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: ⅔. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 12206 of the Revenue and Taxation Code is amended to read:

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

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

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

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

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

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

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

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

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

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

(2) (A) The California Tax Credit Allocation Committee shall certify to the housing sponsor the amount of tax credit under this 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 Department of Insurance.

(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 Department of Insurance 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 (6) 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 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.

(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~~ *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 (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

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.

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

(6) 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.

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

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

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

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

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

(vii) Programs for loans or grants administered by the 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

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 terminate or the federally insured mortgage or rent subsidy contract on the property is eligible for prepayment or termination any time within five years before or after the date of application to the California Tax Credit Allocation Committee.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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, after the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee have adopted regulations, rules, or guidelines to align the programs of both committees with the objective of increasing production and containing costs as described in clause (iii). The California Tax Credit Allocation Committee shall accept applications for the 2021 calendar year not sooner than 30 days after these regulations, rules, or guidelines have been adopted. The California Debt Limit Allocation Committee shall not accept applications for the 2021 calendar year for bond allocations for an eligible project under this section prior to issuing, reviewing, and publishing a new tax-exempt private activity bond demand survey. A housing sponsor receiving a nonfederally subsidized allocation under subdivision (c) shall not be eligible for receipt of the housing credit allocated from the increased amount under this subparagraph. Except as provided in clause (vi), a housing sponsor receiving a nonfederally subsidized allocation under subdivision (c) shall remain eligible for receipt of the housing credit allocated from the credit ceiling amount under subparagraph (A).

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

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

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

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

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

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

(ic) The location of the development.

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

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

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

Debt Limit Allocation Committee may adopt emergency regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(vi) The housing sponsor shall demonstrate that the project development team has the experience and the financial capacity to ensure project completion and operation for the extended use 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 (5) 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.

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

(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 except to break a tie when two or more of the projects have an equal rating.

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

The term "secretary" shall be replaced by the term "Franchise Tax Board."

(*l*) In the case in which the credit allowed under 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.

(m) 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 1993.

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

(o) (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 Committee to sell all or any portion of any credit allowed under this section to one or more unrelated parties for each taxable year in which the credit is allowed, subject to subparagraphs (B) and (C). The taxpayer may, only once, revoke an election to sell pursuant to this subdivision at any time before the California Tax Credit Allocation Committee allocates a final credit amount for the project pursuant to this section, at which point the election shall become irrevocable.

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

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

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

(B) The California Tax Credit Allocation Committee shall provide an annual listing to the Franchise Tax Board, in a form and manner agreed upon by the California Tax Credit Allocation Committee and the Franchise Tax Board, of the taxpayers that 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	

31, 1984..... January 1, 1984
(C) For taxable years beginning on or after
January 1, 1985, and on or before December
31, 1985..... January 1, 1985
(D) For taxable years beginning on or after
January 1, 1986, and on or before December
31, 1986..... January 1, 1986
(E) For taxable years beginning on or after
January 1, 1987, and on or before December
31, 1988..... January 1, 1987
(F) For taxable years beginning on or after
January 1, 1989, and on or before December
31, 1989..... January 1, 1989
(G) For taxable years beginning on or after
January 1, 1990, and on or before December
31, 1990..... January 1, 1990
(H) For taxable years beginning on or after
January 1, 1991, and on or before December
31, 1991..... January 1, 1991
(I) For taxable years beginning on or after
January 1, 1992, and on or before December
31, 1992..... January 1, 1992
(J) For taxable years beginning on or after
January 1, 1993, and on or before December
31, 1996..... January 1, 1993
(K) For taxable years beginning on or after
January 1, 1997, and on or before December
31, 1997..... January 1, 1997
(L) For taxable years beginning on or after
January 1, 1998, and on or before December
31, 2001..... January 1, 1998
(M) For taxable years beginning on or after
January 1, 2002, and on or before December
31, 2004..... January 1, 2001
(N) For taxable years beginning on or after
January 1, 2005, and on or before December
31, 2009..... January 1, 2005
(O) For taxable years beginning on or after
January 1, 2010, and on or before December
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.

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

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

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

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

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

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

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

(11) Nonresident aliens.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(3) Any reference to "subtitle" or "chapter" shall mean this part.

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

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

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

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

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

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

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

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

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

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

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

(d) "Qualified research" shall include only research conducted in California.

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

(f) (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) 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 11 (commencing with Section 23001)."

(g) (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."

(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

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~~ *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.

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

(B) Section 47(c)(1)(B)(ii) of the Internal Revenue Code, 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(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 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(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.

(B) "Qualified rehabilitation expenditure" has the same meaning as that term is defined in Section 47(c)(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, 2017 (Public Law 115-97) to Section 47(c)(2)(B)(iv) of the Internal Revenue Code, relating to certified historic structure, shall not apply.

(c) (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 Committee with respect to any of the requirements of this section regarding a taxpayer's eligibility for the credit authorized by this section.

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

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

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

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

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

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

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

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

(A) The number of jobs created by the rehabilitation project, 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.

(i) (1) The aggregate amount of credits that may be allocated in any calendar year pursuant to this section and Section 23691 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.

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

(2) Notwithstanding the foregoing, the California Tax Credit Allocation Committee shall set aside ten million dollars ($10,000,000) of tax credits that may be allocated each calendar year for taxpayers in the aggregate, pursuant to this paragraph and 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~~

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

~~(a) (1) In lieu of the amount of credit computed pursuant to Section 47(a) of the Internal Revenue Code, 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 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.~~

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

~~(B) Section 47(c)(1)(B)(ii) of the Internal Revenue Code, 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(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 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(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.~~

~~(B) "Qualified rehabilitation expenditure" has the same meaning as that term is defined in Section 47(c)(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(c)(2)(B)(iv) of the Internal Revenue Code, relating to certified historic structure, shall not apply.~~

~~(c) (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~~

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

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

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

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

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

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

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

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

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

~~(A) The number of jobs created by the rehabilitation project, 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.~~

~~(i) (1) The aggregate amount of credits that may be allocated in any calendar year pursuant to this section and Section 23691 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.~~

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

~~(2) Notwithstanding the foregoing, the California Tax Credit Allocation Committee shall set aside ten million dollars ($10,000,000) of tax credits that may be allocated each calendar year for taxpayers in the aggregate, pursuant to this paragraph and 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. 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. 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).~~

~~(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. 6. Section 17058 of the Revenue and Taxation Code is amended to read:

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

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

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

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

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

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

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

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

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

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

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

(ii) 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 federal credit 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 federal credit period expires for the project described in clause (i).

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

(2) (A) The California Tax Credit Allocation Committee shall certify to the housing sponsor the amount of tax credit under this 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, 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 that 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.

(4) 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.

(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.

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

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

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

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

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

(vii) Programs for loans or grants administered by the 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 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 terminate or the federally insured mortgage or rent subsidy contract on the property is eligible for prepayment or termination any time within five years before or after the date of application to the California Tax Credit Allocation Committee.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) The special rule for the first taxable year of the credit period under Section 42(f)(2) of the Internal Revenue Code, relating to special rules for 1st year of credit period, shall not apply to the tax 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 taxable year 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 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 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 Committee and the California Debt Limit Allocation Committee have adopted regulations, rules, or guidelines to align the programs of both committees with the objective of increasing production and containing costs as described in clause (iii). The California Tax Credit Allocation Committee shall accept applications for the 2021 calendar year not sooner than 30 days after these regulations, rules, or guidelines have been adopted. The California Debt Limit Allocation Committee shall not accept applications for the 2021 calendar year for bond allocations for an eligible project under this section prior to issuing, reviewing, and publishing a new tax-exempt private activity bond demand survey. A housing sponsor receiving a nonfederally subsidized allocation under subdivision (c) shall not be eligible for receipt of the housing credit allocated from the increased amount under this subparagraph.

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

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

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

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

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

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

(ic) The location of the development.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The term "secretary" shall be replaced by the term "Franchise Tax Board."

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

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

(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) 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 Committee to sell all or any portion of any credit allowed, subject to subparagraphs (B) and (C). The taxpayer may, only once, revoke an election to sell pursuant to this subdivision at any time before the California Tax Credit Allocation Committee allocates a final credit amount for the project pursuant to this section, at which point the election shall become irrevocable.

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

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

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

(B) The California Tax Credit Allocation Committee shall provide an annual listing to the Franchise Tax Board, in a form and manner agreed upon by the California Tax Credit Allocation Committee and the Franchise Tax Board, of the taxpayers that 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.

(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.

(r) 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.

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

(t) 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. Any unused credit may continue to be carried forward, as provided in subdivision (*l*), until the credit has been exhausted.

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

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

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

(2) The regular tax for the taxable year.

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

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

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

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

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

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

(iii) For taxable years beginning on and after January 1, 2009, 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:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) A joint return.

(ii) A surviving spouse.

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

(i) Not a married individual.

(ii) Not a surviving spouse.

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

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

(ii) An estate or trust.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17062.1. For the purposes of this chapter, Part VI of Subchapter A of Chapter 1 of Subtitle A of the Internal Revenue Code, relating to alternative minimum tax, as it read on January 1, 2015, shall 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17088.1. (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. 17. Section 17131.4 of the Revenue and Taxation Code is amended to read:

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

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

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

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

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

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

(2) Paragraph (1) of subsection (a) 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" with "For purposes of this ~~part".~~ *part.*"

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

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

(d) (1) Notwithstanding Section 17280, for taxable years beginning on or after January 1, 2019, subsection (b) of Section 276 of Division N of the Consolidated Appropriations Act, 2021 (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

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

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

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

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

(1) "Beneficiary" has the meaning set forth in subdivision (c) of Section 69980 of the Education Code.

(2) "Benefit" has the meaning set forth in subdivision (d) of Section 69980 of the Education Code.

(3) "Participant" has the meaning set forth in subdivision (h) of Section 69980 of the Education Code.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(C) In the case of any distribution made under Section 529(e)(3)(A) of the Internal Revenue Code, as amended by Section 11032(a)(2) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), that would be treated for federal income tax purposes as a "qualified higher education expense" under Section 529(c)(7) of the Internal Revenue Code, as added by Section 11032(a)(1) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), the amount of that distribution shall, notwithstanding anything in Section 529 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.

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

(g) (1) For taxable years beginning on or after January 1, 2021, the amendments made by Section 302(a) of Division O of the 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.

(h) (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. 21. Section 17140.3 of the Revenue and Taxation Code is amended to read:

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

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

(1) By substituting the phrase "under this part and Part 11 (commencing with Section 23001)" in lieu of the phrase "under this subtitle."

(2) By substituting "Article 2 (commencing with Section 23731)" in lieu of "Section 511."

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

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

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

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

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

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

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

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

(C) In the case of any distribution made under Section 529(e)(3)(A) of the Internal Revenue Code, as amended by Section 11032(a)(2) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), that would be treated for federal income tax purposes as a "qualified higher education expense" under Section 529(c)(7) of the Internal Revenue Code, as added by Section 11032(a)(1) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), the amount of that distribution shall, notwithstanding anything in Section 529 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.

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

(e) (1) For taxable years beginning on or after January 1, 2021, the amendments made by Section 302(a) of Division O of the 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(3) Section 168(j) of the Internal Revenue Code, relating to 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.

(b) Section 170(b)(1)(G) of the Internal Revenue Code, relating to increased limitation for cash contributions, shall not apply.

(c) Section 170(b)(1)(E)(vi) of the Internal Revenue Code as it read on January 1, 2015, relating to termination, shall apply.

SEC. 38. Section 17250.2 is added to the Revenue and Taxation Code, to read:

17250.2. Section 170(p) of the Internal Revenue Code, relating to special rule for taxpayers who do not elect to itemize deductions, shall not apply.

SEC. 39. Section 17255 of the Revenue and Taxation Code is amended to read:

17255. (a) Section 179(b)(1) of the Internal Revenue Code, relating to dollar limitation, shall not apply and in lieu thereof, the aggregate cost which 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).

(b) Section 179(b)(2) of the Internal Revenue Code, relating to reduction in limitation, does not apply and in lieu thereof, the limitation under subdivision (a) for any taxable year shall be reduced, but not to 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, placed in service during the taxable year exceeds two hundred thousand dollars ($200,000).

(c) 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 it read on the date the property generating the amount disallowed was placed in service.

(d) Section 179(c)(2) of the Internal Revenue Code, relating to elections, shall not apply.

(e) Section 179(d)(1)(A)(ii) of the Internal Revenue Code does not apply.

(f) Section 179(e) of the Internal Revenue Code, relating to special rules for qualified disaster assistance property, shall not apply.

(g) The amendments made by Section 124 of the Consolidated Appropriations Act, 2016 (Public Law 114-113) to Section 179 of the Internal Revenue Code, relating to elections to expense certain depreciable business assets, shall not apply.

(h) The amendments made by Section 13101 of the Tax Cuts and Jobs Act, ~~2016~~ *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~~ *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:

17276. Except as provided in Sections 17276.1, 17276.2, 17276.4, 17276.5, 17276.6, and 17276.7, the deduction provided by Section 172 of the Internal Revenue Code, relating to net operating loss deduction, shall be modified as follows:

(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~~ *Act, 2017* (Public Law 115-97) and Section 2303(a)(1) of the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136) to Section 172(a) of the Internal Revenue Code, relating to the deduction allowed, shall not apply.

(b) (1) Except as provided in paragraphs (3) and (4), the provisions of Section 172(b)(2) of the Internal Revenue Code, relating to amount of carrybacks and carryovers, shall be modified so that the applicable percentage of the entire amount of the net operating loss for any taxable year shall be eligible for carryover to any subsequent taxable year. For purposes of this subdivision, the applicable percentage shall be:

(A) Fifty percent for any taxable year beginning before January 1, 2000.

(B) Fifty-five percent for any taxable year beginning on or after January 1, 2000, and before January 1, 2002.

(C) Sixty percent for any taxable year beginning on or after January 1, 2002, and before January 1, 2004.

(D) One hundred percent for any taxable year beginning on or after January 1, 2004.

(2) Section 172(b)(2)(C) of the Internal Revenue Code shall not apply.

(3) 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 a new business during that taxable year, each of the following shall apply to each loss incurred during the first three taxable years of operating the new business:

(A) If the net operating loss is equal to or less than the net loss from the new business, 100 percent of the net operating loss shall 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

treated as a new business for the first three taxable years of the new business.

(6) 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 more than one business, and more than one of those businesses qualifies as either a new business or an eligible small business under this section, paragraph (2) shall be applied first, except that if there is any remaining portion of the net operating loss after application of clause (i) of subparagraph (B) of that paragraph, paragraph (3) shall be applied to the remaining portion of the net operating loss as though that remaining portion of the net operating loss constituted the entire net operating loss.

(7) For purposes of this section, the term "net loss" means the amount of net loss after application of Sections 465 and 469 of the Internal Revenue Code.

