt of the housing credit
25 allocated from the increased amount under this subparagraph.
26 Except as provided in clause (vi), a housing sponsor receiving a
27 nonfederally subsidized allocation under subdivision (c) shall
28 remain eligible for receipt of the housing credit allocated from the
29 credit ceiling amount under subparagraph (A).

30 (i) Eligible projects for allocations under this subparagraph
31 include any new building, as defined in Section 42(i)(4) of the
32 Internal Revenue Code, relating to new building, and the
33 regulations promulgated thereunder, excluding rehabilitation
34 expenditures under Section 42(e) of the Internal Revenue Code,
35 relating to rehabilitation expenditures treated as separate new
36 building, and is federally subsidized. Eligible projects for
37 allocations under this subparagraph also include any retrofitting
38 and repurposing of existing nonresidential structures, including,
39 but not limited to, hotels and motels, that were converted to

1 residential use within the previous five years from the date of the
2 application.

3 (ii) Notwithstanding any other provision of this section, for
4 allocations pursuant to this subparagraph for the 2020 calendar
5 year, the California Tax Credit Allocation Committee shall consider
6 projects located throughout the state and shall allocate housing
7 credits, subject to the minimum federal requirements as set forth
8 in Sections 42 and 142 of the Internal Revenue Code, the minimum
9 requirements set forth in Sections 5033 and 5190 of the California
10 Debt Limit Allocation Committee regulations, and the minimum
11 set forth in Section 10326 of the *California* Tax Credit Allocation
12 Committee regulations, for projects that can begin construction
13 within 180 days from award, subject to availability of funds.

14 (iii) (I) Notwithstanding any other provision of this section, for
15 allocations pursuant to this subparagraph for the 2021 calendar
16 year and thereafter, the California Tax Credit Allocation Committee
17 and the California Debt Limit Allocation Committee shall develop
18 and prescribe regulations, rules, or guidelines necessary to
19 implement a new allocation methodology that is aimed at
20 increasing production and containing costs, which would include
21 a scoring system that maximizes the efficient use of public subsidy
22 and benefit created through the private activity bond and
23 low-income housing tax credit programs. The factors for
24 determining the efficient use of public subsidy and benefit shall
25 include, but not be limited to, all of the following:

26 (ia) The number and size of units developed including local
27 incentives provided to increase density.

28 (ib) The proximity to amenities, jobs, and public transportation.

29 (ic) The location of the development.

30 (id) The delivery of housing affordable to very low and
31 extremely low income households by the development.

32 (II) The efficient use of public subsidy and benefit criteria
33 specified in this clause shall take into account the total state subsidy
34 provided and prioritize cost containment and increased unit
35 production. These regulations, rules, or guidelines developed
36 pursuant to this subparagraph shall also consider updated
37 definitions for at-risk preservation and new construction.

38 (III) For bond allocations for the 2021 calendar year to projects
39 eligible for an allocation under this subparagraph, the California

1 Debt Limit Allocation Committee may adopt emergency
2 regulations.

3 (IV) The California Tax Credit Allocation Committee shall
4 consider amending the regulations establishing a scoring system,
5 as required by this clause, to also grant, for farmworker housing
6 as defined in subdivision (h) of Section 50199.7 of the Health and
7 Safety Code, maximum points to farmworker housing projects
8 under the housing needs category, and an initial five points in the
9 category for site amenities beyond those required as additional
10 thresholds.

11 (iv) Of the amount available pursuant to this subparagraph, and
12 notwithstanding any other requirement of this section, the
13 California Tax Credit Allocation Committee may allocate up to
14 two hundred million dollars (\$200,000,000) for housing financed
15 by the California Housing Finance Agency under its Mixed-Income
16 Program.

17 (v) (I) For the calendar years of 2024 to 2034, inclusive, of the
18 amount available pursuant to this subparagraph, the lesser of 5
19 percent of that amount or twenty-five million dollars (\$25,000,000)
20 per calendar year shall be set aside for projects to provide
21 farmworker housing, as defined in subdivision (h) of Section
22 50199.7 of the Health and Safety Code, and administered consistent
23 with the credits available pursuant to paragraph (4).

24 (II) Any credits pursuant to this clause that remain unallocated
25 following the conclusion of a funding round shall roll over to
26 consecutive subsequent funding rounds in that calendar year with
27 the exception that any credits that remain unallocated after the
28 final funding round in that calendar year shall be added back to
29 the aggregate amount of credits that may be allocated pursuant to
30 this subparagraph.

31 (III) For the 2035 calendar year, and every year thereafter, of
32 the amount available pursuant to this subparagraph, a portion of
33 the amount allocated shall be set aside for projects to provide
34 farmworker housing, as defined in subdivision (h) of Section
35 50199.7 of the Health and Safety Code. The amount set aside shall
36 be determined by the Legislature upon consideration of the
37 comprehensive strategy, or most recent update thereof, provided
38 by the Department of Housing and Community Development
39 pursuant to subdivision (c) of Section 50408.5 of the Health and
40 Safety Code.

(vi) (I) For any calendar year in which the California Debt Limit Allocation Committee has declared a competition for the award of tax-exempt bond authority for qualified residential rental projects, the California Tax Credit Allocation Committee may allocate some or all of the credits allocated under this subparagraph, except for any credits allocated for housing financed by the California Housing Finance Agency under its Mixed-Income Program, for nonfederally subsidized buildings eligible for credits under Section 42 of the Internal Revenue Code, relating to low-income housing credit, and shall allocate the remainder of these credits for new buildings, as defined in Section 42(i)(4) of the Internal Revenue Code, relating to new buildings, that are federally subsidized and that can begin construction within a reasonable time, as determined by the California Tax Credit Allocation Committee.

(II) For any calendar year in which the California Debt Limit Allocation Committee has not declared a competition for the award of tax-exempt bond authority for qualified residential rental projects, projects receiving an award of credits pursuant to this subparagraph shall begin construction within a reasonable time, as determined by the California Tax Credit Allocation Committee.

(III) Notwithstanding subclauses (I) and (II), if credits available under this subparagraph remain unallocated after the final California Debt Limit Allocation Committee round for qualified residential rental projects in a given calendar year, the California Tax Credit Allocation Committee may allocate some or all of the remaining credits for nonfederally subsidized buildings eligible for credits under Section 42 of the Internal Revenue Code, relating to low-income housing credit.

(2) The unused housing credit ceiling, if any, for the preceding calendar years.

(3) The amount of housing credit ceiling returned in the calendar year. For purposes of this paragraph, the amount of housing credit dollar amount returned in the calendar year equals the housing credit dollar amount previously allocated to any project that does not become a qualified low-income housing project within the period required by this section or to any project with respect to which an allocation is canceled by mutual consent of the California Tax Credit Allocation Committee and the allocation recipient.

1 (4) Five hundred thousand dollars (\$500,000) per calendar year
2 for projects to provide farmworker housing, as defined in
3 subdivision (h) of Section 50199.7 of the Health and Safety Code.

4 (5) The amount of any unallocated or returned credits under
5 former Sections 17053.14, 23608.2, and 23608.3, as those sections
6 read prior to January 1, 2009, until fully exhausted for projects to
7 provide farmworker housing, as defined in subdivision (h) of
8 Section 50199.7 of the Health and Safety Code.

9 (h) The term “compliance period” as defined in Section 42(i)(1)
10 of the Internal Revenue Code, relating to compliance period, is
11 modified to mean, with respect to any building, the period of 30
12 consecutive taxable years beginning with the first taxable year of
13 the credit period with respect thereto.

14 (i) (1) Section 42(j) of the Internal Revenue Code, relating to
15 recapture of credit, shall not be applicable and the provisions in
16 paragraph (2) shall be substituted in its place.

17 (2) The requirements of this section shall be set forth in a
18 regulatory agreement between the California Tax Credit Allocation
19 Committee and the housing sponsor, and the regulatory agreement
20 shall be subordinated, when required, to any lien or encumbrance
21 of any banks or other institutional lenders to the project. The
22 regulatory agreement entered into pursuant to subdivision (f) of
23 Section 50199.14 of the Health and Safety Code, shall apply,
24 provided that the agreement includes all of the following
25 provisions:

26 (A) A term not less than the compliance period.

27 (B) A requirement that the agreement be recorded in the official
28 records of the county in which the qualified low-income housing
29 project is located.

30 (C) A provision stating which state and local agencies can
31 enforce the regulatory agreement in the event the housing sponsor
32 fails to satisfy any of the requirements of this section.

33 (D) A provision that the regulatory agreement shall be deemed
34 a contract enforceable by tenants as third-party beneficiaries thereto
35 and that allows individuals, whether prospective, present, or former
36 occupants of the building, who meet the income limitation
37 applicable to the building, the right to enforce the regulatory
38 agreement in any state court.

1 (E) A provision incorporating the requirements of Section 42
2 of the Internal Revenue Code, relating to low-income housing
3 credit, as modified by this section.

4 (F) A requirement that the housing sponsor notify the California
5 Tax Credit Allocation Committee or its designee and the local
6 agency that can enforce the regulatory agreement if there is a
7 determination by the Internal Revenue Service that the project is
8 not in compliance with Section 42(g) of the Internal Revenue Code,
9 relating to qualified low-income housing project.

10 (G) A requirement that the housing sponsor, as security for the
11 performance of the housing sponsor's obligations under the
12 regulatory agreement, assign the housing sponsor's interest in rents
13 that it receives from the project, provided that until there is a
14 default under the regulatory agreement, the housing sponsor is
15 entitled to collect and retain the rents.

16 (H) A provision that the remedies available in the event of a
17 default under the regulatory agreement that is not cured within a
18 reasonable cure period include, but are not limited to, allowing
19 any of the parties designated to enforce the regulatory agreement
20 to collect all rents with respect to the project; taking possession of
21 the project and operating the project in accordance with the
22 regulatory agreement until the enforcer determines the housing
23 sponsor is in a position to operate the project in accordance with
24 the regulatory agreement; applying to any court for specific
25 performance; securing the appointment of a receiver to operate
26 the project; or any other relief as may be appropriate.

27 (j) (1) The committee shall allocate the housing credit on a
28 regular basis consisting of two or more periods in each calendar
29 year during which applications may be filed and considered. The
30 committee shall establish application filing deadlines, the maximum
31 percentage of federal and state low-income housing tax credit
32 ceiling that may be allocated by the committee in that period, and
33 the approximate date on which allocations shall be made. If the
34 enactment of federal or state law, the adoption of rules or
35 regulations, or other similar events prevent the use of two allocation
36 periods, the committee may reduce the number of periods and
37 adjust the filing deadlines, maximum percentage of credit allocated,
38 and the allocation dates.

39 (2) The committee shall adopt a qualified allocation plan, as
40 provided in Section 42(m)(1) of the Internal Revenue Code, relating

1 to plans for allocation of credit among projects. In adopting this
2 plan, the committee shall comply with the provisions of Sections
3 42(m)(1)(B) and 42(m)(1)(C) of the Internal Revenue Code,
4 relating to qualified allocation plan and relating to certain selection
5 criteria must be used, respectively.

6 (3) Notwithstanding Section 42(m) of the Internal Revenue
7 Code, relating to responsibilities of housing credit agencies, the
8 California Tax Credit Allocation Committee shall allocate housing
9 credits in accordance with the qualified allocation plan and
10 regulations, which shall include the following provisions:

11 (A) All housing sponsors, as defined by paragraph (3) of
12 subdivision (a), shall demonstrate at the time the application is
13 filed with the committee that the project meets the following
14 threshold requirements:

15 (i) The housing sponsor shall demonstrate there is a need and
16 demand for low-income housing in the community or region for
17 which it is proposed.

18 (ii) The project's proposed financing, including tax credit
19 proceeds, shall be sufficient to complete the project and that the
20 proposed operating income shall be adequate to operate the project
21 for the extended use period.

22 (iii) The project shall have enforceable financing commitments,
23 either construction or permanent financing, for at least 50 percent
24 of the total estimated financing of the project.

25 (iv) The housing sponsor shall have and maintain control of the
26 site for the project.

27 (v) The housing sponsor shall demonstrate that the project
28 complies with all applicable local land use and zoning ordinances.

29 (vi) The housing sponsor shall demonstrate that the project
30 development team has the experience and the financial capacity
31 to ensure project completion and operation for the extended use
32 period.

33 (vii) The housing sponsor shall demonstrate the amount of tax
34 credit that is necessary for the financial feasibility of the project
35 and its viability as a qualified low-income housing project
36 throughout the extended use period, taking into account operating
37 expenses, a supportable debt service, reserves, funds set aside for
38 rental subsidies and required equity, and a development fee that
39 does not exceed a specified percentage of the eligible basis of the

1 project prior to inclusion of the development fee in the eligible
2 basis, as determined by the committee.

3 (B) The committee shall give a preference to those projects
4 satisfying all of the threshold requirements of subparagraph (A)
5 if both of the following apply:

6 (i) The project serves the lowest income tenants at rents
7 affordable to those tenants.

8 (ii) The project is obligated to serve qualified tenants for the
9 longest period.

10 (C) In addition to the provisions of subparagraphs (A) and (B),
11 the committee shall use the following criteria in allocating housing
12 credits:

13 (i) Projects serving large families in which a substantial number,
14 as defined by the committee, of all residential units are low-income
15 units with three or more bedrooms.

16 (ii) Projects providing single-room occupancy units serving
17 very low income tenants.

18 (iii) Existing projects that are “at risk of conversion,” as defined
19 by paragraph (5) of subdivision (c).

20 (iv) Projects for which a public agency provides direct or indirect
21 long-term financial support for at least 15 percent of the total
22 project development costs or projects for which the owner’s equity
23 constitutes at least 30 percent of the total project development
24 costs.

25 (v) Projects that provide tenant amenities not generally available
26 to residents of low-income housing projects.

27 (D) Subparagraphs (B) and (C) shall not apply to projects
28 receiving an allocation pursuant to subparagraph (B) of paragraph
29 (1) of subdivision (g).

30 (4) For purposes of allocating credits pursuant to this section,
31 the committee shall not give preference to any project by virtue
32 of the date of submission of its application except to break a tie
33 when two or more of the projects have an equal rating.

34 (k) Section 42(l) of the Internal Revenue Code, relating to
35 certifications and other reports to secretary, shall be modified as
36 follows:

37 The term “secretary” shall be replaced by the term “Franchise
38 Tax Board.”

39 (l) In the case in which the credit allowed under this section
40 exceeds the “tax,” the excess may be carried over to reduce the

1 “tax” in the following year, and succeeding years if necessary,
2 until the credit has been exhausted.

3 (m) The provisions of Section 11407(a) of Public Law 101-508,
4 relating to the effective date of the extension of the low-income
5 housing credit, apply to calendar years after 1993.

6 (n) The provisions of Section 11407(c) of Public Law 101-508,
7 relating to election to accelerate credit, shall not apply.

8 (o) (1) (A) For a project that receives a preliminary reservation
9 under this section beginning on or after January 1, 2016, a taxpayer
10 may elect in its application to the California Tax Credit Allocation
11 Committee to sell all or any portion of any credit allowed under
12 this section to one or more unrelated parties for each taxable year
13 in which the credit is allowed, subject to subparagraphs (B) and
14 (C). The taxpayer may, only once, revoke an election to sell
15 pursuant to this subdivision at any time before the California Tax
16 Credit Allocation Committee allocates a final credit amount for
17 the project pursuant to this section, at which point the election
18 shall become irrevocable.

19 (B) A credit that a taxpayer elects to sell all or a portion of
20 pursuant to this subdivision shall be sold for consideration that is
21 not less than 80 percent of the amount of the credit.

22 (C) A taxpayer shall not elect to sell all or any portion of any
23 credit pursuant to this subdivision if the taxpayer did not make
24 that election in its application submitted to the California Tax
25 Credit Allocation Committee.

26 (2) (A) The taxpayer that originally received the credit shall
27 report to the California Tax Credit Allocation Committee within
28 10 days of the sale of the credit, in the form and manner specified
29 by the California Tax Credit Allocation Committee, all required
30 information regarding the purchase and sale of the credit, including
31 the social security or other taxpayer identification number of the
32 unrelated party or parties to whom the credit has been sold, the
33 face amount of the credit sold, and the amount of consideration
34 received by the taxpayer for the sale of the credit.

35 (B) The California Tax Credit Allocation Committee shall
36 provide an annual listing to the Franchise Tax Board, in a form
37 and manner agreed upon by the California Tax Credit Allocation
38 Committee and the Franchise Tax Board, of the taxpayers that
39 have sold or purchased a credit pursuant to this subdivision.

(3) A credit may be sold pursuant to this subdivision to more than one unrelated party.

(4) Notwithstanding any other law, the taxpayer that originally received the credit that is sold pursuant to paragraph (1) shall remain solely liable for all obligations and liabilities imposed on the taxpayer by this section with respect to the credit, none of which shall apply to a party to whom the credit has been sold or subsequently transferred. Parties that purchase credits pursuant to paragraph (1) shall be entitled to utilize the purchased credits in the same manner in which the taxpayer that originally received the credit could utilize them.

(p) The California Tax Credit Allocation Committee may prescribe rules, guidelines, or procedures necessary or appropriate to carry out the purposes of this section, including any guidelines regarding the allocation of the credit allowed under this section. Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code shall not apply to any rule, guideline, or procedure prescribed by the California Tax Credit Allocation Committee pursuant to this section.

(q) This section shall remain in effect for as long as Section 42 of the Internal Revenue Code, relating to low-income housing credit, remains in effect.

SEC. 2. Section 17024.5 of the Revenue and Taxation Code is amended to read:

17024.5. (a) (1) Unless otherwise specifically provided, the terms “Internal Revenue Code,” “Internal Revenue Code of 1954,” or “Internal Revenue Code of 1986,” for purposes of this part, mean Title 26 of the United States Code, including all amendments thereto as enacted on the specified date for the applicable taxable year as follows:

Taxable Year	Specified Date of Internal Revenue Code Sections
(A) For taxable years beginning on or after January 1, 1983, and on or before December 31, 1983.....	January 15, 1983
(B) For taxable years beginning on or after January 1, 1984, and on or before December	

1	31, 1984.....	January 1, 1984
2	(C) For taxable years beginning on or after	
3	January 1, 1985, and on or before December	
4	31, 1985.....	January 1, 1985
5	(D) For taxable years beginning on or after	
6	January 1, 1986, and on or before December	
7	31, 1986.....	January 1, 1986
8	(E) For taxable years beginning on or after	
9	January 1, 1987, and on or before December	
10	31, 1988.....	January 1, 1987
11	(F) For taxable years beginning on or after	
12	January 1, 1989, and on or before December	
13	31, 1989.....	January 1, 1989
14	(G) For taxable years beginning on or after	
15	January 1, 1990, and on or before December	
16	31, 1990.....	January 1, 1990
17	(H) For taxable years beginning on or after	
18	January 1, 1991, and on or before December	
19	31, 1991.....	January 1, 1991
20	(I) For taxable years beginning on or after	
21	January 1, 1992, and on or before December	
22	31, 1992.....	January 1, 1992
23	(J) For taxable years beginning on or after	
24	January 1, 1993, and on or before December	
25	31, 1996.....	January 1, 1993
26	(K) For taxable years beginning on or after	
27	January 1, 1997, and on or before December	
28	31, 1997.....	January 1, 1997
29	(L) For taxable years beginning on or after	
30	January 1, 1998, and on or before December	
31	31, 2001.....	January 1, 1998
32	(M) For taxable years beginning on or after	
33	January 1, 2002, and on or before December	
34	31, 2004.....	January 1, 2001
35	(N) For taxable years beginning on or after	
36	January 1, 2005, and on or before December	
37	31, 2009.....	January 1, 2005
38	(O) For taxable years beginning on or after	
39	January 1, 2010, and on or before December	
40	31, 2014.....	January 1, 2009

(P) For taxable years beginning on or after
January 1, 2015, and on or before December 31, 2024..... January 1, 2015
(Q) For taxable years beginning on or after January 1,
2025..... January 1, 2025

(2) (A) Unless otherwise specifically provided, for federal laws enacted on or after January 1, 1987, and on or before the specified date for the taxable year, uncodified provisions that relate to provisions of the Internal Revenue Code that are incorporated for purposes of this part shall be applicable to the same taxable years as the incorporated provisions.

(B) In the case where Section 901 of the Economic Growth and Tax Relief Act of 2001 (Public Law 107-16) applies to any provision of the Internal Revenue Code that is incorporated for purposes of this part, Section 901 of the Economic Growth and Tax Relief Act of 2001 shall apply for purposes of this part in the same manner and to the same taxable years as it applies for federal income tax purposes.

(3) Subtitle G (Tax Technical Corrections) and Part I of Subtitle H (Repeal of Expired or Obsolete Provisions) of the Revenue Reconciliation Act of 1990 (Public Law 101-508) modified numerous provisions of the Internal Revenue Code and provisions of prior federal acts, some of which are incorporated by reference into this part. Unless otherwise provided, the provisions described in the preceding sentence, to the extent that they modify provisions that are incorporated into this part, are declaratory of existing law and shall be applied in the same manner and for the same periods as specified in the Revenue Reconciliation Act of 1990.

(b) Unless otherwise specifically provided, when applying any provision of the Internal Revenue Code for purposes of this part, a reference to any of the following is not applicable for purposes of this part:

(1) Except as provided in Chapter 4.5 (commencing with Section 23800) of Part 11 of Division 2, an electing small business corporation, as defined in Section 1361(b) of the Internal Revenue Code.

(2) Domestic international sales corporations (DISC), as defined in Section 992(a) of the Internal Revenue Code.

(3) A personal holding company, as defined in Section 542 of the Internal Revenue Code.

1 (4) A foreign personal holding company, as defined in Section
2 552 of the Internal Revenue Code.

3 (5) A foreign investment company, as defined in Section 1246(b)
4 of the Internal Revenue Code.

5 (6) A foreign trust, as defined in Section 679 of the Internal
6 Revenue Code.

7 (7) Foreign income taxes and foreign income tax credits.

8 (8) Section 911 of the Internal Revenue Code, relating to citizens
9 or residents of the United States living abroad.

10 (9) A foreign corporation, except that Section 367 of the Internal
11 Revenue Code shall be applicable.

12 (10) Federal tax credits and carryovers of federal tax credits.

13 (11) Nonresident aliens.

14 (12) Deduction for personal exemptions, as provided in Section
15 151 of the Internal Revenue Code.

16 (13) The tax on generation-skipping transfers imposed by
17 Section 2601 of the Internal Revenue Code.

18 (14) The tax, relating to estates, imposed by Section 2001 or
19 2101 of the Internal Revenue Code.

20 (c) (1) The provisions contained in Sections 41 to 44, inclusive,
21 and Section 172 of the Tax Reform Act of 1984 (Public Law
22 98-369), relating to treatment of debt instruments, is not applicable
23 for taxable years beginning before January 1, 1987.

24 (2) The provisions contained in Public Law 99-121, relating to
25 the treatment of debt instruments, is not applicable for taxable
26 years beginning before January 1, 1987.

27 (3) For each taxable year beginning on or after January 1, 1987,
28 the provisions referred to by paragraphs (1) and (2) shall be
29 applicable for purposes of this part in the same manner and with
30 respect to the same obligations as the federal provisions, except
31 as otherwise provided in this part.

32 (d) When applying the Internal Revenue Code for purposes of
33 this part, regulations promulgated in final form or issued as
34 temporary regulations by “the secretary” shall be applicable as
35 regulations under this part to the extent that they do not conflict
36 with this part or with regulations issued by the Franchise Tax
37 Board.

38 (e) Whenever this part allows a taxpayer to make an election,
39 the following rules shall apply:

1 (1) A proper election filed with the Internal Revenue Service
2 in accordance with the Internal Revenue Code or regulations issued
3 by “the secretary” shall be deemed to be a proper election for
4 purposes of this part, unless otherwise provided in this part or in
5 regulations issued by the Franchise Tax Board.

6 (2) A copy of that election shall be furnished to the Franchise
7 Tax Board upon request.

8 (3) (A) Except as provided in subparagraph (B), in order to
9 obtain treatment other than that elected for federal purposes, a
10 separate election shall be filed at the time and in the manner
11 required by the Franchise Tax Board.

12 (B) (i) If a taxpayer makes a proper election for federal income
13 tax purposes prior to the time that taxpayer becomes subject to the
14 tax imposed under this part or Part 11 (commencing with Section
15 23001), that taxpayer is deemed to have made the same election
16 for purposes of the tax imposed by this part, Part 10.2 (commencing
17 with Section 18401), and Part 11 (commencing with Section
18 23001), as applicable, and that taxpayer may not make a separate
19 election for California tax purposes unless that separate election
20 is expressly authorized by this part, Part 10.2 (commencing with
21 Section 18401), or Part 11 (commencing with Section 23001), or
22 by regulations issued by the Franchise Tax Board.

23 (ii) If a taxpayer has not made a proper election for federal
24 income tax purposes prior to the time that taxpayer becomes subject
25 to tax under this part or Part 11 (commencing with Section 23001),
26 that taxpayer may not make a separate California election for
27 purposes of this part, Part 10.2 (commencing with Section 18401),
28 or Part 11 (commencing with Section 23001), unless that separate
29 election is expressly authorized by this part, Part 10.2 (commencing
30 with Section 18401), or Part 11 (commencing with Section 23001),
31 or by regulations issued by the Franchise Tax Board.

32 (iii) This subparagraph applies only to the extent that the
33 provisions of the Internal Revenue Code or the regulation issued
34 by “the secretary” authorizing an election for federal income tax
35 purposes apply for purposes of this part, Part 10.2 (commencing
36 with Section 18401) or Part 11 (commencing with Section 23001).

37 (f) Whenever this part allows or requires a taxpayer to file an
38 application or seek consent, the rules set forth in subdivision (e)
39 shall be applicable with respect to that application or consent.

1 (g) When applying the Internal Revenue Code for purposes of
2 determining the statute of limitations under this part, any reference
3 to a period of three years shall be modified to read four years for
4 purposes of this part.

5 (h) When applying, for purposes of this part, any section of the
6 Internal Revenue Code or any applicable regulation thereunder,
7 all of the following shall apply:

8 (1) References to “adjusted gross income” shall mean the
9 amount computed in accordance with Section 17072, except as
10 provided in paragraph (2).

11 (2) (A) Except as provided in subparagraph (B), references to
12 “adjusted gross income” for purposes of computing limitations
13 based upon adjusted gross income, shall mean the amount required
14 to be shown as adjusted gross income on the federal tax return for
15 the same taxable year.

16 (B) In the case of registered domestic partners and former
17 registered domestic partners, adjusted gross income, for the
18 purposes of computing limitations based upon adjusted gross
19 income, shall mean the adjusted gross income on a federal tax
20 return computed as if the registered domestic partner or former
21 registered domestic partner was treated as a spouse or former
22 spouse, respectively, for federal income tax purposes, and used
23 the same filing status that was used on the state tax return for the
24 same taxable year.

25 (3) Any reference to “subtitle” or “chapter” shall mean this part.

26 (4) The provisions of Section 7806 of the Internal Revenue
27 Code, relating to construction of title, shall apply.

28 (5) Any provision of the Internal Revenue Code that becomes
29 operative on or after the specified date for that taxable year shall
30 become operative on the same date for purposes of this part.

31 (6) Any provision of the Internal Revenue Code that becomes
32 inoperative on or after the specified date for that taxable year shall
33 become inoperative on the same date for purposes of this part.

34 (7) Due account shall be made for differences in federal and
35 state terminology, effective dates, substitution of “Franchise Tax
36 Board” for “secretary” when appropriate, and other obvious
37 differences.

38 (8) Except as otherwise provided, any reference to Section 501
39 of the Internal Revenue Code shall be interpreted to also refer to
40 Section 23701.

(i) Any reference to a specific provision of the Internal Revenue Code shall include modifications of that provision, if any, in this part.

SEC. 3. Section 17052.6 of the Revenue and Taxation Code is amended to read:

17052.6. (a) (1) For each taxable year beginning on or after January 1, 2000, there shall be allowed as a credit against the “net tax,” as defined in Section 17039, an amount determined in accordance with Section 21 of the Internal Revenue Code, relating to expense for household and dependent care services necessary for gainful employment, as applicable for federal income tax purposes for the taxable year, except as otherwise provided in this section.

(2) The amount of the credit shall be a percentage, as provided in subdivision (b) of the allowable federal credit without taking into account whether there is a federal tax liability.

(b) For the purposes of subdivision (a), the percentage of the allowable federal credit shall be determined as follows:

(1) For taxable years beginning before January 1, 2003:

If the adjusted gross income is:	The percentage of credit is:
\$40,000 or less.....	63%
Over \$40,000 but not over \$70,000.....	53%
Over \$70,000 but not over \$100,000.....	42%
Over \$100,000.....	0%

(2) For taxable years beginning on or after January 1, 2003:

If the adjusted gross income is:	The percentage of credit is:
\$40,000 or less.....	50%
Over \$40,000 but not over \$70,000.....	43%
Over \$70,000 but not over \$100,000.....	34%
Over \$100,000.....	0%

(c) For purposes of this section, “adjusted gross income” means adjusted gross income as computed for purposes of paragraph (2) of subdivision (h) of Section 17024.5.

(d) The credit authorized by this section shall be limited, as follows:

(1) Employment-related expenses, within the meaning of Section 21 of the Internal Revenue Code, shall be limited to expenses for household services and care provided in this state.

(2) Earned income, within the meaning of Section 21(d) of the Internal Revenue Code, shall be limited to earned income subject to tax under this part. For purposes of this paragraph, compensation received by a member of the armed forces for active services as a member of the armed forces, other than pensions or retired pay, shall be considered earned income subject to tax under this part, whether or not the member is domiciled in this state.

(e) For purposes of this section, Section 21(b)(1) of the Internal Revenue Code, relating to a qualifying individual, is modified to additionally provide that a child, as defined in Section 152(f)(1) of the Internal Revenue Code, shall be treated, for purposes of Section 152 of the Internal Revenue Code, as applicable for purposes of this section, as receiving over one-half of their support during the calendar year from the parent having custody for a greater portion of the calendar year, that parent shall be treated as a “custodial parent,” within the meaning of Section 152(e) of the Internal Revenue Code, as applicable for purposes of this section, and the child shall be treated as a qualifying individual under Section 21(b)(1) of the Internal Revenue Code, as applicable for purposes of this section, if both of the following apply:

(1) The child receives over one-half of their support during the calendar year from *their* parents who never married each other and who lived apart at all times during the last six months of the calendar year.

(2) The child is in the custody of one or both of their parents for more than one-half of the calendar year.

(f) Section 21(g) of the Internal Revenue Code, relating to special rules for 2021, as added by Section 9631(a) of the American Rescue Plan Act of 2021 (Public Law 117-2), shall not apply.

SEC. 4. Section 17052.12 of the Revenue and Taxation Code is amended to read:

17052.12. For each taxable year beginning on or after January 1, 1987, there shall be allowed as a credit against the “net tax,” as defined in Section 17039, for the taxable year an amount determined in accordance with Section 41 of the Internal Revenue

1 Code, relating to credit for increasing research activities, except
2 as follows:

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

6 (b) (1) For each taxable year beginning on or after January 1,
7 1997, and before January 1, 1999, the reference to “20 percent”
8 in Section 41(a)(1) of the Internal Revenue Code is modified to
9 read “11 percent.”

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

14 (3) For each taxable year beginning on or after January 1, 2000,
15 the reference to “20 percent” in Section 41(a)(1) of the Internal
16 Revenue Code is modified to read “15 percent.”

17 (c) Section 41(a)(2) of the Internal Revenue Code shall not
18 apply.

19 (d) “Qualified research” shall include only research conducted
20 in California.

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

25 (f) (1) With respect to any expense paid or incurred after the
26 operative date of Section 6378, Section 41(b)(1) of the Internal
27 Revenue Code, relating to qualified research expenses, is modified
28 to exclude from the definition of “qualified research expense” any
29 amount paid or incurred for tangible personal property that is
30 eligible for the exemption from sales or use tax provided by Section
31 6378.

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

37 (g) (1) (A) For each taxable year beginning on or after January
38 1, 2000, and before January 1, 2025, the election of alternative
39 incremental credit under Section 41(c)(4) of the Internal Revenue

Code, as applicable for state purposes, shall apply as that section was in effect on January 1, 2015, and as modified as follows:

(i) The reference to “3 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.”

(ii) The reference to “4 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.”

(iii) The reference to “5 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.”

(B) 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, and before January 1, 2025. That election shall apply to the taxable year for which made and all succeeding taxable years beginning before January 1, 2025, unless revoked with the consent of the Franchise Tax Board.

(2) (A) For taxable years beginning on or after January 1, 2025, Section 41(c)(4) of the Internal Revenue Code, relating to election of alternative simplified credit, shall apply, and is modified as follows:

(i) The reference to “14 percent” in Section 41(c)(4)(A) of the Internal Revenue Code is modified to read “3 percent.”

(ii) The reference to “6 percent” in Section 41(c)(4)(B)(ii) of the Internal Revenue Code is modified to read “1.3 percent.”

(B) Section 41(c)(4)(C) of the Internal Revenue Code 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, 2025. 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.

(h) 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.

(i) Section 41(h) of the Internal Revenue Code, relating to treatment of credit for qualified small businesses, shall not apply.

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

(1) The last sentence shall not apply.

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

(k) Section 41(a)(3) of the Internal Revenue Code shall not apply.

(l) Section 41(b)(3)(D) of the Internal Revenue Code, relating to amounts paid to eligible small businesses, universities, and federal laboratories, shall not apply.

(m) Section 41(f)(6), relating to energy research consortium, shall not apply.

SEC. 5. Section 17053.91 of the Revenue and Taxation Code is amended to read:

17053.91. For each taxable year beginning on or after January 1, 2021, and before January 1, 2027, there shall be allowed to a taxpayer that receives a tax credit allocation a credit against the “net tax,” as defined in Section 17039, in an amount determined in accordance with Section 47 of the Internal Revenue Code, except as follows: *otherwise provided in this section.*

(a) (1) In lieu of the ~~percentage specified in amount of credit computed pursuant to~~ Section 47(a) of the Internal Revenue Code, ~~except as provided in paragraph (2), the applicable percentage the amount of credit for the taxable year~~ shall be 20 percent of the qualified rehabilitation expenditures with respect to a certified historic structure.

(2) The applicable percentage shall be 25 percent of the qualified rehabilitation expenditures with respect to a certified historic structure if that certified historic structure meets one of the following criteria:

(A) The structure is located on federal surplus property, if obtained by a local agency under Section 54142 of the Government

1 Code, on surplus state real property, as defined by Section 11011.1
2 of the Government Code, or on surplus land, as defined by
3 subdivision (b) of Section 54221 of the Government Code.

4 (B) The rehabilitated structure includes affordable housing for
5 ~~lower-income~~ *lower income* households, as defined by Section
6 50079.5 of the Health and Safety Code.

7 (C) The structure is located in a designated census tract, as
8 defined in paragraph (7) of subdivision (b) of Section 17053.73.

9 (D) The rehabilitated structure is a part of a military base reuse
10 authority established pursuant to Title 7.86 (commencing with
11 Section 67800) of the Government Code.

12 (E) The structure is a transit-oriented development that is a
13 higher density, mixed-use development within a walking distance
14 of one-half mile of a transit station.

15 (3) (A) The credit shall be allowed for qualified rehabilitation
16 expenditures for a qualified residence determined by the California
17 Tax Credit Allocation Committee and the Office of Historic
18 Preservation to rehabilitate the historic character and improve the
19 integrity of the residence in the year of completion in the
20 percentages specified in paragraphs (1) and (2), as applicable,
21 except that the credit shall only be allowed in an amount equal to
22 or more than five thousand dollars (\$5,000) but not exceeding
23 twenty-five thousand dollars (\$25,000). A taxpayer shall only be
24 allowed a credit pursuant to this paragraph once every 10 taxable
25 years.

26 (B) Section 47(c)(1)(B)(ii) of the Internal Revenue Code,
27 relating to special rule for phased rehabilitation, shall not apply.

28 (b) For purposes of this section, the following definitions shall
29 apply:

30 (1) “Certified historic structure” has the same meaning as
31 defined in Section 47(c)(3) of the Internal Revenue Code, that is
32 a structure in this state and is listed on the California Register of
33 Historical Resources.

34 (2) “Qualified residence” has the same meaning as that term is
35 defined in Section 163(h)(4) of the Internal Revenue Code, that
36 will be owned and occupied by an individual taxpayer who has a
37 modified adjusted gross income, as defined by Section 86(b)(2)
38 of the Internal Revenue Code, of two hundred thousand dollars
39 (\$200,000) or less, as the taxpayer’s principal residence or what

1 will be the taxpayer's principal residence within two years after
2 the rehabilitation of the residence.

3 (3) (A) "Qualified rehabilitation expenditure" has the same
4 meaning as that term is defined in Section 47(c)(2) of the Internal
5 Revenue Code, except that qualified rehabilitation expenditures
6 may include expenditures in connection with the rehabilitation of
7 a building without regard to whether any portion of the building
8 is or is reasonably expected to be tax-exempt use property.

9 (B) "Qualified rehabilitation expenditure" has the same meaning
10 as that term is defined in Section 47(c)(2) of the Internal Revenue
11 Code and also means rehabilitation expenditures incurred by the
12 taxpayer with respect to a qualified residence for the rehabilitation
13 of the exterior of the building or rehabilitation necessary for the
14 functioning of the home, including, but not limited to, rehabilitation
15 of the electrical, plumbing, or foundation of the qualified residence.

16 (C) *The amendments made by Section 13402(b)(1)(B) of the*
17 *Tax Cuts and Jobs Act, 2017 (Public Law 115-97) to Section*
18 *47(c)(2)(B)(iv) of the Internal Revenue Code, relating to certified*
19 *historic structure, shall not apply.*

20 (c) (1) To be eligible for the credit allowed by this section, a
21 taxpayer shall request a tax credit allocation from the California
22 Tax Credit Allocation Committee, in conjunction with the Office
23 of Historic Preservation.

24 (2) To obtain a tax credit allocation, the taxpayer shall provide
25 necessary information, as determined by the Office of Historic
26 Preservation and the California Tax Credit Allocation Committee.

27 (3) A tax credit allocation provided to a taxpayer shall not
28 constitute a determination by the California Tax Credit Allocation
29 Committee with respect to any of the requirements of this section
30 regarding a taxpayer's eligibility for the credit authorized by this
31 section.

32 (4) The Office of Historic Preservation shall establish in
33 regulations the time period that a taxpayer who receives a tax credit
34 allocation must commence rehabilitation after the issuance of the
35 tax credit allocation. If rehabilitation is not commenced within the
36 time period established by the office, the tax credit allocation shall
37 be forfeited and the credit amount associated with the tax credit
38 allocation shall be treated as an unused allocation tax credit
39 amount.

1 (d) A deduction shall not be allowed under this part for any
2 expense for which a credit for that expense is allowed by this
3 section.

4 (e) If a credit is allowed under this section with respect to any
5 property, the basis of that property shall be reduced by the amount
6 of the credit allowed.

7 (f) (1) A credit allowed under this section shall be claimed in
8 the first taxable year in which the structure is placed in service.

9 (2) In the case where the credit allowed by this section exceeds
10 the “net tax,” the excess may be carried over to reduce the “net
11 tax” in the following year, and the seven succeeding years, if
12 necessary, until the credit is exhausted.

13 (g) For purposes of this section, the Office of Historic
14 Preservation shall do all of the following:

15 (1) Adopt regulations to implement the requirements of this
16 section. The regulations shall comply with the requirements of the
17 rulemaking provisions of the Administrative Procedure Act
18 (Chapter 3.5 (commencing with Section 11340) of Part 1 of
19 Division 3 of Title 2 of the Government Code).

20 (2) Establish a written application, on a form jointly prescribed
21 by the office and the California Tax Credit Allocation Committee,
22 for the allocation of the tax credit. The written application shall
23 require the applicant to include a summary of the expected
24 economic benefits of the project. The economic benefits shall
25 include, but are not limited to, all of the following:

26 (A) The number of jobs created by the rehabilitation project,
27 both during and after the rehabilitation of the structure.

28 (B) The expected increase in state and local tax revenues derived
29 from the rehabilitation project, including those from increased
30 wages and property taxes.

31 (C) Any additional incentives or contributions included in the
32 rehabilitation project from federal, state, or local governments.

33 (D) For the qualified rehabilitation expenditures with respect
34 to a qualified residence, the rehabilitation has a public benefit, as
35 determined jointly with the Office of Historic Preservation.

36 (3) Establish a process to determine that applicants meet the
37 requirements of this section and to ensure that the rehabilitation
38 project meets the Secretary of the Interior’s Standards for
39 Rehabilitation, as found in Part 67 of Title 36 of the Code of
40 Federal Regulations.

1 (4) Establish a process to approve, or reject, all tax credit
2 allocation applications.

3 (h) For purposes of this section, the California Tax Credit
4 Allocation Committee shall do all of the following:

5 (1) Establish a process jointly with the Office of Historic
6 Preservation to implement the provisions of this section.

7 (2) (A) Subject to the annual cap established as provided in
8 subdivision (i), allocate on a first-come-first-served basis an
9 aggregate amount of credits under this section and Section 23691,
10 and allocate any carryover of unallocated credits from prior years.

11 (B) A taxpayer shall be allocated a tax credit pursuant to the
12 taxpayer's tax credit allocation upon receipt by the California Tax
13 Credit Allocation Committee of a cost certification for the qualified
14 rehabilitation expenditures. For projects with qualified
15 rehabilitation expenditures in excess of two hundred fifty thousand
16 dollars (\$250,000), the cost certification shall be issued by a
17 licensed certified public accountant.

18 (3) Certify tax credits allocated to taxpayers.

19 (4) Provide the Franchise Tax Board an annual list of the
20 taxpayers that were allocated a credit pursuant to this section and
21 Section 23691, including each taxpayer's taxpayer identification
22 number, and the amount allocated to each taxpayer.

23 (5) Establish procedures for the recapture of amounts allocated
24 for a tax credit allowed to a taxpayer for the rehabilitation of a
25 qualified residence if the taxpayer does not use the qualified
26 residence as their principal residence within two years after the
27 rehabilitation of the residence.

28 (i) (1) The aggregate amount of credits that may be allocated
29 in any calendar year pursuant to this section and Section 23691
30 shall be an amount equal to the sum of all of the following:

31 (A) Fifty million dollars (\$50,000,000) in tax credits for the
32 2021 calendar year and each calendar year thereafter, through and
33 including the 2027 calendar year.

34 (B) The unused allocation tax credit amount, if any, for the
35 preceding calendar year.

36 (2) Notwithstanding the foregoing, the California Tax Credit
37 Allocation Committee shall set aside ten million dollars
38 (\$10,000,000) of tax credits that may be allocated each calendar
39 year for taxpayers in the aggregate, pursuant to this paragraph and
40 paragraph (2) of subdivision (i) of Section 23691, as follows:

(A) Two million dollars (\$2,000,000) of tax credits, in the aggregate, for taxpayers with qualified rehabilitation expenditures for a certified historic structure that is a qualified residence. After providing for the reallocation pursuant to subparagraph (C), to the extent that this amount is not fully allocated in any calendar year, the unused portion shall become available in subsequent calendar years for allocation to other taxpayers with qualified rehabilitation expenditures for a certified historic structure that is a qualified residence.

(B) Eight million dollars (\$8,000,000) of tax credits, in the aggregate, for taxpayers with qualified rehabilitation expenditures of less than one million dollars (\$1,000,000) for any other certified historic building that is not a qualified residence. After providing for the reallocation pursuant to subparagraph (C), to the extent that this amount is not fully allocated in any calendar year, the unused portion shall become available in subsequent calendar years for allocation to other taxpayers, except those taxpayers subject to subparagraph (A).

(C) Beginning July 1, 2025, any unused allocation set aside in subparagraphs (A) and (B) for the 2025 calendar year shall be made available within 90 days to taxpayers with qualified rehabilitation expenditures of one million dollars (\$1,000,000) or more that submitted applications in that same calendar year and did not receive any allocation, are eligible to receive an allocation, and would have been the next affordable housing project application to receive an award.

(j) In the case of any application for tax credits by an entity treated as a partnership for income tax purposes:

(1) Credits awarded to a partnership shall be allocated to the partners of that partnership in accordance with the partnership agreement, regardless of how the federal historic rehabilitation tax credit with respect to the project is allocated to the partners, or whether the allocation of the credit under the terms of the partnership agreement has substantial economic effect, within the meaning of Section 704(b) of the Internal Revenue Code.

(2) To the extent the allocation of the credit to a partner under this section lacks substantial economic effect, any loss or deduction otherwise allowable under this part that is attributable to the sale or other disposition of that partner's partnership interest made prior to the expiration of the tax credit recapture period for the project

described in paragraph (1) shall not be allowed in the taxable year in which the sale or other disposition occurs, but shall instead be deferred until, and treated as if, it occurred in the first taxable year immediately following the taxable year in which the tax credit recapture period expires for the project described in paragraph (1). The credits awarded to a partnership shall be allocated to the partners of that partnership in accordance with the partnership agreement.

(k) For purposes of this section, the provisions of subsection (a) of Section 50 of the Internal Revenue Code shall apply.

(l) Notwithstanding any other provision of this part, a credit allowed pursuant to this section may reduce the tax imposed under Section 17041 or 17048 plus the tax imposed under Section 17504, relating to the separate tax on lump-sum distributions, below the tentative minimum tax.

(m) This section shall remain in effect regardless of the expiration or repeal of Section 47 of the Internal Revenue Code, relating to rehabilitation credit.

(n) The California Tax Credit Allocation Committee and the Office of Historic Preservation may charge a reasonable fee in an amount that does not exceed the reasonable costs incurred by the California Tax Credit Allocation Committee and the Office of Historic Preservation in fulfilling the responsibilities described in paragraphs (4) and (5) of subdivision (g) and subdivision (h) and paragraphs (4) and (5) of subdivision (g) and subdivision (h) of Section 23691.

(o) (1) This section shall remain in effect only until December 1, 2027, and as of that date is repealed.

(2) Unless otherwise specified in any bill providing for appropriations related to the Budget Act, for taxable years beginning on or after January 1, 2021, and before January 1, 2027, the amount of credit allowed pursuant to this section shall be zero dollars (\$0).

