

AMENDED IN SENATE JUNE 25, 2002

AMENDED IN ASSEMBLY MAY 23, 2001

CALIFORNIA LEGISLATURE—2001–02 REGULAR SESSION

**ASSEMBLY BILL**

**No. 428**

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**Introduced by Committee on Budget (~~Cardenas (Chair), Aroner, Cardoza, Cedillo, Dutra, Firebaugh, Horton, Keeley, Nakano, Oropeza, Pavley, Simitian, Steinberg, Vargas, and Wright~~)**

February 20, 2001

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An act ~~relating to local government~~ to amend Sections 17052.2, 17053.84, 17276.3, 19136.8, 23457, 23684, 24348, 24416.3, and 24449 of, to add Article 4 (commencing with Section 30133) to Chapter 2 of Part 13 of Division 2 of, and to add and repeal Section 17041.1 of, the Revenue and Taxation Code, and to amend and supplement the Budget Act of 2002, relating to revenue and appropriations for the support of the government of the State of California, making an appropriation therefor, and declaring the urgency thereof, to take effect immediately.

LEGISLATIVE COUNSEL'S DIGEST

AB 428, as amended, Committee on Budget.

General Subject: ~~Local government~~ Sales and use taxes: personal income and corporation taxes: cigarette taxes: Budget Act of 2002.

Under the Personal Income Tax Law, taxes are imposed at specified rates up to a maximum of 9.3% based on the amount of the taxpayer's taxable income and a maximum of 7% based on the taxpayer's alternative minimum taxable income.



*This bill would, for taxable years beginning on or after January 1, 2002, and before January 1, 2004, impose 10% and 11% maximum rates for taxpayers with taxable incomes over certain amounts, and impose an 8.5% maximum rate based upon the taxpayer's alternative minimum taxable income. This bill would also provide for the waiver of certain penalties imposed with respect to the underpayment of tax.*

*The Personal Income Tax Law authorizes various credits against the tax imposed by that law, including a credit for credentialed teachers in an amount equal to the lesser of (1) the applicable of specified amounts based upon years of service as a teacher, or (2) 50% of the amount of tax imposed upon the taxpayer's income that is attributable to service as a teacher at a qualifying educational institution.*

*This bill would suspend the credit for taxable years beginning on or after January 1, 2002, and before January 1, 2003.*

*The Personal Income Tax Law and the Bank and Corporation Tax Law allow, for any taxable year beginning on or after January 1, 2001, and before January 1, 2004, a credit in an amount equal to the lesser of 15% of the specified cost of any solar energy system, or the applicable dollar amount per rated watt of that solar energy system, as provided.*

*This bill would suspend that credit for any taxable year beginning on or after January 1, 2002, and before January 1, 2003.*

*Existing law allows individual and corporate taxpayers to utilize net operating loss carryovers for purposes of offsetting their individual and corporate tax liabilities.*

*This bill would disallow specified net operating loss carryovers in the 2002 and 2003 taxable years. The bill would extend the carryover period for the net operating losses, thus allowing the taxpayers to have the same number of years to utilize the loss as they would have if the change had not been enacted.*

*The Bank and Corporation Tax Law, in specified conformity to federal income tax laws allows a deduction for bad debts, except that, among other things, the deduction of a savings and loan association, or bank or financial corporation is determined in accordance with special rules that allow a deduction for a reasonable addition to a reserve for bad debts.*

*This bill would, with respect to banks, modify that special rule to provide additional conformity to federal income tax laws relating to reserves for losses on loans of banks, except as otherwise provided. This bill would also make related changes with respect to the alternative minimum tax.*



*The Cigarette and Tobacco Products Tax Law imposes a tax on every distributor of cigarettes and tobacco products at specified rates, including additional taxes imposed under the Tobacco Tax and Health Protection Act of 1988 (Proposition 99), and the California Families and Children Act of 1998 (Proposition 10).*

*This bill would, beginning on September 1, 2002, impose an additional tax on the distribution of cigarettes at the rate of 25 mills for each cigarette distributed. The revenues collected from this additional tax would be deposited in the General Fund.*

*This bill would result in a change in state taxes for the purpose of increasing state revenues within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of 2/3 of the membership of each house of the Legislature.*

*The California Constitution requires that the annual Budget Act be enacted for the support of state government in each fiscal year.*

*This bill would revise the Budget Act of 2002 by augmenting and reappropriating certain appropriations, as specified.*

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

~~*This bill would declare the intent of the Legislature to make the necessary statutory changes to implement the Budget Act of 2001 relative to funding local government.*~~

~~Vote: majority 2/3. Appropriation: no yes. Fiscal committee: no yes. State-mandated local program: no.~~