(c) Section 172(b)(1) of the Internal Revenue Code, relating to years to which the loss may be carried, is modified as follows:

(1) Net operating loss carrybacks shall not be allowed for any net operating losses attributable to taxable years beginning after December 31, 2018, and before January 1, 2013.

(2) A net operating loss attributable to taxable years beginning on or after January 1, 2013, and before January 1, 2019, shall be a net operating loss carryback to each of the two taxable years preceding the taxable year of the loss in lieu of the number of years provided therein.

(A) For a net operating loss attributable to a taxable year beginning on or after January 1, 2013, and before January 1, 2014, the amount of carryback to any taxable year shall not exceed 50 percent of the net operating loss.

(B) For a net operating loss attributable to a taxable year beginning on or after January 1, 2014, and before January 1, 2015, the amount of carryback to any taxable year shall not exceed 75 percent of the net operating loss.

(C) For a net operating loss attributable to a taxable year beginning on or after January 1, 2015, and before January 1, 2019, the amount of carryback to any taxable year shall not exceed 100 percent of the net operating loss.

(3) A net operating loss carryback shall not be carried back to 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.

(e) For purposes of this section:

(1) "Eligible small business" means any trade or business that has gross receipts, less returns and allowances, of less than one million dollars ($1,000,000) during the taxable year.

(2) Except as provided in subdivision (f), "new business" means any trade or business activity that is first commenced in this state on or after January 1, 1994.

(3) "Title 11 or similar case" shall have the same meaning as in Section 368(a)(3) of the Internal Revenue Code.

(4) In the case of any trade or business activity conducted by a partnership or "S" corporation paragraphs (1) and (2) shall be applied to the partnership or "S" corporation.

(f) For purposes of this section, in determining whether a trade or business activity qualifies as a new business under paragraph (2) of subdivision (e), the following rules apply:

(1) In any case where a taxpayer purchases or otherwise acquires all or any portion of the assets of an existing trade or business (irrespective of the form of entity) that is doing business in this state (within the meaning of Section 23101), the trade or business thereafter conducted by the taxpayer (or any related person) shall not be treated as a new business if the aggregate fair market value of the acquired assets (including real, personal, tangible, and intangible property) used by the taxpayer (or any related person) in the conduct of its trade or business exceeds 20 percent of the aggregate fair market value of the total assets of the trade or business being conducted by the taxpayer (or any related person). For purposes of this paragraph only, the following rules apply:

(A) The determination of the relative fair market values of the acquired assets and the total assets shall be made as of the last day of the first taxable year in which the taxpayer (or any related person) first uses any of the acquired trade or business assets in its business activity.

(B) Acquired assets that constituted property described in Section 1221(a)(1) of the Internal Revenue Code in the hands of the transferor shall not be treated as assets acquired from an existing trade or business, unless those assets also constitute property described in Section 1221(a)(1) of the Internal Revenue Code in the hands of the acquiring taxpayer (or related person).

(2) In a case in which a taxpayer (or any related person) is engaged in one or more trade or business activities in this state, or

has been engaged in one or more trade or business activities in this state within the preceding 36 months ("prior trade or business activity"), and thereafter commences an additional trade or business activity in this state, the additional trade or business activity shall only be treated as a new business if the additional trade or business activity is classified under a different division of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, than are any of the taxpayer's (or any related person's) current or prior trade or business activities.

(3) In a case in which a taxpayer, including all related persons, is engaged in trade or business activities wholly outside of this state and the taxpayer first commences doing business in this state (within the meaning of Section 23101) after December 31, 1993 (other than by purchase or other acquisition described in paragraph (1)), the trade or business activity shall be treated as a new business under paragraph (2) of subdivision (e).

(4) In a case in which the legal form under which a trade or business activity is being conducted is changed, the change in form shall be disregarded and the determination of whether the trade or business activity is a new business shall be made by treating the taxpayer as having purchased or otherwise acquired all or any portion of the assets of an existing trade or business under the rules of paragraph (1).

(5) "Related person" shall mean any person that is related to the taxpayer under either Section 267 or 318 of the Internal Revenue Code.

(6) "Acquire" shall include any gift, inheritance, transfer incident to divorce, or any other transfer, whether or not for consideration.

(7) (A) For taxable years beginning on or after January 1, 1997, the term "new business" shall include any taxpayer that is engaged in biopharmaceutical activities or other biotechnology activities that are described in Codes 2833 to 2836, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, and as further amended, and that has not received regulatory approval for any product from the Food and Drug Administration.

(B) For purposes of this paragraph:

(i) "Biopharmaceutical 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.

(ii) "Other biotechnology activities" means activities consisting of the application of recombinant DNA technology to produce commercial products, as well as activities regarding pharmaceutical delivery systems designed to provide a measure of control over the rate, duration, and site of pharmaceutical delivery.

(g) Notwithstanding any provisions of this section to the contrary, a deduction shall be allowed to a "qualified taxpayer" as provided in Sections 17276.1, 17276.2, 17276.4, 17276.5, 17276.6, and 17276.7.

(h) The Franchise Tax Board may prescribe appropriate regulations to carry out the purposes of this section, including any regulations necessary to prevent the avoidance of the purposes of this section through splitups, shell corporations, partnerships, tiered ownership structures, or otherwise.

(i) The Franchise Tax Board may reclassify any net operating loss carryover determined under either paragraph (2) or (3) of subdivision (b) as a net operating loss carryover under paragraph (1) of subdivision (b) upon a showing that the reclassification is necessary to prevent evasion of the purposes of this section.

(j) Except as otherwise provided, the amendments made by Chapter 107 of the Statutes of 2000 apply to net operating losses for taxable years beginning on or after January 1, 2000.

SEC. 44. Section 17276.05 of the Revenue and Taxation Code is repealed.

SEC. 45. Section 17302 of the Revenue and Taxation Code is repealed.

SEC. 46. Section 17321.1 is added to the Revenue and Taxation Code, to read:

17321.1. The amendments to Section 367(a) of the Internal Revenue Code as enacted by Section 14102 of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), relating to repeal of the exception for transfers of certain property used in the active conduct of a trade or business, shall not apply.

SEC. 47. Section 17322.5 is added to the Revenue and Taxation Code, to read:

17322.5. Section 381(c)(20) of the Internal Revenue Code, relating to carryforward of disallowed business interest, shall not apply.

SEC. 48. Section 17323 of the Revenue and Taxation Code is amended to read:

17323. (a) Section 382(n) of the Internal Revenue Code, relating to special rule for certain ownership changes, shall not apply.

(b) Section 382(d)(3) of the Internal Revenue Code, relating to application to carryforward of disallowed interest, shall not apply.

(c) The amendments made by Section 13301(b)(3) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section 382(k)(1) of the Internal Revenue Code, relating to loss corporation, shall not apply.

SEC. 49. Section 17324 is added to the Revenue and Taxation Code, to read:

17324. Section 312(k)(3)(B)(ii) of the Internal Revenue Code, relating to special rule for real estate investment trusts, shall not apply.

SEC. 50. Section 17501 of the Revenue and Taxation Code is amended to read:

17501. (a) Subchapter D of Chapter 1 of Subtitle A of the Internal Revenue Code, relating to deferred compensation, shall apply, except as otherwise provided.

(b) Notwithstanding the specified date contained in paragraph (1) of subdivision (a) of Section 17024.5, Part I of Subchapter D of Chapter 1 of Subtitle A of the Internal Revenue Code, relating to pension, profitsharing, stock bonus plans, etc., and Part III of Subchapter D of Chapter 1 of Subtitle A of the Internal Revenue Code, relating to rules relating to minimum funding standards and benefit limitations, shall apply, except as otherwise provided, without regard to taxable year to the same extent as applicable for federal income tax purposes.

(c) For taxable years beginning before January 1, 2025, the maximum amount of elective deferrals (as defined in Section 402(g)(3)) for the taxable year that may be excluded from gross income under Section 402(g) of the Internal Revenue Code, as applicable for state purposes, shall not exceed the amount of

elective deferrals that may be excluded from gross income under Section 402(g) of the Internal Revenue Code, as in effect on January 1, 2010, including additional elective deferrals under Section 414(v) of the Internal Revenue Code, as in effect on January 1, 2010.

(d) (1) For taxable years beginning on or after January 1, 2002, the basis of any person in the plan, account, or annuity shall be increased by the amount of elective deferrals not excluded as a result of the application of the elective deferral limitations imposed by subdivision (c).

(2) Any basis described in paragraph (1) shall be recovered in the manner specified in Section 17085.

(e) Notwithstanding the limitations provided in subdivision (c), any income attributable to elective deferrals in taxable years beginning on or after January 1, 2002, in conformance with Part I of Subchapter D of Chapter 1 of Subtitle A of the Internal Revenue Code, as applicable for federal and state purposes, shall not be includable in the gross income of the individual for whose benefit the plan or account was established until distributed pursuant to the plan or by operation of law.

(f) (1) Section 408A(e)(1)(C) of the Internal Revenue Code, relating to qualified rollover contribution, 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) Notwithstanding any other provision, no increase in the basis of the Roth IRA, as defined in Section 408A of the Internal Revenue Code, shall result from any amount distributed as described in this subdivision.

SEC. 51. Section 17501.8 is added to the Revenue and Taxation Code, to read:

17501.8. (a) The following amendments made by the Consolidated Appropriations Act, 2023 (Public Law 117-328) shall apply for purposes of this part, Part 10.2 (commencing with

Section 18401), and Part 11 (commencing with Section 23001) except as otherwise provided:

(1) The amendments made by Section 108 of Division T of that act to Section 219(b)(5)(C) of the Internal Revenue Code, relating to indexing IRA catch-up limit.

(2) The amendments made by Section 109 of Division T of that act to Section 414(v) of the Internal Revenue Code, relating to higher catch-up limit to apply at 60 to 63 years of age, inclusive.

(3) The amendments made by Section 117 of Division T of that act to Section 414(v)(2) of the Internal Revenue Code, relating to contribution limit for simple plans.

(b) (1) For the purposes of complying with Section 41, as it pertains to the deductions expanded by this section, the Legislature finds and declares as follows:

(A) The specific goal, purpose, and objective of this bill is to conform state law to changes in federal law in order to reduce complications relating to mismatches in basis of retirement accounts for federal income tax purposes compared to state income tax purposes.

(B) The performance indicators used by the Legislature to determine if the deductions are achieving the stated goal shall be the number of taxpayers making contributions that would, but for the expansion of deductions pursuant to this section, be included in income for state purposes, and the total dollar value of those contributions.

(2) The Legislative Analyst's Office shall, no later than October 1, 2029, submit a report to the Legislature, in accordance with Section 9795 of the Government Code, that estimates the number of taxpayers making contributions to retirement accounts that, but for the expansion of deductions provided by this section, would be included in income, and estimates of the total dollar value of those contributions, to the extent data is available.

SEC. 52. Section 17551 of the Revenue and Taxation Code is amended to read:

17551. (a) Subchapter E of Chapter 1 of Subtitle A of the Internal Revenue Code, relating to accounting periods and methods of accounting, shall apply, except as otherwise provided.

(b) Section 444(c)(1) of the Internal Revenue Code, relating to effect of election, shall not apply.

(c) Section 451(b) of the Internal Revenue Code, relating to inclusion not later than for financial accounting purposes, shall not apply to specified credit card fees, as defined in Treasury Regulations Section 1.451-3(j)(2).

~~(c)~~

(d) (1) Notwithstanding the specified date contained in paragraph (1) of subdivision (a) of Section 17024.5, Section 457 of the Internal Revenue Code, relating to deferred compensation plans of state and local governments and tax-exempt organizations, shall apply, except as otherwise provided, without regard to taxable year to the same extent as applicable for federal income tax purposes.

(2) The maximum deferred compensation for the taxable year that may be excluded from gross income under Section 457 of the Internal Revenue Code, as applicable for state purposes, shall not exceed the amount of deferred compensation that may be excluded from gross income under Section 457 of the Internal Revenue Code, as in effect on January 1, 2010, including additional elective deferrals under Section 414(v) of the Internal Revenue Code, as in effect on January 1, 2010.

~~(d)~~

(e) (1) For taxable years beginning on or after January 1, 2002, the basis of any person in the plan shall be increased by the amount of compensation not allowed to be excluded under subdivision (a).

(2) Any basis described in paragraph (1) shall be recovered in the manner specified in Section 17085.

~~(e)~~

(f) Notwithstanding the limitations provided in subdivision (a), any income attributable to compensation deferred in a plan in taxable years beginning on or after January 1, 2002, in conformance with Section 457 of the Internal Revenue Code, as applicable for federal and state purposes, shall not be includable in the gross income of the individual for whose benefit the plan was established until distributed pursuant to the provisions of the plan or by operation of law.

~~(f)~~

(g) Section 451(k) of the Internal Revenue Code, relating to special rule for sales or dispositions to implement Federal Energy Regulatory Commission or state electric restructuring policy, shall not apply.

~~(g)~~

(h) Section 457A of the Internal Revenue Code, relating to nonqualified deferred compensation from certain tax indifferent parties, shall not apply.

SEC. 53. Section 17559 of the Revenue and Taxation Code is amended to read:

17559. (a) Section 451(g) of the Internal Revenue Code, relating to special rule for proceeds from livestock sold on account of drought, is modified by substituting the phrase "drought, flood, or other weather-related conditions, and that those conditions" in lieu of the phrase "drought conditions, and that these drought conditions" contained therein.

(b) This section shall apply to sales and exchanges after December 31, 1996.

(c) This section shall not apply to taxable years beginning on or after January 1, 1998.

SEC. 54. Section 17560.5 of the Revenue and Taxation Code is amended to read:

17560.5. (a) Section 461(j) of the Internal Revenue Code, relating to limitation on excess farm losses of certain taxpayers, shall not apply.

(b) (1) Section 11012(a) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), relating to limitation on excess business losses on noncorporate taxpayers, shall apply except as otherwise provided.

(2) Section 461(*l*)(1) of the Internal Revenue Code, relating to limitation, as amended by Section 11012(a) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), is modified by substituting "beginning after December 31, 2018" for the phrase "beginning after December 31, 2017, and before January 1, 2026."

(3) Section 461(*l*)(2) of the Internal Revenue Code, relating to disallowed loss carryover, as amended by Section 11012(a) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), is modified by substituting "Any loss which is disallowed under paragraph (1) shall be treated as a carryover excess business loss for the following taxable year." for "Any loss which is disallowed under paragraph (1) shall be treated as a net operating loss carryover to the following taxable year under section 172."

(4) Section 461(*l*)(3)(A) 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 "(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.

(c) (1) The amendments to Section 460 of the Internal Revenue Code made by Section 10203 of Public Law 100-203, relating to a reduction in the percentage of items taken into account under the completed contract method, shall apply to taxable years beginning on or after January 1, 1990.