~~SEC. 5. Section 17053.91 of the Revenue and Taxation Code is amended to read:~~

~~17053.91. For each taxable year beginning on or after January 1, 2021, and before January 1, 2027, there shall be allowed to a taxpayer that receives a tax credit allocation a credit against the "net tax," as defined in Section 17039, in an amount determined~~

1 in accordance with Section 47 of the Internal Revenue Code, except
2 as otherwise provided in this section.

3 (a) (1) In lieu of the amount of credit computed pursuant to
4 Section 47(a) of the Internal Revenue Code, the amount of credit
5 for the taxable year shall be 20 percent of the qualified
6 rehabilitation expenditures with respect to a certified historic
7 structure.

8 (2) The applicable percentage shall be 25 percent of the qualified
9 rehabilitation expenditures with respect to a certified historic
10 structure if that certified historic structure meets one of the
11 following criteria:

12 (A) The structure is located on federal surplus property, if
13 obtained by a local agency under Section 54142 of the Government
14 Code, on surplus state real property, as defined by Section 11011.1
15 of the Government Code, or on surplus land, as defined by
16 subdivision (b) of Section 54221 of the Government Code.

17 (B) The rehabilitated structure includes affordable housing for
18 lower-income households, as defined by Section 50079.5 of the
19 Health and Safety Code.

20 (C) The structure is located in a designated census tract, as
21 defined in paragraph (7) of subdivision (b) of Section 17053.73.

22 (D) The rehabilitated structure is a part of a military base reuse
23 authority established pursuant to Title 7.86 (commencing with
24 Section 67800) of the Government Code.

25 (E) The structure is a transit-oriented development that is a
26 higher density, mixed-use development within a walking distance
27 of one-half mile of a transit station.

28 (3) (A) The credit shall be allowed for qualified rehabilitation
29 expenditures for a qualified residence determined by the California
30 Tax Credit Allocation Committee and the Office of Historic
31 Preservation to rehabilitate the historic character and improve the
32 integrity of the residence in the year of completion in the
33 percentages specified in paragraphs (1) and (2), as applicable,
34 except that the credit shall only be allowed in an amount equal to
35 or more than five thousand dollars (\$5,000) but not exceeding
36 twenty-five thousand dollars (\$25,000). A taxpayer shall only be
37 allowed a credit pursuant to this paragraph once every 10 taxable
38 years.

39 (B) Section 47(c)(1)(B)(ii) of the Internal Revenue Code,
40 relating to special rule for phased rehabilitation, shall not apply.

~~(b) For purposes of this section, the following definitions shall apply:~~

~~(1) “Certified historic structure” has the same meaning as defined in Section 47(e)(3) of the Internal Revenue Code, that is a structure in this state and is listed on the California Register of Historical Resources.~~

~~(2) “Qualified residence” has the same meaning as that term is defined in Section 163(h)(4) of the Internal Revenue Code, that will be owned and occupied by an individual taxpayer who has a modified adjusted gross income, as defined by Section 86(b)(2) of the Internal Revenue Code, of two hundred thousand dollars (\$200,000) or less, as the taxpayer’s principal residence or what will be the taxpayer’s principal residence within two years after the rehabilitation of the residence.~~

~~(3) (A) “Qualified rehabilitation expenditure” has the same meaning as that term is defined in Section 47(e)(2) of the Internal Revenue Code, except that qualified rehabilitation expenditures may include expenditures in connection with the rehabilitation of a building without regard to whether any portion of the building is or is reasonably expected to be tax-exempt use property.~~

~~(B) “Qualified rehabilitation expenditure” has the same meaning as that term is defined in Section 47(e)(2) of the Internal Revenue Code and also means rehabilitation expenditures incurred by the taxpayer with respect to a qualified residence for the rehabilitation of the exterior of the building or rehabilitation necessary for the functioning of the home, including, but not limited to, rehabilitation of the electrical, plumbing, or foundation of the qualified residence.~~

~~(C) The amendments made by Section 13402(b)(1)(B) of the Tax Cuts and Jobs Act (Public Law 115-97) to Section 47(e)(2)(B)(iv) of the Internal Revenue Code, relating to certified historic structure, shall not apply.~~

~~(e) (1) To be eligible for the credit allowed by this section, a taxpayer shall request a tax credit allocation from the California Tax Credit Allocation Committee, in conjunction with the Office of Historic Preservation.~~

~~(2) To obtain a tax credit allocation, the taxpayer shall provide necessary information, as determined by the Office of Historic Preservation and the California Tax Credit Allocation Committee.~~

~~(3) A tax credit allocation provided to a taxpayer shall not constitute a determination by the California Tax Credit Allocation~~

1 Committee with respect to any of the requirements of this section
2 regarding a taxpayer's eligibility for the credit authorized by this
3 section.

4 ~~(4) The Office of Historic Preservation shall establish in~~
5 ~~regulations the time period that a taxpayer who receives a tax credit~~
6 ~~allocation must commence rehabilitation after the issuance of the~~
7 ~~tax credit allocation. If rehabilitation is not commenced within the~~
8 ~~time period established by the office, the tax credit allocation shall~~
9 ~~be forfeited and the credit amount associated with the tax credit~~
10 ~~allocation shall be treated as an unused allocation tax credit~~
11 ~~amount.~~

12 ~~(d) A deduction shall not be allowed under this part for any~~
13 ~~expense for which a credit for that expense is allowed by this~~
14 ~~section.~~

15 ~~(e) If a credit is allowed under this section with respect to any~~
16 ~~property, the basis of that property shall be reduced by the amount~~
17 ~~of the credit allowed.~~

18 ~~(f) (1) A credit allowed under this section shall be claimed in~~
19 ~~the first taxable year in which the structure is placed in service.~~

20 ~~(2) In the case where the credit allowed by this section exceeds~~
21 ~~the "net tax," the excess may be carried over to reduce the "net~~
22 ~~tax" in the following year, and the seven succeeding years, if~~
23 ~~necessary, until the credit is exhausted.~~

24 ~~(g) For purposes of this section, the Office of Historic~~
25 ~~Preservation shall do all of the following:~~

26 ~~(1) Adopt regulations to implement the requirements of this~~
27 ~~section. The regulations shall comply with the requirements of the~~
28 ~~rulemaking provisions of the Administrative Procedure Act~~
29 ~~(Chapter 3.5 (commencing with Section 11340) of Part 1 of~~
30 ~~Division 3 of Title 2 of the Government Code).~~

31 ~~(2) Establish a written application, on a form jointly prescribed~~
32 ~~by the office and the California Tax Credit Allocation Committee;~~
33 ~~for the allocation of the tax credit. The written application shall~~
34 ~~require the applicant to include a summary of the expected~~
35 ~~economic benefits of the project. The economic benefits shall~~
36 ~~include, but are not limited to, all of the following:~~

37 ~~(A) The number of jobs created by the rehabilitation project,~~
38 ~~both during and after the rehabilitation of the structure.~~

~~(B) The expected increase in state and local tax revenues derived from the rehabilitation project, including those from increased wages and property taxes.~~

~~(C) Any additional incentives or contributions included in the rehabilitation project from federal, state, or local governments.~~

~~(D) For the qualified rehabilitation expenditures with respect to a qualified residence, the rehabilitation has a public benefit, as determined jointly with the Office of Historic Preservation.~~

~~(3) Establish a process to determine that applicants meet the requirements of this section and to ensure that the rehabilitation project meets the Secretary of the Interior's Standards for Rehabilitation, as found in Part 67 of Title 36 of the Code of Federal Regulations.~~

~~(4) Establish a process to approve, or reject, all tax credit allocation applications.~~

~~(h) For purposes of this section, the California Tax Credit Allocation Committee shall do all of the following:~~

~~(1) Establish a process jointly with the Office of Historic Preservation to implement the provisions of this section.~~

~~(2) (A) Subject to the annual cap established as provided in subdivision (i), allocate on a first-come-first-served basis an aggregate amount of credits under this section and Section 23691, and allocate any carryover of unallocated credits from prior years.~~

~~(B) A taxpayer shall be allocated a tax credit pursuant to the taxpayer's tax credit allocation upon receipt by the California Tax Credit Allocation Committee of a cost certification for the qualified rehabilitation expenditures. For projects with qualified rehabilitation expenditures in excess of two hundred fifty thousand dollars (\$250,000), the cost certification shall be issued by a licensed certified public accountant.~~

~~(3) Certify tax credits allocated to taxpayers.~~

~~(4) Provide the Franchise Tax Board an annual list of the taxpayers that were allocated a credit pursuant to this section and Section 23691, including each taxpayer's taxpayer identification number, and the amount allocated to each taxpayer.~~

~~(5) Establish procedures for the recapture of amounts allocated for a tax credit allowed to a taxpayer for the rehabilitation of a qualified residence if the taxpayer does not use the qualified residence as their principal residence within two years after the rehabilitation of the residence.~~

1 ~~(i) (1) The aggregate amount of credits that may be allocated~~
2 ~~in any calendar year pursuant to this section and Section 23691~~
3 ~~shall be an amount equal to the sum of all of the following:~~

4 ~~(A) Fifty million dollars (\$50,000,000) in tax credits for the~~
5 ~~2021 calendar year and each calendar year thereafter, through and~~
6 ~~including the 2027 calendar year.~~

7 ~~(B) The unused allocation tax credit amount, if any, for the~~
8 ~~preceding calendar year.~~

9 ~~(2) Notwithstanding the foregoing, the California Tax Credit~~
10 ~~Allocation Committee shall set aside ten million dollars~~
11 ~~(\$10,000,000) of tax credits that may be allocated each calendar~~
12 ~~year for taxpayers in the aggregate, pursuant to this paragraph and~~
13 ~~paragraph (2) of subdivision (i) of Section 23691, as follows:~~

14 ~~(A) Two million dollars (\$2,000,000) of tax credits, in the~~
15 ~~aggregate, for taxpayers with qualified rehabilitation expenditures~~
16 ~~for a certified historic structure that is a qualified residence. To~~
17 ~~the extent that this amount is not fully allocated in any calendar~~
18 ~~year, the unused portion shall become available in subsequent~~
19 ~~calendar years for allocation to other taxpayers with qualified~~
20 ~~rehabilitation expenditures for a certified historic structure that is~~
21 ~~a qualified residence.~~

22 ~~(B) Eight million dollars (\$8,000,000) of tax credits, in the~~
23 ~~aggregate, for taxpayers with qualified rehabilitation expenditures~~
24 ~~of less than one million dollars (\$1,000,000) for any other certified~~
25 ~~historic building that is not a qualified residence. To the extent~~
26 ~~that this amount is not fully allocated in any calendar year, the~~
27 ~~unused portion shall become available in subsequent calendar years~~
28 ~~for allocation to other taxpayers, except those taxpayers subject~~
29 ~~to subparagraph (A).~~

30 ~~(j) In the case of any application for tax credits by an entity~~
31 ~~treated as a partnership for income tax purposes:~~

32 ~~(1) Credits awarded to a partnership shall be allocated to the~~
33 ~~partners of that partnership in accordance with the partnership~~
34 ~~agreement, regardless of how the federal historic rehabilitation tax~~
35 ~~credit with respect to the project is allocated to the partners, or~~
36 ~~whether the allocation of the credit under the terms of the~~
37 ~~partnership agreement has substantial economic effect, within the~~
38 ~~meaning of Section 704(b) of the Internal Revenue Code.~~

39 ~~(2) To the extent the allocation of the credit to a partner under~~
40 ~~this section lacks substantial economic effect, any loss or deduction~~

1 otherwise allowable under this part that is attributable to the sale
2 or other disposition of that partner's partnership interest made prior
3 to the expiration of the tax credit recapture period for the project
4 described in paragraph (1) shall not be allowed in the taxable year
5 in which the sale or other disposition occurs, but shall instead be
6 deferred until, and treated as if, it occurred in the first taxable year
7 immediately following the taxable year in which the tax credit
8 recapture period expires for the project described in paragraph (1).
9 The credits awarded to a partnership shall be allocated to the
10 partners of that partnership in accordance with the partnership
11 agreement.

12 (k) For purposes of this section, the provisions of subsection
13 (a) of Section 50 of the Internal Revenue Code shall apply.

14 (l) Notwithstanding any other provision of this part, a credit
15 allowed pursuant to this section may reduce the tax imposed under
16 Section 17041 or 17048 plus the tax imposed under Section 17504,
17 relating to the separate tax on lump-sum distributions, below the
18 tentative minimum tax.

19 (m) This section shall remain in effect regardless of the
20 expiration or repeal of Section 47 of the Internal Revenue Code,
21 relating to rehabilitation credit.

22 (n) The California Tax Credit Allocation Committee and the
23 Office of Historic Preservation may charge a reasonable fee in an
24 amount that does not exceed the reasonable costs incurred by the
25 California Tax Credit Allocation Committee and the Office of
26 Historic Preservation in fulfilling the responsibilities described in
27 paragraphs (4) and (5) of subdivision (g) and subdivision (h) and
28 paragraphs (4) and (5) of subdivision (g) and subdivision (h) of
29 Section 23691.

30 (o) (1) This section shall remain in effect only until December
31 1, 2027, and as of that date is repealed.

32 (2) Unless otherwise specified in any bill providing for
33 appropriations related to the Budget Act, for taxable years
34 beginning on or after January 1, 2021, and before January 1, 2027,
35 the amount of credit allowed pursuant to this section shall be zero
36 dollars (\$0).

37 SEC. 6. Section 17058 of the Revenue and Taxation Code is
38 amended to read:

39 17058. (a) (1) There shall be allowed as a credit against the
40 "net tax," defined in Section 17039, a state low-income housing

1 tax credit in an amount equal to the amount determined in
2 subdivision (c), computed in accordance with Section 42 of the
3 Internal Revenue Code, relating to low-income housing credit,
4 except as otherwise provided in this section.

5 (2) "Taxpayer," for purposes of this section, means the sole
6 owner in the case of an individual, the partners in the case of a
7 partnership, and the shareholders in the case of an "S" corporation.

8 (3) "Housing sponsor," for purposes of this section, means the
9 sole owner in the case of an individual, the partnership in the case
10 of a partnership, and the "S" corporation in the case of an "S"
11 corporation.

12 (b) (1) The amount of the credit allocated to any housing
13 sponsor shall be authorized by the California Tax Credit Allocation
14 Committee, or any successor thereof, based on a project's need
15 for the credit for economic feasibility in accordance with the
16 requirements of this section.

17 (A) The low-income housing project shall be located in
18 California and shall meet either of the following requirements:

19 (i) Except for projects to provide farmworker housing, as defined
20 in subdivision (h) of Section 50199.7 of the Health and Safety
21 Code, that are allocated credits solely under the set-aside described
22 in subdivision (c) of Section 50199.20 of the Health and Safety
23 Code, the project's housing sponsor has been allocated by the
24 California Tax Credit Allocation Committee a credit for federal
25 income tax purposes under Section 42 of the Internal Revenue
26 Code, relating to low-income housing credit.

27 (ii) It qualifies for a credit under Section 42(h)(4)(B) of the
28 Internal Revenue Code, relating to special rule where 50 percent
29 or more of building is financed with tax-exempt bonds subject to
30 volume cap.

31 (B) The California Tax Credit Allocation Committee shall not
32 require fees for the credit under this section in addition to those
33 fees required for applications for the tax credit pursuant to Section
34 42 of the Internal Revenue Code, relating to low-income housing
35 credit. The committee may require a fee if the application for the
36 credit under this section is submitted in a calendar year after the
37 year the application is submitted for the federal tax credit.

38 (C) (i) For a project that receives a preliminary reservation of
39 the state low-income housing tax credit, allowed pursuant to
40 subdivision (a), on or after January 1, 2009, the credit shall be

1 allocated to the partners of a partnership owning the project in
2 accordance with the partnership agreement, regardless of how the
3 federal low-income housing tax credit with respect to the project
4 is allocated to the partners, or whether the allocation of the credit
5 under the terms of the agreement has substantial economic effect,
6 within the meaning of Section 704(b) of the Internal Revenue
7 Code, relating to determination of distributive share.

8 (ii) To the extent the allocation of the credit to a partner under
9 this section lacks substantial economic effect, any loss or deduction
10 otherwise allowable under this part that is attributable to the sale
11 or other disposition of that partner's partnership interest made prior
12 to the expiration of the federal credit shall not be allowed in the
13 taxable year in which the sale or other disposition occurs, but shall
14 instead be deferred until and treated as if it occurred in the first
15 taxable year immediately following the taxable year in which the
16 federal credit period expires for the project described in clause (i).

17 (iii) This subparagraph shall not apply to a project that receives
18 a preliminary reservation of state low-income housing tax credits
19 under the set-aside described in subdivision (c) of Section 50199.20
20 of the Health and Safety Code unless the project also receives a
21 preliminary reservation of federal low-income housing tax credits.

22 (2) (A) The California Tax Credit Allocation Committee shall
23 certify to the housing sponsor the amount of tax credit under this
24 section allocated to the housing sponsor for each credit period.

25 (B) In the case of a partnership or an "S" corporation, the
26 housing sponsor shall provide a copy of the California Tax Credit
27 Allocation Committee certification to the taxpayer.

28 (C) (i) A taxpayer shall be eligible to claim the credit
29 commencing in the taxable year the building is placed in service
30 and the federal credit period commences, notwithstanding that the
31 certification pursuant to subparagraph (A) has not been issued by
32 the California Tax Credit Allocation Committee, provided that the
33 housing sponsor has filed a taxpayer certification with the
34 California Tax Credit Allocation Committee and delivered a copy
35 to the taxpayer. The amount of credit claimed by the taxpayer shall
36 not exceed the pro rata share with respect to the amount of credit
37 that the taxpayer purchased or is allocated per the partnership
38 agreement, as applicable, of the lesser of either of the following:

1 (I) The applicable percentages for each of the four credit years,
2 as specified in subdivision (c), multiplied by the qualified basis of
3 the building set forth in the preliminary reservation.

4 (II) The amount of credit the project is eligible for as stated in
5 the taxpayer certification.

6 (ii) The California Tax Credit Allocation Committee may, but
7 is not required to, review the taxpayer certification and other
8 information provided by the housing sponsor to confirm both of
9 the following:

10 (I) The calculations set forth in the taxpayer certification.

11 (II) The amount of credits allocated to the project is consistent
12 with applicable California Tax Credit Allocation Committee rules
13 and regulations for the purposes of making the certification
14 required pursuant to subparagraph (A).

15 (iii) If the California Tax Credit Allocation Committee issues
16 a certification pursuant to subparagraph (A) that is inconsistent
17 with the taxpayer certification upon which a credit has been
18 claimed, the taxpayer shall amend any previously filed tax returns
19 to reflect the credit amount certified by the California Tax Credit
20 Allocation Committee pursuant to subparagraph (A).

21 (iv) For purposes of this subparagraph, “taxpayer certification”
22 means a certified statement from the certified public accountant
23 of the housing sponsor. The taxpayer certification shall contain
24 the amount of the credit the project is eligible for, the taxable year
25 the building is placed in service, and the taxable year in which the
26 federal credit period for the building has commenced.

27 (v) The taxpayer shall, upon request, provide a copy of the
28 taxpayer certification pursuant to clause (iv) or the California Tax
29 Credit Allocation Committee’s certification pursuant to
30 subparagraph (A), as applicable, to the Franchise Tax Board.

31 (vi) In the case of a failure to provide a copy of the taxpayer
32 certification pursuant to clause (iv) or the California Tax Credit
33 Allocation Committee’s certification pursuant to subparagraph
34 (A), if the Franchise Tax Board so requires, no credit under this
35 section shall be allowed for that taxable year until a copy of that
36 certification is provided.

37 (vii) The changes made to this subparagraph by the act adding
38 this clause shall apply for taxable years beginning on or after
39 January 1, 2023.

1 (D) All elections made by the taxpayer pursuant to Section 42
2 of the Internal Revenue Code, relating to low-income housing
3 credit, apply to this section.

4 (E) (i) Except as described in clause (ii) or (iii), for buildings
5 located in designated difficult development areas (DDAs) or
6 qualified census tracts (QCTs), as defined in Section 42(d)(5)(B)
7 of the Internal Revenue Code, relating to increase in credit for
8 buildings in high-cost areas, credits may be allocated under this
9 section in the amounts prescribed in subdivision (c), provided that
10 the amount of credit allocated under Section 42 of the Internal
11 Revenue Code, relating to low-income housing credit, is computed
12 on 100 percent of the qualified basis of the building.

13 (ii) Notwithstanding clause (i), the California Tax Credit
14 Allocation Committee may allocate the credit for buildings located
15 in DDAs or QCTs that are restricted to having 50 percent of the
16 building's occupants be special needs households, as defined in
17 the California Code of Regulations by the California Tax Credit
18 Allocation Committee, or receiving an allocation pursuant to
19 subparagraph (B) of paragraph (1) of subdivision (g), even if the
20 taxpayer receives federal credits pursuant to Section 42(d)(5)(B)
21 of the Internal Revenue Code, relating to increase in credit for
22 buildings in high-cost areas, provided that the credit allowed under
23 this section shall not exceed 30 percent of the eligible basis of the
24 building.

25 (iii) On and after January 1, 2018, notwithstanding clause (i),
26 the California Tax Credit Allocation Committee may allocate the
27 credit pursuant to paragraph (7) of subdivision (c) even if the
28 taxpayer receives federal credits, pursuant to Section 42(d)(5)(B)
29 of the Internal Revenue Code, relating to increase in credit for
30 buildings in high-cost areas.

31 (F) (i) The California Tax Credit Allocation Committee may
32 allocate a credit under this section in exchange for a credit allocated
33 pursuant to Section 42(d)(5)(B) of the Internal Revenue Code,
34 relating to increase in credit for buildings in high-cost areas, in
35 amounts up to 30 percent of the eligible basis of a building if the
36 credits allowed under Section 42 of the Internal Revenue Code,
37 relating to low-income housing credit, are reduced by an equivalent
38 amount.

1 (ii) An equivalent amount shall be determined by the California
2 Tax Credit Allocation Committee based upon the relative amount
3 required to produce an equivalent state tax credit to the taxpayer.

4 (c) Section 42(b) of the Internal Revenue Code, relating to
5 applicable percentage: 70 percent present value credit for certain
6 new buildings; 30 percent present value credit for certain other
7 buildings, shall be modified as follows:

8 (1) In the case of any qualified low-income building placed in
9 service by the housing sponsor during 1987, the term “applicable
10 percentage” means 9 percent for each of the first three years and
11 3 percent for the fourth year for new buildings (whether or not the
12 building is federally subsidized) and for existing buildings.

13 (2) In the case of any qualified low-income building that receives
14 an allocation after 1989 and is a new building not federally
15 subsidized, the term “applicable percentage” means the following:

16 (A) For each of the first three years, the percentage prescribed
17 by the Secretary of the Treasury for new buildings that are not
18 federally subsidized for the taxable year, determined in accordance
19 with the requirements of Section 42(b)(2) of the Internal Revenue
20 Code, relating to minimum credit rate for nonfederally subsidized
21 new buildings, in lieu of the percentage prescribed in Section
22 42(b)(1)(A) of the Internal Revenue Code.

23 (B) For the fourth year, the difference between 30 percent and
24 the sum of the applicable percentages for the first three years.

25 (3) In the case of any qualified low-income building that is a
26 new building that is federally subsidized and receiving an allocation
27 pursuant to subparagraph (B) of paragraph (1) of subdivision (g),
28 the term “applicable percentage” means for the first three years,
29 9 percent of the qualified basis of the building, and for the fourth
30 year, 3 percent of the qualified basis of the building.

31 (4) In the case of any qualified low-income building that receives
32 an allocation after 1989 pursuant to subparagraph (A) of paragraph
33 (1) of subdivision (g) and that is a new building that is federally
34 subsidized or that is an existing building that is “at risk of
35 conversion,” the term “applicable percentage” means the following:

36 (A) For each of the first three years, the percentage prescribed
37 by the Secretary of the Treasury for new buildings that are federally
38 subsidized for the taxable year.

39 (B) For the fourth year, the difference between 13 percent and
40 the sum of the applicable percentages for the first three years.

(5) In the case of any qualified low-income building that meets all of the requirements of subparagraphs (A) ~~through~~ to (D), inclusive, the term “applicable percentage” means 30 percent for each of the first three years and 5 percent for the fourth year. A qualified low-income building receiving an allocation under this paragraph is ineligible to also receive an allocation under paragraph (3).

(A) The qualified low-income building is at least 15 years old.

(B) The qualified low-income building is either:

(i) Serving households of very low income or extremely low income such that the average maximum household income as restricted, pursuant to an existing regulatory agreement with a federal, state, county, local, or other governmental agency, is not more than 45 percent of the area median gross income, as determined under Section 42 of the Internal Revenue Code, relating to low-income housing credit, adjusted by household size, and a tax credit regulatory agreement is entered into for a period of not less than 55 years restricting the average targeted household income to no more than 45 percent of the area median income.

(ii) Financed under Section 514 or 521 of the National Housing Act of 1949 (42 U.S.C. Sec. 1485).

(C) The qualified low-income building would have insufficient credits under paragraphs (2) and (3) to complete substantial rehabilitation due to a low appraised value.

(D) The qualified low-income building will complete the substantial rehabilitation in connection with the credit allocation herein.

(6) Section 42(b)(3) of the Internal Revenue Code, relating to minimum credit rate, shall not apply.

(7) For purposes of this section, the term “at risk of conversion,” with respect to an existing property, means a property that satisfies all of the following criteria:

(A) The property is a multifamily rental housing development in which at least 50 percent of the units receive governmental assistance pursuant to any of the following:

(i) New construction, substantial rehabilitation, moderate rehabilitation, property disposition, and loan management set-aside programs, or any other program providing project-based assistance pursuant to Section 8 of the United States Housing Act of 1937, Section 1437f of Title 42 of the United States Code, as amended.

1 (ii) The Below-Market-Interest-Rate Program pursuant to
2 Section 221(d)(3) of the National Housing Act, Sections
3 1715l(d)(3) and (5) of Title 12 of the United States Code.

4 (iii) Section 236 of the National Housing Act, Section 1715z-1
5 of Title 12 of the United States Code.

6 (iv) Programs for rent supplement assistance pursuant to Section
7 101 of the Housing and Urban Development Act of 1965, Section
8 1701s of Title 12 of the United States Code, as amended.

9 (v) Programs under Sections 514, 515, 516, 533, and 538 of the
10 Housing Act of 1949 (Public Law 81-171), as amended.

11 (vi) The low-income housing credit program set forth in Section
12 42 of the Internal Revenue Code, relating to low-income housing
13 credit, this section, and Sections 12206 and 23610.5.

14 (vii) Programs for loans or grants administered by the
15 Department of Housing and Community Development.

16 (viii) Section 202 of the Housing Act of 1959 (12 U.S.C. Sec.
17 1701q), as amended.

18 (ix) Section 142(d) of the Internal Revenue Code or its
19 predecessors.

20 (x) Section 147 of the Internal Revenue Code, as enacted by
21 the Tax Reform Act of 1986 (Public Law 99-514), or as
22 subsequently amended, including as amended by the Tax Cuts and
23 ~~Jobs Act of 2017 Act, 2017~~ (Public Law 115-97) and all
24 amendments enacted prior to the Tax Cuts and ~~Jobs Act of 2017~~
25 ~~Act, 2017~~ (Public Law 115-97).

26 (xi) Title I of the Housing and Community Development Act
27 of 1974, as amended.

28 (xii) Title II of the Cranston-Gonzalez National Affordable
29 Housing Act of 1990, as amended.

30 (xiii) Titles IV and V of the McKinney-Vento Homeless
31 Assistance Act of 1987, as amended, including the Department of
32 Housing and Urban Development's Supportive Housing Program,
33 Shelter Plus Care Program, and surplus federal property disposition
34 program.

35 (xiv) The following assistance provided by counties and cities
36 in exchange for restrictions on the maximum rents that may be
37 charged for units within a multifamily rental housing development
38 and on the maximum tenant income as a condition of eligibility
39 for occupancy of the unit subject to the rent restriction, as reflected
40 by a recorded agreement with a county or city:

1 (I) Loans or grants provided using tax increment financing
2 pursuant to the Community Redevelopment Law (Part 1
3 (commencing with Section 33000) of Division 24 of the Health
4 and Safety Code).

5 (II) Local housing trust funds, as referred to in Section 50843
6 of the Health and Safety Code.

7 (III) The sale or lease of public property at or below market
8 rates.

9 (IV) The granting of density bonuses, or concessions or
10 incentives, including fee waivers, parking variances, or
11 amendments to general plans, zoning, or redevelopment project
12 area plans, pursuant to Chapter 4.3 (commencing with Section
13 65915) of Division 1 of Title 7 of the Government Code.

14 (B) As used in subparagraph (A), “government assistance” shall
15 not include the use of tenant-based housing choice vouchers under
16 subsection (o) of Section 1437f of Title 42 of the United States
17 Code, excluding paragraph (13) relating to project-based assistance.
18 Restrictions shall not include any rent control or rent stabilization
19 ordinance imposed by a county or city.

20 (C) If the development is subject to restrictions on rent and
21 income levels, 50 percent of the units are also restricted to initial
22 occupancy by lower income households, as defined in Section
23 50079.5 of the Health and Safety Code.

24 (D) The restrictions on rent and income levels, excluding any
25 restrictions recorded pursuant to paragraph (2) of subdivision (e)
26 of Section 65863.11 or Section 65863.13 of the Government Code
27 or in connection with interim or acquisition financing, will
28 terminate or the federally insured mortgage or rent subsidy contract
29 on the property is eligible for prepayment or termination any time
30 within five years before or after the date of application to the
31 California Tax Credit Allocation Committee.

32 (E) The entity acquiring the property enters into a regulatory
33 agreement that requires the property to be operated in accordance
34 with the requirements of Section 42 of the Internal Revenue Code
35 and any further requirements added by the California Tax Credit
36 Allocation Committee to implement the low-income housing tax
37 credit established by Section 42 of the Internal Revenue Code (26
38 U.S.C. Sec. 42), this section, and Sections 12206 and 23610.5
39 pursuant to Chapter 3.6 (commencing with Section 50199.4) of
40 Part 1 of Division 31 of the Health and Safety Code.

1 (F) The property satisfies the requirements of Section 42(e) of
2 the Internal Revenue Code, relating to rehabilitation expenditures
3 treated as separate new building, except that the provisions of
4 Section 42(e)(3)(A)(ii)(I) shall not apply.

5 (8) On and after January 1, 2018, in the case of any qualified
6 low-income building that is (A) farmworker housing, as defined
7 by paragraph (2) of subdivision (h) of Section 50199.7 of the
8 Health and Safety Code, and (B) is federally subsidized, the term
9 “applicable percentage” means for each of the first three years, 20
10 percent of the qualified basis of the building, and for the fourth
11 year, 15 percent of the qualified basis of the building.

12 (d) The term “qualified low-income housing project” as defined
13 in Section 42(c)(2) of the Internal Revenue Code, relating to
14 qualified low-income building, is modified by adding the following
15 requirements:

16 (1) The taxpayer shall be entitled to receive a cash distribution
17 from the operations of the project, after funding required reserves,
18 that, at the election of the taxpayer, is equal to:

19 (A) An amount not to exceed 8 percent of the lesser of:

20 (i) The owner equity, which shall include the amount of the
21 capital contributions actually paid to the housing sponsor and shall
22 not include any amounts until they are paid on an investor note.

23 (ii) Twenty percent of the adjusted basis of the building as of
24 the close of the first taxable year of the credit period.

25 (B) The amount of the cashflow from those units in the building
26 that are not low-income units. For purposes of computing cashflow
27 under this subparagraph, operating costs shall be allocated to the
28 low-income units using the “floor space fraction,” as defined in
29 Section 42 of the Internal Revenue Code, relating to low-income
30 housing credit.

31 (C) Any amount allowed to be distributed under subparagraph
32 (A) that is not available for distribution during the first 5 years of
33 the compliance period may be accumulated and distributed any
34 time during the first 15 years of the compliance period but not
35 thereafter.

36 (2) The limitation on return shall apply in the aggregate to the
37 partners if the housing sponsor is a partnership and in the aggregate
38 to the shareholders if the housing sponsor is an “S” corporation.

39 (3) The housing sponsor shall apply any cash available for
40 distribution in excess of the amount eligible to be distributed under

1 paragraph (1) to reduce the rent on rent-restricted units or to
2 increase the number of rent-restricted units subject to the tests of
3 Section 42(g)(1) of the Internal Revenue Code, relating to qualified
4 low-income housing project requirements.

5 (e) The provisions of Section 42(f) of the Internal Revenue
6 Code, relating to definition and special rules relating to credit
7 period, shall be modified as follows:

8 (1) The term “credit period” as defined in Section 42(f)(1) of
9 the Internal Revenue Code, relating to credit period defined, is
10 modified by substituting “four taxable years” for “10 taxable
11 years.”

12 (2) The special rule for the first taxable year of the credit period
13 under Section 42(f)(2) of the Internal Revenue Code, relating to
14 special rules for 1st year of credit period, shall not apply to the tax
15 credit under this section.

16 (3) Section 42(f)(3) of the Internal Revenue Code, relating to
17 determination of applicable percentage with respect to increases
18 in qualified basis after 1st year of credit period, is modified to
19 read:

20 If, as of the close of any taxable year in the compliance period,
21 after the first year of the credit period, the qualified basis of any
22 building exceeds the qualified basis of that building as of the close
23 of the first year of the credit period, the housing sponsor, to the
24 extent of its tax credit allocation, shall be eligible for a credit on
25 the excess in an amount equal to the applicable percentage
26 determined pursuant to subdivision (c) for the four-year period
27 beginning with the taxable year in which the increase in qualified
28 basis occurs.

29 (f) The provisions of Section 42(h) of the Internal Revenue
30 Code, relating to limitation on aggregate credit allowable with
31 respect to projects located in a state, shall be modified as follows:

32 (1) Section 42(h)(2) of the Internal Revenue Code, relating to
33 allocated credit amount to apply to all taxable years ending during
34 or after credit allocation year, does not apply and instead the
35 following provisions apply:

36 The total amount for the four-year credit period of the housing
37 credit dollars allocated in a calendar year to any building shall
38 reduce the aggregate housing credit dollar amount of the California
39 Tax Credit Allocation Committee for the calendar year in which
40 the allocation is made.

1 (2) Paragraphs (3), (4), (5), (6)(E)(i)(II), (6)(F), (6)(G), (6)(I),
2 (7), and (8) of Section 42(h) of the Internal Revenue Code, relating
3 to limitation on aggregate credit allowable with respect to projects
4 located in a state, do not apply to this section.

5 (g) The aggregate housing credit dollar amount that may be
6 allocated annually by the California Tax Credit Allocation
7 Committee pursuant to this section, Section 12206, and Section
8 23610.5 shall be an amount equal to the sum of all the following:

9 (1) (A) Seventy million dollars (\$70,000,000) for the 2001
10 calendar year, and, for the 2002 calendar year and each calendar
11 year thereafter, seventy million dollars (\$70,000,000) increased
12 by the percentage, if any, by which the Consumer Price Index for
13 the preceding calendar year exceeds the Consumer Price Index for
14 the 2001 calendar year. For the purposes of this paragraph, the
15 term “Consumer Price Index” means the last Consumer Price Index
16 for All Urban Consumers published by the federal Department of
17 Labor.

18 (B) Five hundred million dollars (\$500,000,000) for the 2020
19 calendar year, and up to five hundred million dollars
20 (\$500,000,000) for the 2021 calendar year and every year
21 thereafter. Allocations shall only be available pursuant to this
22 subparagraph in the 2021 calendar year and thereafter if the annual
23 Budget Act, or if any bill providing for appropriations related to
24 the Budget Act, specifies an amount to be available for allocation
25 in that calendar year by the California Tax Credit Allocation
26 Committee, and after the California Tax Credit Allocation
27 Committee and the California Debt Limit Allocation Committee
28 have adopted regulations, rules, or guidelines to align the programs
29 of both committees with the objective of increasing production
30 and containing costs as described in clause (iii). The California
31 Tax Credit Allocation Committee shall accept applications for the
32 2021 calendar year not sooner than 30 days after these regulations,
33 rules, or guidelines have been adopted. The California Debt Limit
34 Allocation Committee shall not accept applications for the 2021
35 calendar year for bond allocations for an eligible project under this
36 section prior to issuing, reviewing, and publishing a new
37 tax-exempt private activity bond demand survey. A housing
38 sponsor receiving a nonfederally subsidized allocation under
39 subdivision (c) shall not be eligible for receipt of the housing credit
40 allocated from the increased amount under this subparagraph.

1 Except as provided in clause (vi), a housing sponsor receiving a
2 nonfederally subsidized allocation under subdivision (c) shall
3 remain eligible for receipt of the housing credit allocated from the
4 credit ceiling amount under subparagraph (A).

5 (i) Eligible projects for allocations under this subparagraph
6 include any new building, as defined in Section 42(i)(4) of the
7 Internal Revenue Code, relating to new building, and the
8 regulations promulgated thereunder, excluding rehabilitation
9 expenditures under Section 42(e) of the Internal Revenue Code,
10 relating to rehabilitation expenditures treated as separate new
11 building, and is federally subsidized. Eligible projects for
12 allocations under this subparagraph also include any retrofitting
13 and repurposing of existing nonresidential structures, including,
14 but not limited to, hotels and motels, that were converted to
15 residential use within the previous five years from the date of the
16 application.

17 (ii) Notwithstanding any other provision of this section, for
18 allocations pursuant to this subparagraph for the 2020 calendar
19 year, the California Tax Credit Allocation Committee shall consider
20 projects located throughout the state and shall allocate housing
21 credits, subject to the minimum federal requirements as set forth
22 in Sections 42 and 142 of the Internal Revenue Code, the minimum
23 requirements set forth in Sections 5033 and 5190 of the California
24 Debt Limit Allocation Committee regulations, and the minimum
25 set forth in Section 10326 of the *California* Tax Credit Allocation
26 Committee regulations, for projects that can begin construction
27 within 180 days from award, subject to availability of funds.

28 (iii) (I) Notwithstanding any other provision of this section, for
29 allocations pursuant to this subparagraph for the 2021 calendar
30 year and thereafter, the California Tax Credit Allocation Committee
31 and the California Debt Limit Allocation Committee shall develop
32 and prescribe regulations, rules, or guidelines necessary to
33 implement a new allocation methodology that is aimed at
34 increasing production and containing costs, which would include
35 a scoring system that maximizes the efficient use of public subsidy
36 and benefit created through the private activity bond and
37 low-income housing tax credit programs. The factors for
38 determining the efficient use of public subsidy and benefit shall
39 include, but not be limited to, all of the following:

1 (ia) The number and size of units developed including local
2 incentives provided to increase density.

3 (ib) The proximity to amenities, jobs, and public transportation.

4 (ic) The location of the development.

5 (id) The delivery of housing affordable to very low and
6 extremely low income households by the development.

7 (II) The efficient use of public subsidy and benefit criteria
8 specified in this clause shall take into account the total state subsidy
9 provided and prioritize cost containment and increased unit
10 production. These regulations, rules, or guidelines developed
11 pursuant to this subparagraph shall also consider updated
12 definitions for at-risk preservation and new construction.

13 (III) For bond allocations for the 2021 calendar year to projects
14 eligible for an allocation under this subparagraph, the California
15 Debt Limit Allocation Committee may adopt emergency
16 regulations.

17 (IV) The California Tax Credit Allocation Committee shall
18 consider amending the regulations establishing a scoring system,
19 as required by this clause, to also grant, for farmworker housing
20 as defined in subdivision (h) of Section 50199.7 of the Health and
21 Safety Code, maximum points to farmworker housing projects
22 under the housing needs category, and an initial five points in the
23 category for site amenities beyond those required as additional
24 thresholds.

25 (iv) Of the amount available pursuant to this subparagraph, and
26 notwithstanding any other requirement of this section, the
27 California Tax Credit Allocation Committee may allocate up to
28 two hundred million dollars (\$200,000,000) for housing financed
29 by the California Housing Finance Agency under its Mixed-Income
30 Program.

31 (v) (I) For the calendar years of 2024 to 2034, inclusive, of the
32 amount available pursuant to this subparagraph, the lesser of 5
33 percent of that amount or twenty-five million dollars (\$25,000,000)
34 per calendar year shall be set aside for projects to provide
35 farmworker housing, as defined in subdivision (h) of Section
36 50199.7 of the Health and Safety Code, and administered consistent
37 with the credits available pursuant to paragraph (4).

38 (II) Any credits pursuant to this clause that remain unallocated
39 following the conclusion of a funding round shall roll over to
40 consecutive subsequent funding rounds in that calendar year with

1 the exception that any credits that remain unallocated after the
2 final funding round in that calendar year shall be added back to
3 the aggregate amount of credits that may be allocated pursuant to
4 this subparagraph.

5 (III) For the 2035 calendar year, and every year thereafter, of
6 the amount available pursuant to this subparagraph, a portion of
7 the amount allocated shall be set aside for projects to provide
8 farmworker housing, as defined in subdivision (h) of Section
9 50199.7 of the Health and Safety Code. The amount set aside shall
10 be determined by the Legislature upon consideration of the
11 comprehensive strategy, or most recent update thereof, provided
12 by the Department of Housing and Community Development
13 pursuant to subdivision (c) of Section 50408.5 of the Health and
14 Safety Code.

15 (vi) (I) For any calendar year in which the California Debt
16 Limit Allocation Committee has declared a competition for the
17 award of tax-exempt bond authority for qualified residential rental
18 projects, the California Tax Credit Allocation Committee may
19 allocate some or all of the credits allocated under this subparagraph,
20 except for any credits allocated for housing financed by the
21 California Housing Finance Agency under its Mixed-Income
22 Program, for nonfederally subsidized buildings eligible for credits
23 under Section 42 of the Internal Revenue Code, relating to
24 low-income housing credit, and shall allocate the remainder of
25 these credits for new buildings, as defined in Section 42(i)(4) of
26 the Internal Revenue Code, relating to new buildings, that are
27 federally subsidized and that can begin construction within a
28 reasonable time, as determined by the California Tax Credit
29 Allocation Committee.

30 (II) For any calendar year in which the California Debt Limit
31 Allocation Committee has not declared a competition for the award
32 of tax-exempt bond authority for qualified residential rental
33 projects, projects receiving an award of credits pursuant to this
34 subparagraph shall begin construction within a reasonable time,
35 as determined by the California Tax Credit Allocation Committee.

36 (III) Notwithstanding subclauses (I) and (II), if credits available
37 under this subparagraph remain unallocated after the final
38 California Debt Limit Allocation Committee round for qualified
39 residential rental projects in a given calendar year, the California
40 Tax Credit Allocation Committee may allocate some or all of the

1 remaining credits for nonfederally subsidized buildings eligible
2 for credits under Section 42 of the Internal Revenue Code, relating
3 to low-income housing credit.

4 (2) The unused housing credit ceiling, if any, for the preceding
5 calendar years.

6 (3) The amount of housing credit ceiling returned in the calendar
7 year. For purposes of this paragraph, the amount of housing credit
8 dollar amount returned in the calendar year equals the housing
9 credit dollar amount previously allocated to any project that does
10 not become a qualified low-income housing project within the
11 period required by this section or to any project with respect to
12 which an allocation is canceled by mutual consent of the California
13 Tax Credit Allocation Committee and the allocation recipient.

14 (4) Five hundred thousand dollars (\$500,000) per calendar year
15 for projects to provide farmworker housing, as defined in
16 subdivision (h) of Section 50199.7 of the Health and Safety Code.

17 (5) The amount of any unallocated or returned credits under
18 former Sections 17053.14, 23608.2, and 23608.3, as those sections
19 read prior to January 1, 2009, until fully exhausted for projects to
20 provide farmworker housing, as defined in subdivision (h) of
21 Section 50199.7 of the Health and Safety Code.

22 (h) The term “compliance period” as defined in Section 42(i)(1)
23 of the Internal Revenue Code, relating to compliance period, is
24 modified to mean, with respect to any building, the period of 30
25 consecutive taxable years beginning with the first taxable year of
26 the credit period with respect thereto.

27 (i) Section 42(j) of the Internal Revenue Code, relating to
28 recapture of credit, shall not be applicable and the following
29 requirements of this section shall be set forth in a regulatory
30 agreement between the California Tax Credit Allocation Committee
31 and the housing sponsor, and the regulatory agreement shall be
32 subordinated, when required, to any lien or encumbrance of any
33 banks or other institutional lenders to the project. The regulatory
34 agreement entered into pursuant to subdivision (f) of Section
35 50199.14 of the Health and Safety Code shall apply, provided that
36 the agreement includes all of the following provisions:

37 (1) A term not less than the compliance period.

38 (2) A requirement that the agreement be recorded in the official
39 records of the county in which the qualified low-income housing
40 project is located.

1 (3) A provision stating which state and local agencies can
2 enforce the regulatory agreement in the event the housing sponsor
3 fails to satisfy any of the requirements of this section.

4 (4) A provision that the regulatory agreement shall be deemed
5 a contract enforceable by tenants as third-party beneficiaries thereto
6 and that allows individuals, whether prospective, present, or former
7 occupants of the building, who meet the income limitation
8 applicable to the building, the right to enforce the regulatory
9 agreement in any state court.

10 (5) A provision incorporating the requirements of Section 42
11 of the Internal Revenue Code, relating to low-income housing
12 credit, as modified by this section.

13 (6) A requirement that the housing sponsor notify the California
14 Tax Credit Allocation Committee or its designee if there is a
15 determination by the Internal Revenue Service that the project is
16 not in compliance with Section 42(g) of the Internal Revenue Code,
17 relating to qualified low-income housing project.

18 (7) A requirement that the housing sponsor, as security for the
19 performance of the housing sponsor's obligations under the
20 regulatory agreement, assign the housing sponsor's interest in rents
21 that it receives from the project, provided that until there is a
22 default under the regulatory agreement, the housing sponsor is
23 entitled to collect and retain the rents.