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

- 1 ~~SECTION 1. It is the intent of the Legislature in enacting this~~
- 2 *SECTION 1. It is the intent of the Legislature that the revenues*
- 3 *derived from this measure be used to restore funding for*
- 4 *firefighting, providing grants to local governments for juvenile*
- 5 *justice and high technology law enforcement, and waging the war*
- 6 *on methamphetamine. The revenues raised in this bill will also:*
- 7 *(a) Provide health care by providing funds to the Healthy*
- 8 *Families program.*
- 9 *(b) Improve funding for the Adult Protective Services program*
- 10 *and increase health care provider rates.*



1 (c) Provide funding for subventions to cities and counties to  
2 offset the loss of revenue that results from reductions in the Vehicle  
3 License Fee and from the Williamson Act.

4 (d) Finance reductions in fees at the University of California  
5 and California State University.

6 (e) Finance recruitment for faculty at the Merced campus of the  
7 University of California.

8 SEC. 2. Section 17041.1 is added to the Revenue and Taxation  
9 Code, to read:

10 17041.1. (a) Notwithstanding any other provision of law, all  
11 of the following apply:

12 (1) (A) For any taxable year beginning on or after January 1,  
13 2002, and before January 1, 2004, the income tax brackets and  
14 rates set forth in paragraph (1) of subdivision (a) of Section 17041  
15 shall be modified by each of the following:

16 (i) For that portion of taxable income that is over one hundred  
17 thirty thousand dollars (\$130,000) but not over two hundred sixty  
18 thousand dollars (\$260,000), the tax rate is 10 percent of the  
19 excess over one hundred thirty thousand dollars (\$130,000).

20 (ii) For that portion of taxable income that is over two hundred  
21 sixty thousand dollars (\$260,000), the tax rate is 11 percent of the  
22 excess over two hundred sixty thousand dollars (\$260,000).

23 (B) The income tax brackets specified in this paragraph shall  
24 be recomputed, as otherwise provided in subdivision (h) of Section  
25 17041, only for taxable years beginning on and after January 1,  
26 2003, and before January 1, 2004.

27 (2) (A) For any taxable year beginning on or after January 1,  
28 2002, the income tax brackets and rates set forth in paragraph (1)  
29 of subdivision (c) of Section 17041 shall be modified by each of the  
30 following:

31 (i) For that portion of taxable income that is over one hundred  
32 seventy-six thousand nine hundred fifty dollars (\$176,950), but not  
33 over three hundred fifty-three thousand eight hundred ninety-nine  
34 dollars (\$353,899), the tax rate is 10 percent of the excess over one  
35 hundred seventy-six thousand nine hundred fifty dollars  
36 (\$176,950).

37 (ii) For that portion of taxable income that is over three  
38 hundred fifty-three thousand eight hundred ninety-nine dollars  
39 (\$353,899), the tax rate is 11 percent of the excess over three



1 *hundred fifty-three thousand eight hundred ninety-nine dollars*  
2 *(\$353,899).*

3 *(B) The income tax brackets specified in this paragraph shall*  
4 *be recomputed, as otherwise provided in subdivision (h) of Section*  
5 *17041, only for taxable years beginning on and after January 1,*  
6 *2003, and before January 1, 2004.*

7 *(3) For any taxable year beginning on or after January 1, 2002,*  
8 *and before January 1, 2004, the tax imposed pursuant to*  
9 *subparagraph (A) of paragraph (3) of subdivision (b) of Section*  
10 *17062 is 8.5 percent.*

11 *(b) This section shall remain in effect only until January 1,*  
12 *2004, and as of that date is repealed.*

13 *SEC. 3. Section 17052.2 of the Revenue and Taxation Code is*  
14 *amended to read:*

15 17052.2. (a) For each taxable year beginning on or after  
16 January 1, 2000, and before January 1, 2002, and for each taxable  
17 year beginning on or after January 1, 2003, there shall be allowed  
18 as a credit against the "net tax" (as defined by Section 17039) to  
19 a credentialed teacher an amount equal to the amount determined  
20 in subdivision (b).

21 (b) The amount of the credit shall be the lesser of the amounts  
22 computed under paragraph (1) or (2):

23 (1) In the case of any credentialed teacher who has, as of the last  
24 day of the taxable year:

25 (A) Completed at least four but less than six years of service as  
26 a credentialed teacher, the credit shall be two hundred fifty dollars  
27 (\$250).

28 (B) Completed at least six but less than 11 years of service as  
29 a credentialed teacher, the credit shall be five hundred dollars  
30 (\$500).

31 (C) Completed at least 11 but less than 20 years of service as a  
32 credentialed teacher, the credit shall be one thousand dollars  
33 (\$1,000).