(2) In the case of a contract entered into after October 13, 1987, during a taxable year beginning before January 1, 1990, 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 California and federal law for taxable years beginning prior to January 1, 1990.

(d) (1) The amendments to Section 460 of the Internal Revenue Code made by Section 5041 of Public Law 100-647, relating to a reduction in the percentage of items taken into account under the completed contract method, shall apply to taxable years beginning on or after January 1, 1990.

(2) In the case of a contract entered into after June 20, 1988, during a taxable year beginning before January 1, 1990, 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 California and federal law for taxable years beginning prior to January 1, 1990.

(e) (1) The amendments to Section 460 of the Internal Revenue Code made by Section 7621 of Public Law 101-239, relating to the repeal of the completed contract method of accounting for long-term contracts, shall apply to taxable years beginning on or after January 1, 1990.

(2) In the case of a contract entered into after July 10, 1989, during a taxable year beginning before January 1, 1990, 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 California and federal law for taxable years beginning prior to January 1, 1990.

(f) For purposes of applying paragraphs (2) to (6), inclusive, of Section 460(b) of the Internal Revenue Code, relating to the look-back method, any adjustment to income computed under paragraph (2) of subdivision (b), (c), (d), or (e) shall be deemed

to have been reported in the taxable year from which the adjustment arose, rather than the taxable year in which the contract was completed.

(g) (1) For contracts entered into on or after the effective date of the act adding this subdivision, the amendments made by Section 13102(d) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section 460 of the Internal Revenue Code, relating to special rules for long-term contracts, shall apply, except as otherwise provided.

(2) For contracts entered into on or after the effective date of the act adding this subdivision, the amendments made by Section 13102(e)(3) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), relating to exemption from percentage completion for long-term contracts, shall apply, except as otherwise provided.

(3) (A) Any change in method of accounting made pursuant to this section shall be treated for purposes of applying Section 481 of the Internal Revenue Code, as applicable for California purposes under Section 17551, as initiated by the taxpayer and made with the consent of the Franchise Tax Board.

(B) Section 13102(e)(1) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) does not apply to this subdivision.

(C) Notwithstanding subparagraph (B), a taxpayer may elect to apply the provisions of this subdivision, where otherwise allowed, to contracts entered into on or after January 1, 2018, in taxable years ending after January 1, 2018.

(h) The amendments to Section 460(c)(6)(B)(ii) of the Internal Revenue Code made by Section 143(a)(2) and Section 143(b)(6)(I) of Public Law 114-113, relating to the special rule for federal long-term contracts, shall not apply.

SEC. 56. Section 17567 is added to the Revenue and Taxation Code, to read:

17567. The amendments to Section 453B(e) of the Internal Revenue Code as enacted by Section 13512(b)(1) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), relating to the repeal of the small life insurance company deduction, shall not apply.

SEC. 57. Section 17737 of the Revenue and Taxation Code is amended to read:

17737. (a) For purposes of computing the taxable income of the estate or trust and the taxable income of a spouse to whom Section 682(a) of the Internal Revenue Code, relating to income

of an estate or trust in the case of divorce, etc., as it read on January 1, 2015, applies, that spouse shall be considered as the beneficiary for purposes of this chapter.

(b) Subdivision (a) shall not apply for any divorce or separation instrument executed after December 31, 2024, or for any divorce or separation instrument executed on or before December 31, 2024, and modified after that date, if the modification expressly provides that the amendments made by this subdivision apply to such modification.

(c) This section shall remain in effect only until December 1, 2026, and as of that date is repealed.

SEC. 58. Section 18031.5 of the Revenue and Taxation Code is amended to read:

18031.5. (a) The amendments made by Section 13303(a) and (b) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section 1031 of the Internal Revenue Code, relating to ~~Exchange~~ *exchange* of real property held for productive use or investment, shall apply, except as otherwise provided in this section.

(b) (1) (A) In the case of a taxpayer who is a head of household, a surviving spouse, or spouses filing a joint return, this section shall only apply to those taxpayers with adjusted gross income, as defined in Section 17072, of five hundred thousand dollars ($500,000) or more for the taxable year in which the exchange begins.

(B) In the case of a taxpayer filing an individual return, this section shall only apply to those taxpayers with adjusted gross income, as defined in Section 17072, of two hundred fifty thousand dollars ($250,000) or more for the taxable year in which the exchange begins.

(2) This subdivision shall not apply for taxable years beginning on or after January 1, 2025.

(c) (1) This section shall apply to exchanges completed after January 10, 2019.

(2) This section shall not apply to an exchange where the property to be disposed of by the taxpayer in the exchange is disposed of by that taxpayer on or before January 10, 2019, or where the property to be received by the taxpayer in the exchange is received by that taxpayer on or before January 10, 2019.

SEC. 59. Section 18036 of the Revenue and Taxation Code is amended to read:

18036. (a) In addition to the adjustments to basis provided by Section 1016(a) of the Internal Revenue Code, a proper adjustment shall also be made for amounts allowed as deductions as deferred expenses under subdivision (b) of former Section 17689 or former Section 17689.5 (relating to certain exploration expenditures) and resulting in a reduction of the taxpayer's taxes under this part, but not less than the amounts allowable under those sections for the taxable year and prior years. A proper adjustment shall also be made for amounts deducted under Section 17252.5, 17265, or 17266.

(b) Notwithstanding the provisions of Sections 164(a) and 1016(a) of the Internal Revenue Code, no adjustment to basis shall be made for any of the following:

(1) Abandonment fees paid in respect of property on which the open-space easement is terminated under Section 51061 or 51093 of the Government Code.

(2) Tax recoupment fees paid under Section 51142 of the Government Code.

(3) Sales or use tax which is paid or incurred by the taxpayer in connection with the acquisition of property for which a tax credit is claimed pursuant to Section 17052.13.

(c) The provisions of Section 1016(c) of the Internal Revenue Code, relating to increase in basis of property on which additional estate tax is imposed, shall be applicable.

(d) The amendments made to Section 1016 of the Internal Revenue Code by Section 1913(a) of Public Law 102-486, relating to deduction for clean-fuel vehicles and certain refueling property, shall apply to property placed in service after June 30, 1993, without respect to taxable year.

(e) The provisions of Section 1016(a)(38) of the Internal Revenue Code, relating to basis adjustments for capital gains invested in opportunity zones, shall not apply.

SEC. 60. Section 18042 of the Revenue and Taxation Code is amended to read:

18042. (a) Section 1042 of the Internal Revenue Code, relating to sales of stock to employee stock ownership plans or certain cooperatives, shall apply to taxable years beginning on or after 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

Internal Revenue Service pursuant to Section 6011(e) of the Internal Revenue Code, and the regulations adopted thereto, may be filed with the Franchise Tax Board.

SEC. 64. Section 18622.5 of the Revenue and Taxation Code is amended to read:

18622.5. (a) Notwithstanding Section 18622, if any item required to be shown on a federal partnership return, including any partnership-related item, is changed or corrected by the Commissioner of Internal Revenue or other officer of the United States or other competent authority, and the partnership is issued an adjustment under Section 6225 of the Internal Revenue Code or makes a federal election for alternative payment with the Internal Revenue Service as part of a Partnership Level Audit, the partnership shall report each change or correction to the Franchise Tax Board for the reviewed year within six months after the date of each final federal determination. The report of adjustments or return reporting the adjustments shall be sufficiently detailed to allow computation of the California tax change resulting from the federal adjustment and shall be reported in the form and manner as prescribed by the Franchise Tax Board.

(b) For purposes of this section the following terms have the following meanings:

(1) "Administrative adjustment request" means an administrative adjustment request filed by a partnership under Section 6227 of the Internal Revenue Code.

(2) "California share of the adjustments" means the adjustments described in subdivision (a), subject to the provisions of Chapter 11 (commencing with Section 17951) of Part 10 and the provisions of Chapter 17 (commencing with Section 25101) of Part 11.

(3) "Date of each final federal determination" means the date on which each adjustment or resolution resulting from an Internal Revenue Service examination is assessed pursuant to Section 6203 of the Internal Revenue Code.

(4) "Direct partner" means a partner that holds an interest directly in a partnership or pass-through entity.

(5) "Federal adjustment" means a change to an item or amount determined under the Internal Revenue Code that is used by a partner or partnership to compute state tax owed for the reviewed year whether that change results from action by the Internal Revenue Service, including a Partnership Level Audit, or the filing

of a federal refund claim, or an Administrative Adjustment Request by the partnership. A Federal Adjustment is positive to the extent that it increases taxable income as determined under Part 10 (commencing with Section 17001) or net income as determined under Part 11 (commencing with Section 23001) and is negative to the extent that it decreases taxable income as determined under Part 10 (commencing with Section 17001) or net income as determined under Part 11 (commencing with Section 23001).

(6) "Federal election for alternative payment" refers to the election described in Section 6226 of the Internal Revenue Code, relating to alternative to payment of imputed underpayment by partnership.

(7) "Indirect partner" means a partner in a partnership or pass-through entity that itself holds an interest directly, or through another indirect partner, in a partnership or pass-through entity.

(8) "Partnership level audit" means an examination by the Internal Revenue Service at the partnership level pursuant to Subchapter C of Chapter 63 of Subtitle F of Title 26 of the Internal Revenue Code, which results in a federal adjustment.

(9) "Publicly traded partnership" means either of the following:

(A) A partnership that is a publicly traded partnership within the meaning of Section 7704 of the Internal Revenue Code.

(B) Any other partnership where more than 10 percent of the profits or capital interest is owned directly or indirectly by a partnership described in ~~paragraph~~ *subparagraph* (A).

(10) "Reallocation adjustment" means a federal adjustment that changes the shares of items of partnership income, gain, loss, expense, or credit allocated to direct partners. A positive reallocation adjustment means a reallocation adjustment that would increase state taxable income for direct partners, and a negative reallocation adjustment means a reallocation adjustment that would decrease state taxable income for direct partners.

(11) "Reviewed year" has the meaning provided in Section 6225(d)(1) of the Internal Revenue Code.

(12) "Tiered partner" means any partner that is a partnership or pass-through entity.

(13) "Partnership-related item" has the meaning provided in Section 6241(2)(B) of the Internal Revenue Code.

(c) (1) Notwithstanding Section 17024.5, and except as 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

not be impeded and the partnership properly follows the reporting provisions specified in paragraph (2) of subdivision (d).

(4) (A) Each tiered partner and each indirect partner of an audited partnership shall be subject to the applicable election, reporting and payment requirements for audited partnerships and their direct partners under this section.

(B) Each tiered partner and indirect partner must make all reports and payments required to be made by such partners under this section no later than 90 days after the time for filing and furnishing statements to tiered partners and their partners, as required under Section 6226 of the Internal Revenue Code and any regulations thereunder.

(d) (1) (A) If the change or correction described in subdivision (a) results in an increase of the amount of tax payable under Part 10 (commencing with Section 17001), this part, or Part 11 (commencing with Section 23001), and if paragraph (2) does not apply, then a tax is hereby imposed on the partnership determined as follows, in lieu of taxes owed by its direct partners and indirect partners:

(i) Exclude from federal adjustments and any positive reallocation adjustments the distributive share of these adjustments made to a tax-exempt partner that is not unrelated business taxable income within the meaning of Section 23731.

(ii) Exclude from federal adjustments and any positive reallocation adjustments the distributive share of the adjustments made to a partner that has previously filed an amended return under Section 18622 reporting the distributive share and paid any additional state tax liability due.

(iii) With respect to any corporate partner or tax-exempt partner that is not excluded under paragraph (2) of subdivision (c) or clauses (i) or (ii), determine the total distributive share of all federal adjustments and positive reallocation adjustments, and apportion and allocate the adjustments as provided in Chapter 17 (commencing with Section 25101) of Part 11, and multiply that amount by the highest marginal tax rate provided in Sections 23151 or 23501, as applicable, for the reviewed year.

(iv) With respect to all tiered partners, nonresident individual partners, or nonresident fiduciary partners not excluded under paragraph (2) of subdivision (c) or clause (i) or (ii) or taken into account under clause (iii), determine the total distributive share of

all federal adjustments and positive reallocation adjustments and compute the amount of California source income attributable to the adjustments as provided in Chapter 11 (commencing with Section 17951) of Part 10 and the provisions of Chapter 17 (commencing with Section 25101) of Part 11, and multiply that amount by the highest marginal tax rate applicable to individuals for the reviewed year.

(v) With respect to all resident partners, resident fiduciary partners, or any other partners not excluded under paragraph (2) of subdivision (c) or clauses (i) or (ii) or taken into account under clauses (iii) or (iv), determine the total distributive share of all federal adjustments and positive reallocation adjustments that are subject to tax under subdivisions (a) or (c) of Section 17041, and multiply that amount by the highest marginal tax rate applicable to individuals for the reviewed year.

(vi) The total tax imposed under this paragraph shall be equal to the sum of the amounts determined under clauses (iii), (iv), and (v). The tax imposed under this subdivision shall be due and payable as provided in Section 19001 and treated as if imposed under Part 10 (commencing with Section 17001).

(B) Penalties and interest, as applicable, shall be imposed under Article 6 of Chapter 4 (commencing with Section 19101) and Article 7 of Chapter 4 (commencing with Section 19131) from the original due date of the partnership return for the reviewed year.

(2) If the partnership makes a federal election for alternative payment under Section 6226 of the Internal Revenue Code, then the partnership shall file an amended California Nonresident Group Return for all nonresident direct partners under Section 18535 and pay the additional amount of tax due that would have been due had the federal adjustments been reported properly as required. For any partners not included in the amended California Nonresident Group Return, the amount reported to each partner shall be an adjustment to the partner's share of partnership items as a result of the change or correction in subdivision (a) and each partner shall report any adjustments in accordance with Section 18622.

(e) Subject to the approval of the Franchise Tax Board, an audited partnership or tiered partner may enter into an alternative agreement with the Franchise Tax Board regarding any issue resulting from a federal audit adjustment, amended federal return,

or administrative adjustment that would otherwise be subject to this section, including, but not limited to, the reporting and payment of tax, applicable time requirements, or any other provision that will provide, to the satisfaction of the Franchise Tax Board, for the reporting and payment of any taxes, penalties, and interest due pursuant to this section.

(f) (1) If a partnership files a report or return as required under subdivision (a) after the six-month period specified in subdivision (a) or if the partnership or partner does not pay the tax required under subdivision (c) when due and payable, the Franchise Tax Board shall mail notice to the partnership of the deficiency proposed to be assessed pursuant to Section 19033. The deficiency proposed to be assessed must be mailed within four years from the date the change or correction was reported pursuant to subdivision (a), the return or payment was due, or within four years from the date the return was filed, whichever period expires later.