24 (8) A provision that the remedies available in the event of a
25 default under the regulatory agreement that is not cured within a
26 reasonable cure period include, but are not limited to, allowing
27 any of the parties designated to enforce the regulatory agreement
28 to collect all rents with respect to the project; taking possession of
29 the project and operating the project in accordance with the
30 regulatory agreement until the enforcer determines the housing
31 sponsor is in a position to operate the project in accordance with
32 the regulatory agreement; applying to any court for specific
33 performance; securing the appointment of a receiver to operate
34 the project; or any other relief as may be appropriate.

35 (j) (1) The committee shall allocate the housing credit on a
36 regular basis consisting of two or more periods in each calendar
37 year during which applications may be filed and considered. The
38 committee shall establish application filing deadlines, the maximum
39 percentage of federal and state low-income housing tax credit
40 ceiling that may be allocated by the committee in that period, and

1 the approximate date on which allocations shall be made. If the
2 enactment of federal or state law, the adoption of rules or
3 regulations, or other similar events prevent the use of two allocation
4 periods, the committee may reduce the number of periods and
5 adjust the filing deadlines, maximum percentage of credit allocated,
6 and the allocation dates.

7 (2) The committee shall adopt a qualified allocation plan, as
8 provided in Section 42(m)(1) of the Internal Revenue Code, relating
9 to plans for allocation of credit among projects. In adopting this
10 plan, the committee shall comply with the provisions of Sections
11 42(m)(1)(B) and 42(m)(1)(C) of the Internal Revenue Code,
12 relating to qualified allocation plan and relating to certain selection
13 criteria must be used, respectively.

14 (3) Notwithstanding Section 42(m) of the Internal Revenue
15 Code, relating to responsibilities of housing credit agencies, the
16 California Tax Credit Allocation Committee shall allocate housing
17 credits in accordance with the qualified allocation plan and
18 regulations, which shall include the following provisions:

19 (A) All housing sponsors, as defined by paragraph (3) of
20 subdivision (a), shall demonstrate at the time the application is
21 filed with the committee that the project meets the following
22 threshold requirements:

23 (i) The housing sponsor shall demonstrate that there is a need
24 and demand for low-income housing in the community or region
25 for which it is proposed.

26 (ii) The project's proposed financing, including tax credit
27 proceeds, shall be sufficient to complete the project and that the
28 proposed operating income shall be adequate to operate the project
29 for the extended use period.

30 (iii) The project shall have enforceable financing commitments,
31 either construction or permanent financing, for at least 50 percent
32 of the total estimated financing of the project.

33 (iv) The housing sponsor shall have and maintain control of the
34 site for the project.

35 (v) The housing sponsor shall demonstrate that the project
36 complies with all applicable local land use and zoning ordinances.

37 (vi) The housing sponsor shall demonstrate that the project
38 development team has the experience and the financial capacity
39 to ensure project completion and operation for the extended use
40 period.

(vii) The housing sponsor shall demonstrate the amount of tax credit that is necessary for the financial feasibility of the project and its viability as a qualified low-income housing project throughout the extended use period, taking into account operating expenses, a supportable debt service, reserves, funds set aside for rental subsidies and required equity, and a development fee that does not exceed a specified percentage of the eligible basis of the project prior to inclusion of the development fee in the eligible basis, as determined by the committee.

(B) The committee shall give a preference to those projects satisfying all of the threshold requirements of subparagraph (A) if both of the following apply:

(i) The project serves the lowest income tenants at rents affordable to those tenants.

(ii) The project is obligated to serve qualified tenants for the longest period.

(C) In addition to the provisions of subparagraphs (A) and (B), the committee shall use the following criteria in allocating housing credits:

(i) Projects serving large families in which a substantial number, as defined by the committee, of all residential units are low-income units with three or more bedrooms.

(ii) Projects providing single-room occupancy units serving very low income tenants.

(iii) Existing projects that are “at risk of conversion,” as defined by paragraph (6) of subdivision (c).

(iv) Projects for which a public agency provides direct or indirect long-term financial support for at least 15 percent of the total project development costs or projects for which the owner’s equity constitutes at least 30 percent of the total project development costs.

(v) Projects that provide tenant amenities not generally available to residents of low-income housing projects.

(4) For purposes of allocating credits pursuant to this section, the committee shall not give preference to any project by virtue of the date of submission of its application.

(D) Subparagraphs (B) and (C) shall not apply to projects receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g).

1 (k) Section 42(l) of the Internal Revenue Code, relating to
2 certifications and other reports to secretary, shall be modified as
3 follows:

4 The term “secretary” shall be replaced by the term “Franchise
5 Tax Board.”

6 (l) In the case in which the credit allowed under this section
7 exceeds the “net tax,” the excess may be carried over to reduce
8 the “net tax” in the following year, and succeeding years, if
9 necessary, until the credit has been exhausted.

10 (m) A project that received an allocation of a 1989 federal
11 housing credit dollar amount shall be eligible to receive an
12 allocation of a 1990 state housing credit dollar amount, subject to
13 all of the following conditions:

14 (1) The project was not placed in service prior to 1990.

15 (2) To the extent the amendments made to this section by the
16 Statutes of 1990 conflict with any provisions existing in this section
17 prior to those amendments, the prior provisions of law shall prevail.

18 (3) Notwithstanding paragraph (2), a project applying for an
19 allocation under this subdivision shall be subject to the
20 requirements of paragraph (3) of subdivision (j).

21 (n) The credit period with respect to an allocation of credit in
22 1989 by the California Tax Credit Allocation Committee of which
23 any amount is attributable to unallocated credit from 1987 or 1988
24 shall not begin until after December 31, 1989.

25 (o) The provisions of Section 11407(a) of Public Law 101-508,
26 relating to the effective date of the extension of the low-income
27 housing credit, apply to calendar years after 1989.

28 (p) The provisions of Section 11407(c) of Public Law 101-508,
29 relating to election to accelerate credit, shall not apply.

30 (q) (1) (A) For a project that receives a preliminary reservation
31 under this section beginning on or after January 1, 2016, a taxpayer
32 may elect in its application to the California Tax Credit Allocation
33 Committee to sell all or any portion of any credit allowed, subject
34 to subparagraphs (B) and (C). The taxpayer may, only once, revoke
35 an election to sell pursuant to this subdivision at any time before
36 the California Tax Credit Allocation Committee allocates a final
37 credit amount for the project pursuant to this section, at which
38 point the election shall become irrevocable.

1 (B) A credit that a taxpayer elects to sell all or a portion of
2 pursuant to this subdivision shall be sold for consideration that is
3 not less than 80 percent of the amount of the credit.

4 (C) A taxpayer shall not elect to sell all or any portion of any
5 credit pursuant to this subdivision if the taxpayer did not make
6 that election in its application submitted to the California Tax
7 Credit Allocation Committee.

8 (2) (A) The taxpayer that originally received the credit shall
9 report to the California Tax Credit Allocation Committee within
10 10 days of the sale of the credit, in the form and manner specified
11 by the California Tax Credit Allocation Committee, all required
12 information regarding the purchase and sale of the credit, including
13 the social security or other taxpayer identification number of the
14 unrelated party or parties to whom the credit has been sold, the
15 face amount of the credit sold, and the amount of consideration
16 received by the taxpayer for the sale of the credit.

17 (B) The California Tax Credit Allocation Committee shall
18 provide an annual listing to the Franchise Tax Board, in a form
19 and manner agreed upon by the California Tax Credit Allocation
20 Committee and the Franchise Tax Board, of the taxpayers that
21 have sold or purchased a credit pursuant to this subdivision.

22 (3) A credit may be sold pursuant to this subdivision to more
23 than one unrelated party.

24 (4) Notwithstanding any other law, the taxpayer that originally
25 received the credit that is sold pursuant to paragraph (1) shall
26 remain solely liable for all obligations and liabilities imposed on
27 the taxpayer by this section with respect to the credit, none of
28 which shall apply to a party to whom the credit has been sold or
29 subsequently transferred. Parties that purchase credits pursuant to
30 paragraph (1) shall be entitled to utilize the purchased credits in
31 the same manner in which the taxpayer that originally received
32 the credit could utilize them.

33 (5) A taxpayer shall not sell a credit allowed by this section if
34 the taxpayer was allowed the credit on any tax return of the
35 taxpayer.

36 (r) The California Tax Credit Allocation Committee may
37 prescribe rules, guidelines, or procedures necessary or appropriate
38 to carry out the purposes of this section, including any guidelines
39 regarding the allocation of the credit allowed under this section.
40 Chapter 3.5 (commencing with Section 11340) of Part 1 of Division

1 3 of Title 2 of the Government Code shall not apply to any rule,
2 guideline, or procedure prescribed by the California Tax Credit
3 Allocation Committee pursuant to this section.

4 (s) The amendments to this section made by Chapter 1222 of
5 the Statutes of 1993 apply only to taxable years beginning on or
6 after January 1, 1994.

7 (t) This section shall remain in effect on and after December 1,
8 1990, for as long as Section 42 of the Internal Revenue Code,
9 relating to low-income housing credit, remains in effect. Any
10 unused credit may continue to be carried forward, as provided in
11 subdivision (l), until the credit has been exhausted.

12 SEC. 7. Section 17062 of the Revenue and Taxation Code is
13 amended to read:

14 17062. (a) In addition to the other taxes imposed by this part,
15 there is hereby imposed for each taxable year, a tax equal to the
16 excess, if any, of:

17 (1) The tentative minimum tax for the taxable year, over

18 (2) The regular tax for the taxable year.

19 (b) For purposes of this chapter, each of the following applies:

20 (1) The tentative minimum tax shall be computed in accordance
21 with Sections 55 to 59, inclusive, of the Internal Revenue Code,
22 except as otherwise provided in this part.

23 (2) The regular tax shall be the amount of tax imposed by
24 Section 17041 or 17048, before reduction for any credits against
25 the tax, less any amount imposed under paragraph (1) of
26 subdivision (d) and paragraph (1) of subdivision (e) of Section
27 17560.

28 (3) (A) The provisions of Section 55(b)(1) of the Internal
29 Revenue Code shall be modified to provide that the tentative
30 minimum tax for the taxable year shall be equal to the following
31 percent of so much of the alternative minimum taxable income for
32 the taxable year as exceeds the exemption amount, before reduction
33 for any credits against the tax:

34 (i) For any taxable year beginning on or after January 1, 1991,
35 and before January 1, 1996, 8.5 percent.

36 (ii) For any taxable year beginning on or after January 1, 1996,
37 and before January 1, 2009, 7 percent.

38 (iii) For taxable years beginning on and after January 1, 2009,
39 and before January 1, 2011, 7.25 percent.

(iv) For any taxable year beginning on or after January 1, 2011, 7 percent.

(B) In the case of a nonresident or part-year resident, the tentative minimum tax shall be computed by multiplying the alternative minimum taxable income of the nonresident or part-year resident, as defined in subparagraph (C), by a rate (expressed as a percentage) equal to the tax computed under subdivision (b) on the alternative minimum taxable income of the nonresident or part-year resident as if the nonresident or part-year resident were a resident of this state for the taxable year and as if the nonresident or part-year resident were a resident of this state for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions, divided by the amount of that income.

(C) For purposes of this section, the term “alternative minimum taxable income of a nonresident or part-year resident” includes each of the following:

(i) For any period during which the taxpayer was a resident of this state (as defined by Section 17014), all items of alternative minimum taxable income (as modified for purposes of this chapter), regardless of source.

(ii) For any period during which the taxpayer was not a resident of this state, alternative minimum taxable income (as modified for purposes of this chapter) which were derived from sources within this state, determined in accordance with Article 9 of Chapter 3 (commencing with Section 17301) and Chapter 11 (commencing with Section 17951).

(iii) For purposes of computing “alternative minimum taxable income of a nonresident or part-year resident,” any carryover items, deferred income, suspended losses, or suspended deductions shall only be allowable to the extent that the carryover item, suspended loss, or suspended deduction was derived from sources within this state.

(4) The provisions of Section 55(b)(2) of the Internal Revenue Code, relating to alternative minimum taxable income, shall be modified to provide that alternative minimum taxable income shall not include the income, adjustments, and items of tax preference attributable to any trade or business of a qualified taxpayer.

(A) For purposes of this paragraph, “qualified taxpayer” means a taxpayer who meets both of the following:

1 (i) Is the owner of, or has an ownership interest in, a trade or
2 business.

3 (ii) Has aggregate gross receipts, less returns and allowances,
4 of less than one million dollars (\$1,000,000) during the taxable
5 year from all trades or businesses of which the taxpayer is the
6 owner or has an ownership interest, in the amount of that taxpayer's
7 proportionate interest in each trade or business.

8 (B) For purposes of this paragraph, "aggregate gross receipts,
9 less returns and allowances" means the sum of the gross receipts
10 of the trades or businesses that the taxpayer owns and the
11 proportionate interest of the gross receipts of the trades or
12 businesses that the taxpayer owns and of pass-through entities in
13 which the taxpayer holds an interest.

14 (C) For purposes of this paragraph, "gross receipts, less returns
15 and allowances" means the sum of the gross receipts from the
16 production of business income, as defined in subdivision (a) of
17 Section 25120, and the gross receipts from the production of
18 nonbusiness income, as defined in subdivision (d) of Section
19 25120.

20 (D) For purposes of this paragraph, "proportionate interest"
21 means:

22 (i) In the case of a pass-through entity that reports a profit for
23 the taxable year, the taxpayer's profit interest in the entity at the
24 end of the taxpayer's taxable year.

25 (ii) In the case of a pass-through entity that reports a loss for
26 the taxable year, the taxpayer's loss interest in the entity at the end
27 of the taxpayer's taxable year.

28 (iii) In the case of a pass-through entity that is sold or liquidates
29 during the taxable year, the taxpayer's capital account interest in
30 the entity at the time of the sale or liquidation.

31 (E) (i) For purposes of this paragraph, "proportionate interest"
32 includes an interest in a pass-through entity.

33 (ii) For purposes of this paragraph, "pass-through entity" means
34 any of the following:

35 (I) A partnership, as defined by Section 17008.

36 (II) An "S" corporation, as provided in Chapter 4.5
37 (commencing with Section 23800) of Part 11.

38 (III) A regulated investment company, as provided in Section
39 24871.

40 (IV) A real estate investment trust, as provided in Section 24872.

1 (V) A real estate mortgage investment conduit, as provided in
2 Section 24874.

3 (5) For taxable years beginning on or after January 1, 1998,
4 Section 55(d)(1) of the Internal Revenue Code, relating to
5 exemption amount for taxpayers other than corporations is
6 modified, for purposes of this part, to provide the following
7 exemption amounts in lieu of those contained therein:

8 (A) Fifty-seven thousand two hundred sixty dollars (\$57,260)
9 in the case of either of the following:

10 (i) A joint return.

11 (ii) A surviving spouse.

12 (B) Forty-two thousand nine hundred forty-five dollars (\$42,945)
13 in the case of an individual who is both of the following:

14 (i) Not a married individual.

15 (ii) Not a surviving spouse.

16 (C) Twenty-eight thousand six hundred thirty dollars (\$28,630)
17 in the case of either of the following:

18 (i) A married individual who files a separate return.

19 (ii) An estate or trust.

20 (6) For taxable years beginning on or after January 1, 1998,
21 Section 55(d)(3) of the Internal Revenue Code, relating to phaseout
22 of exemption amount, is modified, for purposes of this part, to
23 provide the following phaseout of exemption amounts in lieu of
24 those contained therein:

25 (A) Two hundred fourteen thousand seven hundred twenty-five
26 dollars (\$214,725) in the case of a taxpayer described in
27 subparagraph (A) of paragraph (5).

28 (B) One hundred sixty-one thousand forty-four dollars
29 (\$161,044) in the case of a taxpayer described in subparagraph
30 (B) of paragraph (5).

31 (C) One hundred seven thousand three hundred sixty-two dollars
32 (\$107,362) in the case of a taxpayer described in subparagraph
33 (C) of paragraph (5).

34 (7) For each taxable year beginning on or after January 1, 1999,
35 the Franchise Tax Board shall recompute the exemption amounts
36 prescribed in paragraph (5) and the phaseout of exemption amounts
37 prescribed in paragraph (6). Those computations shall be made as
38 follows:

39 (A) The California Department of Industrial Relations shall
40 transmit annually to the Franchise Tax Board the percentage change

1 in the California Consumer Price Index for all items from June of
2 the prior calendar year to June of the current calendar year, no
3 later than August 1 of the current calendar year.

4 (B) The Franchise Tax Board shall do both of the following:

5 (i) Compute an inflation adjustment factor by adding 100 percent
6 to the percentage change figure that is furnished pursuant to
7 subparagraph (A) and dividing the result by 100.

8 (ii) Multiply the preceding taxable year exemption amounts and
9 the phaseout of exemption amounts by the inflation adjustment
10 factor determined in clause (i) and round off the resulting products
11 to the nearest one dollar (\$1).

12 (c) (1) Section 56(b)(1)(E) of the Internal Revenue Code,
13 relating to standard deduction and deduction for personal
14 exemptions not allowed, is modified, for purposes of this part, to
15 deny the standard deduction allowed by Section 17073.5.

16 (2) Section 56(b)(3) of the Internal Revenue Code, relating to
17 treatment of incentive stock options, shall be modified to
18 additionally provide the following:

19 (A) Section 421 of the Internal Revenue Code does not apply
20 to the transfer of stock acquired pursuant to the exercise of a
21 California qualified stock option under Section 17502.

22 (B) Section 422(c)(2) of the Internal Revenue Code applies in
23 any case in which the disposition and inclusion of a California
24 qualified stock option for purposes of this chapter are within the
25 same taxable year, and that section does not apply in any other
26 case.

27 (C) The adjusted basis of any stock acquired by the exercise of
28 a California qualified stock option shall be determined on the basis
29 of the treatment prescribed by this paragraph.

30 (d) The provisions of Section 57(a)(5) of the Internal Revenue
31 Code, relating to tax-exempt interest, shall not apply.

32 (e) The provisions of Section 59(a) of the Internal Revenue
33 Code, relating to the alternative minimum tax foreign tax credit,
34 shall not apply.

35 SEC. 8. Section 17062.1 is added to the Revenue and Taxation
36 Code, to read:

37 17062.1. For the purposes of this chapter, Part VI of Subchapter
38 A of Chapter 1 of Subtitle A of the Internal Revenue Code, relating
39 to alternative minimum tax, as it read on January 1, 2015, shall
40 apply, except as otherwise provided.

SEC. 9. Section 17062.3 of the Revenue and Taxation Code, as added by Section 5 of Chapter 34 of the Statutes of 2002, is repealed.

SEC. 10. Section 17062.3 of the Revenue and Taxation Code, as added by Section 5 of Chapter 35 of the Statutes of 2002, is repealed.

SEC. 11. Section 17062.3 is added to the Revenue and Taxation Code, to read:

17062.3. Section 56A of the Internal Revenue Code, relating to adjusted financial statement income, shall not apply.

SEC. 12. Section 17063 of the Revenue and Taxation Code is amended to read:

17063. (a) There shall be allowed as a credit against the net tax (as defined by Section 17039) for any taxable year an amount equal to the minimum tax credit for that taxable year.

(b) For purposes of subdivision (a), the minimum tax credit shall be determined in accordance with Section 53 of the Internal Revenue Code, except as otherwise provided in this part.

(c) For purposes of this chapter, the amount determined under Section 53(c)(1) of the Internal Revenue Code shall be the regular tax as defined by paragraph (2) of subdivision (b) of Section 17062, reduced by the sum of the credits allowable under this part, other than:

(1) The credits described in paragraph (7) of subdivision (a) of Section 17039.

(2) A credit that reduces the tax below the tentative minimum tax, as defined by Section 17062.

(d) Section 53(e) of the Internal Revenue Code, relating to the application to applicable corporations, does not apply.

SEC. 13. Section 17076 of the Revenue and Taxation Code is amended to read:

17076. (a) Section 67 of the Internal Revenue Code, relating to the 2-percent floor on miscellaneous itemized deductions, shall apply, except as otherwise provided.

(b) A deduction allowable under this part that exceeds three thousand dollars (\$3,000) and is described in Section 17049, relating to computation of tax where *the* taxpayer restores a substantial amount held under claim of right, may not be treated as a miscellaneous itemized deduction under Section 67 of the Internal Revenue Code, as applicable for purposes of this part.

1 (c) Section 67(g) of the Internal Revenue Code, relating to
2 suspension for taxable years 2018 to 2025, shall not apply.

3 SEC. 14. Section 17085 of the Revenue and Taxation Code is
4 amended to read:

5 17085. Section 72 of the Internal Revenue Code, relating to
6 annuities, certain proceeds of endowment and life insurance
7 contracts, is modified as follows:

8 (a) The amendments and transitional rules made by Public Law
9 99-514 shall be applicable to this part for the same transactions
10 and the same years as they are applicable for federal purposes,
11 except that the repeal of Section 72(d) of the Internal Revenue
12 Code, relating to repeal of special rule for employees' annuities,
13 shall apply only to the following:

14 (1) Any individual whose annuity starting date is after December
15 31, 1986.

16 (2) At the election of the taxpayer, any individual whose annuity
17 starting date is after July 1, 1986, and before January 1, 1987.

18 (b) The amount of a distribution from an individual retirement
19 account or annuity or employee trust or employee annuity that is
20 includable in gross income for federal purposes shall be reduced
21 for purposes of this part by the lesser of either of the following:

22 (1) An amount equal to the amount includable in federal gross
23 income for the taxable year.

24 (2) An amount equal to the basis in the account or annuity
25 allowed by Section 17507 (relating to individual retirement
26 accounts and simplified employee pensions), the increased basis
27 allowed by Sections 17504 and 17506 (relating to plans of
28 self-employed individuals), the increased basis allowed by Section
29 17501, or the increased basis allowed by Section 17551 that is
30 remaining after adjustment for reductions in gross income under
31 this provision in prior taxable years.

32 (c) (1) Except as provided in paragraph (2), the amount of the
33 additional tax imposed under this part shall be computed in
34 accordance with Sections 72(m), (q), (t), and (v) of the Internal
35 Revenue Code, as applicable for federal income tax purposes for
36 the same taxable year, using a rate of 2½ percent, in lieu of the
37 rate provided in those sections.

38 (2) In the case where Section 72(t)(6) of the Internal Revenue
39 Code, relating to special rules for simple retirement accounts, as
40 applicable for federal income tax purposes for the same taxable

1 year, applies, the rate in paragraph (1) shall be 6 percent in lieu of
2 the 2½ percent rate specified therein.

3 (d) Section 72(f)(2) of the Internal Revenue Code shall be
4 applicable without applying the exceptions which immediately
5 follow that paragraph.

6 (e) The amendments made by Section 844 of the federal Pension
7 Protection Act of 2006—~~P.L.~~ (*Public Law* 109-280) to Section
8 72(e) of the Internal Revenue Code, shall not apply.

9 (f) For purposes of this part, Section 2202(b) of the Coronavirus
10 Aid, Relief, and Economic Security Act (Public Law 116-136),
11 relating to loans from qualified plans shall apply.

12 (g) For purposes of this part, Section 302(c) of Title III of the
13 Consolidated Appropriations Act, 2021 (Public Law 116-260),
14 relating to loans from qualified plans, shall apply.

15 SEC. 15. Section 17087.5 of the Revenue and Taxation Code
16 is amended to read:

17 17087.5. (a) Subchapter S of Chapter 1 of Subtitle A of the
18 Internal Revenue Code, relating to tax treatment of “S
19 corporations” and their shareholders, shall apply, except as
20 otherwise provided under this part or Part 11 (commencing with
21 Section 23001).

22 (b) Section 1371(f) of the Internal Revenue Code, relating to
23 cash distributions following post-termination transition period,
24 shall not apply.

25 SEC. 16. Section 17088.1 is added to the Revenue and Taxation
26 Code, to read:

27 17088.1. (a) The amendments made to Section 860E(a)(3)(B)
28 of the Internal Revenue Code by Section 2303(a)(2)(C) of Public
29 Law 116-136, relating to conforming amendments, shall not apply.

30 (b) The amendments made to Section 860E(a)(4) of the Internal
31 Revenue Code by Section 10101(a)(4)(B)(ii) of Public Law
32 117-169, relating to conforming adjustments, shall not apply.

33 SEC. 17. Section 17131.4 of the Revenue and Taxation Code
34 is amended to read:

35 17131.4. (a) Section 106(d) of the Internal Revenue Code,
36 relating to contributions to health savings accounts, shall not apply.

37 (b) Section 106(g) of the Internal Revenue Code, relating to
38 qualified small employer health reimbursement arrangement, shall
39 not apply.

1 SEC. 18. Section 17131.8 of the Revenue and Taxation Code
2 is amended to read:

3 17131.8. (a) For taxable years beginning on or after January
4 1, 2019, gross income does not include any covered loan amount
5 forgiven pursuant to Section 1106 of the Coronavirus Aid, Relief,
6 and Economic Security Act (Public Law 116-136), pursuant to the
7 Paycheck Protection Program and Health Care Enhancement Act
8 (Public Law 116-139), pursuant to the Paycheck Protection
9 Program Flexibility Act of 2020 (Public Law 116-142), pursuant
10 to the Consolidated Appropriations Act, 2021 (Public Law
11 116-260), or pursuant to the PPP Extension Act of 2021 (Public
12 Law 117-6).

13 (b) For taxable years beginning on or after January 1, 2019,
14 gross income does not include any advance grant amount issued
15 pursuant to Section 1110(e) of the Coronavirus Aid, Relief, and
16 Economic Security Act (Public Law 116-136), or pursuant to
17 Section 331 of the Consolidated Appropriations Act, 2021 (Public
18 Law 116-260).

19 (c) (1) Notwithstanding Section 17280, for taxable years
20 beginning on or after January 1, 2019, subsection (a) of Section
21 276 of Division N of the Consolidated Appropriations Act, 2021
22 (Public Law 116-260) shall apply, except as provided.

23 (2) Paragraph (1) of subsection (a) of Section 276 of Division
24 N of the Consolidated Appropriations Act, 2021 (Public Law
25 116-260) is modified by substituting the phrase “For purposes of
26 the Internal Revenue Code of 1986” with “For purposes of this
27 ~~part~~. *part.*”

28 (3) The provisions of paragraph (1) of subsection (a) of Section
29 276 of Division N of the Consolidated Appropriations Act, 2021
30 (Public Law 116-260), relating to paragraphs (2) and (3) of
31 subsection (i) of Section 7A of the Small Business Act, shall not
32 apply to an ineligible entity.

33 (4) Paragraph (2) of subsection (a) of Section 276 of Division
34 N of the Consolidated Appropriations Act, 2021 (Public Law
35 116-260) shall not apply.

36 (d) (1) Notwithstanding Section 17280, for taxable years
37 beginning on or after January 1, 2019, subsection (b) of Section
38 276 of Division N of the Consolidated Appropriations Act, 2021
39 (Public Law 116-260) shall apply, except as provided.

(2) Subsection (b) of Section 276 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116-260) is modified by substituting the phrase “For purposes of the Internal Revenue Code of 1986, in the case of any taxable year ending after the date of the enactment of this Act” with “For purposes of this ~~part~~. *part.*”

(3) Paragraphs (2) and (3) of subsection (b) of Section 276 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116-260) shall not apply to an ineligible entity.

(e) (1) Notwithstanding Section 17280, for taxable years beginning on or after January 1, 2019, subsection (a) of Section 278 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116-260) shall apply, except as provided.

(2) Subsection (a) of Section 278 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116-260) is modified by substituting the phrase “For purposes of the Internal Revenue Code of 1986” with “For purposes of this ~~part~~. *part.*”

(3) Paragraphs (2) and (3) of subsection (a) of Section 278 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116-260) shall not apply to an ineligible entity.

(f) (1) Notwithstanding Section 17280, for taxable years beginning on or after January 1, 2019, subsection (b) of Section 278 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116-260) shall apply, except as provided.

(2) Subsection (b) of Section 278 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116-260) is modified by substituting the phrase “For purposes of the Internal Revenue Code of 1986” with “For purposes of this ~~part~~. *part.*”

(g) Notwithstanding Section 17280, for taxable years beginning on or after January 1, 2019, Section 304(a) of Title III of Division N of the Consolidated Appropriations Act, 2021 (Public law 116-260) shall apply, except as provided.

(h) For purposes of this section, all of the following definitions shall apply:

(1) “Covered loan” has the same meaning as in Section 1106 of the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136), or pursuant to the Consolidated Appropriations Act, 2021 (Public Law 116-260).

(2) “Advance grant amount” means an emergency Economic Injury Disaster Loan grant pursuant to Section 1110(e) of the

1 Coronavirus Aid, Relief, and Economic Security Act (Public Law
2 116-136), or a targeted Economic Injury Disaster Loan advance
3 pursuant to Section 331 of Division N of the Consolidated
4 Appropriations Act, 2021 (Public Law 116-260).

5 (3) “Ineligible entity” means a taxpayer that either:

6 (A) Is a publicly traded company.

7 (B) Does not meet the reduction from the gross receipts
8 requirements of Section 636(a)(37)(A)(iv)(bb) of Title 15 of the
9 United States Code, as added by Section 311 of Division N of the
10 Consolidated Appropriations Act, 2021 (Public Law 116-260).

11 (4) “Publicly traded company” means a publicly traded entity
12 as described in Section 342 of Division N of the Consolidated
13 Appropriations Act, 2021 (Public Law 116-260).

14 (i) The Administrative Procedure Act (Chapter 3.5 (commencing
15 with Section 11340) of Part 1 of Division 3 of Title 2 of the
16 Government Code) shall not apply to any standard, criterion,
17 procedure, determination, rule, notice, guideline, or any other
18 guidance established or issued by the Franchise Tax Board pursuant
19 to this section.

20 (j) The amendments made by the act adding this subdivision
21 shall be operative for taxable years beginning on or after January
22 1, 2019.

23 (k) The amendments made to this section by Chapter 55 of the
24 Statutes of 2022 shall be operative for taxable years beginning on
25 or after January 1, 2019.

26 SEC. 19. Section 17131.11 is added to the Revenue and
27 Taxation Code, to read:

28 17131.11. Section 4 of the Federal Disaster Tax Relief Act of
29 2023 (Public Law 118-148), relating to East Palestine disaster
30 relief payments, shall not apply.

31 SEC. 20. Section 17140 of the Revenue and Taxation Code is
32 amended to read:

33 17140. (a) For purposes of this section, the following terms
34 have the following meanings as provided in the Golden State
35 Scholarshare Trust Act (Article 19 (commencing with Section
36 69980) of Chapter 2 of Part 42 of the Education Code):

37 (1) “Beneficiary” has the meaning set forth in subdivision (c)
38 of Section 69980 of the Education Code.

39 (2) “Benefit” has the meaning set forth in subdivision (d) of
40 Section 69980 of the Education Code.

1 (3) “Participant” has the meaning set forth in subdivision (h) of
2 Section 69980 of the Education Code.

3 (4) “Participation agreement” has the meaning set forth in
4 subdivision (i) of Section 69980 of the Education Code.

5 (5) “Scholarshare trust” has the meaning set forth in subdivision
6 (f) of Section 69980 of the Education Code.

7 (b) For taxable years beginning on or after January 1, 1998, and
8 before January 1, 2002, except as otherwise provided in subdivision
9 (c), gross income of a beneficiary or a participant does not include
10 any of the following:

11 (1) Any distribution or earnings under a Scholarshare trust
12 participation agreement, as provided in Article 19 (commencing
13 with Section 69980) of Chapter 2 of Part 42 of the Education Code.

14 (2) Any contribution to the Scholarshare trust on behalf of a
15 beneficiary shall not be includable as gross income of that
16 beneficiary.

17 (c) For taxable years beginning on or after January 1, 1998, and
18 before January 1, 2002:

19 (1) Any distribution under a Scholarshare trust participation
20 agreement shall be includable in the gross income of the distributee
21 in the manner as provided under Section 72 of the Internal Revenue
22 Code, as modified by Section 17085, to the extent not excluded
23 from gross income under this part. For purposes of applying
24 Section 72 of the Internal Revenue Code, the following apply:

25 (A) All Scholarshare trust accounts of which an individual is a
26 beneficiary shall be treated as one account, except as otherwise
27 provided.

28 (B) All distributions during a taxable year shall be treated as
29 one distribution.

30 (C) The value of the participation agreement, income on the
31 participation agreement, and investment in the participation
32 agreement shall be computed as of the close of the calendar year
33 in which the taxable year begins.

34 (2) A contribution by a for-profit or nonprofit entity, or by a
35 state or local government agency, for the benefit of an owner or
36 employee of that entity or a beneficiary whom the owner or
37 employee has the power to designate, including the owner or
38 employee’s minor children, shall be included in the gross income
39 of that owner or employee in the year the contribution is made.

1 (3) For purposes of this subdivision, “distribution” includes any
2 benefit furnished to a beneficiary under a participation agreement,
3 as provided in Article 19 (commencing with Section 69980) of
4 Chapter 2 of Part 42 of the Education Code.

5 (4) (A) Paragraph (1) shall not apply to that portion of any
6 distribution that, within 60 days of distribution, is transferred to
7 the credit of another beneficiary under the Scholarshare trust who
8 is a “member of the family,” as that term is used in Section
9 529(e)(2) of the Internal Revenue Code, as amended by Section
10 211 of the Taxpayer Relief Act of 1997 (Public Law 105-34), of
11 the former beneficiary of that Scholarshare trust.

12 (B) Any change in the beneficiary of an interest in the
13 Scholarshare trust shall not be treated as a distribution for purposes
14 of paragraph (1) if the new beneficiary is a “member of the family,”
15 as that term is used in Section 529(e)(2) of the Internal Revenue
16 Code, as amended by Section 211 of the Taxpayer Relief Act of
17 1997 (Public Law 105-34), of the former beneficiary of that
18 Scholarshare trust.

19 (d) For taxable years beginning on or after January 1, 2002,
20 Sections 529(c) and 529(e) of the Internal Revenue Code, relating
21 to tax treatment of designated beneficiaries and contributors and
22 to other definitions and special rules, respectively, shall apply,
23 except as otherwise provided in Part 11 (commencing with Section
24 23001) and this part.

25 (e) (1) The amendments made by Section 302(a)(1) of Division
26 Q of the Consolidated Appropriations Act, 2016 (Public Law
27 114-113) to Section 529(e) of the Internal Revenue Code, relating
28 to other definitions and special rules, shall apply except as
29 otherwise provided.

30 (2) The amendments made by Section 302(b)(1) of Division Q
31 of the Consolidated Appropriations Act, 2016 (Public Law
32 114-113) to Section 529(c)(3) of the Internal Revenue Code,
33 relating to distributions, shall apply, except as otherwise provided.

34 (3) The amendments made by Section 302(c)(1) of Division Q
35 of the Consolidated Appropriations Act, 2016 (Public Law
36 114-113) to Section 529(c)(3)(D) of the Internal Revenue Code,
37 relating to special rule for contributions of refunded amounts, shall
38 apply, except as otherwise provided.

39 (f) (1) The amendments made by Section 11025(a) of the Tax
40 Cuts and Jobs Act, 2017 (Public Law 115-97) to Section

1 529(c)(3)(C) of the Internal Revenue Code, relating to change in
2 beneficiaries or programs, shall apply, except as otherwise
3 provided.

4 (2) (A) The amendments made by Section 11032(a)(1) of the
5 Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section
6 529(c) of the Internal Revenue Code, relating to tax treatment of
7 designated beneficiaries and contributors, shall not apply, except
8 as otherwise provided.

9 (B) The amendments made by Section 11032(a)(2) of the Tax
10 Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section
11 529(e)(3)(A) of the Internal Revenue Code, relating to qualified
12 higher education expenses, shall not apply, except as otherwise
13 provided.

14 (C) In the case of any distribution made under Section
15 529(e)(3)(A) of the Internal Revenue Code, as amended by Section
16 11032(a)(2) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law
17 115-97), that would be treated for federal income tax purposes as
18 a “qualified higher education expense” under Section 529(c)(7)
19 of the Internal Revenue Code, as added by Section 11032(a)(1) of
20 the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), the
21 amount of that distribution shall, notwithstanding anything in
22 Section 529 of the Internal Revenue Code to the contrary, be
23 includable in the gross income of the distributee in the manner as
24 provided under Section 72 of the Internal Revenue Code.

25 (D) Any distribution includable in the gross income of a
26 distributee under subparagraph (C) shall not affect the exempt
27 status of the qualified tuition program under Section 529 of the
28 Internal Revenue Code for purposes of this part.

29 (g) (1) For taxable years beginning on or after January 1, 2021,
30 the amendments made by Section 302(a) of Division O of the
31 Further Consolidated Appropriations Act, 2020 (Public Law
32 116-94) to Section 529(c)(8) of the Internal Revenue Code, relating
33 to distributions for certain expenses associated with registered
34 apprenticeship programs, shall apply.

35 (2) For taxable years beginning on or after January 1, 2021, the
36 amendments made by Section 302(b)(1) of Division O of the
37 Further Consolidated Appropriations Act, 2020 (Public Law
38 116-94) to Section 529(c)(9) of the Internal Revenue Code, relating
39 to distributions for qualified education loan repayments, shall
40 apply.

1 (h) (1) Section 529(c)(3)(E) of the Internal Revenue Code,
2 relating to special rollovers to Roth IRAs from long-term qualified
3 tuition programs, shall not apply.

4 (2) In the case of any distribution made under Section
5 529(c)(3)(E) of the Internal Revenue Code, relating to the special
6 rollover to Roth IRAs from long-term qualified tuition programs,
7 treated for federal income tax purposes as a “qualified rollover
8 contribution” under Section 408A(e)(1)(C) of the Internal Revenue
9 Code, the amount of that distribution shall, notwithstanding Section
10 529 or Section 408A of the Internal Revenue Code to the contrary,
11 be includable in the gross income of the distributee in the manner
12 as provided under Section 72 of the Internal Revenue Code.

13 (3) Any distribution includable in the gross income of a
14 distributee under paragraph (2) shall not affect the exempt status
15 of the qualified tuition program under Section 529 of the Internal
16 Revenue Code for purposes of this part.

17 SEC. 21. Section 17140.3 of the Revenue and Taxation Code
18 is amended to read:

19 17140.3. Section 529 of the Internal Revenue Code, relating
20 to qualified state tuition programs, shall apply, except as otherwise
21 provided.

22 (a) Section 529(a) of the Internal Revenue Code is modified as
23 follows:

24 (1) By substituting the phrase “under this part and Part 11
25 (commencing with Section 23001)” in lieu of the phrase “under
26 this subtitle.”

27 (2) By substituting “Article 2 (commencing with Section
28 23731)” in lieu of “Section 511.”

29 (b) A copy of the report required to be filed with the Secretary
30 of the Treasury under Section 529(d) of the Internal Revenue Code
31 shall be filed with the Franchise Tax Board at the same time and
32 in the same manner as specified in that section.

33 (c) (1) The amendments made by Section 302(a)(1) of Division
34 Q of the Consolidated Appropriations Act, 2016 (Public Law
35 114-113) to Section 529(e) of the Internal Revenue Code, relating
36 to other definitions and special rules, shall apply except as
37 otherwise provided.

38 (2) The amendments made by Section 302(b)(1) of Division Q
39 of the Consolidated Appropriations Act, 2016 (Public Law

1 114-113) to Section 529(c)(3) of the Internal Revenue Code,
2 relating to distributions, shall apply, except as otherwise provided.

3 (3) The amendments made by Section 302(c)(1) of Division Q
4 of the Consolidated Appropriations Act, 2016 (Public Law
5 114-113) to Section 529(c)(3)(D) of the Internal Revenue Code,
6 relating to special rule for contributions of refunded amounts, shall
7 apply, except as otherwise provided.

8 (d) (1) The amendments made by Section 11025(a) of the Tax
9 Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section
10 529(c)(3)(C) of the Internal Revenue Code, relating to change in
11 beneficiaries or programs, shall apply, except as otherwise
12 provided.

13 (2) (A) The amendments made by Section 11032(a)(1) of the
14 Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section
15 529(c) of the Internal Revenue Code, relating to tax treatment of
16 designated beneficiaries and contributors, shall not apply, except
17 as otherwise provided.

18 (B) The amendments made by Section 11032(a)(2) of the Tax
19 Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section
20 529(e)(3)(A) of the Internal Revenue Code, relating to qualified
21 higher education expenses, shall not apply, except as otherwise
22 provided.

23 (C) In the case of any distribution made under Section
24 529(e)(3)(A) of the Internal Revenue Code, as amended by Section
25 11032(a)(2) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law
26 115-97), that would be treated for federal income tax purposes as
27 a “qualified higher education expense” under Section 529(c)(7)
28 of the Internal Revenue Code, as added by Section 11032(a)(1) of
29 the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), the
30 amount of that distribution shall, notwithstanding anything in
31 Section 529 of the Internal Revenue Code to the contrary, be
32 includable in the gross income of the distributee in the manner as
33 provided under Section 72 of the Internal Revenue Code.

34 (D) Any distribution includable in the gross income of a
35 distributee under subparagraph (C) shall not affect the exempt
36 status of the qualified tuition program under Section 529 of the
37 Internal Revenue Code for purposes of this part.

38 (e) (1) For taxable years beginning on or after January 1, 2021,
39 the amendments made by Section 302(a) of Division O of the
40 Further Consolidated Appropriations Act, 2020 (Public Law

116-94) to Section 529(c)(8) of the Internal Revenue Code, relating to distributions for certain expenses associated with registered apprenticeship programs, shall apply.

(2) For taxable years beginning on or after January 1, 2021, the amendments made by Section 302(b)(1) of Division O of the Further Consolidated Appropriations Act, 2020 (Public Law 116-94) to Section 529(c)(9) of the Internal Revenue Code, relating to distributions for qualified education loan repayments, shall apply.

(f) (1) Section 529(c)(3)(E) of the Internal Revenue Code, relating to special rollovers to Roth IRAs from long-term qualified tuition programs, shall not apply.

(2) In the case of any distribution made under Section 529(c)(3)(E) of the Internal Revenue Code, relating to the special rollover to Roth IRAs from long-term qualified tuition programs, treated for federal income tax purposes as a “qualified rollover contribution” under Section 408A(e)(1)(C) of the Internal Revenue Code, the amount of that distribution shall, notwithstanding Section 529 or Section 408A of the Internal Revenue Code to the contrary, be includable in the gross income of the distributee in the manner as provided under Section 72 of the Internal Revenue Code.

(3) Any distribution includable in the gross income of a distributee under paragraph (2) shall not affect the exempt status of the qualified tuition program under Section 529 of the Internal Revenue Code for purposes of this part.

SEC. 22. Section 17144.5 of the Revenue and Taxation Code is amended to read:

17144.5. (a) (1) Section 108(a)(1)(E) of the Internal Revenue Code is modified to provide that the amount excluded from gross income shall not exceed ~~\$500,000~~ ~~(\$250,000 five hundred thousand dollars (\$500,000) (two hundred fifty thousand dollars (\$250,000)~~ in the case of a married individual filing a separate return).

(2) Section 108(a)(1)(E) of the Internal Revenue Code is modified by substituting “before January 1, 2015,” in lieu of clauses (i) and (ii).

(b) Section 108(h)(2) of the Internal Revenue Code is modified by substituting the phrase “(within the meaning of section 163(h)(3)(B), applied by substituting ‘\$800,000 (\$400,000’ for ‘\$1,000,000 (\$500,000’ in clause (ii) thereof)” for the phrase “(within the meaning of section 163(h)(3)(B), applied by

1 substituting ‘\$2,000,000 (\$1,000,000’ for ‘\$1,000,000 (\$500,000’
2 in clause (ii) thereof)’ contained therein.

3 (c) This section shall apply to discharges of indebtedness
4 occurring on or after January 1, 2007, and, notwithstanding any
5 other law to the contrary, no penalties or interest shall be due with
6 respect to the discharge of qualified principal residence
7 indebtedness during the 2007 or 2009 taxable year regardless of
8 whether or not the taxpayer reports the discharge on their return
9 for the 2007 or 2009 taxable year.

10 (d) The amendments made by Section 202 of the American
11 Taxpayer Relief Act of 2012 (Public Law 112-240) to Section 108
12 of the Internal Revenue Code shall apply.

13 (e) The changes made to this section by Section 1 of Chapter
14 152 of the Statutes of 2014 shall apply to discharges of
15 indebtedness that occur on or after January 1, 2013, and before
16 January 1, 2014, and, notwithstanding any other law, no penalties
17 or interest shall be due with respect to the discharge of qualified
18 principal residence indebtedness during the 2013 taxable year,
19 regardless of whether the taxpayer reports the discharge on their
20 income tax return for the 2013 taxable year.

21 SEC. 23. Section 17149.1 is added to the Revenue and Taxation
22 Code, to read:

23 17149.1. Section 132(f)(8) of the Internal Revenue Code,
24 relating to suspension of qualified bicycle commuting
25 reimbursement exclusion, shall not apply.

26 SEC. 24. Section 17149.2 is added to the Revenue and Taxation
27 Code, to read:

28 17149.2. Section 132(g)(2) of the Internal Revenue Code,
29 relating to qualified moving expense reimbursement suspension
30 for taxable years 2018 to 2025, shall not apply.

31 SEC. 25. Section 17156.2 is added to the Revenue and Taxation
32 Code, to read:

33 17156.2. (a) Section 139C of the Internal Revenue Code,
34 relating to certain disability-related first responder retirement
35 payments, shall apply.

36 (b) This section shall apply to amounts received with respect
37 to taxable years beginning on or after January 1, 2027.

38 SEC. 26. Section 17158.4 is added to the Revenue and Taxation
39 Code, to read:

1 17158.4. Section 343 of the Protecting Americans from Tax
2 Hikes Act of 2015 (Public Law 114-113), relating to exclusion
3 from gross income of certain coal power grants to non-corporate
4 taxpayers, shall not apply.

5 SEC. 27. Section 17158.5 is added to the Revenue and Taxation
6 Code, to read:

7 17158.5. Section 3 of the Federal Disaster Tax Relief Act of
8 2023 (Public Law 118-148), relating to exclusion from gross
9 income for compensation for losses or damages resulting from
10 certain wildfires, shall not apply.

11 SEC. 28. Section 17201.1 is added to the Revenue and Taxation
12 Code, to read:

13 17201.1. (a) Section 174 of the Internal Revenue Code as it
14 read on January 1, 2015, relating to amortization of research and
15 experimental expenditures, shall apply.

16 (b) Section 217(k) of the Internal Revenue Code, relating to the
17 suspension of the moving expense deduction for taxable years
18 2018 to 2025, shall not apply.

19 (c) The amendments made by Section 13304 of the Tax Cuts
20 and Jobs ~~Act~~ Act, 2017 (Public Law 115-97) to Section 274 of the
21 Internal Revenue Code, relating to limitation on deduction by
22 employers of expenses for fringe benefits, shall not apply.

23 (d) The amendments made by Section 13202(a) of the Tax Cuts
24 and Jobs ~~Act~~ Act, 2017 (Public Law 115-97) to Section 280F of
25 the Internal Revenue Code, relating to limitation on depreciation
26 for luxury automobiles; limitation where certain property used for
27 personal purposes, shall not apply.

28 SEC. 29. Section 17201.6 of the Revenue and Taxation Code
29 is amended to read:

30 17201.6. Section 199A of the Internal Revenue Code, relating
31 to qualified business income, shall not apply.

32 SEC. 30. Section 17204 of the Revenue and Taxation Code is
33 amended to read:

34 17204. (a) Section 165(h)(3) of the Internal Revenue Code,
35 relating to special rules for losses in federally declared disasters,
36 shall not apply.

37 (b) Section 165(h)(5) of the Internal Revenue Code, relating to
38 limitation for taxable years 2018 to 2025, shall not apply.

39 (c) The amendments by Section 11028(c) of the Tax Cuts and
40 Jobs ~~Act~~ Act, 2017 (Public Law 115-97) to Section 165 of the

1 Internal Revenue Code, relating to special rules for personal
2 casualty losses related to 2016 major disaster, shall not apply.

3 (d) The amendments made by Section 304 of Division EE of
4 Title III of the Consolidated Appropriations Act, 2021 (Public Law
5 116-260) to Section 165(h) of the Internal Revenue Code, relating
6 to qualified disaster-related personal casualty losses, shall not
7 apply.

8 (e) Section 2 of the Federal Disaster Tax Relief Act of 2023
9 (Public Law 118-148), relating to extension of rules for treatment
10 of certain disaster-related personal casualty losses, shall not apply.

11 SEC. 31. Section 17204.2 is added to the Revenue and Taxation
12 Code, to read:

13 17204.2. The amendments made by Section 11050 of the Tax
14 Cuts and Jobs Act, 2017 (Public Law 115-97) to Section 165(d)
15 of the Internal Revenue Code, relating to wagering losses, shall
16 not apply.

17 SEC. 32. Section 17204.7 of the Revenue and Taxation Code
18 is repealed.

19 SEC. 33. Section 17220 of the Revenue and Taxation Code is
20 amended to read:

21 17220. (a) Section 164(a)(3) of the Internal Revenue Code,
22 relating to the deductibility of state, local, and foreign income, war
23 profits, and excess profits taxes, shall not apply.

24 (b) Section 164(b)(5) of the Internal Revenue Code, relating to
25 general sales taxes, shall not apply.

26 (c) Section 164(b)(6) of the Internal Revenue Code, relating to
27 the limitation on individual deductions for taxable years 2018 to
28 2025, shall not apply.

29 (d) In addition to the provisions of Section 164(c) of the Internal
30 Revenue Code, relating to deduction denied in case of certain
31 taxes, no deduction shall be allowed for any tax imposed under
32 Chapter 10.5 (commencing with Section 17935), Chapter 10.6
33 (commencing with Section 17941), or Chapter 10.7 (commencing
34 with Section 17948) of this part or under Part 11 (commencing
35 with Section 23001).

36 SEC. 34. Section 17225 of the Revenue and Taxation Code is
37 amended to read:

38 17225. (a) Section 163(h)(3)(E) of the Internal Revenue Code,
39 relating to mortgage insurance premiums treated as interest, shall
40 not apply.

1 (b) Section 163(h)(3)(F) of the Internal Revenue Code, relating
2 to special rules for taxable years 2018 to 2025, shall not apply.

3 SEC. 35. Section 17241 of the Revenue and Taxation Code is
4 amended to read:

5 17241. Section 213(a) of the Internal Revenue Code, relating
6 to allowance of deduction, is modified by substituting “7.5 percent”
7 for “10 percent” for taxable years beginning before January 1,
8 2021.

9 SEC. 36. Section 17250 of the Revenue and Taxation Code is
10 amended to read:

11 17250. (a) Section 168 of the Internal Revenue Code is
12 modified as follows:

13 (1) Any reference to “tax imposed by this chapter” in Section
14 168 of the Internal Revenue Code means “net tax,” as defined in
15 Section 17039.

16 (2) (A) Section 168(e)(3) is modified to provide that any
17 grapevine, replaced in a vineyard in California in any taxable year
18 beginning on or after January 1, 1992, as a direct result of a
19 phylloxera infestation in that vineyard, or replaced in a vineyard
20 in California in any taxable year beginning on or after January 1,
21 1997, as a direct result of Pierce’s disease in that vineyard, shall
22 be “five-year property,” rather than “10-year property.”

23 (B) Section 168(g)(3) of the Internal Revenue Code is modified
24 to provide that any grapevine, replaced in a vineyard in California
25 in any taxable year beginning on or after January 1, 1992, as a
26 direct result of a phylloxera infestation in that vineyard, or replaced
27 in a vineyard in California in any taxable year beginning on or
28 after January 1, 1997, as a direct result of Pierce’s disease in that
29 vineyard, shall have a class life of 10 years.

30 (C) Every taxpayer claiming a depreciation deduction with
31 respect to grapevines as described in this paragraph shall obtain a
32 written certification from an independent state-certified integrated
33 pest management adviser, or a state agricultural commissioner or
34 adviser, that specifies that the replanting was necessary to restore
35 a vineyard infested with phylloxera or Pierce’s disease. The
36 taxpayer shall retain the certification for future audit purposes.

37 (3) Section 168(j) of the Internal Revenue Code, relating to
38 property on Indian reservations, shall not apply.

(4) Section 168(k) of the Internal Revenue Code, relating to special allowance for certain property acquired after December 31, 2007, and before January 1, 2009, shall not apply.

(5) Section 168(e)(3)(E)(vii) of the Internal Revenue Code shall not apply.

(6) Sections 168(b)(3)(G) and 168(e)(6) of the Internal Revenue Code, relating to qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property, respectively, shall not apply.

(7) (A) Sections 168(g)(1)(F) and 168(g)(1)(G) of the Internal Revenue Code shall not apply.

(B) The amendments made by Section 13204(a) of the Tax Cuts and Jobs ~~Act~~ *Act*, 2017 (Public Law 115-97) to Sections 168(g)(2)(C) and 168(g)(3)(B) of the Internal Revenue Code shall not apply.

(C) Section 168(g)(8) of the Internal Revenue Code, relating to electing real property trade or business, shall not apply.

(8) Section 168(l) of the Internal Revenue Code, relating to qualified second generation biofuel plant property, shall not apply.

(9) Section 168(m) of the Internal Revenue Code, relating to special allowance for certain reuse and recycling property, shall not apply.

(10) Section 168(i)(15)(D) of the Internal Revenue Code, relating to termination, is modified by substituting the phrase “December 31, 2007” for the phrase “December 31, 2025.”

(11) Sections 168(e)(3)(B)(vii) and 168(e)(3)(B)(viii) of the Internal Revenue Code shall not apply.

(b) Section 169 of the Internal Revenue Code, relating to amortization of pollution control facilities, is modified as follows:

(1) The deduction allowed by Section 169 of the Internal Revenue Code shall be allowed only with respect to facilities located in this state.

(2) The “state certifying authority,” as defined in Section 169(d)(2) of the Internal Revenue Code, means the State Air Resources Board, in the case of air pollution, and the State Water Resources Control Board, in the case of water pollution.

SEC. 37. Section 17250.1 is added to the Revenue and Taxation Code, to read:

17250.1. (a) Section 170(b)(1)(A)(ix) of the Internal Revenue Code, relating to percentage limitations, shall not apply.

1 (b) Section 170(b)(1)(G) of the Internal Revenue Code, relating
2 to increased limitation for cash contributions, shall not apply.

3 (c) Section 170(b)(1)(E)(vi) of the Internal Revenue Code as it
4 read on January 1, 2015, relating to termination, shall apply.

5 SEC. 38. Section 17250.2 is added to the Revenue and Taxation
6 Code, to read:

7 17250.2. Section 170(p) of the Internal Revenue Code, relating
8 to special rule for taxpayers who do not elect to itemize deductions,
9 shall not apply.

10 SEC. 39. Section 17255 of the Revenue and Taxation Code is
11 amended to read:

12 17255. (a) Section 179(b)(1) of the Internal Revenue Code,
13 relating to dollar limitation, shall not apply and in lieu thereof, the
14 aggregate cost which may be taken into account under Section
15 179(a) of the Internal Revenue Code for any taxable year shall not
16 exceed twenty-five thousand dollars (\$25,000).

17 (b) Section 179(b)(2) of the Internal Revenue Code, relating to
18 reduction in limitation, does not apply and in lieu thereof, the
19 limitation under subdivision (a) for any taxable year shall be
20 reduced, but not to below zero, by the amount by which the cost
21 of Section 179 property, as defined in Section 179(d)(1) of the
22 Internal Revenue Code, except as otherwise provided, placed in
23 service during the taxable year exceeds two hundred thousand
24 dollars (\$200,000).

25 (c) Section 179 of the Internal Revenue Code is modified to
26 provide that the “aggregate amount disallowed” referred to in
27 Section 179(b)(3)(B) of the Internal Revenue Code shall be
28 computed under this part as it read on the date the property
29 generating the amount disallowed was placed in service.

30 (d) Section 179(c)(2) of the Internal Revenue Code, relating to
31 elections, shall not apply.

32 (e) Section 179(d)(1)(A)(ii) of the Internal Revenue Code does
33 not apply.

34 (f) Section 179(e) of the Internal Revenue Code, relating to
35 special rules for qualified disaster assistance property, shall not
36 apply.

37 (g) The amendments made by Section 124 of the Consolidated
38 Appropriations Act, 2016 (Public Law 114-113) to Section 179
39 of the Internal Revenue Code, relating to elections to expense
40 certain depreciable business assets, shall not apply.

(h) The amendments made by Section 13101 of the Tax Cuts and Jobs Act, 2017 (Public Law 115-97) to Section 179 of the Internal Revenue Code, relating to elections to expense certain depreciable business assets, shall not apply.

SEC. 40. Section 17270 of the Revenue and Taxation Code is amended to read:

17270. (a) For purposes of Section 162(a)(2) of the Internal Revenue Code, relating to travel expenses, all of the following shall apply:

(1) The place of residence of a member of the Legislature within the district represented shall be considered the tax home.

(2) The provisions of Section 162(h) of the Internal Revenue Code, relating to state legislators' travel expenses away from home, shall not be applied.

(b) The provisions of Section 280C(a) of the Internal Revenue Code (relating to rule for employment credits) shall not apply.

(c) The amendments made by Section 13206(d)(2)(A) of the Tax Cuts and Jobs Act, 2017 (Public Law 115-97) to Section 280C(c) of the Internal Revenue Code, relating to credit for increasing research activities, shall not apply, except as otherwise provided.

(d) Section 280C(c)(2)(B) of the Internal Revenue Code, as enacted pursuant to Section 13206(d)(2)(A) of the Tax Cuts and Jobs Act, 2017 (Public Law 115-97), is modified to refer to Section 17041 of this code in lieu of Section 11(b) of the Internal Revenue Code.

SEC. 41. Section 17271 of the Revenue and Taxation Code is amended to read:

17271. (a) The amendments made to Section 162(m) of the Internal Revenue Code by Section 13601(e)(2) of the Tax Cuts and Jobs Act, 2017 (Public Law 115-97), relating to exception for binding contracts, shall apply, and is modified by substituting "March 31, 2019" for "November 2, 2017."

(b) Section 162(m)(3)(C) of the Internal Revenue Code, relating to covered employees, *employee*, shall not apply.

SEC. 42. Section 17275.3 of the Revenue and Taxation Code is repealed.

SEC. 43. Section 17276 of the Revenue and Taxation Code is amended to read:

1 17276. Except as provided in Sections 17276.1, 17276.2,
2 17276.4, 17276.5, 17276.6, and 17276.7, the deduction provided
3 by Section 172 of the Internal Revenue Code, relating to net
4 operating loss deduction, shall be modified as follows:

5 (a) (1) Net operating losses attributable to taxable years
6 beginning before January 1, 1987, shall not be allowed.

7 (2) A net operating loss shall not be carried forward to any
8 taxable year beginning before January 1, 1987.

9 (3) The amendments made by Section 13302(a)(1) of the Tax
10 Cuts and Jobs Act, 2017 (Public Law 115-97) and Section
11 2303(a)(1) of the Coronavirus Aid, Relief, and Economic Security
12 Act (Public Law 116-136) to Section 172(a) of the Internal
13 Revenue Code, relating to the deduction allowed, shall not apply.

14 (b) (1) Except as provided in paragraphs (3) and (4), the
15 provisions of Section 172(b)(2) of the Internal Revenue Code,
16 relating to amount of carrybacks and carryovers, shall be modified
17 so that the applicable percentage of the entire amount of the net
18 operating loss for any taxable year shall be eligible for carryover
19 to any subsequent taxable year. For purposes of this subdivision,
20 the applicable percentage shall be:

21 (A) Fifty percent for any taxable year beginning before January
22 1, 2000.

23 (B) Fifty-five percent for any taxable year beginning on or after
24 January 1, 2000, and before January 1, 2002.

25 (C) Sixty percent for any taxable year beginning on or after
26 January 1, 2002, and before January 1, 2004.

27 (D) One hundred percent for any taxable year beginning on or
28 after January 1, 2004.

29 (2) Section 172(b)(2)(C) of the Internal Revenue Code shall not
30 apply.

31 (3) In the case of a taxpayer who has a net operating loss in any
32 taxable year beginning on or after January 1, 1994, and who
33 operates a new business during that taxable year, each of the
34 following shall apply to each loss incurred during the first three
35 taxable years of operating the new business:

36 (A) If the net operating loss is equal to or less than the net loss
37 from the new business, 100 percent of the net operating loss shall
38 be carried forward as provided in subdivision (d).

(B) If the net operating loss is greater than the net loss from the new business, the net operating loss shall be carried over as follows:

(i) With respect to an amount equal to the net loss from the new business, 100 percent of that amount shall be carried forward as provided in subdivision (d).

(ii) With respect to the portion of the net operating loss that exceeds the net loss from the new business, the applicable percentage of that amount shall be carried forward as provided in subdivision (d).

(C) For purposes of Section 172(b)(2) of the Internal Revenue Code, the amount described in clause (ii) of subparagraph (B) shall be absorbed before the amount described in clause (i) of subparagraph (B).

(4) In the case of a taxpayer who has a net operating loss in any taxable year beginning on or after January 1, 1994, and who operates an eligible small business during that taxable year, each of the following shall apply:

(A) If the net operating loss is equal to or less than the net loss from the eligible small business, 100 percent of the net operating loss shall be carried forward to the taxable years specified in subdivision (d).

(B) If the net operating loss is greater than the net loss from the eligible small business, the net operating loss shall be carried over as follows:

(i) With respect to an amount equal to the net loss from the eligible small business, 100 percent of that amount shall be carried forward as provided in subdivision (d).

(ii) With respect to that portion of the net operating loss that exceeds the net loss from the eligible small business, the applicable percentage of that amount shall be carried forward as provided in subdivision (d).

(C) For purposes of Section 172(b)(2) of the Internal Revenue Code, the amount described in clause (ii) of subparagraph (B) shall be absorbed before the amount described in clause (i) of subparagraph (B).

(5) In the case of a taxpayer who has a net operating loss in a taxable year beginning on or after January 1, 1994, and who operates a business that qualifies as both a new business and an eligible small business under this section, that business shall be

1 treated as a new business for the first three taxable years of the
2 new business.

3 (6) In the case of a taxpayer who has a net operating loss in a
4 taxable year beginning on or after January 1, 1994, and who
5 operates more than one business, and more than one of those
6 businesses qualifies as either a new business or an eligible small
7 business under this section, paragraph (2) shall be applied first,
8 except that if there is any remaining portion of the net operating
9 loss after application of clause (i) of subparagraph (B) of that
10 paragraph, paragraph (3) shall be applied to the remaining portion
11 of the net operating loss as though that remaining portion of the
12 net operating loss constituted the entire net operating loss.

13 (7) For purposes of this section, the term “net loss” means the
14 amount of net loss after application of Sections 465 and 469 of the
15 Internal Revenue Code.

16 (c) Section 172(b)(1) of the Internal Revenue Code, relating to
17 years to which the loss may be carried, is modified as follows:

18 (1) Net operating loss carrybacks shall not be allowed for any
19 net operating losses attributable to taxable years beginning after
20 December 31, 2018, and before January 1, 2013.

21 (2) A net operating loss attributable to taxable years beginning
22 on or after January 1, 2013, and before January 1, 2019, shall be
23 a net operating loss carryback to each of the two taxable years
24 preceding the taxable year of the loss in lieu of the number of years
25 provided therein.

26 (A) For a net operating loss attributable to a taxable year
27 beginning on or after January 1, 2013, and before January 1, 2014,
28 the amount of carryback to any taxable year shall not exceed 50
29 percent of the net operating loss.

30 (B) For a net operating loss attributable to a taxable year
31 beginning on or after January 1, 2014, and before January 1, 2015,
32 the amount of carryback to any taxable year shall not exceed 75
33 percent of the net operating loss.

34 (C) For a net operating loss attributable to a taxable year
35 beginning on or after January 1, 2015, and before January 1, 2019,
36 the amount of carryback to any taxable year shall not exceed 100
37 percent of the net operating loss.

38 (3) A net operating loss carryback shall not be carried back to
39 any taxable year beginning before January 1, 2011.

(d) (1) (A) For a net operating loss for any taxable year beginning on or after January 1, 1987, and before January 1, 2000, Section 172(b)(1)(A)(ii) of the Internal Revenue Code shall apply as it read on January 1, 2015, and is modified to substitute “five taxable years” in lieu of “20 taxable years” except as otherwise provided in paragraphs (2) and (3).

(B) For a net operating loss for any taxable year beginning on or after January 1, 2000, and before January 1, 2008, Section 172(b)(1)(A)(ii)(I) of the Internal Revenue Code is modified to substitute “10 taxable years” in lieu of “20 taxable years.”

(C) Section 172(b)(1)(A) of the Internal Revenue Code, relating to years to which loss may be carried, shall not apply.

(D) Section 172(b)(1)(D) of the Internal Revenue Code, relating to special rule for losses arising in 2018, 2019, and 2020, shall not apply.

(2) For any taxable year beginning before January 1, 2000, in the case of a “new business,” the “five taxable years” in paragraph (1) shall be modified to read as follows:

(A) “Eight taxable years” for a net operating loss attributable to the first taxable year of that new business.

(B) “Seven taxable years” for a net operating loss attributable to the second taxable year of that new business.

(C) “Six taxable years” for a net operating loss attributable to the third taxable year of that new business.

(3) For any carryover of a net operating loss for which a deduction is denied by Section 17276.3, the carryover period specified in this subdivision shall be extended as follows:

(A) By one year for a net operating loss attributable to taxable years beginning in 1991.

(B) By two years for a net operating loss attributable to taxable years beginning before January 1, 1991.

(4) The net operating loss attributable to taxable years beginning on or after January 1, 1987, and before January 1, 1994, shall be a net operating loss carryover to each of the 10 taxable years following the year of the loss if it is incurred by a taxpayer that is under the jurisdiction of the court in a Title 11 or similar case at any time during the income year. The loss carryover provided in the preceding sentence does not apply to any loss incurred after the date the taxpayer is no longer under the jurisdiction of the court in a Title 11 or similar case.

1 (e) For purposes of this section:

2 (1) “Eligible small business” means any trade or business that
3 has gross receipts, less returns and allowances, of less than one
4 million dollars (\$1,000,000) during the taxable year.

5 (2) Except as provided in subdivision (f), “new business” means
6 any trade or business activity that is first commenced in this state
7 on or after January 1, 1994.

8 (3) “Title 11 or similar case” shall have the same meaning as
9 in Section 368(a)(3) of the Internal Revenue Code.

10 (4) In the case of any trade or business activity conducted by a
11 partnership or “S” corporation paragraphs (1) and (2) shall be
12 applied to the partnership or “S” corporation.

13 (f) For purposes of this section, in determining whether a trade
14 or business activity qualifies as a new business under paragraph
15 (2) of subdivision (e), the following rules apply:

16 (1) In any case where a taxpayer purchases or otherwise acquires
17 all or any portion of the assets of an existing trade or business
18 (irrespective of the form of entity) that is doing business in this
19 state (within the meaning of Section 23101), the trade or business
20 thereafter conducted by the taxpayer (or any related person) shall
21 not be treated as a new business if the aggregate fair market value
22 of the acquired assets (including real, personal, tangible, and
23 intangible property) used by the taxpayer (or any related person)
24 in the conduct of its trade or business exceeds 20 percent of the
25 aggregate fair market value of the total assets of the trade or
26 business being conducted by the taxpayer (or any related person).
27 For purposes of this paragraph only, the following rules apply:

28 (A) The determination of the relative fair market values of the
29 acquired assets and the total assets shall be made as of the last day
30 of the first taxable year in which the taxpayer (or any related
31 person) first uses any of the acquired trade or business assets in
32 its business activity.

33 (B) Acquired assets that constituted property described in
34 Section 1221(a)(1) of the Internal Revenue Code in the hands of
35 the transferor shall not be treated as assets acquired from an
36 existing trade or business, unless those assets also constitute
37 property described in Section 1221(a)(1) of the Internal Revenue
38 Code in the hands of the acquiring taxpayer (or related person).

39 (2) In a case in which a taxpayer (or any related person) is
40 engaged in one or more trade or business activities in this state, or

1 has been engaged in one or more trade or business activities in this
2 state within the preceding 36 months (“prior trade or business
3 activity”), and thereafter commences an additional trade or business
4 activity in this state, the additional trade or business activity shall
5 only be treated as a new business if the additional trade or business
6 activity is classified under a different division of the Standard
7 Industrial Classification (SIC) Manual published by the United
8 States Office of Management and Budget, 1987 edition, than are
9 any of the taxpayer’s (or any related person’s) current or prior
10 trade or business activities.

11 (3) In a case in which a taxpayer, including all related persons,
12 is engaged in trade or business activities wholly outside of this
13 state and the taxpayer first commences doing business in this state
14 (within the meaning of Section 23101) after December 31, 1993
15 (other than by purchase or other acquisition described in paragraph
16 (1)), the trade or business activity shall be treated as a new business
17 under paragraph (2) of subdivision (e).

18 (4) In a case in which the legal form under which a trade or
19 business activity is being conducted is changed, the change in form
20 shall be disregarded and the determination of whether the trade or
21 business activity is a new business shall be made by treating the
22 taxpayer as having purchased or otherwise acquired all or any
23 portion of the assets of an existing trade or business under the rules
24 of paragraph (1).

25 (5) “Related person” shall mean any person that is related to
26 the taxpayer under either Section 267 or 318 of the Internal
27 Revenue Code.

28 (6) “Acquire” shall include any gift, inheritance, transfer incident
29 to divorce, or any other transfer, whether or not for consideration.

30 (7) (A) For taxable years beginning on or after January 1, 1997,
31 the term “new business” shall include any taxpayer that is engaged
32 in biopharmaceutical activities or other biotechnology activities
33 that are described in Codes 2833 to 2836, inclusive, of the Standard
34 Industrial Classification (SIC) Manual published by the United
35 States Office of Management and Budget, 1987 edition, and as
36 further amended, and that has not received regulatory approval for
37 any product from the Food and Drug Administration.

38 (B) For purposes of this paragraph:

39 (i) “Biopharmaceutical activities” means those activities that
40 use organisms or materials derived from organisms, and their

1 cellular, subcellular, or molecular components, in order to provide
2 pharmaceutical products for human or animal therapeutics and
3 diagnostics. Biopharmaceutical activities make use of living
4 organisms to make commercial products, as opposed to
5 pharmaceutical activities that make use of chemical compounds
6 to produce commercial products.

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

12 (g) Notwithstanding any provisions of this section to the
13 contrary, a deduction shall be allowed to a “qualified taxpayer” as
14 provided in Sections 17276.1, 17276.2, 17276.4, 17276.5, 17276.6,
15 and 17276.7.

16 (h) The Franchise Tax Board may prescribe appropriate
17 regulations to carry out the purposes of this section, including any
18 regulations necessary to prevent the avoidance of the purposes of
19 this section through splitups, shell corporations, partnerships, tiered
20 ownership structures, or otherwise.

21 (i) The Franchise Tax Board may reclassify any net operating
22 loss carryover determined under either paragraph (2) or (3) of
23 subdivision (b) as a net operating loss carryover under paragraph
24 (1) of subdivision (b) upon a showing that the reclassification is
25 necessary to prevent evasion of the purposes of this section.

26 (j) Except as otherwise provided, the amendments made by
27 Chapter 107 of the Statutes of 2000 apply to net operating losses
28 for taxable years beginning on or after January 1, 2000.

29 SEC. 44. Section 17276.05 of the Revenue and Taxation Code
30 is repealed.

31 SEC. 45. Section 17302 of the Revenue and Taxation Code is
32 repealed.

33 SEC. 46. Section 17321.1 is added to the Revenue and Taxation
34 Code, to read:

35 17321.1. The amendments to Section 367(a) of the Internal
36 Revenue Code as enacted by Section 14102 of the Tax Cuts and
37 Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), relating to repeal of the
38 exception for transfers of certain property used in the active
39 conduct of a trade or business, shall not apply.

1 SEC. 47. Section 17322.5 is added to the Revenue and Taxation
2 Code, to read:

3 17322.5. Section 381(c)(20) of the Internal Revenue Code,
4 relating to carryforward of disallowed business interest, shall not
5 apply.

6 SEC. 48. Section 17323 of the Revenue and Taxation Code is
7 amended to read:

8 17323. (a) Section 382(n) of the Internal Revenue Code,
9 relating to special rule for certain ownership changes, shall not
10 apply.

11 (b) Section 382(d)(3) of the Internal Revenue Code, relating to
12 application to carryforward of disallowed interest, shall not apply.

13 (c) The amendments made by Section 13301(b)(3) of the Tax
14 Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section
15 382(k)(1) of the Internal Revenue Code, relating to loss
16 corporation, shall not apply.

17 SEC. 49. Section 17324 is added to the Revenue and Taxation
18 Code, to read:

19 17324. Section 312(k)(3)(B)(ii) of the Internal Revenue Code,
20 relating to special rule for real estate investment trusts, shall not
21 apply.

22 SEC. 50. Section 17501 of the Revenue and Taxation Code is
23 amended to read:

24 17501. (a) Subchapter D of Chapter 1 of Subtitle A of the
25 Internal Revenue Code, relating to deferred compensation, shall
26 apply, except as otherwise provided.

27 (b) Notwithstanding the specified date contained in paragraph
28 (1) of subdivision (a) of Section 17024.5, Part I of Subchapter D
29 of Chapter 1 of Subtitle A of the Internal Revenue Code, relating
30 to pension, profitsharing, stock bonus plans, etc., and Part III of
31 Subchapter D of Chapter 1 of Subtitle A of the Internal Revenue
32 Code, relating to rules relating to minimum funding standards and
33 benefit limitations, shall apply, except as otherwise provided,
34 without regard to taxable year to the same extent as applicable for
35 federal income tax purposes.

36 (c) For taxable years beginning before January 1, 2025, the
37 maximum amount of elective deferrals (as defined in Section
38 402(g)(3)) for the taxable year that may be excluded from gross
39 income under Section 402(g) of the Internal Revenue Code, as
40 applicable for state purposes, shall not exceed the amount of

1 elective deferrals that may be excluded from gross income under
2 Section 402(g) of the Internal Revenue Code, as in effect on
3 January 1, 2010, including additional elective deferrals under
4 Section 414(v) of the Internal Revenue Code, as in effect on
5 January 1, 2010.

6 (d) (1) For taxable years beginning on or after January 1, 2002,
7 the basis of any person in the plan, account, or annuity shall be
8 increased by the amount of elective deferrals not excluded as a
9 result of the application of the elective deferral limitations imposed
10 by subdivision (c).

11 (2) Any basis described in paragraph (1) shall be recovered in
12 the manner specified in Section 17085.

13 (e) Notwithstanding the limitations provided in subdivision (c),
14 any income attributable to elective deferrals in taxable years
15 beginning on or after January 1, 2002, in conformance with Part
16 I of Subchapter D of Chapter 1 of Subtitle A of the Internal
17 Revenue Code, as applicable for federal and state purposes, shall
18 not be includable in the gross income of the individual for whose
19 benefit the plan or account was established until distributed
20 pursuant to the plan or by operation of law.

21 (f) (1) Section 408A(e)(1)(C) of the Internal Revenue Code,
22 relating to qualified rollover contribution, shall not apply.

23 (2) In the case of any distribution made under Section
24 529(c)(3)(E) of the Internal Revenue Code, relating to the special
25 rollover to Roth IRAs from long-term qualified tuition programs,
26 treated for federal income tax purposes as a “qualified rollover
27 contribution” under Section 408A(e)(1)(C) of the Internal Revenue
28 Code, the amount of that distribution shall, notwithstanding Section
29 529 or Section 408A of the Internal Revenue Code to the contrary,
30 be includable in the gross income of the distributee in the manner
31 as provided under Section 72 of the Internal Revenue Code.

32 (3) Notwithstanding any other provision, no increase in the basis
33 of the Roth IRA, as defined in Section 408A of the Internal
34 Revenue Code, shall result from any amount distributed as
35 described in this subdivision.

36 SEC. 51. Section 17501.8 is added to the Revenue and Taxation
37 Code, to read:

38 17501.8. (a) The following amendments made by the
39 Consolidated Appropriations Act, 2023 (Public Law 117-328)
40 shall apply for purposes of this part, Part 10.2 (commencing with

1 Section 18401), and Part 11 (commencing with Section 23001)
2 except as otherwise provided:

3 (1) The amendments made by Section 108 of Division T of that
4 act to Section 219(b)(5)(C) of the Internal Revenue Code, relating
5 to indexing IRA catch-up limit.

6 (2) The amendments made by Section 109 of Division T of that
7 act to Section 414(v) of the Internal Revenue Code, relating to
8 higher catch-up limit to apply at 60 to 63 years of age, inclusive.

9 (3) The amendments made by Section 117 of Division T of that
10 act to Section 414(v)(2) of the Internal Revenue Code, relating to
11 contribution limit for simple plans.

12 (b) (1) For the purposes of complying with Section 41, as it
13 pertains to the deductions expanded by this section, the Legislature
14 finds and declares as follows:

15 (A) The specific goal, purpose, and objective of this bill is to
16 conform state law to changes in federal law in order to reduce
17 complications relating to mismatches in basis of retirement
18 accounts for federal income tax purposes compared to state income
19 tax purposes.

20 (B) The performance indicators used by the Legislature to
21 determine if the deductions are achieving the stated goal shall be
22 the number of taxpayers making contributions that would, but for
23 the expansion of deductions pursuant to this section, be included
24 in income for state purposes, and the total dollar value of those
25 contributions.

26 (2) The Legislative Analyst's Office shall, no later than October
27 1, 2029, submit a report to the Legislature, in accordance with
28 Section 9795 of the Government Code, that estimates the number
29 of taxpayers making contributions to retirement accounts that, but
30 for the expansion of deductions provided by this section, would
31 be included in income, and estimates of the total dollar value of
32 those contributions, to the extent data is available.

33 SEC. 52. Section 17551 of the Revenue and Taxation Code is
34 amended to read:

35 17551. (a) Subchapter E of Chapter 1 of Subtitle A of the
36 Internal Revenue Code, relating to accounting periods and methods
37 of accounting, shall apply, except as otherwise provided.

38 (b) Section 444(c)(1) of the Internal Revenue Code, relating to
39 effect of election, shall not apply.

1 (c) *Section 451(b) of the Internal Revenue Code, relating to*
2 *inclusion not later than for financial accounting purposes, shall*
3 *not apply to specified credit card fees, as defined in Treasury*
4 *Regulations Section 1.451-3(j)(2).*

5 ~~(e)~~

6 (d) (1) Notwithstanding the specified date contained in
7 paragraph (1) of subdivision (a) of Section 17024.5, Section 457
8 of the Internal Revenue Code, relating to deferred compensation
9 plans of state and local governments and tax-exempt organizations,
10 shall apply, except as otherwise provided, without regard to taxable
11 year to the same extent as applicable for federal income tax
12 purposes.

13 (2) The maximum deferred compensation for the taxable year
14 that may be excluded from gross income under Section 457 of the
15 Internal Revenue Code, as applicable for state purposes, shall not
16 exceed the amount of deferred compensation that may be excluded
17 from gross income under Section 457 of the Internal Revenue
18 Code, as in effect on January 1, 2010, including additional elective
19 deferrals under Section 414(v) of the Internal Revenue Code, as
20 in effect on January 1, 2010.

21 ~~(d)~~

22 (e) (1) For taxable years beginning on or after January 1, 2002,
23 the basis of any person in the plan shall be increased by the amount
24 of compensation not allowed to be excluded under subdivision (a).

25 (2) Any basis described in paragraph (1) shall be recovered in
26 the manner specified in Section 17085.

27 ~~(e)~~

28 (f) Notwithstanding the limitations provided in subdivision (a),
29 any income attributable to compensation deferred in a plan in
30 taxable years beginning on or after January 1, 2002, in conformance
31 with Section 457 of the Internal Revenue Code, as applicable for
32 federal and state purposes, shall not be includable in the gross
33 income of the individual for whose benefit the plan was established
34 until distributed pursuant to the provisions of the plan or by
35 operation of law.

36 ~~(f)~~

37 (g) Section 451(k) of the Internal Revenue Code, relating to
38 special rule for sales or dispositions to implement Federal Energy
39 Regulatory Commission or state electric restructuring policy, shall
40 not apply.

1 ~~(g)~~

2 (h) Section 457A of the Internal Revenue Code, relating to
3 nonqualified deferred compensation from certain tax indifferent
4 parties, shall not apply.

5 SEC. 53. Section 17559 of the Revenue and Taxation Code is
6 amended to read:

7 17559. (a) Section 451(g) of the Internal Revenue Code,
8 relating to special rule for proceeds from livestock sold on account
9 of drought, is modified by substituting the phrase “drought, flood,
10 or other weather-related conditions, and that those conditions” in
11 lieu of the phrase “drought conditions, and that these drought
12 conditions” contained therein.

13 (b) This section shall apply to sales and exchanges after
14 December 31, 1996.

15 (c) This section shall not apply to taxable years beginning on
16 or after January 1, 1998.

17 SEC. 54. Section 17560.5 of the Revenue and Taxation Code
18 is amended to read:

19 17560.5. (a) Section 461(j) of the Internal Revenue Code,
20 relating to limitation on excess farm losses of certain taxpayers,
21 shall not apply.

22 (b) (1) Section 11012(a) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017*
23 (Public Law 115-97), relating to limitation on excess business
24 losses on noncorporate taxpayers, shall apply except as otherwise
25 provided.

26 (2) Section 461(l)(1) of the Internal Revenue Code, relating to
27 limitation, as amended by Section 11012(a) of the Tax Cuts and
28 Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), is modified by
29 substituting “beginning after December 31, 2018” for the phrase
30 “beginning after December 31, 2017, and before January 1, 2026.”

31 (3) Section 461(l)(2) of the Internal Revenue Code, relating to
32 disallowed loss carryover, as amended by Section 11012(a) of the
33 Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), is modified
34 by substituting “Any loss which is disallowed under paragraph (1)
35 shall be treated as a carryover excess business loss for the following
36 taxable year.” for “Any loss which is disallowed under paragraph
37 (1) shall be treated as a net operating loss carryover to the following
38 taxable year under section 172.”

39 (4) Section 461(l)(3)(A) of the Internal Revenue Code, as
40 amended by Section 11012 (a) of the Tax Cuts and Jobs ~~Act~~ *Act*,

2017 (Public Law 115-97), is modified by inserting “(i) the sum of (I) Any prior year carryover excess business losses, plus” below “In general, the term ~~“excess businesses loss”~~ ‘*excess business loss*’ means the excess (if any) of.”

(5) Section 461(l)(3)(A)(i) of the Internal Revenue Code, as amended by Section 11012 (a) of the Tax Cuts and Jobs ~~Act~~ *Act*, 2017 (Public Law 115-97), is modified by inserting “(II)” for ~~“(i)”~~ “(i).”

(6) Section 461(l)(6) of the Internal Revenue Code, relating to coordination with section 469, as amended by Section 11012(a) of the Tax Cuts and Jobs ~~Act~~ *Act*, 2017 (Public Law 115-97), is modified by substituting “Section 17561” for “section 469.”

(c) The amendments to Section 461(l) of the Internal Revenue Code made by Section 2304(a) and (b) of Public Law 116-136, relating to the modification of limitation on losses for taxpayers other than corporations, shall not apply.

(d) The amendments to Section 461(l)(1) of the Internal Revenue Code made by Section 9041(a) of Public Law 117-2, relating to the extension of limitation on excess business losses of noncorporate taxpayers, shall not apply.

(e) The amendments to Section 461(l)(1) of the Internal Revenue Code made by Section 13903(b)(1) of Public Law 117-169, relating to the extension of limitation on excess business losses of noncorporate taxpayers, shall not apply.

SEC. 55. Section 17564 of the Revenue and Taxation Code is amended to read:

17564. (a) Long-term contracts shall be accounted for in accordance with the special rules set forth in Section 460 of the Internal Revenue Code.

(b) (1) The provisions of Section 804(d) of Public Law 99-514, relating to the effective date of modifications in the method of accounting for long-term contracts, shall be applicable to taxable years beginning on or after January 1, 1987.

(2) In the case of a contract entered into after February 28, 1986, during a taxable year beginning before January 1, 1987, an adjustment to income shall be made upon completion of the contract, if necessary, to correct any underreporting or overreporting of income, for purposes of this part, resulting from differences between state and federal law for the taxable year in which the contract began.

1 (c) (1) The amendments to Section 460 of the Internal Revenue
2 Code made by Section 10203 of Public Law 100-203, relating to
3 a reduction in the percentage of items taken into account under
4 the completed contract method, shall apply to taxable years
5 beginning on or after January 1, 1990.

6 (2) In the case of a contract entered into after October 13, 1987,
7 during a taxable year beginning before January 1, 1990, an
8 adjustment to income shall be made upon completion of the
9 contract, if necessary, to correct any underreporting or
10 overreporting of income, for purposes of this part, resulting from
11 differences between California and federal law for taxable years
12 beginning prior to January 1, 1990.

13 (d) (1) The amendments to Section 460 of the Internal Revenue
14 Code made by Section 5041 of Public Law 100-647, relating to a
15 reduction in the percentage of items taken into account under the
16 completed contract method, shall apply to taxable years beginning
17 on or after January 1, 1990.

18 (2) In the case of a contract entered into after June 20, 1988,
19 during a taxable year beginning before January 1, 1990, an
20 adjustment to income shall be made upon completion of the
21 contract, if necessary, to correct any underreporting or
22 overreporting of income, for purposes of this part, resulting from
23 differences between California and federal law for taxable years
24 beginning prior to January 1, 1990.

25 (e) (1) The amendments to Section 460 of the Internal Revenue
26 Code made by Section 7621 of Public Law 101-239, relating to
27 the repeal of the completed contract method of accounting for
28 long-term contracts, shall apply to taxable years beginning on or
29 after January 1, 1990.

30 (2) In the case of a contract entered into after July 10, 1989,
31 during a taxable year beginning before January 1, 1990, an
32 adjustment to income shall be made upon completion of the
33 contract, if necessary, to correct any underreporting or
34 overreporting of income, for purposes of this part, resulting from
35 differences between California and federal law for taxable years
36 beginning prior to January 1, 1990.

37 (f) For purposes of applying paragraphs (2) to (6), inclusive, of
38 Section 460(b) of the Internal Revenue Code, relating to the
39 look-back method, any adjustment to income computed under
40 paragraph (2) of subdivision (b), (c), (d), or (e) shall be deemed

1 to have been reported in the taxable year from which the adjustment
2 arose, rather than the taxable year in which the contract was
3 completed.

4 (g) (1) For contracts entered into on or after the effective date
5 of the act adding this subdivision, the amendments made by Section
6 13102(d) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law
7 115-97) to Section 460 of the Internal Revenue Code, relating to
8 special rules for long-term contracts, shall apply, except as
9 otherwise provided.

10 (2) For contracts entered into on or after the effective date of
11 the act adding this subdivision, the amendments made by Section
12 13102(e)(3) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law
13 115-97), relating to exemption from percentage completion for
14 long-term contracts, shall apply, except as otherwise provided.

15 (3) (A) Any change in method of accounting made pursuant to
16 this section shall be treated for purposes of applying Section 481
17 of the Internal Revenue Code, as applicable for California purposes
18 under Section 17551, as initiated by the taxpayer and made with
19 the consent of the Franchise Tax Board.

20 (B) Section 13102(e)(1) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017*
21 (Public Law 115-97) does not apply to this subdivision.

22 (C) Notwithstanding subparagraph (B), a taxpayer may elect to
23 apply the provisions of this subdivision, where otherwise allowed,
24 to contracts entered into on or after January 1, 2018, in taxable
25 years ending after January 1, 2018.

26 (h) The amendments to Section 460(c)(6)(B)(ii) of the Internal
27 Revenue Code made by Section 143(a)(2) and Section 143(b)(6)(I)
28 of Public Law 114-113, relating to the special rule for federal
29 long-term contracts, shall not apply.

30 SEC. 56. Section 17567 is added to the Revenue and Taxation
31 Code, to read:

32 17567. The amendments to Section 453B(e) of the Internal
33 Revenue Code as enacted by Section 13512(b)(1) of the Tax Cuts
34 and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), relating to the repeal
35 of the small life insurance company deduction, shall not apply.

36 SEC. 57. Section 17737 of the Revenue and Taxation Code is
37 amended to read:

38 17737. (a) For purposes of computing the taxable income of
39 the estate or trust and the taxable income of a spouse to whom
40 Section 682(a) of the Internal Revenue Code, relating to income

1 of an estate or trust in the case of divorce, etc., as it read on January
2 1, 2015, applies, that spouse shall be considered as the beneficiary
3 for purposes of this chapter.

4 (b) Subdivision (a) shall not apply for any divorce or separation
5 instrument executed after December 31, 2024, or for any divorce
6 or separation instrument executed on or before December 31, 2024,
7 and modified after that date, if the modification expressly provides
8 that the amendments made by this subdivision apply to such
9 modification.

10 (c) This section shall remain in effect only until December 1,
11 2026, and as of that date is repealed.

12 SEC. 58. Section 18031.5 of the Revenue and Taxation Code
13 is amended to read:

14 18031.5. (a) The amendments made by Section 13303(a) and
15 (b) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97)
16 to Section 1031 of the Internal Revenue Code, relating to ~~Exchange~~
17 *exchange* of real property held for productive use or investment,
18 shall apply, except as otherwise provided in this section.

19 (b) (1) (A) In the case of a taxpayer who is a head of household,
20 a surviving spouse, or spouses filing a joint return, this section
21 shall only apply to those taxpayers with adjusted gross income, as
22 defined in Section 17072, of five hundred thousand dollars
23 (\$500,000) or more for the taxable year in which the exchange
24 begins.

25 (B) In the case of a taxpayer filing an individual return, this
26 section shall only apply to those taxpayers with adjusted gross
27 income, as defined in Section 17072, of two hundred fifty thousand
28 dollars (\$250,000) or more for the taxable year in which the
29 exchange begins.

30 (2) This subdivision shall not apply for taxable years beginning
31 on or after January 1, 2025.

32 (c) (1) This section shall apply to exchanges completed after
33 January 10, 2019.

34 (2) This section shall not apply to an exchange where the
35 property to be disposed of by the taxpayer in the exchange is
36 disposed of by that taxpayer on or before January 10, 2019, or
37 where the property to be received by the taxpayer in the exchange
38 is received by that taxpayer on or before January 10, 2019.

39 SEC. 59. Section 18036 of the Revenue and Taxation Code is
40 amended to read:

1 18036. (a) In addition to the adjustments to basis provided by
2 Section 1016(a) of the Internal Revenue Code, a proper adjustment
3 shall also be made for amounts allowed as deductions as deferred
4 expenses under subdivision (b) of former Section 17689 or former
5 Section 17689.5 (relating to certain exploration expenditures) and
6 resulting in a reduction of the taxpayer's taxes under this part, but
7 not less than the amounts allowable under those sections for the
8 taxable year and prior years. A proper adjustment shall also be
9 made for amounts deducted under Section 17252.5, 17265, or
10 17266.

11 (b) Notwithstanding the provisions of Sections 164(a) and
12 1016(a) of the Internal Revenue Code, no adjustment to basis shall
13 be made for any of the following:

14 (1) Abandonment fees paid in respect of property on which the
15 open-space easement is terminated under Section 51061 or 51093
16 of the Government Code.

17 (2) Tax recoupment fees paid under Section 51142 of the
18 Government Code.

19 (3) Sales or use tax which is paid or incurred by the taxpayer
20 in connection with the acquisition of property for which a tax credit
21 is claimed pursuant to Section 17052.13.

22 (c) The provisions of Section 1016(c) of the Internal Revenue
23 Code, relating to increase in basis of property on which additional
24 estate tax is imposed, shall be applicable.

25 (d) The amendments made to Section 1016 of the Internal
26 Revenue Code by Section 1913(a) of Public Law 102-486, relating
27 to deduction for clean-fuel vehicles and certain refueling property,
28 shall apply to property placed in service after June 30, 1993,
29 without respect to taxable year.

30 (e) The provisions of Section 1016(a)(38) of the Internal
31 Revenue Code, relating to basis adjustments for capital gains
32 invested in opportunity zones, shall not apply.

33 SEC. 60. Section 18042 of the Revenue and Taxation Code is
34 amended to read:

35 18042. (a) Section 1042 of the Internal Revenue Code, relating
36 to sales of stock to employee stock ownership plans or certain
37 cooperatives, shall apply to taxable years beginning on or after
38 January 1, 1995.