(2) If a partnership files a report, or files a return required under subdivision (a) within six months of the final federal determination, the Franchise Tax Board shall mail notice to the partnership of the deficiency proposed to be assessed pursuant to Section 19033. The deficiency proposed to be assessed must be mailed within two years from the date the change or correction was reported pursuant to subdivision (a).

(3) If the partnership fails to file a report or return as required by subdivision (a), a notice of proposed deficiency assessment resulting from the federal determination may be made at any time.

(g) (1) Nothing in this section is intended to prevent the Franchise Tax Board from assessing direct partners or indirect partners for taxes they owe in the event that an audited partnership or tiered partner fails to timely make any report or payment required by this section for any reason.

(2) If a partnership's report of the California tax changes resulting from the adjustments filed pursuant to subdivision (a) results in an overstatement of California taxable or net income, the adjustment shall be applied as follows:

(A) If the original adjustments were passed through to the partners under paragraph (2) of subdivision (c), the revised adjustment shall be passed through to the partners. The partnership 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

to make an election different from their federal election pursuant to paragraph (3) of subdivision (c).

(j) In order to reduce the administrative burden on taxpayers that may be imposed by additional filings and payments that do not contribute materially to revenue, the Franchise Tax Board shall convene a meeting or meetings of interested parties for the purpose of determining appropriate de minimis partner reporting and payment requirements as the result of a partnership level audit.

(k) (1) With respect to an action required or permitted to be taken by a partnership under this section and a proceeding under this part with respect to federal adjustments arising from a partnership level audit or an administrative adjustment request, the state partnership representative for the reviewed year shall have the sole authority to act on behalf of the partnership, and its partners and indirect partners shall be bound by those actions.

(2) The state partnership representative for the reviewed year is the partnership's federal partnership representative, unless the partnership designates in writing another person as its state partnership representative.

(3) The Franchise Tax Board may establish reasonable qualifications for and procedures for designating a person, other than the federal partnership representative, to be the state partnership representative.

(*l*) This section shall apply to final federal determinations assessed pursuant to amendments made to Subchapter C of Chapter 63 of the Internal Revenue Code as in effect January 1, 2018.

SEC. 65. Section 18631.7 of the Revenue and Taxation Code is amended to read:

18631.7. (a) Any check casher engaged in the trade or business of cashing checks that, in the course of that trade or business, cashes checks other than one-party checks, payroll checks, or government checks totaling more than ten thousand dollars ($10,000) in one transaction or two or more transactions for the same person within the calendar year, shall file an informational return with the Franchise Tax Board with respect to that transaction or transactions.

(b) The return required in subdivision (a) shall be filed no later than 90 days after the end of the calendar year and in the form and manner prescribed by the Franchise Tax Board, and shall, at a minimum, contain both of the following:

(1) The name, address, taxpayer identification number, and any other identifying information of the person presenting the check that the Franchise Tax Board deems necessary.

(2) The amount and date of the transaction or transactions.

(c) For purposes of this section the following definitions apply:

(1) Except as otherwise provided, "check casher" means a check casher as defined under Section 1789.31 of the Civil Code.

(2) "Checks" includes warrants, drafts, money orders, and other commercial paper serving the same purposes, including payroll checks, government checks, and one-party checks.

(3) "Government check" means a check issued by a federal, state, or local governmental entity and treated as a government check pursuant to Section 1789.35 of the Civil Code for fee-setting purposes.

(4) "Payroll check" means a check for wages subject to withholding pursuant to Section 13020 of the Unemployment Insurance Code and treated as a payroll check pursuant to Section 1789.35 of the Civil Code for fee-setting purposes.

(5) "One-party check" means a check drawn upon the maker's account and presented by the maker.

(d) With respect to a person who fails to file the report required by this section or fails to include all of the information required to be shown on that report, both of the following apply:

(1) Sections 6721 and 6724 of the Internal Revenue Code shall apply, except that the "Franchise Tax Board" is substituted for the "secretary" in each place it appears in those sections.

(2) If the failure was willful, the person, upon conviction, shall be punished by a fine of not more than twenty-five thousand dollars ($25,000) or, in the case of a corporation, not more than one hundred thousand dollars ($100,000), by imprisonment in a county jail for not more than one year, by imprisonment pursuant to subdivision (h) of Section 1170 of the Penal Code, or by both that fine and imprisonment, together with the costs of prosecution.

SEC. 66. Section 18666 of the Revenue and Taxation Code is amended to read:

18666. (a) Section 1446 of the Internal Revenue Code, relating to withholding of tax on foreign partners' share of effectively connected income, shall apply to the extent that the amounts represent income from California sources, except as otherwise 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:

19141.5. (a) (1) Section 6038A of the Internal Revenue Code, relating to information with respect to certain foreign-owned corporations, 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 6038A of the Internal Revenue Code, except as otherwise provided.

(3) The penalty amounts in Section 6038A(d) of the Internal Revenue Code, relating to penalty for failure to furnish information or maintain records, are modified by substituting "$10,000" in lieu of "$25,000."

(4) Section 6038A(e) 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."

(C) Section 6038A(e)(4)(C) of the Internal Revenue Code shall refer to "superior courts of the State of California for the Counties of Los Angeles, Sacramento, and San Diego, and for the City and County of San Francisco," instead of "United States district court for the district in which the person (to whom the summons is issued) resides or is found."

(b) In the case of a corporation, each of the following shall apply:

(1) Section 6038B of the Internal Revenue Code, relating to notice of certain transfers to foreign persons, shall apply, except as otherwise provided.

(2) The information required to be filed with the Franchise Tax Board under this subdivision shall be a copy of the information required to be filed with the Internal Revenue Service.

(3) (A) A penalty shall be imposed under this part for failure to furnish information and that penalty shall be determined in accordance with Section 6038B of the Internal Revenue Code, except as otherwise provided.

(B) Subparagraph (A) shall not apply to any transfer described in Section 6038B(a)(1)(B) of the Internal Revenue Code.

(c) (1) Section 6038C of the Internal Revenue Code, relating to information with respect to foreign corporations engaged in 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.

(B) The amount of the penalty under this paragraph for a failure to register, other than the first failure to register, is five thousand dollars ($5,000).

(C) The Franchise Tax Board shall not impose the penalties authorized by this paragraph until either one of the following has occurred:

(i) Commencing January 1, 2006, and continuing each year thereafter, there is an appropriation in the Franchise Tax Board's annual budget to fund the costs associated with the penalty authorized by this paragraph.

(ii) (I) An agreement has been executed between the California Tax Education Council and the Franchise Tax Board that provides that an amount equal to all first year costs associated with the penalty authorized by this paragraph shall be received by the Franchise Tax Board. For purposes of this subclause, first year costs include, but are not limited to, costs associated with the development of processes or systems changes, if necessary, and labor.

(II) An agreement has been executed between the California Tax Education Council and the Franchise Tax Board that provides that the annual costs incurred by the Franchise Tax Board associated with the penalty authorized by this paragraph shall be reimbursed by the California Tax Education Council to the Franchise Tax Board.

(III) Pursuant to the agreement described in subclause (I), the Franchise Tax Board has received an amount equal to the first year costs described in that subclause.

(5) In accordance with Section 6695(g) of the Internal Revenue Code, relating to failure to be diligent in determining eligibility for certain tax benefits.

(b) Section 6695(h) of the Internal Revenue Code, relating to adjustment for inflation, shall not apply.

SEC. 71. Section 19183 of the Revenue and Taxation Code is amended to read:

19183. (a) (1) A penalty shall be imposed for failure to file correct information returns, as required by this part, and that penalty shall be determined in accordance with Section 6721 of the Internal Revenue Code, relating to failure to file correct information returns.

(2) Section 6721(e) of the Internal Revenue Code, relating to penalty in case of intentional disregard, is modified to the extent that the reference to Section 6041A(b) of the Internal Revenue Code, relating to direct sales of five thousand dollars ($5,000) or more, does not apply.

(b) (1) A penalty shall be imposed for failure to furnish correct payee statements as required by this part, and that penalty shall be determined in accordance with Section 6722 of the Internal Revenue Code, relating to failure to furnish correct payee statements.

(2) Section 6722(c) of the Internal Revenue Code, relating to exception for de minimis failures, is modified to the extent that the references to Sections 6041A(b) and 6041A(e) of the Internal Revenue Code, relating to direct sales of five thousand dollars ($5,000) or more, and statements to be furnished to persons with respect to whom information is required to be furnished, does not apply.

(c) A penalty shall be imposed for failure to comply with other information reporting requirements under this part, and that penalty shall be determined in accordance with Section 6723 of the Internal Revenue Code, relating to failure to comply with other information reporting requirements.

(d) (1) The provisions of Section 6724 of the Internal Revenue Code, relating to waiver; definitions, and special rules, apply, except as otherwise provided.

(2) Section 6724(d)(1) of the Internal Revenue Code, relating to information return, is modified as follows:

(A) The following references are substituted:

(i) Subdivision (a) of Section 18640, in lieu of Section 6044(a)(1) of the Internal Revenue Code.

(ii) Subdivision (a) of Section 18644, in lieu of Section 6050A(a) of the Internal Revenue Code, relating to reports.

(B) References to Sections 4101(d), 6041(b), 6041A(b), 6045(d), 6051(d), and 6053(c)(1) of the Internal Revenue Code do not apply.

(C) The term “information return” also includes both of the following:

(i) The return required by paragraph (1) of subdivision (g) of Section 18662.

(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:

(a) "Employer" means any California employer who is subject to, and is required to provide, unemployment insurance to their employees, under the Unemployment Insurance Code.

(b) "Employee" means any person who is covered by unemployment insurance by their employer, pursuant to the Unemployment Insurance Code.

(c) "Federal EITC" means the federal earned income tax credit, as defined in Section 32 of the Internal Revenue Code.

(d) "California EITC" means the California earned income tax credit, as defined in Section 17052.

(e) "State departments and agencies that serve those who may qualify for Voluntary Income Tax Assistance or state and federal antipoverty tax credits, including the federal and the California EITC" means the following departments and agencies:

(1) The State Department of Education with respect to information from the free or reduced-price meal program and National School Lunch Program.

(2) The Employment Development Department with respect to information from the California Unemployment Insurance program.

(3) The State Department of Health Care Services with respect to information from the Medi-Cal program.

(4) The State Department of Social Services with respect to information from the CalFresh and ~~CalWORKS~~ *CalWORKs* programs.

(f) "State and federal antipoverty tax credits" means state and federal tax credits that are designed to alleviate poverty and tax burdens for low-income households.

(g) "Voluntary Income Tax Assistance" or "(VITA)" means the free basic income tax return preparation program, for federal and state personal income tax returns, managed by the Internal Revenue Service and operated by Internal Revenue Service partners and trained volunteers.

(h) "CalFile" means the Franchise Tax Board's free, direct, online program for taxpayers to complete and e-file their state personal income tax returns.

(i) 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 defined in paragraph (1) of subdivision (a) of Section 17024.5.

(j) The amendments made to this section by Section 2 of Chapter 294 of the Statutes of 2016 shall apply to notices required pursuant to Section 19853 furnished on or after January 1, 2017.

(k) The amendments made to this section by Section 9 of Chapter 55 of the Statutes of 2023 shall apply to notices required pursuant to Section 19853 furnished on or after January 1, 2024.

SEC. 73. Section 19900 of the Revenue and Taxation Code is amended to read:

19900. (a) (1) For taxable years beginning on or after January 1, 2021, and before January 1, 2026, a qualified entity doing business in this state, as defined in Section 23101, and that is required to file a return under Section 18633, 18633.5, or subdivision (a) of Section 18601, may elect to annually pay an elective tax according to or measured by its qualified net income, defined in paragraph (2), computed at the rate of 9.3 percent for the taxable year for which the election is made.

(2) For purposes of this section, the "qualified net income" of a qualified entity means the sum of the pro rata share or distributive share of income, and any guaranteed payments, as described by Section 707(c) of the Internal Revenue Code, relating to guaranteed payments, subject to tax under Part 10 (commencing with Section 17001) for the taxable year of each qualified taxpayer, as defined in Section 17052.10.

(b) (1) The elective tax authorized by this part shall be in addition to, and not in place of, any other tax or fee required to be paid under Part 10 (commencing with Section 17001) or Part 11 (commencing with Section 23001).

(2) The elective tax described in this part shall be assessed and collected under Part 10.2 (commencing with Section 18401).

(3) Unless the context otherwise requires, the definitions set forth in this part and those in Part 10 (commencing with Section 17001), Part 10.2 (commencing with Section 18401), or Part 11 (commencing with Section 23001) shall apply.

(c) (1) The qualified entity may include in its qualified net income the pro rata share or distributive share of the income of any of its partners, shareholders, or members upon their consent. A partner, shareholder, or member that does not consent does not

prevent the qualified entity from making an election to pay the elective tax.

(2) All partners, shareholders, and members of the qualified entity shall be bound by the election made under this part for the taxable year.

(d) The election shall be irrevocable and shall be made on an original, timely filed return required under Part 10.2 (commencing with Section 18401) for the taxable year of the election in the form and manner as prescribed by the Franchise Tax Board.

(e) The amendments made to this section by Section 14 of Chapter 3 of the Statutes of 2022 shall apply for taxable years beginning on or after January 1, 2021, and before January 1, 2026.

SEC. 74. Section 19907 is added to the Revenue and Taxation Code, to read:

19907. 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 defined in paragraph (1) of subdivision (a) of Section 17024.5.

SEC. 75. Section 21003.1 is added to the Revenue and Taxation Code, to read:

21003.1. 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 defined in paragraph (1) of subdivision (a) of Section 17024.5.

SEC. 76. Section 23400 of the Revenue and Taxation Code is amended to read:

23400. (a) For the purpose of this chapter, Part VI of Subchapter A of Chapter 1 of Subtitle A of the Internal Revenue Code, relating to alternative minimum tax, shall apply as it read on January 1, 2015, except as otherwise provided.

(b) A corporation electing under Chapter 4.5 (commencing with Section 23800) to be treated as an "S corporation" shall not be subject to the tax imposed by this chapter.

SEC. 77. Section 23453 of the Revenue and Taxation Code is amended to read:

23453. (a) There shall be allowed as a credit against the regular tax (as defined by subdivision (c) of Section 23455), 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 subdivision (c) of Section 23455, reduced by the sum of the credits allowable under this part other than any credit which reduces the tax below the tentative minimum tax, as defined by Section 23455.