(b) Section 1042(g) of the Internal Revenue Code, relating to application of section to sales of stock in agricultural refiners and processors to eligible farm cooperatives, shall not apply.

SEC. 61. Section 18045 is added to the Revenue and Taxation Code, to read:

18045. Section 1061 of the Internal Revenue Code, relating to partnership interests held in connection with performance of services, shall not apply.

SEC. 62. Section 18151.9 is added to the Revenue and Taxation Code, to read:

18151.9. The amendments made to Sections 1221(a)(3) and 1231(b)(1)(C) of the Internal Revenue Code by Section 13314 of Public Law 115-97, relating to certain self-created property not treated as a capital asset, shall not apply.

SEC. 63. Section 18409 of the Revenue and Taxation Code is amended to read:

18409. (a) The Franchise Tax Board shall prescribe regulations providing standards for determining which returns shall be filed on magnetic media or in other machine-readable form. The Franchise Tax Board may not require returns of any tax imposed by Part 10 (commencing with Section 17001) on estates and trusts to be other than on paper forms supplied by the Franchise Tax Board. In prescribing those regulations, the Franchise Tax Board shall take into account, among other relevant factors, the ability of the taxpayer to comply at a reasonable cost with that filing requirement.

(b) (1) Subdivision (a) is applicable only to taxpayers required to file returns on magnetic media or in other machine-readable form pursuant to Section 6011(e) of the Internal Revenue Code, relating to regulations requiring returns on magnetic media, and the regulations adopted thereto.

(2) In addition, the regulations under subdivision (a) shall not require that returns filed on magnetic media or in other machine-readable form contain more information than is required to be included in similar returns filed with the Internal Revenue Service under Section 6011(e) of the Internal Revenue Code and the regulations adopted thereto.

(c) In lieu of the magnetic media or other machine-readable form returns required by this section, a copy of the similar magnetic media or other machine-readable form returns filed with the

1 Internal Revenue Service pursuant to Section 6011(e) of the
2 Internal Revenue Code, and the regulations adopted thereto, may
3 be filed with the Franchise Tax Board.

4 SEC. 64. Section 18622.5 of the Revenue and Taxation Code
5 is amended to read:

6 18622.5. (a) Notwithstanding Section 18622, if any item
7 required to be shown on a federal partnership return, including
8 any partnership-related item, is changed or corrected by the
9 Commissioner of Internal Revenue or other officer of the United
10 States or other competent authority, and the partnership is issued
11 an adjustment under Section 6225 of the Internal Revenue Code
12 or makes a federal election for alternative payment with the Internal
13 Revenue Service as part of a Partnership Level Audit, the
14 partnership shall report each change or correction to the Franchise
15 Tax Board for the reviewed year within six months after the date
16 of each final federal determination. The report of adjustments or
17 return reporting the adjustments shall be sufficiently detailed to
18 allow computation of the California tax change resulting from the
19 federal adjustment and shall be reported in the form and manner
20 as prescribed by the Franchise Tax Board.

21 (b) For purposes of this section the following terms have the
22 following meanings:

23 (1) “Administrative adjustment request” means an administrative
24 adjustment request filed by a partnership under Section 6227 of
25 the Internal Revenue Code.

26 (2) “California share of the adjustments” means the adjustments
27 described in subdivision (a), subject to the provisions of Chapter
28 11 (commencing with Section 17951) of Part 10 and the provisions
29 of Chapter 17 (commencing with Section 25101) of Part 11.

30 (3) “Date of each final federal determination” means the date
31 on which each adjustment or resolution resulting from an Internal
32 Revenue Service examination is assessed pursuant to Section 6203
33 of the Internal Revenue Code.

34 (4) “Direct partner” means a partner that holds an interest
35 directly in a partnership or pass-through entity.

36 (5) “Federal adjustment” means a change to an item or amount
37 determined under the Internal Revenue Code that is used by a
38 partner or partnership to compute state tax owed for the reviewed
39 year whether that change results from action by the Internal
40 Revenue Service, including a Partnership Level Audit, or the filing

1 of a federal refund claim, or an Administrative Adjustment Request
2 by the partnership. A Federal Adjustment is positive to the extent
3 that it increases taxable income as determined under Part 10
4 (commencing with Section 17001) or net income as determined
5 under Part 11 (commencing with Section 23001) and is negative
6 to the extent that it decreases taxable income as determined under
7 Part 10 (commencing with Section 17001) or net income as
8 determined under Part 11 (commencing with Section 23001).

9 (6) “Federal election for alternative payment” refers to the
10 election described in Section 6226 of the Internal Revenue Code,
11 relating to alternative to payment of imputed underpayment by
12 partnership.

13 (7) “Indirect partner” means a partner in a partnership or
14 pass-through entity that itself holds an interest directly, or through
15 another indirect partner, in a partnership or pass-through entity.

16 (8) “Partnership level audit” means an examination by the
17 Internal Revenue Service at the partnership level pursuant to
18 Subchapter C of Chapter 63 of Subtitle F of Title 26 of the Internal
19 Revenue Code, which results in a federal adjustment.

20 (9) “Publicly traded partnership” means either of the following:

21 (A) A partnership that is a publicly traded partnership within
22 the meaning of Section 7704 of the Internal Revenue Code.

23 (B) Any other partnership where more than 10 percent of the
24 profits or capital interest is owned directly or indirectly by a
25 partnership described in ~~paragraph~~ *subparagraph* (A).

26 (10) “Reallocation adjustment” means a federal adjustment that
27 changes the shares of items of partnership income, gain, loss,
28 expense, or credit allocated to direct partners. A positive
29 reallocation adjustment means a reallocation adjustment that would
30 increase state taxable income for direct partners, and a negative
31 reallocation adjustment means a reallocation adjustment that would
32 decrease state taxable income for direct partners.

33 (11) “Reviewed year” has the meaning provided in Section
34 6225(d)(1) of the Internal Revenue Code.

35 (12) “Tiered partner” means any partner that is a partnership or
36 pass-through entity.

37 (13) “Partnership-related item” has the meaning provided in
38 Section 6241(2)(B) of the Internal Revenue Code.

39 (c) (1) Notwithstanding Section 17024.5, and except as
40 otherwise provided in this subdivision, any election made for

federal purposes under the provisions of Subchapter C of Chapter 63 of the Internal Revenue Code (commencing with Section 6221) shall be applicable for purposes of Part 10 (commencing with Section 17001), this part, and Part 11 (commencing with Section 23001), and a separate election shall not be allowed.

(2) In the case of any unitary partner whose distributive share of a partnership's income and apportionment factors would properly be included in the computation of that partner's business income (within the meaning of subdivision (a) of Section 25120) apportioned to California on that partner's original California franchise or income tax return, subparagraph (A) of paragraph (1) of subdivision (d) shall not apply and instead such partner shall be treated as having filed an amended return within the meaning of Section 6225(c)(2) of the Internal Revenue Code for purposes of this section and that partner shall file an amended return to separately report its California share of the adjustments under Section 18622.

(3) (A) Notwithstanding paragraph (1), and subject to the requirement of paragraph (2), a partnership may file a request, in the form and manner specified by the Franchise Tax Board, to make an election different from their federal election under this section, and the Franchise Tax Board shall grant such requests as specified in subparagraphs (B) and (C).

(B) In the case where an audited partnership or a tiered partnership makes a federal election for alternative payment, which requires adjustments to be taken into account by the partners, the Franchise Tax Board shall grant a request to make an election different from their federal election pursuant to subparagraph (A), provided that the partnership properly computes the amount of the tax due under the provisions specified in subparagraph (A) of paragraph (1) of subdivision (d).

(C) In the case where an audited partnership pays the tax at the federal level under Section 6225(a) of the Internal Revenue Code or a tiered partnership pays the tax at the federal level under Section 6226(b)(4)(A)(ii)(II), the Franchise Tax Board shall grant a request to make an election different from their federal election pursuant to subparagraph (A), provided the partnership is able to demonstrate to the Franchise Tax Board that the Franchise Tax Board's ability to collect any state income or franchise taxes would

1 not be impeded and the partnership properly follows the reporting
2 provisions specified in paragraph (2) of subdivision (d).

3 (4) (A) Each tiered partner and each indirect partner of an
4 audited partnership shall be subject to the applicable election,
5 reporting and payment requirements for audited partnerships and
6 their direct partners under this section.

7 (B) Each tiered partner and indirect partner must make all reports
8 and payments required to be made by such partners under this
9 section no later than 90 days after the time for filing and furnishing
10 statements to tiered partners and their partners, as required under
11 Section 6226 of the Internal Revenue Code and any regulations
12 thereunder.

13 (d) (1) (A) If the change or correction described in subdivision
14 (a) results in an increase of the amount of tax payable under Part
15 10 (commencing with Section 17001), this part, or Part 11
16 (commencing with Section 23001), and if paragraph (2) does not
17 apply, then a tax is hereby imposed on the partnership determined
18 as follows, in lieu of taxes owed by its direct partners and indirect
19 partners:

20 (i) Exclude from federal adjustments and any positive
21 reallocation adjustments the distributive share of these adjustments
22 made to a tax-exempt partner that is not unrelated business taxable
23 income within the meaning of Section 23731.

24 (ii) Exclude from federal adjustments and any positive
25 reallocation adjustments the distributive share of the adjustments
26 made to a partner that has previously filed an amended return under
27 Section 18622 reporting the distributive share and paid any
28 additional state tax liability due.

29 (iii) With respect to any corporate partner or tax-exempt partner
30 that is not excluded under paragraph (2) of subdivision (c) or
31 clauses (i) or (ii), determine the total distributive share of all federal
32 adjustments and positive reallocation adjustments, and apportion
33 and allocate the adjustments as provided in Chapter 17
34 (commencing with Section 25101) of Part 11, and multiply that
35 amount by the highest marginal tax rate provided in Sections 23151
36 or 23501, as applicable, for the reviewed year.

37 (iv) With respect to all tiered partners, nonresident individual
38 partners, or nonresident fiduciary partners not excluded under
39 paragraph (2) of subdivision (c) or clause (i) or (ii) or taken into
40 account under clause (iii), determine the total distributive share of

1 all federal adjustments and positive reallocation adjustments and
2 compute the amount of California source income attributable to
3 the adjustments as provided in Chapter 11 (commencing with
4 Section 17951) of Part 10 and the provisions of Chapter 17
5 (commencing with Section 25101) of Part 11, and multiply that
6 amount by the highest marginal tax rate applicable to individuals
7 for the reviewed year.

8 (v) With respect to all resident partners, resident fiduciary
9 partners, or any other partners not excluded under paragraph (2)
10 of subdivision (c) or clauses (i) or (ii) or taken into account under
11 clauses (iii) or (iv), determine the total distributive share of all
12 federal adjustments and positive reallocation adjustments that are
13 subject to tax under subdivisions (a) or (c) of Section 17041, and
14 multiply that amount by the highest marginal tax rate applicable
15 to individuals for the reviewed year.

16 (vi) The total tax imposed under this paragraph shall be equal
17 to the sum of the amounts determined under clauses (iii), (iv), and
18 (v). The tax imposed under this subdivision shall be due and
19 payable as provided in Section 19001 and treated as if imposed
20 under Part 10 (commencing with Section 17001).

21 (B) Penalties and interest, as applicable, shall be imposed under
22 Article 6 of Chapter 4 (commencing with Section 19101) and
23 Article 7 of Chapter 4 (commencing with Section 19131) from the
24 original due date of the partnership return for the reviewed year.

25 (2) If the partnership makes a federal election for alternative
26 payment under Section 6226 of the Internal Revenue Code, then
27 the partnership shall file an amended California Nonresident Group
28 Return for all nonresident direct partners under Section 18535 and
29 pay the additional amount of tax due that would have been due
30 had the federal adjustments been reported properly as required.
31 For any partners not included in the amended California
32 Nonresident Group Return, the amount reported to each partner
33 shall be an adjustment to the partner's share of partnership items
34 as a result of the change or correction in subdivision (a) and each
35 partner shall report any adjustments in accordance with Section
36 18622.

37 (e) Subject to the approval of the Franchise Tax Board, an
38 audited partnership or tiered partner may enter into an alternative
39 agreement with the Franchise Tax Board regarding any issue
40 resulting from a federal audit adjustment, amended federal return,

1 or administrative adjustment that would otherwise be subject to
2 this section, including, but not limited to, the reporting and payment
3 of tax, applicable time requirements, or any other provision that
4 will provide, to the satisfaction of the Franchise Tax Board, for
5 the reporting and payment of any taxes, penalties, and interest due
6 pursuant to this section.

7 (f) (1) If a partnership files a report or return as required under
8 subdivision (a) after the six-month period specified in subdivision
9 (a) or if the partnership or partner does not pay the tax required
10 under subdivision (c) when due and payable, the Franchise Tax
11 Board shall mail notice to the partnership of the deficiency
12 proposed to be assessed pursuant to Section 19033. The deficiency
13 proposed to be assessed must be mailed within four years from
14 the date the change or correction was reported pursuant to
15 subdivision (a), the return or payment was due, or within four years
16 from the date the return was filed, whichever period expires later.

17 (2) If a partnership files a report, or files a return required under
18 subdivision (a) within six months of the final federal determination,
19 the Franchise Tax Board shall mail notice to the partnership of the
20 deficiency proposed to be assessed pursuant to Section 19033. The
21 deficiency proposed to be assessed must be mailed within two
22 years from the date the change or correction was reported pursuant
23 to subdivision (a).

24 (3) If the partnership fails to file a report or return as required
25 by subdivision (a), a notice of proposed deficiency assessment
26 resulting from the federal determination may be made at any time.

27 (g) (1) Nothing in this section is intended to prevent the
28 Franchise Tax Board from assessing direct partners or indirect
29 partners for taxes they owe in the event that an audited partnership
30 or tiered partner fails to timely make any report or payment
31 required by this section for any reason.

32 (2) If a partnership's report of the California tax changes
33 resulting from the adjustments filed pursuant to subdivision (a)
34 results in an overstatement of California taxable or net income,
35 the adjustment shall be applied as follows:

36 (A) If the original adjustments were passed through to the
37 partners under paragraph (2) of subdivision (c), the revised
38 adjustment shall be passed through to the partners. The partnership
39 shall file or amend the return as described in subdivision (a).

(B) If the tax on the adjustments was originally paid by the partnership under paragraph (1) of subdivision (c), the partnership may amend the return filed under paragraph (1) of subdivision (c) to claim a refund of that overpayment within the time periods provided by Section 19311. This subparagraph shall not allow a partnership to claim an overpayment for amounts not actually paid by the partnership.

(3) If properly reported and paid by the partnership or tiered partner, the amount determined in subparagraph (A) of paragraph (1) of subdivision (d) or similarly under an optional election, will be treated as paid in satisfaction of taxes owed by its direct and indirect partners on the same federal adjustments. The direct partners or indirect partners may not take any deduction or credit for this amount or claim a refund of the amount in this state. Nothing in this subdivision shall preclude a partner from claiming a credit against taxes paid to this state pursuant to Chapter 12 (commencing with Section 18001) of Part 10 of Division 2, with respect to any amount paid by the partnership, or any amount paid by any tiered partnership that is a direct partner or indirect partner in the partnership, on that partner's behalf to another state.

(h) (1) Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code shall not apply to any standard, criterion, procedure, determination, rule, notice, or guideline established or issued by the Franchise Tax Board pursuant to this section, including any requirements or procedures necessary to seek a written consent under paragraph (3) of subdivision (g).

(2) The Franchise Tax Board may prescribe regulations necessary or appropriate to implement the purposes of this section, including regulations to determine the California share of adjustments.

(i) A publicly traded partnership that is otherwise in compliance with this section shall not be subject to paragraph (2) of subdivision (d). For purposes of the reporting requirements set forth in subdivision (a), a publicly traded partnership shall only be required to report their direct partners' distributive share of a federal adjustment to the Franchise Tax Board. A publicly traded partnership shall be deemed to have made a federal election for alternative payment pursuant to Section 6226 of the Internal Revenue Code unless the publicly traded partnership files a request

1 to make an election different from their federal election pursuant
2 to paragraph (3) of subdivision (c).

3 (j) In order to reduce the administrative burden on taxpayers
4 that may be imposed by additional filings and payments that do
5 not contribute materially to revenue, the Franchise Tax Board shall
6 convene a meeting or meetings of interested parties for the purpose
7 of determining appropriate de minimis partner reporting and
8 payment requirements as the result of a partnership level audit.

9 (k) (1) With respect to an action required or permitted to be
10 taken by a partnership under this section and a proceeding under
11 this part with respect to federal adjustments arising from a
12 partnership level audit or an administrative adjustment request,
13 the state partnership representative for the reviewed year shall
14 have the sole authority to act on behalf of the partnership, and its
15 partners and indirect partners shall be bound by those actions.

16 (2) The state partnership representative for the reviewed year
17 is the partnership's federal partnership representative, unless the
18 partnership designates in writing another person as its state
19 partnership representative.

20 (3) The Franchise Tax Board may establish reasonable
21 qualifications for and procedures for designating a person, other
22 than the federal partnership representative, to be the state
23 partnership representative.

24 (l) This section shall apply to final federal determinations
25 assessed pursuant to amendments made to Subchapter C of Chapter
26 63 of the Internal Revenue Code as in effect January 1, 2018.

27 SEC. 65. Section 18631.7 of the Revenue and Taxation Code
28 is amended to read:

29 18631.7. (a) Any check casher engaged in the trade or business
30 of cashing checks that, in the course of that trade or business,
31 cashes checks other than one-party checks, payroll checks, or
32 government checks totaling more than ten thousand dollars
33 (\$10,000) in one transaction or two or more transactions for the
34 same person within the calendar year, shall file an informational
35 return with the Franchise Tax Board with respect to that transaction
36 or transactions.

37 (b) The return required in subdivision (a) shall be filed no later
38 than 90 days after the end of the calendar year and in the form and
39 manner prescribed by the Franchise Tax Board, and shall, at a
40 minimum, contain both of the following:

1 (1) The name, address, taxpayer identification number, and any
2 other identifying information of the person presenting the check
3 that the Franchise Tax Board deems necessary.

4 (2) The amount and date of the transaction or transactions.

5 (c) For purposes of this section the following definitions apply:

6 (1) Except as otherwise provided, “check cashier” means a check
7 cashier as defined under Section 1789.31 of the Civil Code.

8 (2) “Checks” includes warrants, drafts, money orders, and other
9 commercial paper serving the same purposes, including payroll
10 checks, government checks, and one-party checks.

11 (3) “Government check” means a check issued by a federal,
12 state, or local governmental entity and treated as a government
13 check pursuant to Section 1789.35 of the Civil Code for fee-setting
14 purposes.

15 (4) “Payroll check” means a check for wages subject to
16 withholding pursuant to Section 13020 of the Unemployment
17 Insurance Code and treated as a payroll check pursuant to Section
18 1789.35 of the Civil Code for fee-setting purposes.

19 (5) “One-party check” means a check drawn upon the maker’s
20 account and presented by the maker.

21 (d) With respect to a person who fails to file the report required
22 by this section or fails to include all of the information required
23 to be shown on that report, both of the following apply:

24 (1) Sections 6721 and 6724 of the Internal Revenue Code shall
25 apply, except that the “Franchise Tax Board” is substituted for the
26 “secretary” in each place it appears in those sections.

27 (2) If the failure was willful, the person, upon conviction, shall
28 be punished by a fine of not more than twenty-five thousand dollars
29 (\$25,000) or, in the case of a corporation, not more than one
30 hundred thousand dollars (\$100,000), by imprisonment in a county
31 jail for not more than one year, by imprisonment pursuant to
32 subdivision (h) of Section 1170 of the Penal Code, or by both that
33 fine and imprisonment, together with the costs of prosecution.

34 SEC. 66. Section 18666 of the Revenue and Taxation Code is
35 amended to read:

36 18666. (a) Section 1446 of the Internal Revenue Code, relating
37 to withholding of tax on foreign partners’ share of effectively
38 connected income, shall apply to the extent that the amounts
39 represent income from California sources, except as otherwise
40 provided.

(b) (1) The rate of tax referred to in Section 1446(b)(2)(A) of the Internal Revenue Code shall be the maximum tax rate specified in Sections 17041 and 17043, as applicable, rather than the rate specified in Section 1 of the Internal Revenue Code.

(2) The rate of tax referred to in Section 1446(b)(2)(B) of the Internal Revenue Code shall be the rate specified in Section 23151, 23181, or 23183, as applicable, rather than the rate specified in Section 11 of the Internal Revenue Code.

(3) The rate of tax referred to in Section 1446(f)(1) of the Internal Revenue Code, relating to disposition of partnership interests, shall be the rate specified in Sections 17041 and 17043, as applicable, rather than the rate specified in Section 1, or Section 11, of the Internal Revenue Code, relating to tax imposed.

SEC. 67. Section 19058 of the Revenue and Taxation Code is amended to read:

19058. (a) If the taxpayer omits from gross income an amount properly includable therein which is in excess of 25 percent of the amount of gross income stated in the return, a notice of a proposed deficiency assessment may be mailed to the taxpayer within six years after the return was filed. Additionally, in the case of a corporation, a proceeding in court for the collection of the tax may be commenced without assessment at any time within six years after the return was filed.

(b) For purposes of this section, all of the following shall apply:

(1) In the case of a trade or business, the term “gross income” means the total of the amounts received or accrued from the sale of goods or services (if the amounts are required to be shown on the return) prior to diminution by the cost of the sales or service.

(2) An understatement of gross income by reason of an overstatement of unrecovered cost or other basis is an omission from gross income.

(3) In determining the amount omitted from gross income, other than in the case of an overstatement of unrecovered cost or other basis, there shall not be taken into account any amount which is omitted from gross income stated in the return if the amount is disclosed in the return, or in a statement attached to the return, in a manner adequate to apprise the Franchise Tax Board of the nature and amount of the item.

SEC. 68. Section 19141.5 of the Revenue and Taxation Code is amended to read:

1 19141.5. (a) (1) Section 6038A of the Internal Revenue Code,
2 relating to information with respect to certain foreign-owned
3 corporations, shall apply.

4 (2) A penalty shall be imposed under this part for failure to
5 furnish information or maintain records and that penalty shall be
6 determined in accordance with Section 6038A of the Internal
7 Revenue Code, except as otherwise provided.

8 (3) The penalty amounts in Section 6038A(d) of the Internal
9 Revenue Code, relating to penalty for failure to furnish information
10 or maintain records, are modified by substituting “\$10,000” in lieu
11 of “\$25,000.”

12 (4) Section 6038A(e) of the Internal Revenue Code, relating to
13 enforcement of requests for certain records, is modified as follows:

14 (A) Each reference to Section 7602, 7603, or 7604 of the Internal
15 Revenue Code shall instead refer to Section 19504.

16 (B) Each reference to “summons” shall instead refer to
17 “subpoena duces tecum.”

18 (C) Section 6038A(e)(4)(C) of the Internal Revenue Code shall
19 refer to “superior courts of the State of California for the Counties
20 of Los Angeles, Sacramento, and San Diego, and for the City and
21 County of San Francisco,” instead of “United States district court
22 for the district in which the person (to whom the summons is
23 issued) resides or is found.”

24 (b) In the case of a corporation, each of the following shall
25 apply:

26 (1) Section 6038B of the Internal Revenue Code, relating to
27 notice of certain transfers to foreign persons, shall apply, except
28 as otherwise provided.

29 (2) The information required to be filed with the Franchise Tax
30 Board under this subdivision shall be a copy of the information
31 required to be filed with the Internal Revenue Service.

32 (3) (A) A penalty shall be imposed under this part for failure
33 to furnish information and that penalty shall be determined in
34 accordance with Section 6038B of the Internal Revenue Code,
35 except as otherwise provided.

36 (B) Subparagraph (A) shall not apply to any transfer described
37 in Section 6038B(a)(1)(B) of the Internal Revenue Code.

38 (c) (1) Section 6038C of the Internal Revenue Code, relating
39 to information with respect to foreign corporations engaged in
40 United States business, shall apply.

(2) A penalty shall be imposed under this part for failure to furnish information or maintain records and that penalty shall be determined in accordance with Section 6038C of the Internal Revenue Code.

(3) Section 6038C(d) of the Internal Revenue Code, relating to enforcement of requests for certain records, is modified as follows:

(A) Each reference to Section 7602, 7603, or 7604 of the Internal Revenue Code shall instead refer to Section 19504.

(B) Each reference to “summons” shall instead refer to “subpoena duces tecum.”

(d) (1) Section 6038D of the Internal Revenue Code, relating to information with respect to foreign financial assets, shall apply.

(2) A penalty shall be imposed under this part for failure to furnish information and that penalty shall be determined in accordance with Section 6038D of the Internal Revenue Code.

(e) For purposes of this part, the information required to be filed with the Franchise Tax Board pursuant to this section shall be a copy of the information filed with the Internal Revenue Service.

(f) For purposes of this section, each of the following shall apply:

(1) Section 7701(a)(4) of the Internal Revenue Code, relating to the term “domestic,” shall apply.

(2) Section 7701(a)(5) of the Internal Revenue Code, relating to the term “foreign,” shall apply.

(3) Section 7701(a)(30) of the Internal Revenue Code, relating to the term “United States person,” shall apply. However, the term “United States person” shall not include any corporation that is not subject to the tax imposed under Chapter 2 (commencing with Section 23101), Chapter 2.5 (commencing with Section 23400), or Chapter 3 (commencing with Section 23501), of Part 11.

(g) The amendments made to this section by the act adding this subdivision shall apply to taxable years beginning on or after January 1, 2016.

SEC. 69. Section 19144 of the Revenue and Taxation Code is amended to read:

19144. For the purposes of Section 19142 the amount of the underpayment shall be the excess ~~of~~ *of*:

(a) (1) The amount of the installment which would be required to be paid if the estimated tax were equal to the applicable percentage of the tax shown on the return for the taxable year, or

(2) in the case of the tax imposed by Article 3 (commencing with Section 23181) of Chapter 2 of Part 11, an amount equal to the applicable percentage of the lesser of the tax computed at the rate provided by Section 19025 (but otherwise on the basis of the facts shown on the return and the law applicable to the taxable year), or the tax shown on the return for the taxable year as prescribed by Section 19021, or (3) if no return was filed, the applicable percentage of the tax for that year, over

(b) The amount, if any, of the installment paid on or before the last date prescribed for payment.

(c) For purposes of this section, the “applicable percentage” shall be as follows:

(1) For taxable years beginning before January 1, 1998, 95 percent.

(2) For taxable years beginning on or after January 1, 1998, 100 percent.

SEC. 70. Section 19167 of the Revenue and Taxation Code is amended to read:

19167. (a) A penalty shall be imposed under this section for any of the following:

(1) In accordance with Section 6695(a) of the Internal Revenue Code, for failure to furnish a copy of the return to the taxpayer, as required by Section 18625.

(2) In accordance with Section 6695(c) of the Internal Revenue Code, for failure to furnish an identifying number, as required by Section 18624.

(3) In accordance with Section 6695(d) of the Internal Revenue Code, for failure to retain a copy or list, as required by Section 18625 or for failure to retain an electronic filing declaration, as required by Section 18621.5.

(4) Failure to register as a tax preparer with the California Tax Education Council, as required by Section 22253 of the Business and Professions Code, unless it is shown that the failure was due to reasonable cause and not due to willful neglect.

(A) The amount of the penalty under this paragraph for the first failure to register is two thousand five hundred dollars (\$2,500). This penalty shall be waived if proof of registration is provided to the Franchise Tax Board within 90 days from the date notice of the penalty is mailed to the tax preparer.

1 (B) The amount of the penalty under this paragraph for a failure
2 to register, other than the first failure to register, is five thousand
3 dollars (\$5,000).

4 (C) The Franchise Tax Board shall not impose the penalties
5 authorized by this paragraph until either one of the following has
6 occurred:

7 (i) Commencing January 1, 2006, and continuing each year
8 thereafter, there is an appropriation in the Franchise Tax Board's
9 annual budget to fund the costs associated with the penalty
10 authorized by this paragraph.

11 (ii) (I) An agreement has been executed between the California
12 Tax Education Council and the Franchise Tax Board that provides
13 that an amount equal to all first year costs associated with the
14 penalty authorized by this paragraph shall be received by the
15 Franchise Tax Board. For purposes of this subclause, first year
16 costs include, but are not limited to, costs associated with the
17 development of processes or systems changes, if necessary, and
18 labor.

19 (II) An agreement has been executed between the California
20 Tax Education Council and the Franchise Tax Board that provides
21 that the annual costs incurred by the Franchise Tax Board
22 associated with the penalty authorized by this paragraph shall be
23 reimbursed by the California Tax Education Council to the
24 Franchise Tax Board.

25 (III) Pursuant to the agreement described in subclause (I), the
26 Franchise Tax Board has received an amount equal to the first year
27 costs described in that subclause.

28 (5) In accordance with Section 6695(g) of the Internal Revenue
29 Code, relating to failure to be diligent in determining eligibility
30 for certain tax benefits.

31 (b) Section 6695(h) of the Internal Revenue Code, relating to
32 adjustment for inflation, shall not apply.

33 SEC. 71. Section 19183 of the Revenue and Taxation Code is
34 amended to read:

35 19183. (a) (1) A penalty shall be imposed for failure to file
36 correct information returns, as required by this part, and that
37 penalty shall be determined in accordance with Section 6721 of
38 the Internal Revenue Code, relating to failure to file correct
39 information returns.

1 (2) Section 6721(e) of the Internal Revenue Code, relating to
2 penalty in case of intentional disregard, is modified to the extent
3 that the reference to Section 6041A(b) of the Internal Revenue
4 Code, relating to direct sales of five thousand dollars (\$5,000) or
5 more, does not apply.

6 (b) (1) A penalty shall be imposed for failure to furnish correct
7 payee statements as required by this part, and that penalty shall be
8 determined in accordance with Section 6722 of the Internal
9 Revenue Code, relating to failure to furnish correct payee
10 statements.

11 (2) Section 6722(c) of the Internal Revenue Code, relating to
12 exception for de minimis failures, is modified to the extent that
13 the references to Sections 6041A(b) and 6041A(e) of the Internal
14 Revenue Code, relating to direct sales of five thousand dollars
15 (\$5,000) or more, and statements to be furnished to persons with
16 respect to whom information is required to be furnished, does not
17 apply.

18 (c) A penalty shall be imposed for failure to comply with other
19 information reporting requirements under this part, and that penalty
20 shall be determined in accordance with Section 6723 of the Internal
21 Revenue Code, relating to failure to comply with other information
22 reporting requirements.

23 (d) (1) The provisions of Section 6724 of the Internal Revenue
24 Code, relating to waiver; definitions, and special rules, apply,
25 except as otherwise provided.

26 (2) Section 6724(d)(1) of the Internal Revenue Code, relating
27 to information return, is modified as follows:

28 (A) The following references are substituted:

29 (i) Subdivision (a) of Section 18640, in lieu of Section
30 6044(a)(1) of the Internal Revenue Code.

31 (ii) Subdivision (a) of Section 18644, in lieu of Section 6050A(a)
32 of the Internal Revenue Code, relating to reports.

33 (B) References to Sections 4101(d), 6041(b), 6041A(b), 6045(d),
34 6051(d), and 6053(c)(1) of the Internal Revenue Code do not apply.

35 (C) The term “information return” also includes both of the
36 following:

37 (i) The return required by paragraph (1) of subdivision (g) of
38 Section 18662.

39 (ii) The return required by subdivision (a) of Section 18631.7.

(3) Section 6724(d)(2) of the Internal Revenue Code, relating to payee statement, is modified as follows:

(A) The following references are substituted:

(i) Subdivision (b) of Section 18640, in lieu of Section 6044(e) of the Internal Revenue Code, relating to statements to be furnished to persons with respect to whom information is required.

(ii) Subdivision (b) of Section 18644, in lieu of Section 6050A(b) of the Internal Revenue Code, relating to written statement.

(B) References to Sections 6031(b), 6037(b), 6041A(e), 6045(d), 6051(d), 6053(b), and 6053(c) of the Internal Revenue Code shall not apply.

(C) The term “payee statement” shall also include the statement required by paragraph (2) of subdivision (g) of Section 18662.

(e) In the case of each failure to provide a written explanation as required by Section 402(f) of the Internal Revenue Code, relating to written explanation to recipients of distributions eligible for rollover treatment, at the time prescribed therefor, unless it is shown that the failure is due to reasonable cause and not to willful neglect, there shall be paid, on notice and demand of the Franchise Tax Board and in the same manner as tax, by the person failing to provide that written explanation, an amount equal to ten dollars (\$10) for each failure, but the total amount imposed on that person for all those failures during any calendar year shall not exceed five thousand dollars (\$5,000).

(f) Any penalty imposed by this part shall be paid on notice and demand by the Franchise Tax Board and in the same manner as tax.

(g) The amendments made to this section by Chapter 359 of the Statutes of 2015 apply to information returns required to be filed on or after January 1, 2016.

(h) The amendments made to this section by the act adding this subdivision shall apply to information returns required to be filed on or after January 1, 2026.

SEC. 72. Section 19852 of the Revenue and Taxation Code is amended to read:

19852. For purposes of this part, the following terms have the following meanings:

1 (a) “Employer” means any California employer who is subject
2 to, and is required to provide, unemployment insurance to their
3 employees, under the Unemployment Insurance Code.

4 (b) “Employee” means any person who is covered by
5 unemployment insurance by their employer, pursuant to the
6 Unemployment Insurance Code.

7 (c) “Federal EITC” means the federal earned income tax credit,
8 as defined in Section 32 of the Internal Revenue Code.

9 (d) “California EITC” means the California earned income tax
10 credit, as defined in Section 17052.

11 (e) “State departments and agencies that serve those who may
12 qualify for Voluntary Income Tax Assistance or state and federal
13 antipoverty tax credits, including the federal and the California
14 EITC” means the following departments and agencies:

15 (1) The State Department of Education with respect to
16 information from the free or reduced-price meal program and
17 National School Lunch Program.

18 (2) The Employment Development Department with respect to
19 information from the California Unemployment Insurance program.

20 (3) The State Department of Health Care Services with respect
21 to information from the Medi-Cal program.

22 (4) The State Department of Social Services with respect to
23 information from the CalFresh and ~~CalWORKS~~ *CalWORKs*
24 programs.

25 (f) “State and federal antipoverty tax credits” means state and
26 federal tax credits that are designed to alleviate poverty and tax
27 burdens for low-income households.

28 (g) “Voluntary Income Tax Assistance” or “(VITA)” means the
29 free basic income tax return preparation program, for federal and
30 state personal income tax returns, managed by the Internal Revenue
31 Service and operated by Internal Revenue Service partners and
32 trained volunteers.

33 (h) “CalFile” means the Franchise Tax Board’s free, direct,
34 online program for taxpayers to complete and e-file their state
35 personal income tax returns.

36 (i) Unless otherwise specifically provided, the terms “Internal
37 Revenue Code,” “Internal Revenue Code of 1954,” or “Internal
38 Revenue Code of 1986,” for purposes of this part, mean Title 26
39 of the United States Code, including all amendments thereto, as

1 enacted on the specified date for the applicable taxable year as
2 defined in paragraph (1) of subdivision (a) of Section 17024.5.

3 (j) The amendments made to this section by Section 2 of Chapter
4 294 of the Statutes of 2016 shall apply to notices required pursuant
5 to Section 19853 furnished on or after January 1, 2017.

6 (k) The amendments made to this section by Section 9 of
7 Chapter 55 of the Statutes of 2023 shall apply to notices required
8 pursuant to Section 19853 furnished on or after January 1, 2024.

9 SEC. 73. Section 19900 of the Revenue and Taxation Code is
10 amended to read:

11 19900. (a) (1) For taxable years beginning on or after January
12 1, 2021, and before January 1, 2026, a qualified entity doing
13 business in this state, as defined in Section 23101, and that is
14 required to file a return under Section 18633, 18633.5, or
15 subdivision (a) of Section 18601, may elect to annually pay an
16 elective tax according to or measured by its qualified net income,
17 defined in paragraph (2), computed at the rate of 9.3 percent for
18 the taxable year for which the election is made.

19 (2) For purposes of this section, the “qualified net income” of
20 a qualified entity means the sum of the pro rata share or distributive
21 share of income, and any guaranteed payments, as described by
22 Section 707(c) of the Internal Revenue Code, relating to guaranteed
23 payments, subject to tax under Part 10 (commencing with Section
24 17001) for the taxable year of each qualified taxpayer, as defined
25 in Section 17052.10.

26 (b) (1) The elective tax authorized by this part shall be in
27 addition to, and not in place of, any other tax or fee required to be
28 paid under Part 10 (commencing with Section 17001) or Part 11
29 (commencing with Section 23001).

30 (2) The elective tax described in this part shall be assessed and
31 collected under Part 10.2 (commencing with Section 18401).

32 (3) Unless the context otherwise requires, the definitions set
33 forth in this part and those in Part 10 (commencing with Section
34 17001), Part 10.2 (commencing with Section 18401), or Part 11
35 (commencing with Section 23001) shall apply.

36 (c) (1) The qualified entity may include in its qualified net
37 income the pro rata share or distributive share of the income of
38 any of its partners, shareholders, or members upon their consent.
39 A partner, shareholder, or member that does not consent does not

1 prevent the qualified entity from making an election to pay the
2 elective tax.

3 (2) All partners, shareholders, and members of the qualified
4 entity shall be bound by the election made under this part for the
5 taxable year.

6 (d) The election shall be irrevocable and shall be made on an
7 original, timely filed return required under Part 10.2 (commencing
8 with Section 18401) for the taxable year of the election in the form
9 and manner as prescribed by the Franchise Tax Board.

10 (e) The amendments made to this section by Section 14 of
11 Chapter 3 of the Statutes of 2022 shall apply for taxable years
12 beginning on or after January 1, 2021, and before January 1, 2026.

13 SEC. 74. Section 19907 is added to the Revenue and Taxation
14 Code, to read:

15 19907. Unless otherwise specifically provided, the terms
16 “Internal Revenue Code,” “Internal Revenue Code of 1954,” or
17 “Internal Revenue Code of 1986,” for purposes of this part, mean
18 Title 26 of the United States Code, including all amendments
19 thereto, as enacted on the specified date for the applicable taxable
20 year as defined in paragraph (1) of subdivision (a) of Section
21 17024.5.

22 SEC. 75. Section 21003.1 is added to the Revenue and Taxation
23 Code, to read:

24 21003.1. Unless otherwise specifically provided, the terms
25 “Internal Revenue Code,” “Internal Revenue Code of 1954,” or
26 “Internal Revenue Code of 1986,” for purposes of this part, mean
27 Title 26 of the United States Code, including all amendments
28 thereto, as enacted on the specified date for the applicable taxable
29 year as defined in paragraph (1) of subdivision (a) of Section
30 17024.5.

31 SEC. 76. Section 23400 of the Revenue and Taxation Code is
32 amended to read:

33 23400. (a) For the purpose of this chapter, Part VI of
34 Subchapter A of Chapter 1 of Subtitle A of the Internal Revenue
35 Code, relating to alternative minimum tax, shall apply as it read
36 on January 1, 2015, except as otherwise provided.

37 (b) A corporation electing under Chapter 4.5 (commencing with
38 Section 23800) to be treated as an “S corporation” shall not be
39 subject to the tax imposed by this chapter.

1 SEC. 77. Section 23453 of the Revenue and Taxation Code is
2 amended to read:

3 23453. (a) There shall be allowed as a credit against the regular
4 tax (as defined by subdivision (c) of Section 23455), for any taxable
5 year, an amount equal to the minimum tax credit for that taxable
6 year.

7 (b) For purposes of subdivision (a), the minimum tax credit
8 shall be determined in accordance with Section 53 of the Internal
9 Revenue Code, except as otherwise provided in this part.

10 (c) For purposes of this chapter, the amount determined under
11 Section 53(c)(1) of the Internal Revenue Code shall be the regular
12 tax as defined by subdivision (c) of Section 23455, reduced by the
13 sum of the credits allowable under this part other than any credit
14 which reduces the tax below the tentative minimum tax, as defined
15 by Section 23455.

16 (d) Section 53(e) of the Internal Revenue Code, relating to the
17 application to applicable corporations, shall not apply.

18 SEC. 78. Section 23455 of the Revenue and Taxation Code is
19 amended to read:

20 23455. For purposes of this part, Section 55 of the Internal
21 Revenue Code is modified as follows:

22 (a) Section 55(b)(1) of the Internal Revenue Code, relating to
23 the amount of tentative minimum tax, is modified by requiring the
24 tentative minimum tax for the taxable year to be imposed as
25 follows:

26 (1) With respect to corporations subject to tax under Chapter 2
27 (commencing with Section 23101), other than banks or financial
28 corporations, according to or measured by net income, for the
29 privilege of doing business within this state, at a rate of 7 percent
30 upon the basis of so much of the alternative minimum taxable
31 income for the taxable year as exceeds the exemption amount.

32 (2) With respect to corporations subject to tax under Chapter 3
33 (commencing with Section 23501), on net income from sources
34 within this state, at a rate of 7 percent upon the basis of so much
35 of the alternative minimum taxable income for the taxable year as
36 exceeds the exemption amount.

37 (3) With respect to organizations or trusts subject to tax under
38 Article 2 (commencing with Section 23731) of Chapter 4, on the
39 unrelated business income from sources within this state, at a rate

1 of 7 percent upon the basis of so much of the alternative taxable
2 income for the taxable year as exceeds the exemption amount.

3 (4) With respect to banks subject to tax under Section 23181,
4 according to or measured by net income, for the privilege of doing
5 business within this state, in an amount equal to the sum of the
6 following:

7 (A) At a rate of 7 percent upon the basis of so much of the
8 alternative minimum taxable income as exceeds the exemption
9 amount.

10 (B) At the rate determined under Section 23186, less the rate
11 prescribed by Section 23151, upon the basis of net income for the
12 taxable year.

13 (5) With respect to financial corporations subject to tax under
14 Section 23183, according to or measured by net income, for the
15 privilege of doing business within this state, in an amount equal
16 to the sum of the following:

17 (A) At a rate of 7 percent upon the basis of so much of the
18 alternative minimum taxable income as exceeds the exemption
19 amount.

20 (B) At the rate determined under Section 23186, less the rate
21 prescribed by Section 23151, upon the basis of net income for the
22 taxable year.

23 (b) Section 55(b)(2) of the Internal Revenue Code, relating to
24 the definition of alternative minimum taxable income, is modified
25 as follows:

26 (1) For corporations whose net income is determined under
27 Chapter 17 (commencing with Section 25101), alternative
28 minimum taxable income shall be allocated and apportioned in
29 the same manner as net income is allocated and apportioned for
30 purposes of the regular tax.

31 (2) With respect to taxpayers subject to Article 4 (commencing
32 with Section 23221) of Chapter 2, Article 4 (commencing with
33 Section 23221) to Article 9 (commencing with Section 23361),
34 inclusive, shall apply to the tax imposed by this section except that
35 Section 23221 shall not apply.

36 (3) For purposes of computing the alternative minimum tax for
37 taxable years in which a taxpayer commenced doing business,
38 dissolves, withdraws, or ceases doing business, Sections 18601,
39 23151, 23151.1, 23151.2, 23181, 23183, 23183.1, 23183.2, 23201
40 to 23204, inclusive, 23222 to 23224.5, inclusive, 23282, 23332.5,

1 and 23504 shall be applied with due regard for the rate and
2 alternative minimum taxable income prescribed by this chapter.

3 (c) Section 55(c) of the Internal Revenue Code, relating to the
4 definition of regular tax, is modified to read:

5 (1) For purposes of this chapter, “regular tax” means the amount
6 of tax imposed under Chapter 2 (commencing with Section 23101)
7 or Chapter 3 (commencing with Section 23501) or Article 2
8 (commencing with Section 23731) of Chapter 4, but does not
9 include any amount imposed under paragraph (1) of subdivision
10 (e) of Section 24667 or paragraph (2) of subdivision (f) of Section
11 24667.

12 (2) The tax specified in paragraph (1) shall be the amount
13 determined prior to reduction by any credits against the tax.

14 (3) The amendments made to Section 55(c)(1) of the Internal
15 Revenue Code by Section 12001(b)(4) of *the Tax Cuts and Jobs*
16 *Act Act, 2017* (Public Law 115-97), shall apply.

17 (d) The rate of 7 percent prescribed in subdivision (a) shall be
18 6.65 percent for any taxable year beginning on or after January 1,
19 1997. The change in rate provided in this subdivision shall be made
20 without proration otherwise required by Section 24251.

21 SEC. 79. Section 23456 of the Revenue and Taxation Code is
22 amended to read:

23 23456. For purposes of this part, Section 56 of the Internal
24 Revenue Code is modified as follows:

25 (a) (1) Section 56(a)(2) of the Internal Revenue Code, relating
26 to mining exploration and development costs, shall apply only to
27 expenses incurred during taxable years beginning on or after
28 January 1, 1988.

29 (2) Section 56(a)(5) of the Internal Revenue Code, relating to
30 pollution control facilities, shall apply only to amounts allowable
31 as a deduction under Section 24372.3.

32 (b) For purposes of applying Section 56(d) of the Internal
33 Revenue Code, all references to “December 31, 1986,” are
34 modified to read “December 31, 1987,” and all references to
35 “January 1, 1987,” are modified to read “January 1, 1988.”

36 (c) Section 56(d)(1) of the Internal Revenue Code is modified
37 to include the provisions of Section 25108.

38 (d) Section 56(g) of the Internal Revenue Code, relating to
39 adjustments based on adjusted current earnings, is modified to
40 provide that for corporations whose income is determined under

Chapter 17 (commencing with Section 25101), adjusted current earnings shall be allocated and apportioned in the same manner as net income is allocated and apportioned for purposes of the regular tax. In addition, each of the following shall apply:

(1) Sections 56(g)(1)(A) and 56(g)(3) of the Internal Revenue Code are modified to provide that the term “adjusted current earnings” means the sum of the adjusted current earnings of that corporation apportionable to this state and the adjusted current earnings allocable to this state.

(2) Section 56(g)(1)(B) of the Internal Revenue Code is modified to provide that the term “alternative minimum taxable income” means the sum of the alternative minimum taxable income of that corporation apportionable to this state and the alternative minimum taxable income allocable to this state.

(e) Section 56(g)(4)(A) of the Internal Revenue Code is modified to provide the following:

(1) In the case of any property placed in service on or after January 1, 1981, and prior to January 1, 1987, other than residential rental property for which an election was made under former Section 24349.5, the amount allowable as depreciation or amortization with respect to that property shall be the same amount that would have been allowable for the taxable year had the taxpayer depreciated the property under the straight line method for each taxable year of the useful life (determined without regard to Section 24354.2) for which the taxpayer has held the property.

(2) In the case of any property placed in service on or after January 1, 1987, and prior to January 1, 1990, other than residential rental property for which an election was made under former Section 24349.5, the amount allowable as depreciation or amortization with respect to that property shall be determined by each of the following:

(A) Taking into account the adjusted basis of that property (as determined for purposes of computing alternative minimum taxable income) as of the close of the last taxable year beginning before January 1, 1990.

(B) Using the straight line method over the remainder of the recovery period applicable to that property under the alternative system of Section 168(g) of the Internal Revenue Code.

1 (3) The amendments made to paragraph (2) by the act adding
2 this paragraph shall apply to taxable years beginning on or after
3 January 1, 1990.

4 (4) The last sentence of Section 56(g)(4)(A)(i) of the Internal
5 Revenue Code, shall not apply to taxable years beginning before
6 January 1, 1998.

7 (f) (1) Section 56(g)(4)(C) of the Internal Revenue Code,
8 relating to disallowance of items not deductible in computing
9 earnings and profits, shall be modified as follows:

10 (A) (i) A deduction shall be allowed for amounts allowable as
11 a deduction for purposes of the regular tax under Sections 24402,
12 24410, 24411, and 25106.

13 (ii) For each taxable year beginning on or after January 1, 1990,
14 a deduction shall be allowed for amounts allowable as a deduction
15 to a credit union for purposes of the regular tax under Section
16 24405.

17 (B) Section 56(g)(4)(C)(ii) of the Internal Revenue Code,
18 relating to special rule for certain dividends, shall not be applicable.

19 (C) Section 56(g)(4)(C)(iii) of the Internal Revenue Code,
20 relating to treatment of taxes on dividends from 936 corporations,
21 shall not be applicable.

22 (D) Section 56(g)(4)(C)(iv) of the Internal Revenue Code,
23 relating to special rule for certain dividends received by certain
24 cooperatives, shall not be applicable.

25 (2) Section 56(g)(4)(D)(ii) of the Internal Revenue Code is
26 modified to specify that Sections 24364 and 24407 shall not apply
27 to expenditures paid or incurred in taxable years beginning on or
28 after January 1, 1990.

29 (3) With respect to corporations that are not subject to the tax
30 imposed under Chapter 2 (commencing with Section 23101), the
31 amount of interest income included in the adjusted current earnings
32 shall not exceed the amount of interest income included for
33 purposes of the regular tax.

34 (4) Appropriate adjustments shall be made to limit deductions
35 from adjusted current earnings for interest expense in accordance
36 with the provisions of Sections 24344 and 24425.

37 SEC. 80. Section 23456.5 of the Revenue and Taxation Code,
38 as added by Section 36 of Chapter 34 of the Statutes of 2002, is
39 repealed.

1 SEC. 81. Section 23456.5 of the Revenue and Taxation Code,
2 as added by Section 36 of Chapter 35 of the Statutes of 2002, is
3 repealed.

4 SEC. 82. Section 23456.5 is added to the Revenue and Taxation
5 Code, to read:

6 23456.5. Section 56A of the Internal Revenue Code, relating
7 to adjusted financial statement income, shall not apply.

8 SEC. 83. Section 23609 of the Revenue and Taxation Code is
9 amended to read:

10 23609. For each taxable year beginning on or after January 1,
11 1987, there shall be allowed as a credit against the “tax” (as defined
12 by Section 23036) an amount determined in accordance with
13 Section 41 of the Internal Revenue Code, relating to credit for
14 increasing research activities, except as follows:

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

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

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

21 (b) (1) For each taxable year beginning on or after January 1,
22 1997, and before January 1, 1999, both of the following
23 modifications shall apply:

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

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

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

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

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

34 (3) For each taxable year beginning on or after January 1, 2000,
35 both of the following shall apply:

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

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

(c) (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, relating to qualified research expenses, 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) “Qualified research” and “basic research” shall include only research conducted in California.

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

(1) Basic research conducted outside California.

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

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

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

(e) (1) In the case of a taxpayer engaged in any biopharmaceutical research activities that are described in codes 2833 to 2836, inclusive, or any research activities that are described in codes 3826, 3829, or 3841 to 3845, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, or any 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)(ii)(I) of the Internal Revenue Code, relating to qualified research consortium, is modified to read “this part or Part 10 (commencing with Section 17001).”

(h) (1) (A) For each taxable year beginning on or after January 1, 2000, and before January 1, 2025, the election of alternative incremental credit under Section 41(c)(4) of the Internal Revenue Code, as applicable for state purposes, shall apply as that section was in effect on January 1, 2015, and as modified as follows:

(i) The reference to “3 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.”

(ii) The reference to “4 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.”

1 (iii) The reference to “5 percent” in Section 41(c)(4)(A)(iii) of
2 the Internal Revenue Code is modified to read “two and forty-eight
3 hundredths of one percent.”

4 (B) Section 41(c)(4)(B) of the Internal Revenue Code shall not
5 apply and in lieu thereof an election under Section 41(c)(4)(A) of
6 the Internal Revenue Code may be made for any taxable year of
7 the taxpayer beginning on or after January 1, 1998, and before
8 January 1, 2025. That election shall apply to the taxable year for
9 which made and all succeeding taxable years beginning before
10 January 1, 2025, unless revoked with the consent of the Franchise
11 Tax Board.

12 (2) (A) For taxable years beginning on or after January 1, 2025,
13 Section 41(c)(4) of the Internal Revenue Code, relating to election
14 of the alternative simplified credit, shall apply, and is modified as
15 follows:

16 (i) The reference to “14 percent” in Section 41(c)(4)(A) of the
17 Internal Revenue Code is modified to read “3 percent.”

18 (ii) The reference to “6 percent” in Section 41(c)(4)(B)(ii) of
19 the Internal Revenue Code is modified to read “1.3 percent.”

20 (B) Section 41(c)(4)(C) of the Internal Revenue Code shall not
21 apply and in lieu thereof an election under Section 41(c)(4)(A) of
22 the Internal Revenue Code may be made for any taxable year of
23 the taxpayer beginning on or after January 1, 2024. That election
24 shall apply to the taxable year for which made and all succeeding
25 taxable years unless revoked with the consent of the Franchise Tax
26 Board.

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

33 (j) Section 41(h) of the Internal Revenue Code, relating to
34 treatment of credit for qualified small businesses, shall not apply.

35 (k) Section 41(g) of the Internal Revenue Code, relating to
36 special rule for passthrough of credit, is modified by each of the
37 following:

38 (1) The last sentence shall not apply.

39 (2) If the amount determined under Section 41(a) of the Internal
40 Revenue Code for any taxable year exceeds the limitation of

1 Section 41(g) of the Internal Revenue Code, that amount may be
2 carried over to other taxable years under the rules of subdivision
3 (f), except that the limitation of Section 41(g) of the Internal
4 Revenue Code shall be taken into account in each subsequent
5 taxable year.

6 (l) Section 41(a)(3) of the Internal Revenue Code shall not apply.

7 (m) Section 41(b)(3)(D) of the Internal Revenue Code, relating
8 to amounts paid to eligible small businesses, universities, and
9 federal laboratories, shall not apply.

10 (n) Section 41(f)(6) of the Internal Revenue Code, relating to
11 energy research consortium, shall not apply.

12 SEC. 84. Section 23610.5 of the Revenue and Taxation Code
13 is amended to read:

14 23610.5. (a) (1) There shall be allowed as a credit against the
15 “tax,” defined in Section 23036, a state low-income housing tax
16 credit in an amount equal to the amount determined in subdivision
17 (c), computed in accordance with Section 42 of the Internal
18 Revenue Code, relating to low-income housing credit, except as
19 otherwise provided in this section.

20 (2) “Taxpayer,” for purposes of this section, means the sole
21 owner in the case of a “C” corporation, the partners in the case of
22 a partnership, and the shareholders in the case of an “S”
23 corporation.

24 (3) “Housing sponsor,” for purposes of this section, means the
25 sole owner in the case of a “C” corporation, the partnership in the
26 case of a partnership, and the “S” corporation in the case of an “S”
27 corporation.

28 (b) (1) The amount of the credit allocated to any housing
29 sponsor shall be authorized by the California Tax Credit Allocation
30 Committee, or any successor thereof, based on a project’s need
31 for the credit for economic feasibility in accordance with the
32 requirements of this section.

33 (A) The low-income housing project shall be located in
34 California and shall meet either of the following requirements:

35 (i) Except for projects to provide farmworker housing, as defined
36 in subdivision (h) of Section 50199.7 of the Health and Safety
37 Code, that are allocated credits solely under the set-aside described
38 in subdivision (c) of Section 50199.20 of the Health and Safety
39 Code, the project’s housing sponsor has been allocated by the
40 California Tax Credit Allocation Committee a credit for federal

1 income tax purposes under Section 42 of the Internal Revenue
2 Code, relating to low-income housing credit.

3 (ii) It qualifies for a credit under Section 42(h)(4)(B) of the
4 Internal Revenue Code, relating to special rule where 50 percent
5 or more of building is financed with tax-exempt bonds subject to
6 volume cap.

7 (B) The California Tax Credit Allocation Committee shall not
8 require fees for the credit under this section in addition to those
9 fees required for applications for the tax credit pursuant to Section
10 42 of the Internal Revenue Code, relating to low-income housing
11 credit. The committee may require a fee if the application for the
12 credit under this section is submitted in a calendar year after the
13 year the application is submitted for the federal tax credit.

14 (C) (i) For a project that receives a preliminary reservation of
15 the state low-income housing tax credit, allowed pursuant to
16 subdivision (a), on or after January 1, 2009, the credit shall be
17 allocated to the partners of a partnership owning the project in
18 accordance with the partnership agreement, regardless of how the
19 federal low-income housing tax credit with respect to the project
20 is allocated to the partners, or whether the allocation of the credit
21 under the terms of the agreement has substantial economic effect,
22 within the meaning of Section 704(b) of the Internal Revenue
23 Code, relating to determination of distributive share.

24 (ii) To the extent the allocation of the credit to a partner under
25 this section lacks substantial economic effect, any loss or deduction
26 otherwise allowable under this part that is attributable to the sale
27 or other disposition of that partner's partnership interest made prior
28 to the expiration of the federal credit shall not be allowed in the
29 taxable year in which the sale or other disposition occurs, but shall
30 instead be deferred until and treated as if it occurred in the first
31 taxable year immediately following the taxable year in which the
32 federal credit period expires for the project described in clause (i).

33 (iii) This subparagraph shall not apply to a project that receives
34 a preliminary reservation of state low-income housing tax credits
35 under the set-aside described in subdivision (c) of Section 50199.20
36 of the Health and Safety Code unless the project also receives a
37 preliminary reservation of federal low-income housing tax credits.

38 (2) (A) The California Tax Credit Allocation Committee shall
39 certify to the housing sponsor the amount of tax credit under this
40 section allocated to the housing sponsor for each credit period.

(B) In the case of a partnership or an “S” corporation, the housing sponsor shall provide a copy of the California Tax Credit Allocation Committee certification to the taxpayer.

(C) (i) A taxpayer shall be eligible to claim the credit commencing in the taxable year the building is placed in service and the federal credit period commences, notwithstanding that the certification pursuant to subparagraph (A) has not been issued by the California Tax Credit Allocation Committee, provided that the housing sponsor has filed a taxpayer certification with the California Tax Credit Allocation Committee and delivered a copy to the taxpayer. The amount of credit claimed by the taxpayer shall not exceed the pro rata share with respect to the amount of credit that the taxpayer purchased or is allocated per the partnership agreement, as applicable, of the lesser of either of the following:

(I) The applicable percentages for each of the four credit years, as specified in subdivision (c), multiplied by the qualified basis of the building set forth in the preliminary reservation.

(II) The amount of credit the project is eligible for as stated in the taxpayer certification.

(ii) The California Tax Credit Allocation Committee may, but is not required to, review the taxpayer certification and other information provided by the housing sponsor to confirm both of the following:

(I) The calculations set forth in the taxpayer certification.

(II) The amount of credits allocated to the project is consistent with applicable California Tax Credit Allocation Committee rules and regulations for the purposes of making the certification required pursuant to subparagraph (A).

(iii) If the California Tax Credit Allocation Committee issues a certification pursuant to subparagraph (A) that is inconsistent with the taxpayer certification upon which a credit has been claimed, the taxpayer shall amend any previously filed tax returns to reflect the credit amount certified by the California Tax Credit Allocation Committee pursuant to subparagraph (A).

(iv) For purposes of this subparagraph, “taxpayer certification” means a certified statement from the certified public accountant of the housing sponsor. The taxpayer certification shall contain the amount of the credit the project is eligible for, the taxable year the building is placed in service, and the taxable year in which the federal credit period for the building has commenced.

(v) The taxpayer shall, upon request, provide a copy of the taxpayer certification pursuant to clause (iv) or the California Tax Credit Allocation Committee's certification pursuant to subparagraph (A), as applicable, to the Franchise Tax Board.

(vi) In the case of a failure to provide a copy of the taxpayer certification pursuant to clause (iv) or the California Tax Credit Allocation Committee's certification pursuant to subparagraph (A), if the Franchise Tax Board so requires, no credit under this section shall be allowed for that taxable year until a copy of that certification is provided.

(vii) The changes made to this subparagraph by the act adding this clause shall apply for taxable years beginning on or after January 1, 2023.

(D) All elections made by the taxpayer pursuant to Section 42 of the Internal Revenue Code, relating to low-income housing credit, shall apply to this section.

(E) (i) Except as described in clause (ii) or (iii), for buildings located in designated difficult development areas (DDAs) or qualified census tracts (QCTs), as defined in Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, credits may be allocated under this section in the amounts prescribed in subdivision (c), provided that the amount of credit allocated under Section 42 of the Internal Revenue Code, relating to low-income housing credit, is computed on 100 percent of the qualified basis of the building.

(ii) Notwithstanding clause (i), the California Tax Credit Allocation Committee may allocate the credit for buildings located in DDAs or QCTs that are restricted to having 50 percent of the building's occupants be special needs households, as defined in the California Code of Regulations by the California Tax Credit Allocation Committee, or receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g), even if the taxpayer receives federal credits pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, provided that the credit allowed under this section shall not exceed 30 percent of the eligible basis of the building.

(iii) On and after January 1, 2018, notwithstanding clause (i), the California Tax Credit Allocation Committee may allocate the credit pursuant to paragraph (7) of subdivision (c) even if the

taxpayer receives federal credits, pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas.

(F) (i) The California Tax Credit Allocation Committee may allocate a credit under this section in exchange for a credit allocated pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, in amounts up to 30 percent of the eligible basis of a building if the credits allowed under Section 42 of the Internal Revenue Code, relating to low-income housing credit, are reduced by an equivalent amount.

(ii) An equivalent amount shall be determined by the California Tax Credit Allocation Committee based upon the relative amount required to produce an equivalent state tax credit to the taxpayer.

(c) Section 42(b) of the Internal Revenue Code, relating to applicable percentage: 70 percent present value credit for certain new buildings; 30 percent present value credit for certain other buildings, shall be modified as follows:

(1) In the case of any qualified low-income building placed in service by the housing sponsor during 1987, the term “applicable percentage” means 9 percent for each of the first three years and 3 percent for the fourth year for new buildings (whether or not the building is federally subsidized) and for existing buildings.

(2) In the case of any qualified low-income building that receives an allocation after 1989 and is a new building not federally subsidized, the term “applicable percentage” means the following:

(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are not federally subsidized for the taxable year, determined in accordance with the requirements of Section 42(b)(2) of the Internal Revenue Code, relating to minimum credit rate for nonfederally subsidized new buildings, in lieu of the percentage prescribed in Section 42(b)(1)(A) of the Internal Revenue Code.

(B) For the fourth year, the difference between 30 percent and the sum of the applicable percentages for the first three years.

(3) In the case of any qualified low-income building that is a new building and is federally subsidized and receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g), the term “applicable percentage” means for the first three years,

1 9 percent of the qualified basis of the building, and for the fourth
2 year, 3 percent of the qualified basis of the building.

3 (4) In the case of any qualified low-income building that receives
4 an allocation after 1989 pursuant to subparagraph (A) of paragraph
5 (1) of subdivision (g) and that is a new building that is federally
6 subsidized or that is an existing building that is “at risk of
7 conversion,” the term “applicable percentage” means the following:

8 (A) For each of the first three years, the percentage prescribed
9 by the Secretary of the Treasury for new buildings that are federally
10 subsidized for the taxable year.

11 (B) For the fourth year, the difference between 13 percent and
12 the sum of the applicable percentages for the first three years.

13 (5) In the case of any qualified low-income building that meets
14 all of the requirements of subparagraphs (A) ~~through~~ to (D),
15 inclusive, the term “applicable percentage” means 30 percent for
16 each of the first three years and 5 percent for the fourth year. A
17 qualified low-income building receiving an allocation under this
18 paragraph is ineligible to also receive an allocation under paragraph
19 (3).

20 (A) The qualified low-income building is at least 15 years old.

21 (B) The qualified low-income building is either:

22 (i) Serving households of very low income or extremely low
23 income such that the average maximum household income as
24 restricted, pursuant to an existing regulatory agreement with a
25 federal, state, county, local, or other governmental agency, is not
26 more than 45 percent of the area median gross income, as
27 determined under Section 42 of the Internal Revenue Code, relating
28 to low-income housing credit, adjusted by household size, and a
29 tax credit regulatory agreement is entered into for a period of not
30 less than 55 years restricting the average targeted household income
31 to no more than 45 percent of the area median income.

32 (ii) Financed under Section 514, or 521 of the National Housing
33 Act of 1949 (42 U.S.C. Sec. 1485).

34 (C) The qualified low-income building would have insufficient
35 credits under paragraphs (2) and (3) to complete substantial
36 rehabilitation due to a low appraised value.

37 (D) The qualified low-income building will complete the
38 substantial rehabilitation in connection with the credit allocation
39 herein.

1 (6) Section 42(b)(3) of the Internal Revenue Code, relating to
2 minimum credit rate, shall not apply.

3 (7) For purposes of this section, the term “at risk of conversion,”
4 with respect to an existing property, means a property that satisfies
5 all of the following criteria:

6 (A) The property is a multifamily rental housing development
7 in which at least 50 percent of the units receive governmental
8 assistance pursuant to any of the following:

9 (i) New construction, substantial rehabilitation, moderate
10 rehabilitation, property disposition, and loan management set-aside
11 programs, or any other program providing project-based assistance
12 pursuant to Section 8 of the United States Housing Act of 1937,
13 Section 1437f of Title 42 of the United States Code, as amended.

14 (ii) The Below-Market-Interest-Rate Program pursuant to
15 Section 221(d)(3) of the National Housing Act, Sections
16 1715l(d)(3) and (5) of Title 12 of the United States Code.

17 (iii) Section 236 of the National Housing Act, Section 1715z-1
18 of Title 12 of the United States Code.

19 (iv) Programs for rent supplement assistance pursuant to Section
20 101 of the Housing and Urban Development Act of 1965, Section
21 1701s of Title 12 of the United States Code, as amended.

22 (v) Programs under Sections 514, 515, 516, 533, and 538 of the
23 Housing Act of 1949 (Public Law 81-171), as amended.

24 (vi) The low-income housing credit program set forth in Section
25 42 of the Internal Revenue Code, relating to low-income housing
26 credit, this section, and Sections 12206 and 17058.

27 (vii) Programs for loans or grants administered by the
28 Department of Housing and Community Development.

29 (viii) Section 202 of the Housing Act of 1959 (12 U.S.C. Sec.
30 1701q), as amended.

31 (ix) Section 142(d) of the Internal Revenue Code or its
32 predecessors.

33 (x) Section 147 of the Internal Revenue Code, as enacted by
34 the Tax Reform Act of 1986 (Public Law 99-514), or as
35 subsequently amended, including as amended by the Tax Cuts and
36 Jobs ~~Act of Act~~, 2017 (Public Law 115-97) and all amendments
37 enacted prior to the Tax Cuts and Jobs ~~Act of Act~~, 2017 (Public
38 Law 115-97).

39 (xi) Title I of the Housing and Community Development Act
40 of 1974, as amended.

(xii) Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as amended.

(xiii) Titles IV and V of the McKinney-Vento Homeless Assistance Act of 1987, as amended, including the Department of Housing and Urban Development's Supportive Housing Program, Shelter Plus Care Program, and surplus federal property disposition program.

(xiv) The following assistance provided by counties and cities in exchange for restrictions on the maximum rents that may be charged for units within a multifamily rental housing development and on the maximum tenant income as a condition of eligibility for occupancy of the unit subject to the rent restriction, as reflected by a recorded agreement with a county or city:

(I) Loans or grants provided using tax increment financing pursuant to the Community Redevelopment Law (Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code).

(II) Local housing trust funds, as referred to in Section 50843 of the Health and Safety Code.

(III) The sale or lease of public property at or below market rates.

(IV) The granting of density bonuses, or concessions or incentives, including fee waivers, parking variances, or amendments to general plans, zoning, or redevelopment project area plans, pursuant to Chapter 4.3 (commencing with Section 65915) of Division 1 of Title 7 of the Government Code.

(B) As used in subparagraph (A), "government assistance" shall not include the use of tenant-based housing choice vouchers under subsection (o) of Section 1437f of Title 42 of the United States Code, excluding paragraph (13) relating to project-based assistance. Restrictions shall not include any rent control or rent stabilization ordinance imposed by a county or city.

(C) If the development is subject to restrictions on rent and income levels, 50 percent of the units are also restricted to initial occupancy by lower income households, as defined in Section 50079.5 of the Health and Safety Code.

(D) The restrictions on rent and income levels, excluding any restrictions recorded pursuant to paragraph (2) of subdivision (e) of Section 65863.11 or Section 65863.13 of the Government Code or in connection with interim or acquisition financing, will

1 terminate or the federally insured mortgage or rent subsidy contract
2 on the property is eligible for prepayment or termination any time
3 within five years before or after the date of application to the
4 California Tax Credit Allocation Committee.

5 (E) The entity acquiring the property enters into a regulatory
6 agreement that requires the property to be operated in accordance
7 with the requirements of Section 42 of the Internal Revenue Code
8 and any further requirements added by the California Tax Credit
9 Allocation Committee to implement the low-income housing tax
10 credit established by Section 42 of the Internal Revenue Code (26
11 U.S.C. Sec. 42), this section, and Sections 12206 and 17058
12 pursuant to Chapter 3.6 (commencing with Section 50199.4) of
13 Part 1 of Division 31 of the Health and Safety Code.

14 (F) The property satisfies the requirements of Section 42(e) of
15 the Internal Revenue Code, relating to rehabilitation expenditures
16 treated as separate new building, except that the provisions of
17 Section 42(e)(3)(A)(ii)(I) shall not apply.

18 (8) On and after January 1, 2018, in the case of any qualified
19 low-income building that is (A) farmworker housing, as defined
20 by paragraph (2) of subdivision (h) of Section 50199.7 of the
21 Health and Safety Code, and (B) is federally subsidized, the term
22 “applicable percentage” means for each of the first three years, 20
23 percent of the qualified basis of the building, and for the fourth
24 year, 15 percent of the qualified basis of the building.

25 (d) The term “qualified low-income housing project” as defined
26 in Section 42(c)(2) of the Internal Revenue Code, relating to
27 qualified low-income building, is modified by adding the following
28 requirements:

29 (1) The taxpayer shall be entitled to receive a cash distribution
30 from the operations of the project, after funding required reserves,
31 that, at the election of the taxpayer, is equal to:

32 (A) An amount not to exceed 8 percent of the lesser of:

33 (i) The owner equity, which shall include the amount of the
34 capital contributions actually paid to the housing sponsor and shall
35 not include any amounts until they are paid on an investor note.

36 (ii) Twenty percent of the adjusted basis of the building as of
37 the close of the first taxable year of the credit period.

38 (B) The amount of the cashflow from those units in the building
39 that are not low-income units. For purposes of computing cashflow
40 under this subparagraph, operating costs shall be allocated to the

1 low-income units using the “floor space fraction,” as defined in
2 Section 42 of the Internal Revenue Code, relating to low-income
3 housing credit.

4 (C) Any amount allowed to be distributed under subparagraph
5 (A) that is not available for distribution during the first 5 years of
6 the compliance period may be accumulated and distributed any
7 time during the first 15 years of the compliance period but not
8 thereafter.

9 (2) The limitation on return shall apply in the aggregate to the
10 partners if the housing sponsor is a partnership and in the aggregate
11 to the shareholders if the housing sponsor is an “S” corporation.

12 (3) The housing sponsor shall apply any cash available for
13 distribution in excess of the amount eligible to be distributed under
14 paragraph (1) to reduce the rent on rent-restricted units or to
15 increase the number of rent-restricted units subject to the tests of
16 Section 42(g)(1) of the Internal Revenue Code, relating to qualified
17 low-income housing project requirements.

18 (e) The provisions of Section 42(f) of the Internal Revenue
19 Code, relating to definition and special rules relating to credit
20 period, shall be modified as follows:

21 (1) The term “credit period” as defined in Section 42(f)(1) of
22 the Internal Revenue Code, relating to credit period defined, is
23 modified by substituting “four taxable years” for “10 taxable
24 years.”

25 (2) The special rule for the first taxable year of the credit period
26 under Section 42(f)(2) of the Internal Revenue Code, relating to
27 special rule for 1st year of credit period, shall not apply to the tax
28 credit under this section.

29 (3) Section 42(f)(3) of the Internal Revenue Code, relating to
30 determination of applicable percentage with respect to increases
31 in qualified basis after 1st year of credit period, is modified to
32 read:

33 If, as of the close of any taxable year in the compliance period,
34 after the first year of the credit period, the qualified basis of any
35 building exceeds the qualified basis of that building as of the close
36 of the first year of the credit period, the housing sponsor, to the
37 extent of its tax credit allocation, shall be eligible for a credit on
38 the excess in an amount equal to the applicable percentage
39 determined pursuant to subdivision (c) for the four-year period

beginning with the later of the taxable years in which the increase in qualified basis occurs.

(f) The provisions of Section 42(h) of the Internal Revenue Code, relating to limitation on aggregate credit allowable with respect to projects located in a state, shall be modified as follows:

(1) Section 42(h)(2) of the Internal Revenue Code, relating to allocated credit amount to apply to all taxable years ending during or after credit allocation year, does not apply and instead the following provisions apply:

The total amount for the four-year credit period of the housing credit dollars allocated in a calendar year to any building shall reduce the aggregate housing credit dollar amount of the California Tax Credit Allocation Committee for the calendar year in which the allocation is made.

(2) Paragraphs (3), (4), (5), (6)(E)(i)(II), (6)(F), (6)(G), (6)(I), (7), and (8) of Section 42(h) of the Internal Revenue Code, relating to limitation on aggregate credit allowable with respect to projects located in a state, do not apply to this section.

(g) The aggregate housing credit dollar amount that may be allocated annually by the California Tax Credit Allocation Committee pursuant to this section, Section 12206, and Section 17058 shall be an amount equal to the sum of all the following:

(1) (A) Seventy million dollars (\$70,000,000) for the 2001 calendar year, and, for the 2002 calendar year and each calendar year thereafter, seventy million dollars (\$70,000,000) increased by the percentage, if any, by which the Consumer Price Index for the preceding calendar year exceeds the Consumer Price Index for the 2001 calendar year. For the purposes of this paragraph, the term “Consumer Price Index” means the last Consumer Price Index for All Urban Consumers published by the federal Department of Labor.

(B) Five hundred million dollars (\$500,000,000) for the 2020 calendar year, and up to five hundred million dollars (\$500,000,000) for the 2021 calendar year and every year thereafter. Allocations shall only be available pursuant to this subparagraph in the 2021 calendar year and thereafter if the annual Budget Act, or if any bill providing for appropriations related to the Budget Act, specifies an amount to be available for allocation in that calendar year by the California Tax Credit Allocation Committee, and after the California Tax Credit Allocation

1 Committee and the California Debt Limit Allocation Committee
2 have adopted increasing production and containing regulations,
3 rules, or guidelines to align the programs of both committees with
4 the objective of increasing production and containing costs as
5 described in clause (iii). The California Tax Credit Allocation
6 Committee shall accept applications for the 2021 calendar year
7 not sooner than 30 days after these regulations, rules, or guidelines
8 have been adopted. The California Debt Limit Allocation
9 Committee shall not accept applications for the 2021 calendar year
10 for bond allocations for an eligible project under this section prior
11 to issuing, reviewing, and publishing a new tax-exempt private
12 activity bond demand survey. Except as provided in clause (vi), a
13 housing sponsor receiving a nonfederally subsidized allocation
14 under subdivision (c) shall not be eligible for receipt of the housing
15 credit allocated from the increased amount under this subparagraph.
16 A housing sponsor receiving a nonfederally subsidized allocation
17 under subdivision (c) shall remain eligible for receipt of the housing
18 credit allocated from the credit ceiling amount under subparagraph
19 (A).

20 (i) Eligible projects for allocations under this subparagraph
21 include any new building, as defined in Section 42(i)(4) of the
22 Internal Revenue Code, relating to new building, and the
23 regulations promulgated thereunder, excluding rehabilitation
24 expenditures under Section 42(e) of the Internal Revenue Code,
25 relating to rehabilitation expenditures treated as separate new
26 building, and is federally subsidized. Eligible projects for
27 allocations under this subparagraph also include any retrofitting
28 and repurposing of existing nonresidential structures, including,
29 but not limited to, hotels and motels, that were converted to
30 residential use within the previous five years from the date of the
31 application.

32 (ii) Notwithstanding any other provision of this section, for
33 allocations pursuant to this subparagraph for the 2020 calendar
34 year, the California Tax Credit Allocation Committee shall consider
35 projects located throughout the state and shall allocate housing
36 credits, subject to the minimum federal requirements as set forth
37 in Sections 42 and 142 of the Internal Revenue Code, the minimum
38 requirements set forth in Sections 5033 and 5190 of the California
39 Debt Limit Allocation Committee regulations, and the minimum
40 set forth in Section 10326 of the *California* Tax Credit Allocation

1 Committee regulations, for projects that can begin construction
2 within 180 days from award, subject to availability of funds.

3 (iii) (I) Notwithstanding any other provision of this section, for
4 allocations pursuant to this subparagraph for the 2021 calendar
5 year and thereafter, the California Tax Credit Allocation Committee
6 and the California Debt Limit Allocation Committee shall develop
7 and prescribe regulations, rules, or guidelines, necessary to
8 implement a new allocation methodology that is aimed at
9 increasing production and containing costs, which would include
10 a scoring system that maximizes the efficient use of public subsidy
11 and benefit created through the private activity bond and
12 low-income housing tax credit programs. The factors for
13 determining the efficient use of public subsidy and benefit shall
14 include, but not be limited to, all of the following:

15 (ia) The number and size of units developed including local
16 incentives provided to increase density.

17 (ib) The proximity to amenities, jobs, and public transportation.

18 (ic) The location of the development.

19 (id) The delivery of housing affordable to very low and
20 extremely low income households by the development.

21 (II) The efficient use of public subsidy and benefit criteria
22 specified in this clause shall take into account the total state subsidy
23 provided and prioritize cost containment and increased unit
24 production. These regulations, rules, or guidelines developed
25 pursuant to this subparagraph shall also consider updated
26 definitions for at-risk preservation and new construction.

27 (III) For bond allocations for the 2021 calendar year to projects
28 eligible for an allocation under this subparagraph, the California
29 Debt Limit Allocation Committee may adopt emergency
30 regulations.

31 (IV) The California Tax Credit Allocation Committee shall
32 consider amending the regulations establishing a scoring system,
33 as required by this clause, to also grant, for farmworker housing
34 as defined in subdivision (h) of Section 50199.7 of the Health and
35 Safety Code, maximum points to farmworker housing projects
36 under the housing needs category, and an initial five points in the
37 category for site amenities beyond those required as additional
38 thresholds.

39 (iv) Of the amount available pursuant to this subparagraph, and
40 notwithstanding any other requirement of this section, the

1 California Tax Credit Allocation Committee may allocate up to
2 two hundred million dollars (\$200,000,000) for housing financed
3 by the California Housing Finance Agency under its Mixed-Income
4 Program.

5 (v) (I) For the calendar years of 2024 to 2034, inclusive, of the
6 amount available pursuant to this subparagraph, the lesser of 5
7 percent of that amount or twenty-five million dollars (\$25,000,000)
8 per calendar year shall be set aside for projects to provide
9 farmworker housing, as defined in subdivision (h) of Section
10 50199.7 of the Health and Safety Code, and administered consistent
11 with the credits available pursuant to paragraph (4).

12 (II) Any credits pursuant to this clause that remain unallocated
13 following the conclusion of a funding round shall roll over to
14 consecutive subsequent funding rounds in that calendar year with
15 the exception that any credits that remain unallocated after the
16 final funding round in that calendar year shall be added back to
17 the aggregate amount of credits that may be allocated pursuant to
18 this subparagraph.

19 (III) For the 2035 calendar year, and every year thereafter, of
20 the amount available pursuant to this subparagraph, a portion of
21 the amount allocated shall be set aside for projects to provide
22 farmworker housing, as defined in subdivision (h) of Section
23 50199.7 of the Health and Safety Code. The amount set aside shall
24 be determined by the Legislature upon consideration of the
25 comprehensive strategy, or most recent update thereof, provided
26 by the Department of Housing and Community Development
27 pursuant to subdivision (c) of Section 50408.5 of the Health and
28 Safety Code.

29 (vi) (I) For any calendar year in which the California Debt
30 Limit Allocation Committee has declared a competition for the
31 award of tax-exempt bond authority for qualified residential rental
32 projects, the California Tax Credit Allocation Committee may
33 allocate some or all of the credits allocated under this subparagraph,
34 except for any credits allocated for housing financed by the
35 California Housing Finance Agency under its Mixed-Income
36 Program, for nonfederally subsidized buildings eligible for credits
37 under Section 42 of the Internal Revenue Code, relating to
38 low-income housing credit, and shall allocate the remainder of
39 these credits for new buildings, as defined in Section 42(i)(4) of
40 the Internal Revenue Code, relating to new buildings, that are

1 federally subsidized and that can begin construction within a
2 reasonable time, as determined by the California Tax Credit
3 Allocation Committee.

4 (II) For any calendar year in which the California Debt Limit
5 Allocation Committee has not declared a competition for the award
6 of tax-exempt bond authority for qualified residential rental
7 projects, projects receiving an award of credits pursuant to this
8 subparagraph shall begin construction within a reasonable time,
9 as determined by the California Tax Credit Allocation Committee.

10 (III) Notwithstanding subclauses (I) and (II), if credits available
11 under this subparagraph remain unallocated after the final
12 California Debt Limit Allocation Committee round for qualified
13 residential rental projects in a given calendar year, the California
14 Tax Credit Allocation Committee may allocate some or all of the
15 remaining credits for nonfederally subsidized buildings eligible
16 for credits under Section 42 of the Internal Revenue Code, relating
17 to low-income housing credit.

18 (2) The unused housing credit ceiling, if any, for the preceding
19 calendar years.

20 (3) The amount of housing credit ceiling returned in the calendar
21 year. For purposes of this paragraph, the amount of housing credit
22 dollar amount returned in the calendar year equals the housing
23 credit dollar amount previously allocated to any project that does
24 not become a qualified low-income housing project within the
25 period required by this section or to any project with respect to
26 which an allocation is canceled by mutual consent of the California
27 Tax Credit Allocation Committee and the allocation recipient.

28 (4) Five hundred thousand dollars (\$500,000) per calendar year
29 for projects to provide farmworker housing, as defined in
30 subdivision (h) of Section 50199.7 of the Health and Safety Code.

31 (5) The amount of any unallocated or returned credits under
32 former Sections 17053.14, 23608.2, and 23608.3, as those sections
33 read prior to January 1, 2009, until fully exhausted for projects to
34 provide farmworker housing, as defined in subdivision (h) of
35 Section 50199.7 of the Health and Safety Code.

36 (h) The term “compliance period” as defined in Section 42(i)(1)
37 of the Internal Revenue Code, relating to compliance period, is
38 modified to mean, with respect to any building, the period of 30
39 consecutive taxable years beginning with the first taxable year of
40 the credit period with respect thereto.

1 (i) Section 42(j) of the Internal Revenue Code, relating to
2 recapture of credit, shall not be applicable and the following shall
3 be substituted in its place:

4 The requirements of this section shall be set forth in a regulatory
5 agreement between the California Tax Credit Allocation Committee
6 and the housing sponsor, and the regulatory agreement shall be
7 subordinated, when required, to any lien or encumbrance of any
8 banks or other institutional lenders to the project. The regulatory
9 agreement entered into pursuant to subdivision (f) of Section
10 50199.14 of the Health and Safety Code shall apply, provided that
11 the agreement includes all of the following provisions:

12 (1) A term not less than the compliance period.

13 (2) A requirement that the agreement be recorded in the official
14 records of the county in which the qualified low-income housing
15 project is located.

16 (3) A provision stating which state and local agencies can
17 enforce the regulatory agreement in the event the housing sponsor
18 fails to satisfy any of the requirements of this section.

19 (4) A provision that the regulatory agreement shall be deemed
20 a contract enforceable by tenants as third-party beneficiaries thereto
21 and that allows individuals, whether prospective, present, or former
22 occupants of the building, who meet the income limitation
23 applicable to the building, the right to enforce the regulatory
24 agreement in any state court.

25 (5) A provision incorporating the requirements of Section 42
26 of the Internal Revenue Code, relating to low-income housing
27 credit, as modified by this section.

28 (6) A requirement that the housing sponsor notify the California
29 Tax Credit Allocation Committee or its designee if there is a
30 determination by the Internal Revenue Service that the project is
31 not in compliance with Section 42(g) of the Internal Revenue Code,
32 relating to qualified low-income housing project.

33 (7) A requirement that the housing sponsor, as security for the
34 performance of the housing sponsor's obligations under the
35 regulatory agreement, assign the housing sponsor's interest in rents
36 that it receives from the project, provided that until there is a
37 default under the regulatory agreement, the housing sponsor is
38 entitled to collect and retain the rents.

39 (8) A provision that the remedies available in the event of a
40 default under the regulatory agreement that is not cured within a

1 reasonable cure period include, but are not limited to, allowing
2 any of the parties designated to enforce the regulatory agreement
3 to collect all rents with respect to the project; taking possession of
4 the project and operating the project in accordance with the
5 regulatory agreement until the enforcer determines the housing
6 sponsor is in a position to operate the project in accordance with
7 the regulatory agreement; applying to any court for specific
8 performance; securing the appointment of a receiver to operate
9 the project; or any other relief as may be appropriate.

10 (j) (1) The committee shall allocate the housing credit on a
11 regular basis consisting of two or more periods in each calendar
12 year during which applications may be filed and considered. The
13 committee shall establish application filing deadlines, the maximum
14 percentage of federal and state low-income housing tax credit
15 ceiling that may be allocated by the committee in that period, and
16 the approximate date on which allocations shall be made. If the
17 enactment of federal or state law, the adoption of rules or
18 regulations, or other similar events prevent the use of two allocation
19 periods, the committee may reduce the number of periods and
20 adjust the filing deadlines, maximum percentage of credit allocated,
21 and allocation dates.

22 (2) The committee shall adopt a qualified allocation plan, as
23 provided in Section 42(m)(1) of the Internal Revenue Code, relating
24 to plans for allocation of credit among projects. In adopting this
25 plan, the committee shall comply with the provisions of Sections
26 42(m)(1)(B) and 42(m)(1)(C) of the Internal Revenue Code,
27 relating to qualified allocation plan and relating to certain selection
28 criteria must be used, respectively.

29 (3) Notwithstanding Section 42(m) of the Internal Revenue
30 Code, relating to responsibilities of housing credit agencies, the
31 California Tax Credit Allocation Committee shall allocate housing
32 credits in accordance with the qualified allocation plan and
33 regulations, which shall include the following provisions:

34 (A) All housing sponsors, as defined by paragraph (3) of
35 subdivision (a), shall demonstrate at the time the application is
36 filed with the committee that the project meets the following
37 threshold requirements:

38 (i) The housing sponsor shall demonstrate there is a need and
39 demand for low-income housing in the community or region for
40 which it is proposed.

1 (ii) The project's proposed financing, including tax credit
2 proceeds, shall be sufficient to complete the project and that the
3 proposed operating income shall be adequate to operate the project
4 for the extended use period.

5 (iii) The project shall have enforceable financing commitments,
6 either construction or permanent financing, for at least 50 percent
7 of the total estimated financing of the project.

8 (iv) The housing sponsor shall have and maintain control of the
9 site for the project.

10 (v) The housing sponsor shall demonstrate that the project
11 complies with all applicable local land use and zoning ordinances.

12 (vi) The housing sponsor shall demonstrate that the project
13 development team has the experience and the financial capacity
14 to ensure project completion and operation for the extended use
15 period.

16 (vii) The housing sponsor shall demonstrate the amount of tax
17 credit that is necessary for the financial feasibility of the project
18 and its viability as a qualified low-income housing project
19 throughout the extended use period, taking into account operating
20 expenses, a supportable debt service, reserves, funds set aside for
21 rental subsidies and required equity, and a development fee that
22 does not exceed a specified percentage of the eligible basis of the
23 project prior to inclusion of the development fee in the eligible
24 basis, as determined by the committee.

25 (B) The committee shall give a preference to those projects
26 satisfying all of the threshold requirements of subparagraph (A)
27 if both of the following apply:

28 (i) The project serves the lowest income tenants at rents
29 affordable to those tenants.

30 (ii) The project is obligated to serve qualified tenants for the
31 longest period.

32 (C) In addition to the provisions of subparagraphs (A) and (B),
33 the committee shall use the following criteria in allocating housing
34 credits:

35 (i) Projects serving large families in which a substantial number,
36 as defined by the committee, of all residential units are low-income
37 units with three or more bedrooms.

38 (ii) Projects providing single-room occupancy units serving
39 very low income tenants.

1 (iii) Existing projects that are “at risk of conversion,” as defined
2 by paragraph (6) of subdivision (c).

3 (iv) Projects for which a public agency provides direct or indirect
4 long-term financial support for at least 15 percent of the total
5 project development costs or projects for which the owner’s equity
6 constitutes at least 30 percent of the total project development
7 costs.

8 (v) Projects that provide tenant amenities not generally available
9 to residents of low-income housing projects.

10 (D) Subparagraph (B) and (C) shall not apply to projects
11 receiving an allocation pursuant to subparagraph (B) of paragraph
12 (1) of subdivision (g).

13 (4) For purposes of allocating credits pursuant to this section,
14 the committee shall not give preference to any project by virtue
15 of the date of submission of its application except to break a tie
16 when two or more of the projects have an equal rating.

17 (5) Not less than 20 percent of the low-income housing tax
18 credits available annually under this section, Section 12206, and
19 Section 17058 shall be set aside for allocation to rural areas as
20 defined in Section 50199.21 of the Health and Safety Code. Any
21 amount of credit set aside for rural areas remaining on or after
22 October 31 of any calendar year shall be available for allocation
23 to any eligible project. No amount of credit set aside for rural areas
24 shall be considered available for any eligible project so long as
25 there are eligible rural applications pending on October 31.

26 (k) Section 42(l) of the Internal Revenue Code, relating to
27 certifications and other reports to secretary, shall be modified as
28 follows:

29 The term “secretary” shall be replaced by the term “Franchise
30 Tax Board.”

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

35 (m) A project that received an allocation of a 1989 federal
36 housing credit dollar amount shall be eligible to receive an
37 allocation of a 1990 state housing credit dollar amount, subject to
38 all of the following conditions:

39 (1) The project was not placed in service prior to 1990.

(2) To the extent the amendments made to this section by the Statutes of 1990 conflict with any provisions existing in this section prior to those amendments, the prior provisions of law shall prevail.

(3) Notwithstanding paragraph (2), a project applying for an allocation under this subdivision shall be subject to the requirements of paragraph (3) of subdivision (j).

(n) The credit period with respect to an allocation of credit in 1989 by the California Tax Credit Allocation Committee of which any amount is attributable to unallocated credit from 1987 or 1988 shall not begin until after December 31, 1989.

(o) The provisions of Section 11407(a) of Public Law 101-508, relating to the effective date of the extension of the low-income housing credit, apply to calendar years after 1989.

(p) The provisions of Section 11407(c) of Public Law 101-508, relating to election to accelerate credit, shall not apply.

(q) (1) A corporation may elect to assign any portion of any credit allowed under this section to one or more affiliated corporations for each taxable year in which the credit is allowed. For purposes of this subdivision, “affiliated corporation” has the meaning provided in subdivision (b) of Section 25110, as that section was amended by Chapter 881 of the Statutes of 1993, as of the last day of the taxable year in which the credit is allowed, except that “100 percent” is substituted for “more than 50 percent” wherever it appears in the section, as that section was amended by Chapter 881 of the Statutes of 1993, and “voting common stock” is substituted for “voting stock” wherever it appears in the section, as that section was amended by Chapter 881 of the Statutes of 1993.

(2) The election provided in paragraph (1):

(A) May be based on any method selected by the corporation that originally receives the credit.

(B) Shall be irrevocable for the taxable year the credit is allowed, once made.

(C) May be changed for any subsequent taxable year if the election to make the assignment is expressly shown on each of the returns of the affiliated corporations that assign and receive the credits.

(r) (1) (A) For a project that receives a preliminary reservation under this section beginning on or after January 1, 2016, a taxpayer may elect in its application to the California Tax Credit Allocation

1 Committee to sell all or any portion of any credit allowed, subject
2 to subparagraphs (B) and (C). The taxpayer may, only once, revoke
3 an election to sell pursuant to this subdivision at any time before
4 the California Tax Credit Allocation Committee allocates a final
5 credit amount for the project pursuant to this section, at which
6 point the election shall become irrevocable.