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

SEC. 78. Section 23455 of the Revenue and Taxation Code is amended to read:

23455. For purposes of this part, Section 55 of the Internal Revenue Code is modified as follows:

(a) Section 55(b)(1) of the Internal Revenue Code, relating to the amount of tentative minimum tax, is modified by requiring the tentative minimum tax for the taxable year to be imposed as follows:

(1) With respect to corporations subject to tax under Chapter 2 (commencing with Section 23101), other than banks or financial corporations, according to or measured by net income, for the privilege of doing business within this state, at a rate of 7 percent upon the basis of so much of the alternative minimum taxable income for the taxable year as exceeds the exemption amount.

(2) With respect to corporations subject to tax under Chapter 3 (commencing with Section 23501), on net income from sources within this state, at a rate of 7 percent upon the basis of so much of the alternative minimum taxable income for the taxable year as exceeds the exemption amount.

(3) With respect to organizations or trusts subject to tax under Article 2 (commencing with Section 23731) of Chapter 4, on the unrelated business income from sources within this state, at a rate

of 7 percent upon the basis of so much of the alternative taxable income for the taxable year as exceeds the exemption amount.

(4) With respect to banks subject to tax under Section 23181, according to or measured by net income, for the privilege of doing business within this state, in an amount equal to the sum of the following:

(A) At a rate of 7 percent upon the basis of so much of the alternative minimum taxable income as exceeds the exemption amount.

(B) At the rate determined under Section 23186, less the rate prescribed by Section 23151, upon the basis of net income for the taxable year.

(5) With respect to financial corporations subject to tax under Section 23183, according to or measured by net income, for the privilege of doing business within this state, in an amount equal to the sum of the following:

(A) At a rate of 7 percent upon the basis of so much of the alternative minimum taxable income as exceeds the exemption amount.

(B) At the rate determined under Section 23186, less the rate prescribed by Section 23151, upon the basis of net income for the taxable year.

(b) Section 55(b)(2) of the Internal Revenue Code, relating to the definition of alternative minimum taxable income, is modified as follows:

(1) For corporations whose net income is determined under Chapter 17 (commencing with Section 25101), alternative minimum taxable income shall be allocated and apportioned in the same manner as net income is allocated and apportioned for purposes of the regular tax.

(2) With respect to taxpayers subject to Article 4 (commencing with Section 23221) of Chapter 2, Article 4 (commencing with Section 23221) to Article 9 (commencing with Section 23361), inclusive, shall apply to the tax imposed by this section except that Section 23221 shall not apply.

(3) For purposes of computing the alternative minimum tax for taxable years in which a taxpayer commenced doing business, dissolves, withdraws, or ceases doing business, Sections 18601, 23151, 23151.1, 23151.2, 23181, 23183, 23183.1, 23183.2, 23201 to 23204, inclusive, 23222 to 23224.5, inclusive, 23282, 23332.5,

and 23504 shall be applied with due regard for the rate and alternative minimum taxable income prescribed by this chapter.

(c) Section 55(c) of the Internal Revenue Code, relating to the definition of regular tax, is modified to read:

(1) For purposes of this chapter, "regular tax" means the amount of tax imposed under Chapter 2 (commencing with Section 23101) or Chapter 3 (commencing with Section 23501) or Article 2 (commencing with Section 23731) of Chapter 4, but does not include any amount imposed under paragraph (1) of subdivision (e) of Section 24667 or paragraph (2) of subdivision (f) of Section 24667.

(2) The tax specified in paragraph (1) shall be the amount determined prior to reduction by any credits against the tax.

(3) The amendments made to Section 55(c)(1) of the Internal Revenue Code by Section 12001(b)(4) of *the* Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), shall apply.

(d) The rate of 7 percent prescribed in subdivision (a) shall be 6.65 percent for any taxable year beginning on or after January 1, 1997. The change in rate provided in this subdivision shall be made without proration otherwise required by Section 24251.

SEC. 79. Section 23456 of the Revenue and Taxation Code is amended to read:

23456. For purposes of this part, Section 56 of the Internal Revenue Code is modified as follows:

(a) (1) Section 56(a)(2) of the Internal Revenue Code, relating to mining exploration and development costs, shall apply only to expenses incurred during taxable years beginning on or after January 1, 1988.

(2) Section 56(a)(5) of the Internal Revenue Code, relating to pollution control facilities, shall apply only to amounts allowable as a deduction under Section 24372.3.

(b) For purposes of applying Section 56(d) of the Internal Revenue Code, all references to "December 31, 1986," are modified to read "December 31, 1987," and all references to "January 1, 1987," are modified to read "January 1, 1988."

(c) Section 56(d)(1) of the Internal Revenue Code is modified to include the provisions of Section 25108.

(d) Section 56(g) of the Internal Revenue Code, relating to adjustments based on adjusted current earnings, is modified to 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.

(3) The amendments made to paragraph (2) by the act adding this paragraph shall apply to taxable years beginning on or after January 1, 1990.

(4) The last sentence of Section 56(g)(4)(A)(i) of the Internal Revenue Code, shall not apply to taxable years beginning before January 1, 1998.

(f) (1) Section 56(g)(4)(C) of the Internal Revenue Code, relating to disallowance of items not deductible in computing earnings and profits, shall be modified as follows:

(A) (i) A deduction shall be allowed for amounts allowable as a deduction for purposes of the regular tax under Sections 24402, 24410, 24411, and 25106.

(ii) For each taxable year beginning on or after January 1, 1990, a deduction shall be allowed for amounts allowable as a deduction to a credit union for purposes of the regular tax under Section 24405.

(B) Section 56(g)(4)(C)(ii) of the Internal Revenue Code, relating to special rule for certain dividends, shall not be applicable.

(C) Section 56(g)(4)(C)(iii) of the Internal Revenue Code, relating to treatment of taxes on dividends from 936 corporations, shall not be applicable.

(D) Section 56(g)(4)(C)(iv) of the Internal Revenue Code, relating to special rule for certain dividends received by certain cooperatives, shall not be applicable.

(2) Section 56(g)(4)(D)(ii) of the Internal Revenue Code is modified to specify that Sections 24364 and 24407 shall not apply to expenditures paid or incurred in taxable years beginning on or after January 1, 1990.

(3) With respect to corporations that are not subject to the tax imposed under Chapter 2 (commencing with Section 23101), the amount of interest income included in the adjusted current earnings shall not exceed the amount of interest income included for purposes of the regular tax.

(4) Appropriate adjustments shall be made to limit deductions from adjusted current earnings for interest expense in accordance with the provisions of Sections 24344 and 24425.

SEC. 80. Section 23456.5 of the Revenue and Taxation Code, as added by Section 36 of Chapter 34 of the Statutes of 2002, is repealed.

SEC. 81. Section 23456.5 of the Revenue and Taxation Code, as added by Section 36 of Chapter 35 of the Statutes of 2002, is repealed.

SEC. 82. Section 23456.5 is added to the Revenue and Taxation Code, to read:

23456.5. Section 56A of the Internal Revenue Code, relating to adjusted financial statement income, shall not apply.

SEC. 83. Section 23609 of the Revenue and Taxation Code is amended to read:

23609. For each taxable year beginning on or after January 1, 1987, there shall be allowed as a credit against the "tax" (as defined by Section 23036) an amount determined in accordance with Section 41 of the Internal Revenue Code, relating to credit for increasing research activities, except as follows:

(a) For each taxable year beginning before January 1, 1997, both of the following modifications shall apply:

(1) The reference to "20 percent" in Section 41(a)(1) of the Internal Revenue Code is modified to read "8 percent."

(2) The reference to "20 percent" in Section 41(a)(2) of the Internal Revenue Code is modified to read "12 percent."

(b) (1) For each taxable year beginning on or after January 1, 1997, and before January 1, 1999, both of the following modifications shall apply:

(A) The reference to "20 percent" in Section 41(a)(1) of the Internal Revenue Code is modified to read "11 percent."

(B) The reference to "20 percent" in Section 41(a)(2) of the Internal Revenue Code is modified to read "24 percent."

(2) For each taxable year beginning on or after January 1, 1999, and before January 1, 2000, both of the following shall apply:

(A) The reference to "20 percent" in Section 41(a)(1) of the Internal Revenue Code is modified to read "12 percent."

(B) The reference to "20 percent" in Section 41(a)(2) of the Internal Revenue Code is modified to read "24 percent."

(3) For each taxable year beginning on or after January 1, 2000, both of the following shall apply:

(A) The reference to "20 percent" in Section 41(a)(1) of the Internal Revenue Code is modified to read "15 percent."

(B) The reference to "20 percent" in Section 41(a)(2) of the 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."

(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) 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, 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 the 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, 2024. 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.

(i) 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.

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

(k) 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 (f), except that the limitation of Section 41(g) of the Internal Revenue Code shall be taken into account in each subsequent taxable year.

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

(m) 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.

(n) Section 41(f)(6) of the Internal Revenue Code, relating to energy research consortium, shall not apply.

SEC. 84. Section 23610.5 of the Revenue and Taxation Code is amended to read:

23610.5. (a) (1) There shall be allowed as a credit against the "tax," defined in Section 23036, a state low-income housing tax credit in an amount equal to the amount determined in subdivision (c), computed in accordance with Section 42 of the Internal Revenue Code, relating to low-income housing credit, except as otherwise provided in this section.

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

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

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

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

(i) Except for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code, that are allocated credits solely under the set-aside described in subdivision (c) of Section 50199.20 of the Health and Safety Code, the project's housing sponsor has been allocated by the California Tax Credit Allocation Committee a credit for federal

income tax purposes under Section 42 of the Internal Revenue Code, relating to low-income housing credit.

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

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

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

(ii) 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 federal credit 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 federal credit period expires for the project described in clause (i).

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

(2) (A) The California Tax Credit Allocation Committee shall certify to the housing sponsor the amount of tax credit under this 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,

9 percent of the qualified basis of the building, and for the fourth year, 3 percent of the qualified basis of the building.

(4) 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.

(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.

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

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

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

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

(vi) The low-income housing credit program set forth in Section 42 of the Internal Revenue Code, relating to low-income housing credit, this section, and Sections 12206 and 17058.

(vii) Programs for loans or grants administered by the 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~~ *Act,* 2017 (Public Law 115-97) and all amendments enacted prior to the Tax Cuts and Jobs ~~Act of~~ *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 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

terminate or the federally insured mortgage or rent subsidy contract on the property is eligible for prepayment or termination any time within five years before or after the date of application to the California Tax Credit Allocation Committee.

(E) The entity acquiring the property enters into a regulatory agreement that requires the property to be operated in accordance with the requirements of Section 42 of the Internal Revenue Code and any further requirements added by the California Tax Credit Allocation Committee to implement the low-income housing tax credit established by Section 42 of the Internal Revenue Code (26 U.S.C. Sec. 42), this section, and Sections 12206 and 17058 pursuant to Chapter 3.6 (commencing with Section 50199.4) of Part 1 of Division 31 of the Health and Safety Code.

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

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

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

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

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

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

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

(B) The amount of the cashflow from those units in the building that are not low-income units. For purposes of computing cashflow under this subparagraph, operating costs shall be allocated to the

low-income units using the "floor space fraction," as defined in Section 42 of the Internal Revenue Code, relating to low-income housing credit.

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

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

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

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

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

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

Committee and the California Debt Limit Allocation Committee have adopted increasing production and containing regulations, rules, or guidelines to align the programs of both committees with the objective of increasing production and containing costs as described in clause (iii). The California Tax Credit Allocation Committee shall accept applications for the 2021 calendar year not sooner than 30 days after these regulations, rules, or guidelines have been adopted. The California Debt Limit Allocation Committee shall not accept applications for the 2021 calendar year for bond allocations for an eligible project under this section prior to issuing, reviewing, and publishing a new tax-exempt private activity bond demand survey. Except as provided in clause (vi), a housing sponsor receiving a nonfederally subsidized allocation under subdivision (c) shall not be eligible for receipt of the housing credit allocated from the increased amount under this subparagraph. A housing sponsor receiving a nonfederally subsidized allocation under subdivision (c) shall remain eligible for receipt of the housing credit allocated from the credit ceiling amount under subparagraph (A).

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

(ii) Notwithstanding any other provision of this section, for allocations pursuant to this subparagraph for the 2020 calendar year, the California Tax Credit Allocation Committee shall consider projects located throughout the state and shall allocate housing credits, subject to the minimum federal requirements as set forth in Sections 42 and 142 of the Internal Revenue Code, the minimum requirements set forth in Sections 5033 and 5190 of the California Debt Limit Allocation Committee regulations, and the minimum set forth in Section 10326 of the *California* Tax Credit Allocation

Committee regulations, for projects that can begin construction within 180 days from award, subject to availability of funds.

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

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

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

(ic) The location of the development.

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

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

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

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

(iv) Of the amount available pursuant to this subparagraph, and notwithstanding any other requirement of this section, the

California Tax Credit Allocation Committee may allocate up to two hundred million dollars ($200,000,000) for housing financed by the California Housing Finance Agency under its Mixed-Income Program.

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

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

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

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

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

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

(i) Section 42(j) of the Internal Revenue Code, relating to recapture of credit, shall not be applicable and the following shall be substituted in its place:

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

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

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

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

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

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

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

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

(8) A provision that the remedies available in the event of a default under the regulatory agreement that is not cured within a

reasonable cure period include, but are not limited to, allowing any of the parties designated to enforce the regulatory agreement to collect all rents with respect to the project; taking possession of the project and operating the project in accordance with the regulatory agreement until the enforcer determines the housing sponsor is in a position to operate the project in accordance with the regulatory agreement; applying to any court for specific performance; securing the appointment of a receiver to operate the project; or any other relief as may be appropriate.

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

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

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

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

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

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

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

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

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

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

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

(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 except to break a tie when two or more of the projects have an equal rating.

(5) Not less than 20 percent of the low-income housing tax credits available annually under this section, Section 12206, and Section 17058 shall be set aside for allocation to rural areas as defined in Section 50199.21 of the Health and Safety Code. Any amount of credit set aside for rural areas remaining on or after October 31 of any calendar year shall be available for allocation to any eligible project. No amount of credit set aside for rural areas shall be considered available for any eligible project so long as there are eligible rural applications pending on October 31.

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

The term "secretary" shall be replaced by the term "Franchise Tax Board."

(*l*) In the case in which the credit allowed under 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.

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

(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

Committee to sell all or any portion of any credit allowed, subject to subparagraphs (B) and (C). The taxpayer may, only once, revoke an election to sell pursuant to this subdivision at any time before the California Tax Credit Allocation Committee allocates a final credit amount for the project pursuant to this section, at which point the election shall become irrevocable.

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

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

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

(B) The California Tax Credit Allocation Committee shall provide an annual listing to the Franchise Tax Board, in a form and manner agreed upon by the California Tax Credit Allocation Committee and the Franchise Tax Board, of the taxpayers that 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.

(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:

(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.

(c) (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 Committee with respect to any of the requirements of this section regarding a taxpayer's eligibility for the credit authorized by this section.

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

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

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

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

(2) 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 the seven succeeding years, if necessary, until the credit is exhausted.

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

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

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

(A) The number of jobs created by the rehabilitation project, 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.

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

(2) Notwithstanding the foregoing, the California Tax Credit Allocation Committee shall set aside eight million dollars ($8,000,000) of tax credits that may be allocated each calendar year for taxpayers in the aggregate, pursuant to this paragraph and subparagraph (B) of paragraph (2) of subdivision (i) of Section 17053.91, with qualified rehabilitation expenditures of less than one million dollars ($1,000,000). After providing for the reallocation pursuant to subparagraph (C) of paragraph (2) of subdivision (i) of Section 17053.91, 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) of paragraph (2) of subdivision (i) of Section 17053.91.

(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" below the tentative minimum tax, as defined by paragraph (1) of subdivision (a) of Section 23455.

(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 17053.91.

(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. 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 otherwise provided in this section.~~

~~(a) (1) In lieu of the amount of credit computed pursuant to Section 47(a) of the Internal Revenue Code, except as provided in paragraph (2), 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 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.~~

~~(c) (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 Committee with respect to any of the requirements of this section regarding a taxpayer's eligibility for the credit authorized by this section.~~

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

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

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

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

~~(2) 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 the seven succeeding years, if necessary, until the credit is exhausted.~~

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

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

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

~~(A) The number of jobs created by the rehabilitation project, 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.~~

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

~~(2) Notwithstanding the foregoing, the California Tax Credit Allocation Committee shall set aside eight million dollars ($8,000,000) of tax credits that may be allocated each calendar year for taxpayers in the aggregate, pursuant to this paragraph and subparagraph (B) of paragraph (2) of subdivision (i) of Section 17053.91, with qualified rehabilitation expenditures of less than one million dollars ($1,000,000). 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) of paragraph (2) of subdivision (i) of Section 17053.91.~~

~~(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" below the~~

~~tentative minimum tax, as defined by paragraph (1) of subdivision (a) of Section 23455.~~

~~(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 17053.91.~~

~~(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. 86. Section 23711 of the Revenue and Taxation Code is amended to read:

23711. Section 529 of the Internal Revenue Code, relating to qualified state tuition programs, shall apply, except as otherwise provided.

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

(1) By substituting the phrase "under Part 10 (commencing with Section 17001) and this part" in lieu of the phrase "under this subtitle."

(2) By substituting "Article 2 (commencing with Section 23731)" in lieu of "section 511."

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

(c) (1) The amendments made by Section 302(a)(1) of Division Q of the Consolidated Appropriations Act, 2016 (Public Law 114-113) to Section 529(e) of the Internal Revenue Code, relating

to other definitions and special rules, shall apply except as otherwise provided.

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

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

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

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

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

(C) In the case of any distribution made under Section 529(e)(3)(A) of the Internal Revenue Code, as amended by Section 11032(a)(2) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), that would be treated for federal income tax purposes as a "qualified higher education expense" under Section 529(c)(7) of the Internal Revenue Code, as added by Section 11032(a)(1) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), the amount of that distribution shall, notwithstanding anything in Section 529 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.

(D) Any distribution includable in the gross income of a distributee under subparagraph (C) shall not affect the exempt

status of the qualified tuition program under Section 529 of the Internal Revenue Code for purposes of this part.

(e) (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. 87. Section 23806 of the Revenue and Taxation Code is amended to read:

23806. (a) Section 1371(a) of the Internal Revenue Code, relating to application of Subchapter C rules, is modified to provide that, notwithstanding subdivisions (a) and (e) of Sections 17024.5 and 23051.5, any election by an "S corporation" or its shareholders under Section 338 of the Internal Revenue Code, relating to certain stock purchases treated as asset acquisitions, for federal purposes shall be treated as an election for purposes of this part and a separate election under paragraph (3) of subdivision (e) of Section 17024.5 or 23051.5 shall not be allowed.

(b) No election under Section 338 of the Internal Revenue Code, relating to certain stock purchases treated as asset acquisitions, shall be allowed for state purposes unless the "S corporation" or its shareholders made a valid election for federal purposes under Section 338 of the Internal Revenue Code.

(c) Section ~~1371 (d)~~ *1371(d)* of the Internal Revenue Code shall not apply.

(d) (1) Subdivisions (a) and (b) shall apply to any transaction occurring on or after January 1, 1998, in a taxable year beginning on or after January 1, 1997.

(2) Subdivision (c) shall apply to taxable years beginning on or after January 1, 1997.

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

SEC. 88. Section 23809 of the Revenue and Taxation Code is amended to read:

23809. There is hereby imposed a tax on built-in gains attributable to California sources, determined in accordance with the provisions of Section 1374 of the Internal Revenue Code, relating to tax imposed on certain built-in gains, as modified by this section.

(a) (1) The rate of tax specified in Section 1374(b)(1) of the Internal Revenue Code shall be equal to the rate of tax imposed under Section 23151 in lieu of the rate of tax specified in Section 11(b) of the Internal Revenue Code.

(2) In the case of an "S" corporation that is also a financial corporation, the rate of tax specified in paragraph (1) shall be increased by the excess of the rate imposed under Section 23183 over the rate imposed under Section 23151.

(b) The provisions of Section 1374(b)(3) of the Internal Revenue Code, relating to credits, are modified to provide that the tax imposed under subdivision (a) may not be reduced by any credits allowed under this part.

(c) The provisions of Section 1374(b)(4) of the Internal Revenue Code, relating to coordination with Section 1201(a), do not apply to taxable years beginning before January 1, 2018, and ending before January 1, 2025.

(d) (1) For corporations described in paragraph (2), the provisions of Sections 1374(c)(1) and 1374(d)(7) of the Internal Revenue Code apply, based upon the effective date of the election to be treated as an "S" corporation for federal tax purposes, regardless of the date on which the corporation became an "S" corporation for state tax purposes.

(2) This subdivision applies to a corporation that, for its last taxable year beginning before January 1, 2002, was an "S" corporation for federal tax purposes and a "C" corporation for purposes of Part 10 (commencing with Section 17001), Part 10.2 (commencing with Section 18401), and this part, and, as a result of the enactment of Chapter 35 of the Statutes of 2002, is an "S"

corporation for the corporation's taxable years beginning on or after January 1, 2002.

(e) Section 1374(d)(7)(A) of the Internal Revenue Code, relating to recognition period, is modified by substituting "10-year" in lieu of "5-year."

(f) The amendments to this section made by Section 1 of Chapter 782 of the Statutes of 2004 shall apply to taxable years beginning on or after January 1, 2002.

SEC. 89. Section 24308.6 of the Revenue and Taxation Code is amended to read:

24308.6. (a) For taxable years beginning on or after January 1, 2019, gross income does not include any covered loan amount forgiven pursuant to Section 1106 of the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136), pursuant to the Paycheck Protection Program and Health Care Enhancement Act (Public Law 116-139), pursuant to the Paycheck Protection Program Flexibility Act of 2020 (Public Law 116-142), pursuant to the Consolidated Appropriations Act, 2021 (Public Law 116-260), or pursuant to the PPP Extension Act of 2021 (Public Law 117-6).

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

(c) (1) Notwithstanding Section 24425, for taxable years beginning on or after January 1, 2019, subsection (a) of Section 276 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116-260) shall apply, except as provided.

(2) Paragraph (1) of subsection (a) 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" with "For purposes of this ~~part".~~ *part.*"

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

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

(d) (1) Notwithstanding Section 24425, for taxable years beginning on or after January 1, 2019, subsection (b) of Section 276 of Division N of the Consolidated Appropriations Act, 2021 (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 24425, 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 24425, 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, subsection (a) of Section 304 of Title III of Division N of the Consolidated Appropriations Act, 2021 (Public ~~law~~ *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

equal to interest income subject to apportionment by formula, plus the amount, if any, by which the balance of interest expense exceeds interest and dividend income (except dividends deductible under Section 24402 and dividends subject to the deductions provided for in Section 24411 to the extent of those deductions) not subject to apportionment by formula. Interest expense not included in the preceding sentence shall be directly offset against interest and dividend income (except dividends deductible under Section 24402 and dividends subject to the deductions provided for in Section 24411 to the extent of those deductions) not subject to apportionment by formula.

(c) (1) Notwithstanding subdivision (b) and subject to paragraph (2), interest expense allowable under Section 163 of the Internal Revenue Code that is incurred for purposes of foreign investments may be offset against dividends deductible under Section 24411.

(2) For taxable years beginning on or after January 1, 1997, the amount of interest computed pursuant to paragraph (1) shall be multiplied by the same percentage used to determine the dividend deduction under Section 24411 to determine that amount of interest that may be offset as provided in paragraph (1).

(d) Section 7210(b) of Public Law 101-239, relating to the effective date for limitation on deduction for certain interest paid to a related person, shall apply.

(e) Section 163(j) of the Internal Revenue Code, relating to the limitation on business interest, shall not apply.

SEC. 91. Section 24345.6 is added to the Revenue and Taxation Code, to read:

24345.6. A deduction shall not be allowed for the excise tax imposed by Section 4501 of the Internal Revenue Code, relating to repurchase of corporate stock.

SEC. 92. Section 24345.7 is added to the Revenue and Taxation Code, to read:

24345.7. A deduction shall not be allowed for the excise tax imposed by Section 5000D of the Internal Revenue Code, relating to designated drugs during noncompliance periods.

SEC. 93. Section 24349.1 of the Revenue and Taxation Code is amended to read:

24349.1. (a) Section 280F of the Internal Revenue Code, relating to limitations on depreciation for luxury automobiles and

certain property used for personal purposes, shall apply, except as otherwise provided.

(b) Except as provided in subdivision (c), Section 280F of the Internal Revenue Code shall be modified as follows:

(1) The terms "deduction" or "recovery deduction," relating to amounts allowable as a deduction under Section 168 of the Internal Revenue Code, mean the amount allowable as a deduction for depreciation under this part.

(2) The term "recovery period," relating to property under Section 168 of the Internal Revenue Code, means the class life asset depreciation range allowable under this part.

(3) The provisions of Section 280F of the Internal Revenue Code which relate to the investment tax credit shall not be applicable for purposes of this part.

(c) Paragraphs (1) and (2) of subdivision (b) shall not apply to Section 24356.7 property.

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

SEC. 94. Section 24356 of the Revenue and Taxation Code is amended to read:

24356. (a) (1) In the case of Section 24356 property, the term "reasonable allowance" as used in subdivision (a) of Section 24349, may, at the election of the taxpayer, include an allowance, for the first taxable year for which a deduction is allowable under Sections 24349 through 24354 to the taxpayer with respect to such property, of 20 percent of the cost of that property.

(2) If in any one taxable year the cost of Section 24349 property with respect to which the taxpayer may elect an allowance under paragraph (1) for that taxable year exceeds ten thousand dollars ($10,000), then paragraph (1) applies with respect to those items selected by the taxpayer, but only to the extent of an aggregate cost of ten thousand dollars ($10,000).

(b) (1) In lieu of subdivision (a), Section 179 of the Internal Revenue Code, relating to election to expense certain depreciable business assets, applies, except as otherwise provided.

(2) Section 179(b)(1) of the Internal Revenue Code, relating to 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:*

(A) The property is not acquired from a person whose relationship to the person acquiring it would result in the disallowance of losses under Section 24427 (but, in applying Section 267 of the Internal Revenue Code, relating to losses, expenses, and interest with respect to transactions between related taxpayers, for purposes of this section, Section 267(c)(4) of the Internal Revenue Code shall be treated as providing that the family of an individual shall include only the individual's spouse, ancestors, and lineal descendants);

(B) The property is not acquired by one member of an affiliated group from another member of the same affiliated group, and

(C) The basis of the property in the hands of the person acquiring it is not determined in whole or in part by reference to the adjusted basis of that property in the hands of the person from whom acquired.

(3) For purposes of this section, the cost of property does not include so much of the basis of such property as is determined by reference to the basis of other property held at any time by the person acquiring that property.

(4) For purposes of subdivision (a) and subdivision (b) of this section:

(A) All members of an affiliated group shall be treated as one taxpayer, and

(B) The Franchise Tax Board shall apportion the dollar limitation contained in subdivision (a) or subdivision (b) among the members of the affiliated group in the manner as it shall by regulations prescribe.

(5) For purposes of paragraphs (2) and (4), the term "affiliated group" has the meaning assigned to it by Section 1504 of the Internal Revenue Code, except that, for those purposes, the phrase "more than 50 percent" shall be substituted for the phrase "at least 80 percent" each place it appears in Section 1504(a) of the Internal Revenue Code.

(6) In applying Section 24353, the adjustment under paragraph (1) of subdivision (b) of Section 24916, resulting by reason of an election made under this section with respect to any Section 24356 property, shall be made before any other deduction allowed by subdivision (a) of Section 24349 is computed.

(e) The Franchise Tax Board shall prescribe those regulations as may be necessary to carry out the purposes of this section.

SEC. 95. Section 24356.1 is added to the Revenue and Taxation Code, to read:

24356.1. (a) The amendments made by Section 124 of the Consolidated Appropriations Act, 2016 (Public Law 114-113) to Section 179 of the Internal Revenue Code, relating to elections to expense certain depreciable business assets, shall not apply.

(b) The amendments made by Section 13101 of the Tax Cuts and Jobs Act, ~~2016~~ *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. 96. Section 24357 of the Revenue and Taxation Code is amended to read:

24357. (a) There shall be allowed as a deduction any charitable contribution, as defined in Section 24359, the payment of which is made within the taxable year. A charitable contribution shall be allowable as a deduction only if verified under regulations prescribed by the Franchise Tax Board.

(b) (1) In the case of a corporation reporting its income on the accrual basis, the corporation may elect to treat the contribution as paid during that taxable year if both of the following occur:

(A) The board of directors authorizes a charitable contribution during the taxable year.

(B) Payment of the contribution is made after the close of that taxable year and on or before the 15th day of the fourth month following the close of the taxable year.

(2) The election allowed by paragraph (1) may be made only at the time of the filing of the return for the taxable year, and shall be signified in the manner as the Franchise Tax Board shall by regulations prescribe.

(c) For purposes of this section, payment of a charitable contribution that consists of a future interest in tangible personal property shall be treated as made only when all intervening interests in, and rights to the actual possession or enjoyment of, the property have expired or are held by persons other than the taxpayer or those standing in a relationship to the taxpayer described in Section 24428. For purposes of the preceding sentence, a fixture which is intended to be severed from the real property shall be treated as tangible personal property.

(d) No deduction shall be allowed under this section for traveling expenses (including amounts expended for meals and lodging)

while away from home, whether paid directly or by reimbursement, unless there is no significant element of personal pleasure, recreation, or vacation in that travel.