7 (B) A credit that a taxpayer elects to sell all or a portion of
8 pursuant to this subdivision shall be sold for consideration that is
9 not less than 80 percent of the amount of the credit.

10 (C) A taxpayer shall not elect to sell all or any portion of any
11 credit pursuant to this subdivision if the taxpayer did not make
12 that election in its application submitted to the California Tax
13 Credit Allocation Committee.

14 (2) (A) The taxpayer that originally received the credit shall
15 report to the California Tax Credit Allocation Committee within
16 10 days of the sale of the credit, in the form and manner specified
17 by the California Tax Credit Allocation Committee, all required
18 information regarding the purchase and sale of the credit, including
19 the social security or other taxpayer identification number of the
20 unrelated party or parties to whom the credit has been sold, the
21 face amount of the credit sold, and the amount of consideration
22 received by the taxpayer for the sale of the credit.

23 (B) The California Tax Credit Allocation Committee shall
24 provide an annual listing to the Franchise Tax Board, in a form
25 and manner agreed upon by the California Tax Credit Allocation
26 Committee and the Franchise Tax Board, of the taxpayers that
27 have sold or purchased a credit pursuant to this subdivision.

28 (3) A credit may be sold pursuant to this subdivision to more
29 than one unrelated party.

30 (4) Notwithstanding any other law, the taxpayer that originally
31 received the credit that is sold pursuant to paragraph (1) shall
32 remain solely liable for all obligations and liabilities imposed on
33 the taxpayer by this section with respect to the credit, none of
34 which shall apply to a party to whom the credit has been sold or
35 subsequently transferred. Parties that purchase credits pursuant to
36 paragraph (1) shall be entitled to utilize the purchased credits in
37 the same manner in which the taxpayer that originally received
38 the credit could utilize them.

(5) A taxpayer shall not sell a credit allowed by this section if the taxpayer was allowed the credit on any tax return of the taxpayer.

(s) The California Tax Credit Allocation Committee may prescribe rules, guidelines, or procedures necessary or appropriate to carry out the purposes of this section, including any guidelines regarding the allocation of the credit allowed under this section. Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code shall not apply to any rule, guideline, or procedure prescribed by the California Tax Credit Allocation Committee pursuant to this section.

(t) Any unused credit may continue to be carried forward, as provided in subdivision (l), until the credit has been exhausted.

(u) This section shall remain in effect on and after December 1, 1990, for as long as Section 42 of the Internal Revenue Code, relating to low-income housing credit, remains in effect.

(v) The amendments to this section made by Chapter 1222 of the Statutes of 1993 shall apply only to taxable years beginning on or after January 1, 1994, except that paragraph (1) of subdivision (q), as amended, shall apply to taxable years beginning on or after January 1, 1993.

SEC. 85. Section 23691 of the Revenue and Taxation Code is amended to read:

23691. For each taxable year beginning on or after January 1, 2021, and before January 1, 2027, there shall be allowed to a taxpayer that receives a tax credit allocation a credit against the “tax,” as defined in Section 23036, in an amount determined in accordance with Section 47 of the Internal Revenue Code, except as follows: *otherwise provided in this section.*

(a) (1) In lieu of the ~~percentage specified in amount of credit computed pursuant to Section 47(a) of the Internal Revenue Code, except as provided in paragraph (2), the applicable percentage amount of credit for the taxable year~~ shall be 20 percent of the qualified rehabilitation expenditures with respect to a certified historic structure.

(2) The applicable percentage shall be 25 percent of the qualified rehabilitation expenditures with respect to a certified historic structure if that certified historic structure meets one of the following criteria:

1 (A) The structure is located on federal surplus property, if
2 obtained by a local agency under Section 54142 of the Government
3 Code, on surplus state real property, as defined by Section 11011.1
4 of the Government Code, or on surplus land, as defined by
5 subdivision (b) of Section 54221 of the Government Code.

6 (B) The rehabilitated structure includes affordable housing for
7 lower-income households, as defined by Section 50079.5 of the
8 Health and Safety Code.

9 (C) The structure is located in a designated census tract, as
10 defined in paragraph (7) of subdivision (b) of Section 17053.73.

11 (D) The rehabilitated structure is a part of a military base reuse
12 authority established pursuant to Title 7.86 (commencing with
13 Section 67800) of the Government Code.

14 (E) The structure is a transit-oriented development that is a
15 higher density, mixed-use development within a walking distance
16 of one-half mile of a transit station.

17 (b) For purposes of this section, the following definitions shall
18 apply:

19 (1) “Certified historic structure” has the same meaning as
20 defined in Section 47(c)(3) of the Internal Revenue Code, that is
21 a structure in this state and is listed on the California Register of
22 Historical Resources.

23 (2) “Qualified rehabilitation expenditure” has the same meaning
24 as that term is defined in Section 47(c)(2) of the Internal Revenue
25 Code, except that qualified rehabilitation expenditures may include
26 expenditures in connection with the rehabilitation of a building
27 without regard to whether any portion of the building is or is
28 reasonably expected to be tax-exempt use property.

29 (3) *The amendments made by Section 13402(b)(1)(B) of the Tax*
30 *Cuts and Jobs Act (Public Law 115-97) to Section 47(c)(2)(B)(iv)*
31 *of the Internal Revenue Code, relating to certified historic*
32 *structure, shall not apply.*

33 (c) (1) To be eligible for the credit allowed by this section, a
34 taxpayer shall request a tax credit allocation from the California
35 Tax Credit Allocation Committee, in conjunction with the Office
36 of Historic Preservation.

37 (2) To obtain a tax credit allocation, the taxpayer shall provide
38 necessary information, as determined by the Office of Historic
39 Preservation and the California Tax Credit Allocation Committee.

1 (3) A tax credit allocation provided to a taxpayer shall not
2 constitute a determination by the California Tax Credit Allocation
3 Committee with respect to any of the requirements of this section
4 regarding a taxpayer's eligibility for the credit authorized by this
5 section.

6 (4) The Office of Historic Preservation shall establish in
7 regulations the time period that a taxpayer who receives a tax credit
8 allocation must commence rehabilitation after the issuance of the
9 tax credit allocation. If rehabilitation is not commenced within the
10 time period established by the office, the tax credit allocation shall
11 be forfeited and the credit amount associated with the tax credit
12 allocation shall be treated as an unused allocation tax credit
13 amount.

14 (d) A deduction shall not be allowed under this part for any
15 expense for which a credit for that expense is allowed by this
16 section.

17 (e) If a credit is allowed under this section with respect to any
18 property, the basis of that property shall be reduced by the amount
19 of the credit allowed.

20 (f) (1) A credit allowed under this section shall be claimed in
21 the first taxable year in which the structure is placed in service.

22 (2) In the case where the credit allowed by this section exceeds
23 the "tax," the excess may be carried over to reduce the "tax" in
24 the following year, and the seven succeeding years, if necessary,
25 until the credit is exhausted.

26 (g) For purposes of this section, the Office of Historic
27 Preservation shall do all of the following:

28 (1) Adopt regulations to implement the requirements of this
29 section. The regulations shall comply with the requirements of the
30 rulemaking provisions of the Administrative Procedure Act
31 (Chapter 3.5 (commencing with Section 11340) of Part 1 of
32 Division 3 of Title 2 of the Government Code).

33 (2) Establish a written application, on a form jointly prescribed
34 by the office and the California Tax Credit Allocation Committee,
35 for the allocation of the tax credit. The written application shall
36 require the applicant to include a summary of the expected
37 economic benefits of the project. The economic benefits shall
38 include, but are not limited to, all of the following:

39 (A) The number of jobs created by the rehabilitation project,
40 both during and after the rehabilitation of the structure.

1 (B) The expected increase in state and local tax revenues derived
2 from the rehabilitation project, including those from increased
3 wages and property taxes.

4 (C) Any additional incentives or contributions included in the
5 rehabilitation project from federal, state, or local governments.

6 (3) Establish a process to determine that applicants meet the
7 requirements of this section and to ensure that the rehabilitation
8 project meets the Secretary of the Interior's Standards for
9 Rehabilitation, as found in Part 67 of Title 36 of the Code of
10 Federal Regulations.

11 (4) Establish a process to approve, or reject, all tax credit
12 allocation applications.

13 (h) For purposes of this section, the California Tax Credit
14 Allocation Committee shall do all of the following:

15 (1) Establish a process jointly with the Office of Historic
16 Preservation to implement the provisions of this section.

17 (2) (A) Subject to the annual cap established as provided in
18 subdivision (i), allocate on a first-come-first-served basis an
19 aggregate amount of credits under this section and Section
20 17053.91, and allocate any carryover of unallocated credits from
21 prior years.

22 (B) A taxpayer shall be allocated a tax credit pursuant to the
23 taxpayer's tax credit allocation upon receipt by the California Tax
24 Credit Allocation Committee of a cost certification for the qualified
25 rehabilitation expenditures. For projects with qualified
26 rehabilitation expenditures in excess of two hundred fifty thousand
27 dollars (\$250,000), the cost certification shall be issued by a
28 licensed certified public accountant.

29 (3) Certify tax credits allocated to taxpayers.

30 (4) Provide the Franchise Tax Board an annual list of the
31 taxpayers that were allocated a credit pursuant to this section and
32 Section 17053.91 including each taxpayer's taxpayer identification
33 number, and the amount allocated to each taxpayer.

34 (i) (1) The aggregate amount of credits that may be allocated
35 in any calendar year pursuant to this section and Section 17053.91
36 shall be an amount equal to the sum of all of the following:

37 (A) Fifty million dollars (\$50,000,000) in tax credits for the
38 2021 calendar year and each calendar year thereafter, through and
39 including the 2027 calendar year.

1 (B) The unused allocation tax credit amount, if any, for the
2 preceding calendar year.

3 (2) Notwithstanding the foregoing, the California Tax Credit
4 Allocation Committee shall set aside eight million dollars
5 (\$8,000,000) of tax credits that may be allocated each calendar
6 year for taxpayers in the aggregate, pursuant to this paragraph and
7 subparagraph (B) of paragraph (2) of subdivision (i) of Section
8 17053.91, with qualified rehabilitation expenditures of less than
9 one million dollars (\$1,000,000). After providing for the
10 reallocation pursuant to subparagraph (C) of paragraph (2) of
11 subdivision (i) of Section 17053.91, to the extent that this amount
12 is not fully allocated in any calendar year, the unused portion shall
13 become available in subsequent calendar years for allocation to
14 other taxpayers, except those taxpayers subject to subparagraph
15 (A) of paragraph (2) of subdivision (i) of Section 17053.91.

16 (j) In the case of any application for tax credits by an entity
17 treated as a partnership for income tax purposes:

18 (1) Credits awarded to a partnership shall be allocated to the
19 partners of that partnership in accordance with the partnership
20 agreement, regardless of how the federal historic rehabilitation tax
21 credit with respect to the project is allocated to the partners, or
22 whether the allocation of the credit under the terms of the
23 partnership agreement has substantial economic effect, within the
24 meaning of Section 704(b) of the Internal Revenue Code.

25 (2) To the extent the allocation of the credit to a partner under
26 this section lacks substantial economic effect, any loss or deduction
27 otherwise allowable under this part that is attributable to the sale
28 or other disposition of that partner's partnership interest made prior
29 to the expiration of the tax credit recapture period for the project
30 described in paragraph (1) shall not be allowed in the taxable year
31 in which the sale or other disposition occurs, but shall instead be
32 deferred until, and treated as if, it occurred in the first taxable year
33 immediately following the taxable year in which the tax credit
34 recapture period expires for the project described in paragraph (1).
35 The credits awarded to a partnership shall be allocated to the
36 partners of that partnership in accordance with the partnership
37 agreement.

38 (k) For purposes of this section, the provisions of subsection
39 (a) of Section 50 of the Internal Revenue Code shall apply.

1 (l) Notwithstanding any other provision of this part, a credit
2 allowed pursuant to this section may reduce the “tax” below the
3 tentative minimum tax, as defined by paragraph (1) of subdivision
4 (a) of Section 23455.

5 (m) This section shall remain in effect regardless of the
6 expiration or repeal of Section 47 of the Internal Revenue Code,
7 relating to rehabilitation credit.

8 (n) The California Tax Credit Allocation Committee and the
9 Office of Historic Preservation may charge a reasonable fee in an
10 amount that does not exceed the reasonable costs incurred by the
11 California Tax Credit Allocation Committee and the Office of
12 Historic Preservation in fulfilling the responsibilities described in
13 paragraphs (4) and (5) of subdivision (g) and subdivision (h) and
14 paragraphs (4) and (5) of subdivision (g) and subdivision (h) of
15 Section 17053.91.

16 (o) (1) This section shall remain in effect only until December
17 1, 2027, and as of that date is repealed.

18 (2) Unless otherwise specified in any bill providing for
19 appropriations related to the Budget Act, for taxable years
20 beginning on or after January 1, 2021, and before January 1, 2027,
21 the amount of credit allowed pursuant to this section shall be zero
22 dollars (\$0).

23 ~~SEC. 85. Section 23691 of the Revenue and Taxation Code is~~
24 ~~amended to read:~~

25 ~~23691. For each taxable year beginning on or after January 1,~~
26 ~~2021, and before January 1, 2027, there shall be allowed to a~~
27 ~~taxpayer that receives a tax credit allocation a credit against the~~
28 ~~“tax,” as defined in Section 23036, in an amount determined in~~
29 ~~accordance with Section 47 of the Internal Revenue Code, except~~
30 ~~as otherwise provided in this section.~~

31 ~~(a) (1) In lieu of the amount of credit computed pursuant to~~
32 ~~Section 47(a) of the Internal Revenue Code, except as provided~~
33 ~~in paragraph (2), the amount of credit for the taxable year shall be~~
34 ~~20 percent of the qualified rehabilitation expenditures with respect~~
35 ~~to a certified historic structure.~~

36 ~~(2) The applicable percentage shall be 25 percent of the qualified~~
37 ~~rehabilitation expenditures with respect to a certified historic~~
38 ~~structure if that certified historic structure meets one of the~~
39 ~~following criteria:~~

~~(A) The structure is located on federal surplus property, if obtained by a local agency under Section 54142 of the Government Code, on surplus state real property, as defined by Section 11011.1 of the Government Code, or on surplus land, as defined by subdivision (b) of Section 54221 of the Government Code.~~

~~(B) The rehabilitated structure includes affordable housing for lower-income households, as defined by Section 50079.5 of the Health and Safety Code.~~

~~(C) The structure is located in a designated census tract, as defined in paragraph (7) of subdivision (b) of Section 17053.73.~~

~~(D) The rehabilitated structure is a part of a military base reuse authority established pursuant to Title 7.86 (commencing with Section 67800) of the Government Code.~~

~~(E) The structure is a transit-oriented development that is a higher density, mixed-use development within a walking distance of one-half mile of a transit station.~~

~~(b) For purposes of this section, the following definitions shall apply:~~

~~(1) “Certified historic structure” has the same meaning as defined in Section 47(c)(3) of the Internal Revenue Code, that is a structure in this state and is listed on the California Register of Historical Resources.~~

~~(2) “Qualified rehabilitation expenditure” has the same meaning as that term is defined in Section 47(c)(2) of the Internal Revenue Code, except that qualified rehabilitation expenditures may include expenditures in connection with the rehabilitation of a building without regard to whether any portion of the building is or is reasonably expected to be tax-exempt use property.~~

~~(3) The amendments made by Section 13402(b)(1)(B) of the Tax Cuts and Jobs Act (Public Law 115-97) to Section 47(c)(2)(B)(iv) of the Internal Revenue Code, relating to certified historic structure, shall not apply.~~

~~(e) (1) To be eligible for the credit allowed by this section, a taxpayer shall request a tax credit allocation from the California Tax Credit Allocation Committee, in conjunction with the Office of Historic Preservation.~~

~~(2) To obtain a tax credit allocation, the taxpayer shall provide necessary information, as determined by the Office of Historic Preservation and the California Tax Credit Allocation Committee.~~

1 ~~(3) A tax credit allocation provided to a taxpayer shall not~~
2 ~~constitute a determination by the California Tax Credit Allocation~~
3 ~~Committee with respect to any of the requirements of this section~~
4 ~~regarding a taxpayer's eligibility for the credit authorized by this~~
5 ~~section.~~

6 ~~(4) The Office of Historic Preservation shall establish in~~
7 ~~regulations the time period that a taxpayer who receives a tax credit~~
8 ~~allocation must commence rehabilitation after the issuance of the~~
9 ~~tax credit allocation. If rehabilitation is not commenced within the~~
10 ~~time period established by the office, the tax credit allocation shall~~
11 ~~be forfeited and the credit amount associated with the tax credit~~
12 ~~allocation shall be treated as an unused allocation tax credit~~
13 ~~amount.~~

14 ~~(d) A deduction shall not be allowed under this part for any~~
15 ~~expense for which a credit for that expense is allowed by this~~
16 ~~section.~~

17 ~~(e) If a credit is allowed under this section with respect to any~~
18 ~~property, the basis of that property shall be reduced by the amount~~
19 ~~of the credit allowed.~~

20 ~~(f) (1) A credit allowed under this section shall be claimed in~~
21 ~~the first taxable year in which the structure is placed in service.~~

22 ~~(2) In the case where the credit allowed by this section exceeds~~
23 ~~the "tax," the excess may be carried over to reduce the "tax" in~~
24 ~~the following year, and the seven succeeding years, if necessary,~~
25 ~~until the credit is exhausted.~~

26 ~~(g) For purposes of this section, the Office of Historic~~
27 ~~Preservation shall do all of the following:~~

28 ~~(1) Adopt regulations to implement the requirements of this~~
29 ~~section. The regulations shall comply with the requirements of the~~
30 ~~rulemaking provisions of the Administrative Procedure Act~~
31 ~~(Chapter 3.5 (commencing with Section 11340) of Part 1 of~~
32 ~~Division 3 of Title 2 of the Government Code).~~

33 ~~(2) Establish a written application, on a form jointly prescribed~~
34 ~~by the office and the California Tax Credit Allocation Committee,~~
35 ~~for the allocation of the tax credit. The written application shall~~
36 ~~require the applicant to include a summary of the expected~~
37 ~~economic benefits of the project. The economic benefits shall~~
38 ~~include, but are not limited to, all of the following:~~

39 ~~(A) The number of jobs created by the rehabilitation project,~~
40 ~~both during and after the rehabilitation of the structure.~~

~~(B) The expected increase in state and local tax revenues derived from the rehabilitation project, including those from increased wages and property taxes.~~

~~(C) Any additional incentives or contributions included in the rehabilitation project from federal, state, or local governments.~~

~~(3) Establish a process to determine that applicants meet the requirements of this section and to ensure that the rehabilitation project meets the Secretary of the Interior's Standards for Rehabilitation, as found in Part 67 of Title 36 of the Code of Federal Regulations.~~

~~(4) Establish a process to approve, or reject, all tax credit allocation applications.~~

~~(h) For purposes of this section, the California Tax Credit Allocation Committee shall do all of the following:~~

~~(1) Establish a process jointly with the Office of Historic Preservation to implement the provisions of this section.~~

~~(2) (A) Subject to the annual cap established as provided in subdivision (i), allocate on a first-come-first-served basis an aggregate amount of credits under this section and Section 17053.91, and allocate any carryover of unallocated credits from prior years.~~

~~(B) A taxpayer shall be allocated a tax credit pursuant to the taxpayer's tax credit allocation upon receipt by the California Tax Credit Allocation Committee of a cost certification for the qualified rehabilitation expenditures. For projects with qualified rehabilitation expenditures in excess of two hundred fifty thousand dollars (\$250,000), the cost certification shall be issued by a licensed certified public accountant.~~

~~(3) Certify tax credits allocated to taxpayers.~~

~~(4) Provide the Franchise Tax Board an annual list of the taxpayers that were allocated a credit pursuant to this section and Section 17053.91 including each taxpayer's taxpayer identification number, and the amount allocated to each taxpayer.~~

~~(i) (1) The aggregate amount of credits that may be allocated in any calendar year pursuant to this section and Section 17053.91 shall be an amount equal to the sum of all of the following:~~

~~(A) Fifty million dollars (\$50,000,000) in tax credits for the 2021 calendar year and each calendar year thereafter, through and including the 2027 calendar year.~~

1 ~~(B) The unused allocation tax credit amount, if any, for the~~
2 ~~preceding calendar year.~~

3 ~~(2) Notwithstanding the foregoing, the California Tax Credit~~
4 ~~Allocation Committee shall set aside eight million dollars~~
5 ~~(\$8,000,000) of tax credits that may be allocated each calendar~~
6 ~~year for taxpayers in the aggregate, pursuant to this paragraph and~~
7 ~~subparagraph (B) of paragraph (2) of subdivision (i) of Section~~
8 ~~17053.91, with qualified rehabilitation expenditures of less than~~
9 ~~one million dollars (\$1,000,000). To the extent that this amount~~
10 ~~is not fully allocated in any calendar year, the unused portion shall~~
11 ~~become available in subsequent calendar years for allocation to~~
12 ~~other taxpayers, except those taxpayers subject to subparagraph~~
13 ~~(A) of paragraph (2) of subdivision (i) of Section 17053.91.~~

14 ~~(j) In the case of any application for tax credits by an entity~~
15 ~~treated as a partnership for income tax purposes:~~

16 ~~(1) Credits awarded to a partnership shall be allocated to the~~
17 ~~partners of that partnership in accordance with the partnership~~
18 ~~agreement, regardless of how the federal historic rehabilitation tax~~
19 ~~credit with respect to the project is allocated to the partners, or~~
20 ~~whether the allocation of the credit under the terms of the~~
21 ~~partnership agreement has substantial economic effect, within the~~
22 ~~meaning of Section 704(b) of the Internal Revenue Code.~~

23 ~~(2) To the extent the allocation of the credit to a partner under~~
24 ~~this section lacks substantial economic effect, any loss or deduction~~
25 ~~otherwise allowable under this part that is attributable to the sale~~
26 ~~or other disposition of that partner's partnership interest made prior~~
27 ~~to the expiration of the tax credit recapture period for the project~~
28 ~~described in paragraph (1) shall not be allowed in the taxable year~~
29 ~~in which the sale or other disposition occurs, but shall instead be~~
30 ~~deferred until, and treated as if, it occurred in the first taxable year~~
31 ~~immediately following the taxable year in which the tax credit~~
32 ~~recapture period expires for the project described in paragraph (1).~~
33 ~~The credits awarded to a partnership shall be allocated to the~~
34 ~~partners of that partnership in accordance with the partnership~~
35 ~~agreement.~~

36 ~~(k) For purposes of this section, the provisions of subsection~~
37 ~~(a) of Section 50 of the Internal Revenue Code shall apply.~~

38 ~~(l) Notwithstanding any other provision of this part, a credit~~
39 ~~allowed pursuant to this section may reduce the "tax" below the~~

1 tentative minimum tax, as defined by paragraph (1) of subdivision
2 (a) of Section 23455.

3 ~~(m) This section shall remain in effect regardless of the~~
4 ~~expiration or repeal of Section 47 of the Internal Revenue Code,~~
5 ~~relating to rehabilitation credit.~~

6 ~~(n) The California Tax Credit Allocation Committee and the~~
7 ~~Office of Historic Preservation may charge a reasonable fee in an~~
8 ~~amount that does not exceed the reasonable costs incurred by the~~
9 ~~California Tax Credit Allocation Committee and the Office of~~
10 ~~Historic Preservation in fulfilling the responsibilities described in~~
11 ~~paragraphs (4) and (5) of subdivision (g) and subdivision (h) and~~
12 ~~paragraphs (4) and (5) of subdivision (g) and subdivision (h) of~~
13 ~~Section 17053.91.~~

14 ~~(o) (1) This section shall remain in effect only until December~~
15 ~~1, 2027, and as of that date is repealed.~~

16 ~~(2) Unless otherwise specified in any bill providing for~~
17 ~~appropriations related to the Budget Act, for taxable years~~
18 ~~beginning on or after January 1, 2021, and before January 1, 2027,~~
19 ~~the amount of credit allowed pursuant to this section shall be zero~~
20 ~~dollars (\$0).~~

21 SEC. 86. Section 23711 of the Revenue and Taxation Code is
22 amended to read:

23 23711. Section 529 of the Internal Revenue Code, relating to
24 qualified state tuition programs, shall apply, except as otherwise
25 provided.

26 (a) Section 529(a) of the Internal Revenue Code is modified as
27 follows:

28 (1) By substituting the phrase “under Part 10 (commencing with
29 Section 17001) and this part” in lieu of the phrase “under this
30 subtitle.”

31 (2) By substituting “Article 2 (commencing with Section
32 23731)” in lieu of “section 511.”

33 (b) A copy of the report required to be filed with the Secretary
34 of the Treasury under Section 529(d) of the Internal Revenue Code
35 shall be filed with the Franchise Tax Board at the same time and
36 in the same manner as specified in that section.

37 (c) (1) The amendments made by Section 302(a)(1) of Division
38 Q of the Consolidated Appropriations Act, 2016 (Public Law
39 114-113) to Section 529(e) of the Internal Revenue Code, relating

1 to other definitions and special rules, shall apply except as
2 otherwise provided.

3 (2) The amendments made by Section 302(b)(1) of Division Q
4 of the Consolidated Appropriations Act, 2016 (Public Law
5 114-113) to Section 529(c)(3) of the Internal Revenue Code,
6 relating to distributions, shall apply, except as otherwise provided.

7 (3) The amendments made by Section 302(c)(1) of Division Q
8 of the Consolidated Appropriations Act, 2016 (Public Law
9 114-113) to Section 529(c)(3)(D) of the Internal Revenue Code,
10 relating to special rule for contributions of refunded amounts, shall
11 apply, except as otherwise provided.

12 (d) (1) The amendments made by Section 11025(a) of the Tax
13 Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section
14 529(c)(3)(C) of the Internal Revenue Code, relating to change in
15 beneficiaries or programs, shall apply, except as otherwise
16 provided.

17 (2) (A) The amendments made by Section 11032(a)(1) of the
18 Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section
19 529(c) of the Internal Revenue Code, relating to tax treatment of
20 designated beneficiaries and contributors, shall not apply, except
21 as otherwise provided.

22 (B) The amendments made by Section 11032(a)(2) of the Tax
23 Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section
24 529(e)(3)(A) of the Internal Revenue Code, relating to qualified
25 higher education expenses, shall not apply, except as otherwise
26 provided.

27 (C) In the case of any distribution made under Section
28 529(e)(3)(A) of the Internal Revenue Code, as amended by Section
29 11032(a)(2) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law
30 115-97), that would be treated for federal income tax purposes as
31 a “qualified higher education expense” under Section 529(c)(7)
32 of the Internal Revenue Code, as added by Section 11032(a)(1) of
33 the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), the
34 amount of that distribution shall, notwithstanding anything in
35 Section 529 of the Internal Revenue Code to the contrary, be
36 includable in the gross income of the distributee in the manner as
37 provided under Section 72 of the Internal Revenue Code.

38 (D) Any distribution includable in the gross income of a
39 distributee under subparagraph (C) shall not affect the exempt

1 status of the qualified tuition program under Section 529 of the
2 Internal Revenue Code for purposes of this part.

3 (e) (1) Section 529(c)(3)(E) of the Internal Revenue Code,
4 relating to special rollovers to Roth IRAs from long-term qualified
5 tuition programs, shall not apply.

6 (2) In the case of any distribution made under Section
7 529(c)(3)(E) of the Internal Revenue Code, relating to the special
8 rollover to Roth IRAs from long-term qualified tuition programs,
9 treated for federal income tax purposes as a “qualified rollover
10 contribution” under Section 408A(e)(1)(C) of the Internal Revenue
11 Code, the amount of that distribution shall, notwithstanding Section
12 529 or Section 408A of the Internal Revenue Code to the contrary,
13 be includable in the gross income of the distributee in the manner
14 as provided under Section 72 of the Internal Revenue Code.

15 (3) Any distribution includable in the gross income of a
16 distributee under paragraph (2) shall not affect the exempt status
17 of the qualified tuition program under Section 529 of the Internal
18 Revenue Code for purposes of this part.

19 SEC. 87. Section 23806 of the Revenue and Taxation Code is
20 amended to read:

21 23806. (a) Section 1371(a) of the Internal Revenue Code,
22 relating to application of Subchapter C rules, is modified to provide
23 that, notwithstanding subdivisions (a) and (e) of Sections 17024.5
24 and 23051.5, any election by an “S corporation” or its shareholders
25 under Section 338 of the Internal Revenue Code, relating to certain
26 stock purchases treated as asset acquisitions, for federal purposes
27 shall be treated as an election for purposes of this part and a
28 separate election under paragraph (3) of subdivision (e) of Section
29 17024.5 or 23051.5 shall not be allowed.

30 (b) No election under Section 338 of the Internal Revenue Code,
31 relating to certain stock purchases treated as asset acquisitions,
32 shall be allowed for state purposes unless the “S corporation” or
33 its shareholders made a valid election for federal purposes under
34 Section 338 of the Internal Revenue Code.

35 (c) Section ~~1371(d)~~ 1371(d) of the Internal Revenue Code shall
36 not apply.

37 (d) (1) Subdivisions (a) and (b) shall apply to any transaction
38 occurring on or after January 1, 1998, in a taxable year beginning
39 on or after January 1, 1997.

1 (2) Subdivision (c) shall apply to taxable years beginning on or
2 after January 1, 1997.

3 (e) Section 1371(f) of the Internal Revenue Code, relating to
4 cash distributions following post-termination transition period,
5 shall not apply.

6 SEC. 88. Section 23809 of the Revenue and Taxation Code is
7 amended to read:

8 23809. There is hereby imposed a tax on built-in gains
9 attributable to California sources, determined in accordance with
10 the provisions of Section 1374 of the Internal Revenue Code,
11 relating to tax imposed on certain built-in gains, as modified by
12 this section.

13 (a) (1) The rate of tax specified in Section 1374(b)(1) of the
14 Internal Revenue Code shall be equal to the rate of tax imposed
15 under Section 23151 in lieu of the rate of tax specified in Section
16 11(b) of the Internal Revenue Code.

17 (2) In the case of an “S” corporation that is also a financial
18 corporation, the rate of tax specified in paragraph (1) shall be
19 increased by the excess of the rate imposed under Section 23183
20 over the rate imposed under Section 23151.

21 (b) The provisions of Section 1374(b)(3) of the Internal Revenue
22 Code, relating to credits, are modified to provide that the tax
23 imposed under subdivision (a) may not be reduced by any credits
24 allowed under this part.

25 (c) The provisions of Section 1374(b)(4) of the Internal Revenue
26 Code, relating to coordination with Section 1201(a), do not apply
27 to taxable years beginning before January 1, 2018, and ending
28 before January 1, 2025.

29 (d) (1) For corporations described in paragraph (2), the
30 provisions of Sections 1374(c)(1) and 1374(d)(7) of the Internal
31 Revenue Code apply, based upon the effective date of the election
32 to be treated as an “S” corporation for federal tax purposes,
33 regardless of the date on which the corporation became an “S”
34 corporation for state tax purposes.

35 (2) This subdivision applies to a corporation that, for its last
36 taxable year beginning before January 1, 2002, was an “S”
37 corporation for federal tax purposes and a “C” corporation for
38 purposes of Part 10 (commencing with Section 17001), Part 10.2
39 (commencing with Section 18401), and this part, and, as a result
40 of the enactment of Chapter 35 of the Statutes of 2002, is an “S”

1 corporation for the corporation's taxable years beginning on or
2 after January 1, 2002.

3 (e) Section 1374(d)(7)(A) of the Internal Revenue Code, relating
4 to recognition period, is modified by substituting "10-year" in lieu
5 of "5-year."

6 (f) The amendments to this section made by Section 1 of Chapter
7 782 of the Statutes of 2004 shall apply to taxable years beginning
8 on or after January 1, 2002.

9 SEC. 89. Section 24308.6 of the Revenue and Taxation Code
10 is amended to read:

11 24308.6. (a) For taxable years beginning on or after January
12 1, 2019, gross income does not include any covered loan amount
13 forgiven pursuant to Section 1106 of the Coronavirus Aid, Relief,
14 and Economic Security Act (Public Law 116-136), pursuant to the
15 Paycheck Protection Program and Health Care Enhancement Act
16 (Public Law 116-139), pursuant to the Paycheck Protection
17 Program Flexibility Act of 2020 (Public Law 116-142), pursuant
18 to the Consolidated Appropriations Act, 2021 (Public Law
19 116-260), or pursuant to the PPP Extension Act of 2021 (Public
20 Law 117-6).

21 (b) For taxable years beginning on or after January 1, 2019,
22 gross income does not include any advance grant amount issued
23 pursuant to Section 1110(e) of the Coronavirus Aid, Relief, and
24 Economic Security Act (Public Law 116-136), or pursuant to
25 Section 331 of the Consolidated Appropriations Act, 2021 (Public
26 Law 116-260).

27 (c) (1) Notwithstanding Section 24425, for taxable years
28 beginning on or after January 1, 2019, subsection (a) of Section
29 276 of Division N of the Consolidated Appropriations Act, 2021
30 (Public Law 116-260) shall apply, except as provided.

31 (2) Paragraph (1) of subsection (a) of Section 276 of Division
32 N of the Consolidated Appropriations Act, 2021 (Public Law
33 116-260) is modified by substituting the phrase "For purposes of
34 the Internal Revenue Code of 1986" with "For purposes of this
35 ~~part~~. *part.*"

36 (3) The provisions of paragraph (1) of subsection (a) of Section
37 276 of Division N of the Consolidated Appropriations Act, 2021
38 (Public Law 116-260), relating to paragraphs (2) and (3) of
39 subsection (i) of Section 7A of the Small Business Act, shall not
40 apply to an ineligible entity.

1 (4) Paragraph (2) of subsection (a) of Section 276 of Division
2 N of the Consolidated Appropriations Act, 2021 (Public Law
3 116-260) shall not apply.

4 (d) (1) Notwithstanding Section 24425, for taxable years
5 beginning on or after January 1, 2019, subsection (b) of Section
6 276 of Division N of the Consolidated Appropriations Act, 2021
7 (Public Law 116-260) shall apply, except as provided.

8 (2) Subsection (b) of Section 276 of Division N of the
9 Consolidated Appropriations Act, 2021 (Public Law 116-260) is
10 modified by substituting the phrase “For purposes of the Internal
11 Revenue Code of 1986, in the case of any taxable year ending after
12 the date of the enactment of this Act” with “For purposes of this
13 ~~part~~. *part.*”

14 (3) Paragraphs (2) and (3) of subsection (b) of Section 276 of
15 Division N of the Consolidated Appropriations Act, 2021 (Public
16 Law 116-260) shall not apply to an ineligible entity.

17 (e) (1) Notwithstanding Section 24425, for taxable years
18 beginning on or after January 1, 2019, subsection (a) of Section
19 278 of Division N of the Consolidated Appropriations Act, 2021
20 (Public Law 116-260) shall apply, except as provided.

21 (2) Subsection (a) of Section 278 of Division N of the
22 Consolidated Appropriations Act, 2021 (Public Law 116-260) is
23 modified by substituting the phrase “For purposes of the Internal
24 Revenue Code of 1986” with “For purposes of this ~~part~~. *part.*”

25 (3) Paragraphs (2) and (3) of subsection (a) of Section 278 of
26 Division N of the Consolidated Appropriations Act, 2021 (Public
27 Law 116-260) shall not apply to an ineligible entity.

28 (f) (1) Notwithstanding Section 24425, for taxable years
29 beginning on or after January 1, 2019, subsection (b) of Section
30 278 of Division N of the Consolidated Appropriations Act, 2021
31 (Public Law 116-260) shall apply, except as provided.

32 (2) Subsection (b) of Section 278 of Division N of the
33 Consolidated Appropriations Act, 2021 (Public Law 116-260) is
34 modified by substituting the phrase “For purposes of the Internal
35 Revenue Code of 1986” with “For purposes of this ~~part~~. *part.*”

36 (g) Notwithstanding Section 17280, for taxable years beginning
37 on or after January 1, 2019, subsection (a) of Section 304 of Title
38 III of Division N of the Consolidated Appropriations Act, 2021
39 (Public Law 116-260) shall apply, except as provided.

(h) For purposes of this section, all of the following definitions shall apply:

(1) “Covered loan” has the same meaning as in Section 1106 of the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136), or pursuant to the Consolidated Appropriations Act, 2021 (Public Law 116-260).

(2) “Advance grant amount” means an emergency Economic Injury Disaster Loan grant pursuant to Section 1110(e) of the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136), or a targeted Economic Injury Disaster Loan advance pursuant to Section 331 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116-260).

(3) “Ineligible entity” means a taxpayer that either:

(A) Is a publicly traded company.

(B) Does not meet the reduction from the gross receipts requirements of Section 636(a)(37)(A)(iv)(bb) of Title 15 of the United States Code, as added by Section 311 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116-260).

(4) “Publicly traded company” means a publicly traded entity as described in Section 342 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116-260).

(i) The Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code) shall not apply to any standard, criterion, procedure, determination, rule, notice, guideline, or any other guidance established or issued by the Franchise Tax Board pursuant to this section.

(j) The amendments made by the act adding this subdivision shall be operative for taxable years beginning on or after January 1, 2019.

(k) The amendments made to this section by Chapter 55 of the Statutes of 2022 shall be operative for taxable years beginning on or after January 1, 2019.

SEC. 90. Section 24344 of the Revenue and Taxation Code is amended to read:

24344. (a) Section 163 of the Internal Revenue Code, relating to interest, shall apply, except as otherwise provided.

(b) If income of the taxpayer which is derived from or attributable to sources within this state is determined pursuant to Section 25101 or 25110, the interest deductible shall be an amount

1 equal to interest income subject to apportionment by formula, plus
2 the amount, if any, by which the balance of interest expense
3 exceeds interest and dividend income (except dividends deductible
4 under Section 24402 and dividends subject to the deductions
5 provided for in Section 24411 to the extent of those deductions)
6 not subject to apportionment by formula. Interest expense not
7 included in the preceding sentence shall be directly offset against
8 interest and dividend income (except dividends deductible under
9 Section 24402 and dividends subject to the deductions provided
10 for in Section 24411 to the extent of those deductions) not subject
11 to apportionment by formula.

12 (c) (1) Notwithstanding subdivision (b) and subject to paragraph
13 (2), interest expense allowable under Section 163 of the Internal
14 Revenue Code that is incurred for purposes of foreign investments
15 may be offset against dividends deductible under Section 24411.

16 (2) For taxable years beginning on or after January 1, 1997, the
17 amount of interest computed pursuant to paragraph (1) shall be
18 multiplied by the same percentage used to determine the dividend
19 deduction under Section 24411 to determine that amount of interest
20 that may be offset as provided in paragraph (1).

21 (d) Section 7210(b) of Public Law 101-239, relating to the
22 effective date for limitation on deduction for certain interest paid
23 to a related person, shall apply.

24 (e) Section 163(j) of the Internal Revenue Code, relating to the
25 limitation on business interest, shall not apply.

26 SEC. 91. Section 24345.6 is added to the Revenue and Taxation
27 Code, to read:

28 24345.6. A deduction shall not be allowed for the excise tax
29 imposed by Section 4501 of the Internal Revenue Code, relating
30 to repurchase of corporate stock.

31 SEC. 92. Section 24345.7 is added to the Revenue and Taxation
32 Code, to read:

33 24345.7. A deduction shall not be allowed for the excise tax
34 imposed by Section 5000D of the Internal Revenue Code, relating
35 to designated drugs during noncompliance periods.

36 SEC. 93. Section 24349.1 of the Revenue and Taxation Code
37 is amended to read:

38 24349.1. (a) Section 280F of the Internal Revenue Code,
39 relating to limitations on depreciation for luxury automobiles and

1 certain property used for personal purposes, shall apply, except as
2 otherwise provided.

3 (b) Except as provided in subdivision (c), Section 280F of the
4 Internal Revenue Code shall be modified as follows:

5 (1) The terms “deduction” or “recovery deduction,” relating to
6 amounts allowable as a deduction under Section 168 of the Internal
7 Revenue Code, mean the amount allowable as a deduction for
8 depreciation under this part.

9 (2) The term “recovery period,” relating to property under
10 Section 168 of the Internal Revenue Code, means the class life
11 asset depreciation range allowable under this part.

12 (3) The provisions of Section 280F of the Internal Revenue
13 Code which relate to the investment tax credit shall not be
14 applicable for purposes of this part.

15 (c) Paragraphs (1) and (2) of subdivision (b) shall not apply to
16 Section 24356.7 property.

17 (d) The amendments made by Section 13202(a) of the Tax Cuts
18 and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section 280F of
19 the Internal Revenue Code, relating to limitation on depreciation
20 for luxury automobiles; limitation where certain property used for
21 personal purposes, shall not apply.

22 SEC. 94. Section 24356 of the Revenue and Taxation Code is
23 amended to read:

24 24356. (a) (1) In the case of Section 24356 property, the term
25 “reasonable allowance” as used in subdivision (a) of Section 24349,
26 may, at the election of the taxpayer, include an allowance, for the
27 first taxable year for which a deduction is allowable under Sections
28 24349 through 24354 to the taxpayer with respect to such property,
29 of 20 percent of the cost of that property.

30 (2) If in any one taxable year the cost of Section 24349 property
31 with respect to which the taxpayer may elect an allowance under
32 paragraph (1) for that taxable year exceeds ten thousand dollars
33 (\$10,000), then paragraph (1) applies with respect to those items
34 selected by the taxpayer, but only to the extent of an aggregate
35 cost of ten thousand dollars (\$10,000).

36 (b) (1) In lieu of subdivision (a), Section 179 of the Internal
37 Revenue Code, relating to election to expense certain depreciable
38 business assets, applies, except as otherwise provided.

39 (2) Section 179(b)(1) of the Internal Revenue Code, relating to
40 dollar limitation, does not apply and in lieu thereof, the aggregate

cost that may be taken into account under Section 179(a) of the Internal Revenue Code, for any taxable year, shall not exceed twenty-five thousand dollars (\$25,000).

(3) Section 179(b)(2) of the Internal Revenue Code, relating to reduction in limitation, does not apply and in lieu thereof, the limitation under paragraph (2), for any taxable year, shall be reduced, but not below zero, by the amount by which the cost of Section 179 property, as defined in Section 179(d)(1) of the Internal Revenue Code, except as otherwise provided, that is placed in service during the taxable year, exceeds two hundred thousand dollars (\$200,000).

(4) Section 179 of the Internal Revenue Code is modified to provide that the “aggregate amount disallowed” referred to in Section 179(b)(3)(B) of the Internal Revenue Code shall be computed under this part as that section read on the date the property generating the amount disallowed was placed in service.

(5) Section 179(c)(2) of the Internal Revenue Code, relating to elections, shall not apply.

(6) Section 179(d)(1)(A)(ii) of the Internal Revenue Code, relating to computer software, shall not apply.

(7) Section 179(e) of the Internal Revenue Code, relating to special rules for qualified disaster assistance property, shall not apply.

(c) (1) The election under this section for any taxable year shall be made within the time prescribed by law (including extensions thereof) for filing the return for such taxable year. The election shall be made in such manner as the Franchise Tax Board may by regulations prescribe.

(2) Any election made under this section shall not be revoked except with the consent of the Franchise Tax Board.

(d) (1) For purposes of this section, the term “Section 24356 property” means tangible personal ~~property~~ *property*:

(A) Of a character subject to the allowance for depreciation under Sections 24349 through ~~24354~~, 24354;

(B) Acquired by purchase after December 31, 1958, for use in a trade or business, and

(C) With a useful life (determined at the time of such acquisition) of six years or more.

(2) For purposes of paragraph (1), the term “purchase” means any acquisition of property, but only ~~if~~ *if*:

1 (A) The property is not acquired from a person whose
2 relationship to the person acquiring it would result in the
3 disallowance of losses under Section 24427 (but, in applying
4 Section 267 of the Internal Revenue Code, relating to losses,
5 expenses, and interest with respect to transactions between related
6 taxpayers, for purposes of this section, Section 267(c)(4) of the
7 Internal Revenue Code shall be treated as providing that the family
8 of an individual shall include only the individual's spouse,
9 ancestors, and lineal descendants);

10 (B) The property is not acquired by one member of an affiliated
11 group from another member of the same affiliated group, and

12 (C) The basis of the property in the hands of the person acquiring
13 it is not determined in whole or in part by reference to the adjusted
14 basis of that property in the hands of the person from whom
15 acquired.

16 (3) For purposes of this section, the cost of property does not
17 include so much of the basis of such property as is determined by
18 reference to the basis of other property held at any time by the
19 person acquiring that property.

20 (4) For purposes of subdivision (a) and subdivision (b) of this
21 section:

22 (A) All members of an affiliated group shall be treated as one
23 taxpayer, and

24 (B) The Franchise Tax Board shall apportion the dollar
25 limitation contained in subdivision (a) or subdivision (b) among
26 the members of the affiliated group in the manner as it shall by
27 regulations prescribe.

28 (5) For purposes of paragraphs (2) and (4), the term "affiliated
29 group" has the meaning assigned to it by Section 1504 of the
30 Internal Revenue Code, except that, for those purposes, the phrase
31 "more than 50 percent" shall be substituted for the phrase "at least
32 80 percent" each place it appears in Section 1504(a) of the Internal
33 Revenue Code.

34 (6) In applying Section 24353, the adjustment under paragraph
35 (1) of subdivision (b) of Section 24916, resulting by reason of an
36 election made under this section with respect to any Section 24356
37 property, shall be made before any other deduction allowed by
38 subdivision (a) of Section 24349 is computed.

39 (e) The Franchise Tax Board shall prescribe those regulations
40 as may be necessary to carry out the purposes of this section.

1 SEC. 95. Section 24356.1 is added to the Revenue and Taxation
2 Code, to read:

3 24356.1. (a) The amendments made by Section 124 of the
4 Consolidated Appropriations Act, 2016 (Public Law 114-113) to
5 Section 179 of the Internal Revenue Code, relating to elections to
6 expense certain depreciable business assets, shall not apply.

7 (b) The amendments made by Section 13101 of the Tax Cuts
8 and Jobs Act, ~~2016~~ 2017 (Public Law 115-97) to Section 179 of
9 the Internal Revenue Code, relating to elections to expense certain
10 depreciable business assets, shall not apply.