(e) (1) Section 170(f)(8) of the Internal Revenue Code, relating to substantiation requirement for certain contributions, shall apply, except as otherwise provided.

(2) No deduction shall be denied under Section 170(f)(8) of the Internal Revenue Code, relating to substantiation requirement for certain contributions, upon a showing that the requirements in Section 170(f)(8) of the Internal Revenue Code have been met with respect to that contribution for federal purposes.

(f) Section 170(f)(9) of the Internal Revenue Code, relating to denial of deduction where contribution for lobbying activities, shall apply, except as otherwise provided.

(g) (1) Notwithstanding any other provision of law to the contrary, for purposes of this section and Section 24341, Section 170 of the Internal Revenue Code, relating to charitable, etc., contributions and gifts, shall be applied to allow a taxpayer to elect to treat any contribution described in paragraph (2) made in January 2005, as if that contribution was made on December 31, 2004, and not in January 2005.

(2) A contribution is described in this paragraph if that contribution is a cash contribution made for the relief of victims in areas affected by the December 26, 2004, Indian Ocean tsunami for which a charitable contribution deduction is allowable under this section.

(h) (1) Section 170(f)(11)(E) of the Internal Revenue Code, relating to qualified appraisal and appraiser, shall apply, except as otherwise provided.

(2) This subdivision shall apply to appraisals prepared with respect to returns or submissions filed on or after January 1, 2010.

(i) (1) Section 170(f)(16) of the Internal Revenue Code, relating to contributions of clothing and household items, shall apply, except as otherwise provided.

(2) This subdivision shall apply to contributions made on or after January 1, 2010.

(j) (1) Section 170(f)(17) of the Internal Revenue Code, relating to recordkeeping, shall apply, except as otherwise provided.

(2) This subdivision shall apply to contributions made on or after January 1, 2010.

(k) (1) Section 170(o) of the Internal Revenue Code, relating to special rules for fractional gifts, shall apply, except as otherwise provided.

(2) This subdivision shall apply to contributions made on or after January 1, 2010.

(*l*) (1) (A) The amendments made by Section 605(a)(1) of Public Law 117-328 adding paragraph (7) to Section 170(h) of the Internal Revenue Code, relating to limitation on deduction for qualified conservation contributions made by passthrough entities, shall apply, except as otherwise provided.

(B) Section 170(h)(7)(G) of the Internal Revenue Code, relating to regulations, as added by Section 605(a)(1) of Public Law 117-328, shall not apply.

(C) Section 605(a)(3) of Public Law 117-328, relating to extension of statute of limitations for listed transactions, shall apply and is modified by substituting "Section 19755" for "sections 6501(c)(10) and 6235(c)(6) of such Code."

(2) The amendments made by Section 605(b) of Public Law 117-328 adding paragraph (19) to Section 170(f) of the Internal Revenue Code, relating to certain qualified conservation contributions, shall apply.

(3) This subdivision shall apply to contributions made on or after January 1, 2024.

(m) Section 605(d)(2) of Public Law 117-328, relating to opportunity to correct, shall apply.

SEC. 97. Section 24358 of the Revenue and Taxation Code is amended to read:

24358. (a) In the case of a corporation, the total deductions under Section 24357 for any taxable year, other than for contributions to which subdivision (b) applies, shall not exceed 10 percent of the taxpayer's net income computed without regard to any of the following:

(1) Subdivision (e) of Section 23802.

(2) Sections 24357 to 24359, inclusive.

(3) Article 2 (commencing with Section 24401) of Chapter 7 (except Sections 24407 to 24409, inclusive).

(b) (1) Section 170(b)(2)(B) of the Internal Revenue Code, relating to qualified conservation contributions by certain corporate 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~~ *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

the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136) to Section 172(a) of the Internal Revenue Code, relating to the deduction allowed, shall not apply.

(b) (1) Except as provided in paragraphs (3) and (4), the provisions of Section 172(b)(2) of the Internal Revenue Code, relating to amount of carrybacks and carryovers, shall be modified so that the applicable percentage of the entire amount of the net operating loss for any taxable year shall be eligible for carryover to any subsequent taxable year. For purposes of this subdivision, the applicable percentage shall be:

(A) Fifty percent for any taxable year beginning before January 1, 2000.

(B) Fifty-five percent for any taxable year beginning on or after January 1, 2000, and before January 1, 2002.

(C) Sixty percent for any taxable year beginning on or after January 1, 2002, and before January 1, 2004.

(D) One hundred percent for any taxable year beginning on or after January 1, 2004.

(2) Section 172(b)(2)(C) of the Internal Revenue Code shall not apply.

(3) 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 a new business during that taxable year, each of the following shall apply to each loss incurred during the first three taxable years of operating the new business:

(A) If the net operating loss is equal to or less than the net loss from the new business, 100 percent of the net operating loss shall be carried forward as provided in subdivision (e).

(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 (e).

(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 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 paragraph (1) of subdivision (e).

(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 (e).

(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 (e).

(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 treated as a new business for the first three taxable years of the new business.

(6) 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 more than one business, and more than one of those businesses qualifies as either a new business or an eligible small business under this section, paragraph (2) shall be applied first, except that if there is any remaining portion of the net operating loss after application of clause (i) of subparagraph (B) of paragraph (2), paragraph (3) shall be applied to the remaining portion of the net operating loss as though that remaining portion of the net operating loss constituted the entire net operating loss.

(7) For purposes of this section, "net loss" means the amount of net loss after application of Sections 465 and 469 of the Internal Revenue Code.

(c) For any taxable year in which the taxpayer has in effect a water's-edge election under Section 25110, the deduction of a net operating loss carryover shall be denied to the extent that the net operating loss carryover was determined by taking into account the income and factors of an affiliated corporation in a combined report whose income and apportionment factors would not have been taken into account if a water's-edge election under Section 25110 had been in effect for the taxable year in which the loss was incurred.

(d) Section 172(b)(1) of the Internal Revenue Code, relating to years to which the loss may be carried, is modified as follows:

(1) Net operating loss carrybacks shall not be allowed for any net operating losses attributable to taxable years beginning after December 31, 2018, and before January 1, 2013.

(2) A net operating loss attributable to taxable years beginning on or after January 1, 2013, and before January 1, 2019, shall be a net operating loss carryback to each of the two taxable years preceding the taxable year of the loss in lieu of the number of years provided therein.

(A) For a net operating loss attributable to a taxable year beginning on or after January 1, 2013, and before January 1, 2014, the amount of carryback to any taxable year shall not exceed 50 percent of the net operating loss.

(B) For a net operating loss attributable to a taxable year beginning on or after January 1, 2014, and before January 1, 2015, the amount of carryback to any taxable year shall not exceed 75 percent of the net operating loss.

(C) For a net operating loss attributable to a taxable year beginning on or after January 1, 2015, and before January 1, 2019, the amount of carryback to any taxable year shall not exceed 100 percent of the net operating loss.

(3) A net operating loss carryback shall not be carried back to any taxable year beginning before January 1, 2011.

(e) (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 years" except as otherwise provided in paragraphs (2), (3), and (4).

(B) For a net operating loss for any income 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 shall not apply.

(D) Section 172(b)(1)(D) of the Internal Revenue Code shall not apply.

(2) For any income year beginning before January 1, 2000, in the case of a "new business," the "five taxable years" referred to 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 24416.3, 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 prior to 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 corporation that was either of the following:

(A) Under the jurisdiction of the court in a Title 11 or similar case at any time prior to January 1, 1994. The loss carryover provided in the preceding sentence shall not apply to any loss incurred in an income year after the taxable year during which the corporation is no longer under the jurisdiction of the court in a Title 11 or similar case.

(B) In receipt of assets acquired in a transaction that qualifies as a tax-free reorganization under Section 368(a)(1)(G) of the Internal Revenue Code.

(f) For purposes of this section:

(1) "Eligible small business" means any trade or business that has gross receipts, less returns and allowances, of less than one million dollars ($1,000,000) during the income year.

(2) Except as provided in subdivision (g), "new business" means any trade or business activity that is first commenced in this state on or after January 1, 1994.

(3) "Title 11 or similar case" shall have the same meaning as in Section 368(a)(3) of the Internal Revenue Code.

(4) In the case of any trade or business activity conducted by a partnership or an "S" corporation, paragraphs (1) and (2) shall be applied to the partnership or "S" corporation.

(g) For purposes of this section, in determining whether a trade or business activity qualifies as a new business under paragraph (2) of subdivision (e), the following rules shall apply:

(1) In any case where a taxpayer purchases or otherwise acquires all or any portion of the assets of an existing trade or business (irrespective of the form of entity) that is doing business in this state (within the meaning of Section 23101), the trade or business thereafter conducted by the taxpayer (or any related person) shall not be treated as a new business if the aggregate fair market value of the acquired assets (including real, personal, tangible, and intangible property) used by the taxpayer (or any related person) in the conduct of its trade or business exceeds 20 percent of the aggregate fair market value of the total assets of the trade or business being conducted by the taxpayer (or any related person). For purposes of this paragraph only, the following rules shall apply:

(A) The determination of the relative fair market values of the acquired assets and the total assets shall be made as of the last day of the first taxable year in which the taxpayer (or any related person) first uses any of the acquired trade or business assets in its business activity.

(B) Any acquired assets that constituted property described in Section 1221(a)(1) of the Internal Revenue Code in the hands of the transferor shall not be treated as assets acquired from an existing trade or business, unless those assets also constitute property described in Section 1221(a)(1) of the Internal Revenue Code in the hands of the acquiring taxpayer (or related person).

(2) In any case where a taxpayer (or any related person) is engaged in one or more trade or business activities in this state, or

has been engaged in one or more trade or business activities in this state within the preceding 36 months ("prior trade or business activity"), and thereafter commences an additional trade or business activity in this state, the additional trade or business activity shall only be treated as a new business if the additional trade or business activity is classified under a different division of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, than are any of the taxpayer's (or any related person's) current or prior trade or business activities.

(3) In a case in which a taxpayer, including all related persons, is engaged in trade or business activities wholly outside of this state and the taxpayer first commences doing business in this state (within the meaning of Section 23101) after December 31, 1993 (other than by purchase or other acquisition described in paragraph (1)), the trade or business activity shall be treated as a new business under paragraph (2) of subdivision (e).

(4) In a case in which the legal form under which a trade or business activity is being conducted is changed, the change in form shall be disregarded and the determination of whether the trade or business activity is a new business shall be made by treating the taxpayer as having purchased or otherwise acquired all or any portion of the assets of an existing trade or business under the rules of paragraph (1).

(5) "Related person" shall mean any person that is related to the taxpayer under either Section 267 or 318 of the Internal Revenue Code.

(6) "Acquire" shall include any transfer, whether or not for consideration.

(7) (A) For taxable years beginning on or after January 1, 1997, the term "new business" shall include any taxpayer that is engaged in biopharmaceutical activities or other biotechnology activities that are described in Codes 2833 to 2836, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, and as further amended, and that has not received regulatory approval for any product from the Food and Drug Administration.

(B) For purposes of this paragraph:

(i) "Biopharmaceutical 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.

(ii) "Other biotechnology activities" means activities consisting of the application of recombinant DNA technology to produce commercial products, as well as activities regarding pharmaceutical delivery systems designed to provide a measure of control over the rate, duration, and site of pharmaceutical delivery.

(h) For purposes of corporations whose net income is determined under Chapter 17 (commencing with Section 25101), Section 25108 applies to each of the following:

(1) The amount of net operating loss incurred in any taxable year that may be carried forward to another taxable year.

(2) The amount of any loss carry forward that may be deducted in any taxable year.

(i) The Franchise Tax Board may prescribe appropriate regulations to carry out the purposes of this section, including any regulations necessary to prevent the avoidance of the purposes of this section through splitups, shell corporations, partnerships, tiered ownership structures, or otherwise.

(j) The Franchise Tax Board may reclassify any net operating loss carryover determined under either paragraph (2) or (3) of subdivision (b) as a net operating loss carryover under paragraph (1) of subdivision (b) upon a showing that the reclassification is necessary to prevent evasion of the purposes of this section.

(k) Except as otherwise provided, the amendments made by Chapter 107 of the Statutes of 2000 apply to net operating losses for taxable years beginning on or after January 1, 2000.

SEC. 100. Section 24416.05 of the Revenue and Taxation Code is repealed.

SEC. 101. Section 24428 is added to the Revenue and Taxation Code, to read:

24428. Section 267A of the Internal Revenue Code, relating to certain related party amounts paid or accrued in hybrid transactions or with hybrid entities, shall apply.

SEC. 102. Section 24430 is added to the Revenue and Taxation Code, to read:

24430. The amendments made by Section 13304 of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section 274 of the Internal Revenue Code, relating to limitation on deduction by employers of expenses for fringe benefits, shall not apply.

SEC. 103. Section 24440 of the Revenue and Taxation Code is amended to read:

24440. (a) Section 280C(b) of the Internal Revenue Code, relating to credit for qualified clinical testing expenses for certain drugs, shall apply, except as otherwise provided.

(b) (1) Section 280C(c) of the Internal Revenue Code, relating to credit for increasing research activities, shall apply, except as otherwise provided.

(2) 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.

(3) 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 23151, 23186, or 23802 in lieu of Section 11(b) of the Internal Revenue Code.

SEC. 104. Section 24454.1 is added to the Revenue and Taxation Code, to read:

24454.1. The amendments to Section 367(a) of the Internal Revenue Code as enacted by Section 14102 of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), relating to repeal of the exception for transfers of certain property used in the active conduct of a trade or business, shall not apply.

SEC. 105. Section 24457 is added to the Revenue and Taxation Code, to read:

24457. Section 312(k)(3)(B)(ii) of the Internal Revenue Code, relating to special rule for real estate investment trusts, shall not apply.

SEC. 106. Section 24459 of the Revenue and Taxation Code is amended to read:

24459. (a) Section 382(n) of the Internal Revenue Code, relating to special rule for certain ownership changes, shall not apply.

(b) Section 382(d)(3) of the Internal Revenue Code, relating to application to carryforward of disallowed interest, shall not apply.

(c) The amendments made by Section 13301(b)(3) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section 382(k)(1) of the Internal Revenue Code, relating to loss corporation, shall not apply.

SEC. 107. Section 24465 of the Revenue and Taxation Code is amended to read:

24465. (a) (1) If, in connection with any exchange described in Section 332, 351, 354, 356, or 361 of the Internal Revenue Code, a taxpayer transfers property to an insurer, the insurer shall not, for purposes of determining the extent to which gain shall be recognized on that transfer, be considered to be a corporation for purposes of this part.

(2) Paragraph (1) shall not apply to any of the following types of transactions, unless that transaction has the effect (directly or indirectly) of transferring appreciated property from a taxpayer subject to tax under this part (or a member of the taxpayer's combined reporting group) to an insurer:

(A) An exchange or transfer pursuant to Section 368(a)(2)(D) or Section 368(a)(2)(E) of the Internal Revenue Code.

(B) A transfer of stock in an 80 percent-owned insurer for the purpose of filing a consolidated tax return or for financial or regulatory reporting.

(C) A transfer or exchange of publicly owned stock of the parent corporation.

(3) If a transaction described in paragraph (2) would qualify under that paragraph but for the fact that the transaction has the effect (directly or indirectly) of transferring appreciated property from a taxpayer subject to tax under this part (or a member of the taxpayer's combined reporting group) to an insurer, then, if the property is used in the active trade or business of the insurer, subdivision (b) shall be deemed to apply to that transfer.

(4) For purposes of this subdivision, "appreciated property" means property whose fair market value, as of the date of the transfer subject to this section, exceeds its adjusted basis as of that date.

(b) (1) Except as provided in subdivision (c), or as otherwise provided by regulations prescribed by the Franchise Tax Board, if property subject to paragraph (1) of subdivision (a) or to

subdivision (g) is transferred to an insurer for use in the active conduct of a trade or business of the insurer, then any gain otherwise required to be recognized under that subdivision shall be deferred until the date that the property is no longer owned by an insurer in the taxpayer's commonly controlled group (or a member of the taxpayer's combined reporting group), or the property is no longer used in the active conduct of the insurer's trade or business (or the trade or business of another member in the taxpayer's combined reporting group), or the holder of the property is no longer held by an insurer in the commonly controlled group of the transferor (or a member of the taxpayer's combined reporting group).

(2) Any of the events described in paragraph (1) shall be treated as a disposition of the property under this subdivision, irrespective of whether any other provision in this part or in the Internal Revenue Code would otherwise permit nonrecognition treatment of the transaction described in this subdivision.

(3) Notwithstanding paragraph (2) of this subdivision, an insurer that becomes a member of the taxpayer's commonly controlled group or a corporation that becomes a member of the taxpayer's combined reporting group, as a result of a transaction of which a transfer referred to in this subdivision is a part, shall be treated as a member of the taxpayer's commonly controlled group or a member of the taxpayer's combined reporting group at the time of the transfer for purposes of this subdivision.

(4) For purposes of this subdivision, stock of an insurance subsidiary constitutes property used in the active trade or business of the insurer.

(5) If the deferred gain required to be taken into account under this subdivision is business income (as defined by subdivision (a) of Section 25120), the gain shall be apportioned using the apportionment percentage for the taxable year that the gain is required to be taken into account under this subdivision. Except as provided in regulations under Section 25137, for purposes of the sales factor for that taxable year, the transaction giving rise to that gain shall be treated as a sale occurring in the taxable year the gain is taken into account. The amount of any gain required to be recognized under this subdivision upon any disposition described in this subdivision shall not exceed the lesser of the deferred gain

or the gain realized in the transaction in which gain is required to be recognized under this subdivision.

(6) For purposes of computing the amount of gain required to be recognized under this subdivision, appropriate adjustments may be made, pursuant to regulations issued by the Franchise Tax Board, to the basis of stock to reflect the disallowance of any expenses under paragraph (2) of subdivision (b) of Section 24425.

(c) The Franchise Tax Board may prescribe regulations providing for an annual reporting requirement in the form of a statement or other form, to be attached to the transferor taxpayer's return, regarding the current ownership of any property for which any gains were previously deferred pursuant to subdivision (b). If the transferor taxpayer fails to provide any information required by the Franchise Tax Board pursuant to the preceding sentence, the Franchise Tax Board may, in lieu of the year described by subdivision (b), require that the transferor taxpayer take those gains into account in the first taxable year in which the current ownership of the property is not reported. The preceding sentence shall not apply so long as the property is still owned by the transferee and the failure to provide the information was due to reasonable cause and not willful neglect. Notwithstanding any other provision of law, if a taxpayer fails to satisfy the reporting requirements of this subdivision, then a notice of proposed deficiency assessment resulting from adjustments attributable to gains previously deferred pursuant to subdivision (b) with respect to which the reporting requirements were not satisfied may be mailed to the taxpayer within four years from the date on which the reporting requirements are satisfied by the taxpayer.

(d) Subdivision (b) shall not apply to any property described by Section 367(a)(3)(B) of the Internal Revenue Code as it read on January 1, 2015.

(e) Except as provided by regulations prescribed by the Franchise Tax Board, a transfer by a taxpayer of an interest in a partnership to an insurer in a transaction described in subdivision (a) shall be treated as a transfer to that insurer of the taxpayer's pro rata share of the assets of the partnership.

(f) For purposes of this section, any distribution described by Section 355 of the Internal Revenue Code (or so much of Section 356 of the Internal Revenue Code as it relates to Section 355 of the Internal Revenue Code) shall be treated as an exchange under

this section, whether or not the distribution is an exchange. This subdivision shall not apply to any distribution in which either of the following applies:

(1) The distributing corporation is an insurer.

(2) The distributee is a person other than an insurer.

(g) For purposes of this part, any transfer of property to an insurer as a contribution to capital of that insurer by one or more persons who, immediately after the transfer, own (within the meaning of Section 318 of the Internal Revenue Code) stock possessing at least 80 percent of the total combined voting power of all classes of stock of that insurer that are entitled to vote shall be treated as an exchange of that property for stock of the insurer equal in value to the fair market value of the property transferred.

(h) (1) In the case of any distribution described in Section 355 of the Internal Revenue Code (or so much of Section 356 of the Internal Revenue Code as it relates to Section 355 of the Internal Revenue Code) by a taxpayer to an insurer, to the extent provided in regulations prescribed by the Franchise Tax Board, gain shall be recognized under principles similar to the principles of this section.

(2) In the case of any liquidation to which Section 332 of the Internal Revenue Code applies, except as provided in regulations prescribed by the Franchise Tax Board, both of the following shall apply:

(A) Sections 337(a) and 337(b)(1) of the Internal Revenue Code shall not apply, where the ~~80 percent~~ *80-percent* distributee is an insurer.

(B) Where the distributor is an insurer, the distributee shall treat the distribution as a distribution from the insurer's earnings and profits, to the extent thereof.

(3) For purposes of the preceding paragraph, the deemed distribution from earnings and profits shall be treated as a dividend eligible for a deduction, to the extent otherwise provided in Section 24410, as if actually distributed as a dividend.

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

(1) An insurer is any insurer within the meaning of Section 28 of Article XIII of the California Constitution, whether or not the insurer is engaged in business in California.

(2) The phrase "commonly controlled group" shall have the same meaning as that phrase has under Section 25105.

(3) The phrase "combined reporting group" means those corporations whose income is required to be included in the same combined report pursuant to Section 25101 or 25110.

(j) The Franchise Tax Board may prescribe any regulations that may be appropriate to carry out the purpose of this section, which purpose is to prevent the removal of gain inherent in property at the time of a transfer from taxation under this part. Those regulations may provide for appropriate adjustments to the amount of deferred income described in subdivision (b) to avoid the double inclusion of income for situations, including but not limited to, the property transferred to an insurer member of the commonly controlled group is later acquired by a noninsurer member of the taxpayer's combined reporting group.

(k) Upon an adequate showing by a taxpayer that a transaction referred to in subdivision (a) or (h) would not violate the purposes of this section to prevent the removal of gain inherent in property at the time of a transfer from taxation under this part, the Franchise Tax Board may grant relief from the application of this section. In an appeal filed with the State Board of Equalization, or an action filed under Section 19382 or 19385, the State Board of Equalization or the court, as the case may be, shall have jurisdiction to grant that relief only upon a specific finding that the transfer did not remove gain inherent in property at the time of transfer from taxation under this part.

(*l*) This section applies to transactions entered into on or after June 23, 2004, or transactions entered into after June 23, 2004, pursuant to a binding written contract in existence on June 23, 2004. For purposes of this subdivision, transactions entered into on or after June 23, 2004, that were given final approval by a regulatory insurance commissioner before June 23, 2004, shall be considered a transaction entered into before June 23, 2004, pursuant to a binding written contract in existence on June 23, 2004.

SEC. 108. Section 24471.5 is added to the Revenue and Taxation Code, to read:

24471.5. Section 381(c)(20) of the Internal Revenue Code, relating to carryforward of disallowed business interest, shall not apply.

SEC. 109. Section 24601 of the Revenue and Taxation Code is amended to read:

24601. (a) Subchapter D of Chapter 1 of Subtitle A of the Internal Revenue Code, relating to deferred compensation, etc., shall apply, except as otherwise provided.

(b) Notwithstanding the date specified in paragraph (1) of subdivision (a) of Section 23051.5, Part I of Subchapter D of Chapter 1 of Subtitle A of the Internal Revenue Code, relating to pension, profitsharing, stock bonus plans, etc., and Part III of Subchapter D of Chapter 1 of Subtitle A of the Internal Revenue Code, relating to rules relating to minimum funding standards and benefit limitations, shall apply, except as otherwise provided, without regard to taxable year to the same extent as applicable for federal income tax purposes.

SEC. 110. Section 24661.4 is added to the Revenue and Taxation Code, to read:

24661.4. Section 451(b) of the Internal Revenue Code, relating to inclusion not later than for financial accounting purposes, shall not apply to specified credit card fees, as defined in Treasury Regulations Section 1.451-3(j)(2).

~~SEC. 110.~~

SEC. 111. Section 24661.5 of the Revenue and Taxation Code is amended to read:

24661.5. Section 451(g)(3) of the Internal Revenue Code, relating to special election rule, is modified by substituting the phrase "subdivision (b) of Section 24949.1" in lieu of the phrase "section 1033(e)(2)" contained therein.

~~SEC. 111.~~

SEC. 112. Section 24661.6 of the Revenue and Taxation Code is amended to read:

24661.6. Section 451(k) of the Internal Revenue Code, relating to special rule for sales or dispositions to implement Federal Energy Regulatory Commission or state electric restructuring policy, shall not apply.

~~SEC. 112.~~

SEC. 113. Section 24670 is added to the Revenue and Taxation Code, to read:

24670. The amendments to Section 453B(e) of the Internal Revenue Code as enacted by Section 13512(b)(1) of the Tax Cuts

and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), relating to the repeal of the small life insurance company deduction, shall not apply.

~~SEC. 113.~~

SEC. 114. Section 24673.2 of the Revenue and Taxation Code is amended to read:

24673.2. (a) Section 460 of the Internal Revenue Code, relating to special rules for long-term contracts, shall apply, except as otherwise provided.

(b) (1) 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 apply 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.

(c) (1) The amendments to Section 460 of the Internal Revenue Code made by Section 10203 of Public Law 100-203, relating to a reduction in the percentage of items taken into account under the completed contract method, shall apply to each taxable year beginning on or after January 1, 1990.

(2) In the case of a contract entered into after October 13, 1987, during a taxable year beginning before January 1, 1990, 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 each taxable year beginning prior to January 1, 1990.

(d) (1) The amendments to Section 460 of the Internal Revenue Code made by Section 5041 of Public Law 100-647, relating to a reduction in the percentage of items taken into account under the completed contract method, shall apply to each taxable year beginning on or after January 1, 1990.

(2) In the case of a contract entered into after June 20, 1988, during a taxable year beginning before January 1, 1990, 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 each taxable year beginning prior to January 1, 1990.

(e) (1) The amendments to Section 460 of the Internal Revenue Code made by Section 7621 of Public Law 101-239, relating to the repeal of the completed contract method of accounting for long-term contracts, shall apply to each taxable year beginning on or after January 1, 1990.

(2) In the case of a contract entered into after July 10, 1989, during a taxable year beginning on or before January 1, 1990, 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 each taxable year beginning prior to January 1, 1990.

(f) For purposes of applying paragraphs (2) to (6), inclusive, of Section 460(b) of the Internal Revenue Code, relating to the look-back method, any adjustment to income computed under paragraph (2) of subdivision (b), (c), (d), or (e) shall be deemed to have been reported in the taxable year from which the adjustment arose, rather than the taxable year in which the contract was completed.

(g) (1) For contracts entered into on or after the effective date of the act adding this subdivision, the amendments made by Section 13102(d) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) to Section 460 of the Internal Revenue Code, relating to special rules for long-term contracts, shall apply, except as otherwise provided.

(2) For contracts entered into on or after the effective date of the act adding this subdivision, the amendments made by Section 13102(e)(3) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97), relating to exemption from percentage completion for long-term contracts, shall apply, expect as otherwise provided.

(3) (A) Any change in method of accounting made pursuant to this paragraph shall be treated for purposes of applying Section 24721, as initiated by the taxpayer and made with the consent of the Franchise Tax Board.

(B) Section 13102(e)(1) of the Tax Cuts and Jobs ~~Act~~ *Act, 2017* (Public Law 115-97) does not apply to this subdivision.

(C) Notwithstanding subparagraph (B), a taxpayer may elect to apply the provisions of this subdivision, where otherwise allowed, to contracts entered into on or after January 1, 2018, in taxable years ending after January 1, 2018.

(h) The amendments to Section 460(c)(6)(B)(ii) of the Internal Revenue Code made by Section 143(a)(2) and Section 143(b)(6)(I) of Public Law 114-113, relating to the special rule for federal long-term contracts, shall not apply.

~~SEC. 114.~~

SEC. 115. Section 24721 of the Revenue and Taxation Code is amended to read:

24721. (a) Section 481 of the Internal Revenue Code, relating to adjustments required by changes in method of accounting, shall apply, except as otherwise provided.

(b) Section 481(d) of the Internal Revenue Code, relating to adjustments attributable to conversion from ~~S~~ *"S"* corporation to ~~C~~ *"C"* corporation, shall not apply.

SEC. 116. Section 24872 of the Revenue and Taxation Code is amended to read:

24872. (a) A real estate investment trust shall be deemed to have satisfied the distribution requirements of Section 857(a)(1) of the Internal Revenue Code for purposes of this part if it satisfies the distribution requirements of Section 857(a)(1) of the Internal Revenue Code for federal purposes.

(b) (1) Section 857(b)(1) of the Internal Revenue Code, relating to imposition of tax on real estate investment trusts, shall not apply.

(2) Every real estate investment trust shall be subject to the taxes imposed under Chapter 2 (commencing with Section 23101) and Chapter 3 (commencing with Section 23501), except that its "net income" shall be equal to its "real estate investment trust income," as defined in subdivision (c).

(c) "Real estate investment trust income" means real estate investment company taxable income, as defined in Section 857(b)(2) of the Internal Revenue Code, modified as follows:

(1) In lieu of Section 857(b)(2)(A) of the Internal Revenue Code, relating to special deductions for corporations, no deduction shall be allowed under Section 24402.

(2) Section 857(b)(2)(D) of the Internal Revenue Code, relating to an exclusion for an amount equal to the net income from 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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