11 SEC. 96. Section 24357 of the Revenue and Taxation Code is
12 amended to read:

13 24357. (a) There shall be allowed as a deduction any charitable
14 contribution, as defined in Section 24359, the payment of which
15 is made within the taxable year. A charitable contribution shall be
16 allowable as a deduction only if verified under regulations
17 prescribed by the Franchise Tax Board.

18 (b) (1) In the case of a corporation reporting its income on the
19 accrual basis, the corporation may elect to treat the contribution
20 as paid during that taxable year if both of the following occur:

21 (A) The board of directors authorizes a charitable contribution
22 during the taxable year.

23 (B) Payment of the contribution is made after the close of that
24 taxable year and on or before the 15th day of the fourth month
25 following the close of the taxable year.

26 (2) The election allowed by paragraph (1) may be made only
27 at the time of the filing of the return for the taxable year, and shall
28 be signified in the manner as the Franchise Tax Board shall by
29 regulations prescribe.

30 (c) For purposes of this section, payment of a charitable
31 contribution that consists of a future interest in tangible personal
32 property shall be treated as made only when all intervening interests
33 in, and rights to the actual possession or enjoyment of, the property
34 have expired or are held by persons other than the taxpayer or
35 those standing in a relationship to the taxpayer described in Section
36 24428. For purposes of the preceding sentence, a fixture which is
37 intended to be severed from the real property shall be treated as
38 tangible personal property.

39 (d) No deduction shall be allowed under this section for traveling
40 expenses (including amounts expended for meals and lodging)

1 while away from home, whether paid directly or by reimbursement,
2 unless there is no significant element of personal pleasure,
3 recreation, or vacation in that travel.

4 (e) (1) Section 170(f)(8) of the Internal Revenue Code, relating
5 to substantiation requirement for certain contributions, shall apply,
6 except as otherwise provided.

7 (2) No deduction shall be denied under Section 170(f)(8) of the
8 Internal Revenue Code, relating to substantiation requirement for
9 certain contributions, upon a showing that the requirements in
10 Section 170(f)(8) of the Internal Revenue Code have been met
11 with respect to that contribution for federal purposes.

12 (f) Section 170(f)(9) of the Internal Revenue Code, relating to
13 denial of deduction where contribution for lobbying activities,
14 shall apply, except as otherwise provided.

15 (g) (1) Notwithstanding any other provision of law to the
16 contrary, for purposes of this section and Section 24341, Section
17 170 of the Internal Revenue Code, relating to charitable, etc.,
18 contributions and gifts, shall be applied to allow a taxpayer to elect
19 to treat any contribution described in paragraph (2) made in January
20 2005, as if that contribution was made on December 31, 2004, and
21 not in January 2005.

22 (2) A contribution is described in this paragraph if that
23 contribution is a cash contribution made for the relief of victims
24 in areas affected by the December 26, 2004, Indian Ocean tsunami
25 for which a charitable contribution deduction is allowable under
26 this section.

27 (h) (1) Section 170(f)(11)(E) of the Internal Revenue Code,
28 relating to qualified appraisal and appraiser, shall apply, except as
29 otherwise provided.

30 (2) This subdivision shall apply to appraisals prepared with
31 respect to returns or submissions filed on or after January 1, 2010.

32 (i) (1) Section 170(f)(16) of the Internal Revenue Code, relating
33 to contributions of clothing and household items, shall apply,
34 except as otherwise provided.

35 (2) This subdivision shall apply to contributions made on or
36 after January 1, 2010.

37 (j) (1) Section 170(f)(17) of the Internal Revenue Code, relating
38 to recordkeeping, shall apply, except as otherwise provided.

39 (2) This subdivision shall apply to contributions made on or
40 after January 1, 2010.

1 (k) (1) Section 170(o) of the Internal Revenue Code, relating
2 to special rules for fractional gifts, shall apply, except as otherwise
3 provided.

4 (2) This subdivision shall apply to contributions made on or
5 after January 1, 2010.

6 (l) (1) (A) The amendments made by Section 605(a)(1) of
7 Public Law 117-328 adding paragraph (7) to Section 170(h) of the
8 Internal Revenue Code, relating to limitation on deduction for
9 qualified conservation contributions made by passthrough entities,
10 shall apply, except as otherwise provided.

11 (B) Section 170(h)(7)(G) of the Internal Revenue Code, relating
12 to regulations, as added by Section 605(a)(1) of Public Law
13 117-328, shall not apply.

14 (C) Section 605(a)(3) of Public Law 117-328, relating to
15 extension of statute of limitations for listed transactions, shall apply
16 and is modified by substituting “Section 19755” for “sections
17 6501(c)(10) and 6235(c)(6) of such Code.”

18 (2) The amendments made by Section 605(b) of Public Law
19 117-328 adding paragraph (19) to Section 170(f) of the Internal
20 Revenue Code, relating to certain qualified conservation
21 contributions, shall apply.

22 (3) This subdivision shall apply to contributions made on or
23 after January 1, 2024.

24 (m) Section 605(d)(2) of Public Law 117-328, relating to
25 opportunity to correct, shall apply.

26 SEC. 97. Section 24358 of the Revenue and Taxation Code is
27 amended to read:

28 24358. (a) In the case of a corporation, the total deductions
29 under Section 24357 for any taxable year, other than for
30 contributions to which subdivision (b) applies, shall not exceed
31 10 percent of the taxpayer’s net income computed without regard
32 to any of the following:

33 (1) Subdivision (e) of Section 23802.

34 (2) Sections 24357 to 24359, inclusive.

35 (3) Article 2 (commencing with Section 24401) of Chapter 7
36 (except Sections 24407 to 24409, inclusive).

37 (b) (1) Section 170(b)(2)(B) of the Internal Revenue Code,
38 relating to qualified conservation contributions by certain corporate
39 farmers and ranchers, shall apply, except as otherwise provided.

(2) The phrase “made on or after January 1, 2010,” shall be substituted for “made after the date of the enactment of this subparagraph” in Section 170(b)(2)(B)(i)(II) of the Internal Revenue Code.

(3) Section 170(b)(2)(B)(iii) of the Internal Revenue Code, as it read on January 1, 2015, shall apply.

(c) Section 170(b)(2)(C) of the Internal Revenue Code, relating to qualified conservation contributions by certain Native Corporations, shall not apply, except as otherwise provided.

(d) Section 170(d)(2) of the Internal Revenue Code, relating to corporations, shall apply with respect to excess contributions made during taxable years beginning on or after January 1, 1996.

SEC. 98. Section 24365 of the Revenue and Taxation Code is amended to read:

24365. (a) Section 174 of the Internal Revenue Code, relating to research and experimental expenditures, shall apply, except as otherwise provided.

(b) Section 174(b) of the Internal Revenue Code is modified to refer to subdivision (a) of Section 24916 in lieu of Section 1016(a)(1) of the Internal Revenue Code.

(c) Section 174(c) of the Internal Revenue Code is modified to refer to Sections 24349 to 24356, inclusive, in lieu of Section 167 of the Internal Revenue Code.

(d) The amendments made by Section 13206(a) of the Tax Cuts and Jobs Act, 2017 (Public Law 115-97), relating to amortization of research and experimental expenditures, for taxable years beginning on or after January 1, 2022, shall not apply.

SEC. 99. Section 24416 of the Revenue and Taxation Code is amended to read:

24416. Except as provided in Sections 24416.1, 24416.2, 24416.4, 24416.5, 24416.6, and 24416.7, a net operating loss deduction shall be allowed in computing net income under Section 24341 and shall be determined in accordance with Section 172 of the Internal Revenue Code, except as otherwise provided.

(a) (1) Net operating losses attributable to taxable years beginning before January 1, 1987, shall not be allowed.

(2) A net operating loss shall not be carried forward to any taxable year beginning before January 1, 1987.

(3) The amendments made by Section 13302(a)(1) of the Tax Cuts and Jobs Act (Public Law 115-97) and Section 2303(a)(1) of

1 the Coronavirus Aid, Relief, and Economic Security Act (Public
2 Law 116-136) to Section 172(a) of the Internal Revenue Code,
3 relating to the deduction allowed, shall not apply.

4 (b) (1) Except as provided in paragraphs (3) and (4), the
5 provisions of Section 172(b)(2) of the Internal Revenue Code,
6 relating to amount of carrybacks and carryovers, shall be modified
7 so that the applicable percentage of the entire amount of the net
8 operating loss for any taxable year shall be eligible for carryover
9 to any subsequent taxable year. For purposes of this subdivision,
10 the applicable percentage shall be:

11 (A) Fifty percent for any taxable year beginning before January
12 1, 2000.

13 (B) Fifty-five percent for any taxable year beginning on or after
14 January 1, 2000, and before January 1, 2002.

15 (C) Sixty percent for any taxable year beginning on or after
16 January 1, 2002, and before January 1, 2004.

17 (D) One hundred percent for any taxable year beginning on or
18 after January 1, 2004.

19 (2) Section 172(b)(2)(C) of the Internal Revenue Code shall not
20 apply.

21 (3) In the case of a taxpayer who has a net operating loss in any
22 taxable year beginning on or after January 1, 1994, and who
23 operates a new business during that taxable year, each of the
24 following shall apply to each loss incurred during the first three
25 taxable years of operating the new business:

26 (A) If the net operating loss is equal to or less than the net loss
27 from the new business, 100 percent of the net operating loss shall
28 be carried forward as provided in subdivision (e).

29 (B) If the net operating loss is greater than the net loss from the
30 new business, the net operating loss shall be carried over as
31 follows:

32 (i) With respect to an amount equal to the net loss from the new
33 business, 100 percent of that amount shall be carried forward as
34 provided in subdivision (e).

35 (ii) With respect to the portion of the net operating loss that
36 exceeds the net loss from the new business, the applicable
37 percentage of that amount shall be carried forward as provided in
38 subdivision (d).

39 (C) For purposes of Section 172(b)(2) of the Internal Revenue
40 Code, the amount described in clause (ii) of subparagraph (B) shall

1 be absorbed before the amount described in clause (i) of
2 subparagraph (B).

3 (4) In the case of a taxpayer who has a net operating loss in any
4 taxable year beginning on or after January 1, 1994, and who
5 operates an eligible small business during that taxable year, each
6 of the following apply:

7 (A) If the net operating loss is equal to or less than the net loss
8 from the eligible small business, 100 percent of the net operating
9 loss shall be carried forward to the taxable years specified in
10 paragraph (1) of subdivision (e).

11 (B) If the net operating loss is greater than the net loss from the
12 eligible small business, the net operating loss shall be carried over
13 as follows:

14 (i) With respect to an amount equal to the net loss from the
15 eligible small business, 100 percent of that amount shall be carried
16 forward as provided in subdivision (e).

17 (ii) With respect to that portion of the net operating loss that
18 exceeds the net loss from the eligible small business, the applicable
19 percentage of that amount shall be carried forward as provided in
20 subdivision (e).

21 (C) For purposes of Section 172(b)(2) of the Internal Revenue
22 Code, the amount described in clause (ii) of subparagraph (B) shall
23 be absorbed before the amount described in clause (i) of
24 subparagraph (B).

25 (5) In the case of a taxpayer who has a net operating loss in a
26 taxable year beginning on or after January 1, 1994, and who
27 operates a business that qualifies as both a new business and an
28 eligible small business under this section, that business shall be
29 treated as a new business for the first three taxable years of the
30 new business.

31 (6) In the case of a taxpayer who has a net operating loss in a
32 taxable year beginning on or after January 1, 1994, and who
33 operates more than one business, and more than one of those
34 businesses qualifies as either a new business or an eligible small
35 business under this section, paragraph (2) shall be applied first,
36 except that if there is any remaining portion of the net operating
37 loss after application of clause (i) of subparagraph (B) of paragraph
38 (2), paragraph (3) shall be applied to the remaining portion of the
39 net operating loss as though that remaining portion of the net
40 operating loss constituted the entire net operating loss.

1 (7) For purposes of this section, “net loss” means the amount
2 of net loss after application of Sections 465 and 469 of the Internal
3 Revenue Code.

4 (c) For any taxable year in which the taxpayer has in effect a
5 water’s-edge election under Section 25110, the deduction of a net
6 operating loss carryover shall be denied to the extent that the net
7 operating loss carryover was determined by taking into account
8 the income and factors of an affiliated corporation in a combined
9 report whose income and apportionment factors would not have
10 been taken into account if a water’s-edge election under Section
11 25110 had been in effect for the taxable year in which the loss was
12 incurred.

13 (d) Section 172(b)(1) of the Internal Revenue Code, relating to
14 years to which the loss may be carried, is modified as follows:

15 (1) Net operating loss carrybacks shall not be allowed for any
16 net operating losses attributable to taxable years beginning after
17 December 31, 2018, and before January 1, 2013.

18 (2) A net operating loss attributable to taxable years beginning
19 on or after January 1, 2013, and before January 1, 2019, shall be
20 a net operating loss carryback to each of the two taxable years
21 preceding the taxable year of the loss in lieu of the number of years
22 provided therein.

23 (A) For a net operating loss attributable to a taxable year
24 beginning on or after January 1, 2013, and before January 1, 2014,
25 the amount of carryback to any taxable year shall not exceed 50
26 percent of the net operating loss.

27 (B) For a net operating loss attributable to a taxable year
28 beginning on or after January 1, 2014, and before January 1, 2015,
29 the amount of carryback to any taxable year shall not exceed 75
30 percent of the net operating loss.

31 (C) For a net operating loss attributable to a taxable year
32 beginning on or after January 1, 2015, and before January 1, 2019,
33 the amount of carryback to any taxable year shall not exceed 100
34 percent of the net operating loss.

35 (3) A net operating loss carryback shall not be carried back to
36 any taxable year beginning before January 1, 2011.

37 (e) (1) (A) For a net operating loss for any taxable year
38 beginning on or after January 1, 1987, and before January 1, 2000,
39 Section 172(b)(1)(A)(ii) of the Internal Revenue Code shall apply
40 as it read on January 1, 2015, and is modified to substitute “five

1 taxable years” in lieu of “20 years” except as otherwise provided
2 in paragraphs (2), (3), and (4).

3 (B) For a net operating loss for any income year beginning on
4 or after January 1, 2000, and before January 1, 2008, Section
5 172(b)(1)(A)(ii)(I) of the Internal Revenue Code is modified to
6 substitute “10 taxable years” in lieu of “20 taxable years.”

7 (C) Section 172(b)(1)(A) of the Internal Revenue Code shall
8 not apply.

9 (D) Section 172(b)(1)(D) of the Internal Revenue Code shall
10 not apply.

11 (2) For any income year beginning before January 1, 2000, in
12 the case of a “new business,” the “five taxable years” referred to
13 in paragraph (1) shall be modified to read as follows:

14 (A) “Eight taxable years” for a net operating loss attributable
15 to the first taxable year of that new business.

16 (B) “Seven taxable years” for a net operating loss attributable
17 to the second taxable year of that new business.

18 (C) “Six taxable years” for a net operating loss attributable to
19 the third taxable year of that new business.

20 (3) For any carryover of a net operating loss for which a
21 deduction is denied by Section 24416.3, the carryover period
22 specified in this subdivision shall be extended as follows:

23 (A) By one year for a net operating loss attributable to taxable
24 years beginning in 1991.

25 (B) By two years for a net operating loss attributable to taxable
26 years beginning prior to January 1, 1991.

27 (4) The net operating loss attributable to taxable years beginning
28 on or after January 1, 1987, and before January 1, 1994, shall be
29 a net operating loss carryover to each of the 10 taxable years
30 following the year of the loss if it is incurred by a corporation that
31 was either of the following:

32 (A) Under the jurisdiction of the court in a Title 11 or similar
33 case at any time prior to January 1, 1994. The loss carryover
34 provided in the preceding sentence shall not apply to any loss
35 incurred in an income year after the taxable year during which the
36 corporation is no longer under the jurisdiction of the court in a
37 Title 11 or similar case.

38 (B) In receipt of assets acquired in a transaction that qualifies
39 as a tax-free reorganization under Section 368(a)(1)(G) of the
40 Internal Revenue Code.

1 (f) For purposes of this section:

2 (1) “Eligible small business” means any trade or business that
3 has gross receipts, less returns and allowances, of less than one
4 million dollars (\$1,000,000) during the income year.

5 (2) Except as provided in subdivision (g), “new business” means
6 any trade or business activity that is first commenced in this state
7 on or after January 1, 1994.

8 (3) “Title 11 or similar case” shall have the same meaning as
9 in Section 368(a)(3) of the Internal Revenue Code.

10 (4) In the case of any trade or business activity conducted by a
11 partnership or an “S” corporation, paragraphs (1) and (2) shall be
12 applied to the partnership or “S” corporation.

13 (g) For purposes of this section, in determining whether a trade
14 or business activity qualifies as a new business under paragraph
15 (2) of subdivision (e), the following rules shall apply:

16 (1) In any case where a taxpayer purchases or otherwise acquires
17 all or any portion of the assets of an existing trade or business
18 (irrespective of the form of entity) that is doing business in this
19 state (within the meaning of Section 23101), the trade or business
20 thereafter conducted by the taxpayer (or any related person) shall
21 not be treated as a new business if the aggregate fair market value
22 of the acquired assets (including real, personal, tangible, and
23 intangible property) used by the taxpayer (or any related person)
24 in the conduct of its trade or business exceeds 20 percent of the
25 aggregate fair market value of the total assets of the trade or
26 business being conducted by the taxpayer (or any related person).
27 For purposes of this paragraph only, the following rules shall apply:

28 (A) The determination of the relative fair market values of the
29 acquired assets and the total assets shall be made as of the last day
30 of the first taxable year in which the taxpayer (or any related
31 person) first uses any of the acquired trade or business assets in
32 its business activity.

33 (B) Any acquired assets that constituted property described in
34 Section 1221(a)(1) of the Internal Revenue Code in the hands of
35 the transferor shall not be treated as assets acquired from an
36 existing trade or business, unless those assets also constitute
37 property described in Section 1221(a)(1) of the Internal Revenue
38 Code in the hands of the acquiring taxpayer (or related person).

39 (2) In any case where a taxpayer (or any related person) is
40 engaged in one or more trade or business activities in this state, or

1 has been engaged in one or more trade or business activities in this
2 state within the preceding 36 months (“prior trade or business
3 activity”), and thereafter commences an additional trade or business
4 activity in this state, the additional trade or business activity shall
5 only be treated as a new business if the additional trade or business
6 activity is classified under a different division of the Standard
7 Industrial Classification (SIC) Manual published by the United
8 States Office of Management and Budget, 1987 edition, than are
9 any of the taxpayer’s (or any related person’s) current or prior
10 trade or business activities.

11 (3) In a case in which a taxpayer, including all related persons,
12 is engaged in trade or business activities wholly outside of this
13 state and the taxpayer first commences doing business in this state
14 (within the meaning of Section 23101) after December 31, 1993
15 (other than by purchase or other acquisition described in paragraph
16 (1)), the trade or business activity shall be treated as a new business
17 under paragraph (2) of subdivision (e).

18 (4) In a case in which the legal form under which a trade or
19 business activity is being conducted is changed, the change in form
20 shall be disregarded and the determination of whether the trade or
21 business activity is a new business shall be made by treating the
22 taxpayer as having purchased or otherwise acquired all or any
23 portion of the assets of an existing trade or business under the rules
24 of paragraph (1).

25 (5) “Related person” shall mean any person that is related to
26 the taxpayer under either Section 267 or 318 of the Internal
27 Revenue Code.

28 (6) “Acquire” shall include any transfer, whether or not for
29 consideration.

30 (7) (A) For taxable years beginning on or after January 1, 1997,
31 the term “new business” shall include any taxpayer that is engaged
32 in biopharmaceutical activities or other biotechnology activities
33 that are described in Codes 2833 to 2836, inclusive, of the Standard
34 Industrial Classification (SIC) Manual published by the United
35 States Office of Management and Budget, 1987 edition, and as
36 further amended, and that has not received regulatory approval for
37 any product from the Food and Drug Administration.

38 (B) For purposes of this paragraph:

39 (i) “Biopharmaceutical activities” means those activities that
40 use organisms or materials derived from organisms, and their

1 cellular, subcellular, or molecular components, in order to provide
2 pharmaceutical products for human or animal therapeutics and
3 diagnostics. Biopharmaceutical activities make use of living
4 organisms to make commercial products, as opposed to
5 pharmaceutical activities that make use of chemical compounds
6 to produce commercial products.

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

12 (h) For purposes of corporations whose net income is determined
13 under Chapter 17 (commencing with Section 25101), Section
14 25108 applies to each of the following:

15 (1) The amount of net operating loss incurred in any taxable
16 year that may be carried forward to another taxable year.

17 (2) The amount of any loss carry forward that may be deducted
18 in any taxable year.

19 (i) The Franchise Tax Board may prescribe appropriate
20 regulations to carry out the purposes of this section, including any
21 regulations necessary to prevent the avoidance of the purposes of
22 this section through splitups, shell corporations, partnerships, tiered
23 ownership structures, or otherwise.

24 (j) The Franchise Tax Board may reclassify any net operating
25 loss carryover determined under either paragraph (2) or (3) of
26 subdivision (b) as a net operating loss carryover under paragraph
27 (1) of subdivision (b) upon a showing that the reclassification is
28 necessary to prevent evasion of the purposes of this section.

29 (k) Except as otherwise provided, the amendments made by
30 Chapter 107 of the Statutes of 2000 apply to net operating losses
31 for taxable years beginning on or after January 1, 2000.

32 SEC. 100. Section 24416.05 of the Revenue and Taxation Code
33 is repealed.

34 SEC. 101. Section 24428 is added to the Revenue and Taxation
35 Code, to read:

36 24428. Section 267A of the Internal Revenue Code, relating
37 to certain related party amounts paid or accrued in hybrid
38 transactions or with hybrid entities, shall apply.

39 SEC. 102. Section 24430 is added to the Revenue and Taxation
40 Code, to read:

1 24430. The amendments made by Section 13304 of the Tax
2 Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section 274
3 of the Internal Revenue Code, relating to limitation on deduction
4 by employers of expenses for fringe benefits, shall not apply.

5 SEC. 103. Section 24440 of the Revenue and Taxation Code
6 is amended to read:

7 24440. (a) Section 280C(b) of the Internal Revenue Code,
8 relating to credit for qualified clinical testing expenses for certain
9 drugs, shall apply, except as otherwise provided.

10 (b) (1) Section 280C(c) of the Internal Revenue Code, relating
11 to credit for increasing research activities, shall apply, except as
12 otherwise provided.

13 (2) The amendments made by Section 13206(d)(2)(A) of the
14 Tax Cuts and Jobs Act, 2017 (Public Law 115-97) to Section
15 280C(c) of the Internal Revenue Code, relating to credit for
16 increasing research activities, shall not apply, except as otherwise
17 provided.

18 (3) Section 280C(c)(2)(B) of the Internal Revenue Code, as
19 enacted pursuant to Section 13206(d)(2)(A) of the Tax Cuts and
20 Jobs Act, 2017 (Public Law 115-97), is modified to refer to Section
21 23151, 23186, or 23802 in lieu of Section 11(b) of the Internal
22 Revenue Code.

23 SEC. 104. Section 24454.1 is added to the Revenue and
24 Taxation Code, to read:

25 24454.1. The amendments to Section 367(a) of the Internal
26 Revenue Code as enacted by Section 14102 of the Tax Cuts and
27 Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), relating to repeal of the
28 exception for transfers of certain property used in the active
29 conduct of a trade or business, shall not apply.

30 SEC. 105. Section 24457 is added to the Revenue and Taxation
31 Code, to read:

32 24457. Section 312(k)(3)(B)(ii) of the Internal Revenue Code,
33 relating to special rule for real estate investment trusts, shall not
34 apply.

35 SEC. 106. Section 24459 of the Revenue and Taxation Code
36 is amended to read:

37 24459. (a) Section 382(n) of the Internal Revenue Code,
38 relating to special rule for certain ownership changes, shall not
39 apply.

1 (b) Section 382(d)(3) of the Internal Revenue Code, relating to
2 application to carryforward of disallowed interest, shall not apply.

3 (c) The amendments made by Section 13301(b)(3) of the Tax
4 Cuts and Jobs ~~Act~~ *Act*, 2017 (Public Law 115-97) to Section
5 382(k)(1) of the Internal Revenue Code, relating to loss
6 corporation, shall not apply.

7 SEC. 107. Section 24465 of the Revenue and Taxation Code
8 is amended to read:

9 24465. (a) (1) If, in connection with any exchange described
10 in Section 332, 351, 354, 356, or 361 of the Internal Revenue Code,
11 a taxpayer transfers property to an insurer, the insurer shall not,
12 for purposes of determining the extent to which gain shall be
13 recognized on that transfer, be considered to be a corporation for
14 purposes of this part.

15 (2) Paragraph (1) shall not apply to any of the following types
16 of transactions, unless that transaction has the effect (directly or
17 indirectly) of transferring appreciated property from a taxpayer
18 subject to tax under this part (or a member of the taxpayer's
19 combined reporting group) to an insurer:

20 (A) An exchange or transfer pursuant to Section 368(a)(2)(D)
21 or Section 368(a)(2)(E) of the Internal Revenue Code.

22 (B) A transfer of stock in an 80 percent-owned insurer for the
23 purpose of filing a consolidated tax return or for financial or
24 regulatory reporting.

25 (C) A transfer or exchange of publicly owned stock of the parent
26 corporation.

27 (3) If a transaction described in paragraph (2) would qualify
28 under that paragraph but for the fact that the transaction has the
29 effect (directly or indirectly) of transferring appreciated property
30 from a taxpayer subject to tax under this part (or a member of the
31 taxpayer's combined reporting group) to an insurer, then, if the
32 property is used in the active trade or business of the insurer,
33 subdivision (b) shall be deemed to apply to that transfer.

34 (4) For purposes of this subdivision, "appreciated property"
35 means property whose fair market value, as of the date of the
36 transfer subject to this section, exceeds its adjusted basis as of that
37 date.

38 (b) (1) Except as provided in subdivision (c), or as otherwise
39 provided by regulations prescribed by the Franchise Tax Board,
40 if property subject to paragraph (1) of subdivision (a) or to

1 subdivision (g) is transferred to an insurer for use in the active
2 conduct of a trade or business of the insurer, then any gain
3 otherwise required to be recognized under that subdivision shall
4 be deferred until the date that the property is no longer owned by
5 an insurer in the taxpayer's commonly controlled group (or a
6 member of the taxpayer's combined reporting group), or the
7 property is no longer used in the active conduct of the insurer's
8 trade or business (or the trade or business of another member in
9 the taxpayer's combined reporting group), or the holder of the
10 property is no longer held by an insurer in the commonly controlled
11 group of the transferor (or a member of the taxpayer's combined
12 reporting group).

13 (2) Any of the events described in paragraph (1) shall be treated
14 as a disposition of the property under this subdivision, irrespective
15 of whether any other provision in this part or in the Internal
16 Revenue Code would otherwise permit nonrecognition treatment
17 of the transaction described in this subdivision.

18 (3) Notwithstanding paragraph (2) of this subdivision, an insurer
19 that becomes a member of the taxpayer's commonly controlled
20 group or a corporation that becomes a member of the taxpayer's
21 combined reporting group, as a result of a transaction of which a
22 transfer referred to in this subdivision is a part, shall be treated as
23 a member of the taxpayer's commonly controlled group or a
24 member of the taxpayer's combined reporting group at the time
25 of the transfer for purposes of this subdivision.

26 (4) For purposes of this subdivision, stock of an insurance
27 subsidiary constitutes property used in the active trade or business
28 of the insurer.

29 (5) If the deferred gain required to be taken into account under
30 this subdivision is business income (as defined by subdivision (a)
31 of Section 25120), the gain shall be apportioned using the
32 apportionment percentage for the taxable year that the gain is
33 required to be taken into account under this subdivision. Except
34 as provided in regulations under Section 25137, for purposes of
35 the sales factor for that taxable year, the transaction giving rise to
36 that gain shall be treated as a sale occurring in the taxable year the
37 gain is taken into account. The amount of any gain required to be
38 recognized under this subdivision upon any disposition described
39 in this subdivision shall not exceed the lesser of the deferred gain

1 or the gain realized in the transaction in which gain is required to
2 be recognized under this subdivision.

3 (6) For purposes of computing the amount of gain required to
4 be recognized under this subdivision, appropriate adjustments may
5 be made, pursuant to regulations issued by the Franchise Tax
6 Board, to the basis of stock to reflect the disallowance of any
7 expenses under paragraph (2) of subdivision (b) of Section 24425.

8 (c) The Franchise Tax Board may prescribe regulations
9 providing for an annual reporting requirement in the form of a
10 statement or other form, to be attached to the transferor taxpayer's
11 return, regarding the current ownership of any property for which
12 any gains were previously deferred pursuant to subdivision (b). If
13 the transferor taxpayer fails to provide any information required
14 by the Franchise Tax Board pursuant to the preceding sentence,
15 the Franchise Tax Board may, in lieu of the year described by
16 subdivision (b), require that the transferor taxpayer take those gains
17 into account in the first taxable year in which the current ownership
18 of the property is not reported. The preceding sentence shall not
19 apply so long as the property is still owned by the transferee and
20 the failure to provide the information was due to reasonable cause
21 and not willful neglect. Notwithstanding any other provision of
22 law, if a taxpayer fails to satisfy the reporting requirements of this
23 subdivision, then a notice of proposed deficiency assessment
24 resulting from adjustments attributable to gains previously deferred
25 pursuant to subdivision (b) with respect to which the reporting
26 requirements were not satisfied may be mailed to the taxpayer
27 within four years from the date on which the reporting requirements
28 are satisfied by the taxpayer.

29 (d) Subdivision (b) shall not apply to any property described
30 by Section 367(a)(3)(B) of the Internal Revenue Code as it read
31 on January 1, 2015.

32 (e) Except as provided by regulations prescribed by the
33 Franchise Tax Board, a transfer by a taxpayer of an interest in a
34 partnership to an insurer in a transaction described in subdivision
35 (a) shall be treated as a transfer to that insurer of the taxpayer's
36 pro rata share of the assets of the partnership.

37 (f) For purposes of this section, any distribution described by
38 Section 355 of the Internal Revenue Code (or so much of Section
39 356 of the Internal Revenue Code as it relates to Section 355 of
40 the Internal Revenue Code) shall be treated as an exchange under

1 this section, whether or not the distribution is an exchange. This
2 subdivision shall not apply to any distribution in which either of
3 the following applies:

4 (1) The distributing corporation is an insurer.

5 (2) The distributee is a person other than an insurer.

6 (g) For purposes of this part, any transfer of property to an
7 insurer as a contribution to capital of that insurer by one or more
8 persons who, immediately after the transfer, own (within the
9 meaning of Section 318 of the Internal Revenue Code) stock
10 possessing at least 80 percent of the total combined voting power
11 of all classes of stock of that insurer that are entitled to vote shall
12 be treated as an exchange of that property for stock of the insurer
13 equal in value to the fair market value of the property transferred.

14 (h) (1) In the case of any distribution described in Section 355
15 of the Internal Revenue Code (or so much of Section 356 of the
16 Internal Revenue Code as it relates to Section 355 of the Internal
17 Revenue Code) by a taxpayer to an insurer, to the extent provided
18 in regulations prescribed by the Franchise Tax Board, gain shall
19 be recognized under principles similar to the principles of this
20 section.

21 (2) In the case of any liquidation to which Section 332 of the
22 Internal Revenue Code applies, except as provided in regulations
23 prescribed by the Franchise Tax Board, both of the following shall
24 apply:

25 (A) Sections 337(a) and 337(b)(1) of the Internal Revenue Code
26 shall not apply, where the ~~80 percent~~ *80-percent* distributee is an
27 insurer.

28 (B) Where the distributor is an insurer, the distributee shall treat
29 the distribution as a distribution from the insurer's earnings and
30 profits, to the extent thereof.

31 (3) For purposes of the preceding paragraph, the deemed
32 distribution from earnings and profits shall be treated as a dividend
33 eligible for a deduction, to the extent otherwise provided in Section
34 24410, as if actually distributed as a dividend.

35 (i) For purposes of this section, the following definitions shall
36 apply:

37 (1) An insurer is any insurer within the meaning of Section 28
38 of Article XIII of the California Constitution, whether or not the
39 insurer is engaged in business in California.

1 (2) The phrase “commonly controlled group” shall have the
2 same meaning as that phrase has under Section 25105.

3 (3) The phrase “combined reporting group” means those
4 corporations whose income is required to be included in the same
5 combined report pursuant to Section 25101 or 25110.

6 (j) The Franchise Tax Board may prescribe any regulations that
7 may be appropriate to carry out the purpose of this section, which
8 purpose is to prevent the removal of gain inherent in property at
9 the time of a transfer from taxation under this part. Those
10 regulations may provide for appropriate adjustments to the amount
11 of deferred income described in subdivision (b) to avoid the double
12 inclusion of income for situations, including but not limited to,
13 the property transferred to an insurer member of the commonly
14 controlled group is later acquired by a noninsurer member of the
15 taxpayer’s combined reporting group.

16 (k) Upon an adequate showing by a taxpayer that a transaction
17 referred to in subdivision (a) or (h) would not violate the purposes
18 of this section to prevent the removal of gain inherent in property
19 at the time of a transfer from taxation under this part, the Franchise
20 Tax Board may grant relief from the application of this section.
21 In an appeal filed with the State Board of Equalization, or an action
22 filed under Section 19382 or 19385, the State Board of Equalization
23 or the court, as the case may be, shall have jurisdiction to grant
24 that relief only upon a specific finding that the transfer did not
25 remove gain inherent in property at the time of transfer from
26 taxation under this part.

27 (l) This section applies to transactions entered into on or after
28 June 23, 2004, or transactions entered into after June 23, 2004,
29 pursuant to a binding written contract in existence on June 23,
30 2004. For purposes of this subdivision, transactions entered into
31 on or after June 23, 2004, that were given final approval by a
32 regulatory insurance commissioner before June 23, 2004, shall be
33 considered a transaction entered into before June 23, 2004, pursuant
34 to a binding written contract in existence on June 23, 2004.

35 SEC. 108. Section 24471.5 is added to the Revenue and
36 Taxation Code, to read:

37 24471.5. Section 381(c)(20) of the Internal Revenue Code,
38 relating to carryforward of disallowed business interest, shall not
39 apply.

1 SEC. 109. Section 24601 of the Revenue and Taxation Code
2 is amended to read:

3 24601. (a) Subchapter D of Chapter 1 of Subtitle A of the
4 Internal Revenue Code, relating to deferred compensation, etc.,
5 shall apply, except as otherwise provided.

6 (b) Notwithstanding the date specified in paragraph (1) of
7 subdivision (a) of Section 23051.5, Part I of Subchapter D of
8 Chapter 1 of Subtitle A of the Internal Revenue Code, relating to
9 pension, profitsharing, stock bonus plans, etc., and Part III of
10 Subchapter D of Chapter 1 of Subtitle A of the Internal Revenue
11 Code, relating to rules relating to minimum funding standards and
12 benefit limitations, shall apply, except as otherwise provided,
13 without regard to taxable year to the same extent as applicable for
14 federal income tax purposes.

15 *SEC. 110. Section 24661.4 is added to the Revenue and*
16 *Taxation Code, to read:*

17 *24661.4. Section 451(b) of the Internal Revenue Code, relating*
18 *to inclusion not later than for financial accounting purposes, shall*
19 *not apply to specified credit card fees, as defined in Treasury*
20 *Regulations Section 1.451-3(j)(2).*

21 ~~SEC. 110.~~

22 *SEC. 111.* Section 24661.5 of the Revenue and Taxation Code
23 is amended to read:

24 24661.5. Section 451(g)(3) of the Internal Revenue Code,
25 relating to special election rule, is modified by substituting the
26 phrase “subdivision (b) of Section 24949.1” in lieu of the phrase
27 “section 1033(e)(2)” contained therein.

28 ~~SEC. 111.~~

29 *SEC. 112.* Section 24661.6 of the Revenue and Taxation Code
30 is amended to read:

31 24661.6. Section 451(k) of the Internal Revenue Code, relating
32 to special rule for sales or dispositions to implement Federal Energy
33 Regulatory Commission or state electric restructuring policy, shall
34 not apply.

35 ~~SEC. 112.~~

36 *SEC. 113.* Section 24670 is added to the Revenue and Taxation
37 Code, to read:

38 24670. The amendments to Section 453B(e) of the Internal
39 Revenue Code as enacted by Section 13512(b)(1) of the Tax Cuts

1 and Jobs Act, 2017 (Public Law 115-97), relating to the repeal
2 of the small life insurance company deduction, shall not apply.

3 ~~SEC. 113.~~

4 *SEC. 114.* Section 24673.2 of the Revenue and Taxation Code
5 is amended to read:

6 24673.2. (a) Section 460 of the Internal Revenue Code, relating
7 to special rules for long-term contracts, shall apply, except as
8 otherwise provided.

9 (b) (1) Section 804(d) of Public Law 99-514, relating to the
10 effective date of modifications in the method of accounting for
11 long-term contracts, shall apply to taxable years beginning on or
12 after January 1, 1987.

13 (2) In the case of a contract entered into after February 28, 1986,
14 during a taxable year beginning before January 1, 1987, an
15 adjustment to income shall be made upon completion of the
16 contract, if necessary, to correct any underreporting or
17 overreporting of income, for purposes of this part, resulting from
18 differences between state and federal law for the taxable year in
19 which the contract began.

20 (c) (1) The amendments to Section 460 of the Internal Revenue
21 Code made by Section 10203 of Public Law 100-203, relating to
22 a reduction in the percentage of items taken into account under
23 the completed contract method, shall apply to each taxable year
24 beginning on or after January 1, 1990.

25 (2) In the case of a contract entered into after October 13, 1987,
26 during a taxable year beginning before January 1, 1990, an
27 adjustment to income shall be made upon completion of the
28 contract, if necessary, to correct any underreporting or
29 overreporting of income, for purposes of this part, resulting from
30 differences between state and federal law for each taxable year
31 beginning prior to January 1, 1990.

32 (d) (1) The amendments to Section 460 of the Internal Revenue
33 Code made by Section 5041 of Public Law 100-647, relating to a
34 reduction in the percentage of items taken into account under the
35 completed contract method, shall apply to each taxable year
36 beginning on or after January 1, 1990.

37 (2) In the case of a contract entered into after June 20, 1988,
38 during a taxable year beginning before January 1, 1990, an
39 adjustment to income shall be made upon completion of the
40 contract, if necessary, to correct any underreporting or

1 overreporting of income, for purposes of this part, resulting from
2 differences between state and federal law for each taxable year
3 beginning prior to January 1, 1990.

4 (e) (1) The amendments to Section 460 of the Internal Revenue
5 Code made by Section 7621 of Public Law 101-239, relating to
6 the repeal of the completed contract method of accounting for
7 long-term contracts, shall apply to each taxable year beginning on
8 or after January 1, 1990.

9 (2) In the case of a contract entered into after July 10, 1989,
10 during a taxable year beginning on or before January 1, 1990, an
11 adjustment to income shall be made upon completion of the
12 contract, if necessary, to correct any underreporting or
13 overreporting of income, for purposes of this part, resulting from
14 differences between state and federal law for each taxable year
15 beginning prior to January 1, 1990.

16 (f) For purposes of applying paragraphs (2) to (6), inclusive, of
17 Section 460(b) of the Internal Revenue Code, relating to the
18 look-back method, any adjustment to income computed under
19 paragraph (2) of subdivision (b), (c), (d), or (e) shall be deemed
20 to have been reported in the taxable year from which the adjustment
21 arose, rather than the taxable year in which the contract was
22 completed.

23 (g) (1) For contracts entered into on or after the effective date
24 of the act adding this subdivision, the amendments made by Section
25 13102(d) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law
26 115-97) to Section 460 of the Internal Revenue Code, relating to
27 special rules for long-term contracts, shall apply, except as
28 otherwise provided.

29 (2) For contracts entered into on or after the effective date of
30 the act adding this subdivision, the amendments made by Section
31 13102(e)(3) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law
32 115-97), relating to exemption from percentage completion for
33 long-term contracts, shall apply, expect as otherwise provided.

34 (3) (A) Any change in method of accounting made pursuant to
35 this paragraph shall be treated for purposes of applying Section
36 24721, as initiated by the taxpayer and made with the consent of
37 the Franchise Tax Board.

38 (B) Section 13102(e)(1) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017*
39 (Public Law 115-97) does not apply to this subdivision.

1 (C) Notwithstanding subparagraph (B), a taxpayer may elect to
2 apply the provisions of this subdivision, where otherwise allowed,
3 to contracts entered into on or after January 1, 2018, in taxable
4 years ending after January 1, 2018.

5 (h) The amendments to Section 460(c)(6)(B)(ii) of the Internal
6 Revenue Code made by Section 143(a)(2) and Section 143(b)(6)(I)
7 of Public Law 114-113, relating to the special rule for federal
8 long-term contracts, shall not apply.

9 ~~SEC. 114.~~

10 *SEC. 115.* Section 24721 of the Revenue and Taxation Code
11 is amended to read:

12 24721. (a) Section 481 of the Internal Revenue Code, relating
13 to adjustments required by changes in method of accounting, shall
14 apply, except as otherwise provided.

15 (b) Section 481(d) of the Internal Revenue Code, relating to
16 adjustments attributable to conversion from-S “S” corporation to
17 € “C” corporation, shall not apply.

18 *SEC. 116.* *Section 24872 of the Revenue and Taxation Code*
19 *is amended to read:*

20 24872. (a) A real estate investment trust shall be deemed to
21 have satisfied the distribution requirements of Section 857(a)(1)
22 of the Internal Revenue Code for purposes of this part if it satisfies
23 the distribution requirements of Section 857(a)(1) of the Internal
24 Revenue Code for federal purposes.

25 (b) (1) Section 857(b)(1) of the Internal Revenue Code, relating
26 to imposition of tax on real estate investment trusts, shall not apply.

27 (2) Every real estate investment trust shall be subject to the
28 taxes imposed under Chapter 2 (commencing with Section 23101)
29 and Chapter 3 (commencing with Section 23501), except that its
30 “net income” shall be equal to its “real estate investment trust
31 income,” as defined in subdivision (c).

32 (c) “Real estate investment trust income” means real estate
33 investment company taxable income, as defined in Section
34 857(b)(2) of the Internal Revenue Code, modified as follows:

35 (1) In lieu of Section 857(b)(2)(A) of the Internal Revenue Code,
36 relating to special deductions for corporations, no deduction shall
37 be allowed under Section 24402.

38 (2) Section 857(b)(2)(D) of the Internal Revenue Code, relating
39 to an exclusion for an amount equal to the net income from
40 foreclosure property, shall not apply.

(3) Section 857(b)(2)(E) of the Internal Revenue Code, relating to a deduction for an amount equal to the tax imposed in the case of failure to meet certain requirements for the taxable year, shall not apply.

(4) Section 857(b)(2)(F) of the Internal Revenue Code, relating to an exclusion for an amount equal to any net income derived from prohibited transactions, shall not apply.

(d) Section 857(b)(3) of the Internal Revenue Code, relating to an alternative tax in case of capital gains, shall not apply.

(e) Section 857(b)(4)(A) of the Internal Revenue Code, relating to the imposition of tax on income from foreclosure property, shall not apply.

(f) Section 857(b)(5) of the Internal Revenue Code, relating to the imposition of tax in case of failure to meet certain requirements, shall not apply.

(g) Section 857(b)(6)(A) of the Internal Revenue Code, relating to the imposition of tax on income from prohibited transactions, ~~shall not apply.~~ *is modified by substituting "12.5 percent" in lieu of "100 percent."*

(h) Section 857(b)(7) of the Internal Revenue Code, relating to income from redetermined rents, redetermined deductions, and excess interest, shall not apply.

(i) Section 857(c) of the Internal Revenue Code, relating to restrictions applicable to dividends received from real estate investment trusts, is modified to refer to Sections 24402, 24406, 24410, and 25106, in lieu of Section 243 of the Internal Revenue Code.

(j) The amendments to this section by Chapter 878 of the Statutes of 1993 are clarifications of legislative intent and shall apply to taxable years beginning on or after January 1, 1987.

~~SEC. 115.~~

SEC. 117. Section 24876 is added to the Revenue and Taxation Code, to read:

24876. (a) The amendments made to Section 860E(a)(3)(B) of the Internal Revenue Code by Section 2303(a)(2)(C) of Public Law 116-136, relating to conforming amendments, shall not apply.

(b) The amendments made to Section 860E(a)(4) of the Internal Revenue Code by Section 10101(a)(4)(B)(ii) of Public Law 117-169, relating to conforming adjustments, shall not apply.

~~SEC. 116.~~

SEC. 118. Section 24990.1 is added to the Revenue and Taxation Code, to read:

24990.1. The amendments made by Section 126(a) of the Consolidated Appropriations Act, 2016 (Public Law 114-113) to Section 1202(a)(4) of the Internal Revenue Code, relating to 100 percent exclusion for stock acquired during certain periods in 2010 and thereafter, shall not apply.

~~SEC. 117.~~

SEC. 119. Section 24990.5 of the Revenue and Taxation Code is amended to read:

24990.5. The provisions of Section 1212 of the Internal Revenue Code, relating to capital loss carrybacks and carryovers, are modified as follows:

(a) Section 1212(a)(1)(A) of the Internal Revenue Code, relating to capital loss carrybacks, shall not apply.

(b) Section 1212(a)(4) of the Internal Revenue Code, relating to special rules on carrybacks, shall not apply.

(c) Sections 1212(b) and 1212(c) of the Internal Revenue Code, relating to other taxpayers and carryback of losses from Section 1256 contracts to offset prior gains from such contracts, respectively, shall not apply.

~~SEC. 118.~~

SEC. 120. Section 24990.9 is added to the Revenue and Taxation Code, to read:

24990.9. The amendments made to Sections 1221(a)(3) and 1231(b)(1)(C) of the Internal Revenue Code by Section 13314 of Public Law 115-97, relating to certain self-created property not treated as a capital asset, shall not apply.

~~SEC. 119.~~

SEC. 121. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the California Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to provide much-needed tax relief to taxpayers in conformity with federal tax relief enacted in the last 10 years, and to alleviate administrative burdens on state tax agencies, it is necessary that this act go into immediate effect.

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