34 (D) Completed 20 or more years of service as a credentialed  
35 teacher, the credit shall be one thousand five hundred dollars  
36 (\$1,500).

37 (E) For purposes of determining years of service, years of  
38 service performed as a teacher in a qualified education institution,  
39 which otherwise meets the criteria specified in subdivision (d)  
40 except that the qualified education institution is not located in this



1 state, in another state shall qualify for each year the teacher was  
2 credentialed by the public education agency in that state.

3 (2) Fifty percent of the amount determined as follows:

4 (A) Divide the amount received by the taxpayer as wages and  
5 salary for services as a credentialed teacher, as defined in  
6 paragraph (3) of subdivision (c), by the taxpayer’s total adjusted  
7 gross income from all sources.

8 (B) Multiply the taxpayer’s total tax, as defined in paragraph  
9 (4) of subdivision (c), by a ratio, not to exceed 1.00, that is  
10 otherwise equal to the ratio determined for the taxpayer under  
11 subparagraph (A).

12 (c) For purposes of this section, all of the following definitions  
13 apply:

14 (1) “Credentialed teacher” means a person who holds a  
15 preliminary or professional clear credential as determined by the  
16 Commission on Teacher Credentialing pursuant to Article 1  
17 (commencing with Section 44200) of Chapter 2 of Part 25 of  
18 Division 2 of Title 2 of the Education Code and who teaches at a  
19 qualifying educational institution.

20 (2) “Qualifying educational institution” means any  
21 elementary, secondary, or vocational-technical school located in  
22 this state providing education for kindergarten, grades 1 to 12,  
23 inclusive, or any part thereof. “Qualifying educational  
24 institution” includes an agency or instrumentality of the federal  
25 government providing education for grades kindergarten, grades  
26 1 to 12, inclusive, or any part thereof, at any location within this  
27 state, including an Indian reservation or a military installation  
28 located within the geographical borders of this state, where a  
29 credentialed teacher is employed by the federal government or an  
30 agency or instrumentality thereof. “Qualifying educational  
31 institution” includes any elementary, secondary, or vocational  
32 technical school located in California, that files an affidavit  
33 pursuant to Section 33190 and 33191 of the Education Code, and  
34 provides education for kindergarten and grades 1 to 12, inclusive,  
35 or any part thereof.

36 (3) “Wages and salaries for services as a credentialed teacher”  
37 includes only those amounts received with respect to services  
38 performed as a credentialed teacher, but does not include pensions  
39 or other deferred compensation.



1 (4) “Total tax” means the tax imposed under this part for the  
2 taxable year, before the application under Section 19007 of any  
3 payment of estimated tax or any installment thereof, less all credits  
4 allowed for the taxable year except for the following:

5 (A) The credit allowed under this section.

6 (B) The credit allowed under Section 17061 (relating to  
7 refunds under the Unemployment Insurance Code).

8 (C) The credit allowed under Section 19002 (relating to tax  
9 withholding).

10 (D) Any refundable credit that is allowed under this part.

11 *SEC. 4. Section 17053.84 of the Revenue and Taxation Code*  
12 *is amended to read:*

13 17053.84. (a) For each taxable year beginning on or after  
14 January 1, 2001, and before January 1, 2002, and for each taxable  
15 year beginning on or after January 1, 2003, and before January 1,  
16 2004, there shall be allowed as a credit against the “net tax,” as  
17 defined in Section 17039, an amount equal to the lesser of 15  
18 percent of the cost that is paid or incurred by a taxpayer, after  
19 deducting the value of any other municipal, state, or federal  
20 sponsored financial incentives, during the taxable year for the  
21 purchase and installation of any solar energy system installed on  
22 property in this state, or the applicable dollar amount per rated watt  
23 of that solar energy system, as determined by the Franchise Tax  
24 Board in consultation with the State Energy Resources  
25 Conservation and Development Commission.

26 (b) For each taxable year beginning on or after January 1, 2004,  
27 and before January 1, 2006, there shall be allowed as a credit  
28 against the “net tax,” as defined in Section 17039, an amount  
29 equal to the lesser of 7.5 percent of the cost that is paid or incurred  
30 by a taxpayer, after deducting the value of any other municipal,  
31 state, or federal sponsored financial incentives, during the taxable  
32 year for the purchase and installation of any solar energy system  
33 installed on property in this state, or the applicable dollar amount  
34 per rated watt of that solar energy system, as determined by the  
35 Franchise Tax Board in consultation with the State Energy  
36 Resources Conservation and Development Commission.

37 (c) For purposes of this section:

38 (1) “Applicable dollar amount” means four dollars and fifty  
39 cents (\$4.50) for any taxable year beginning on or after January 1,  
40 2001, and before January 1, 2006.



1 (2) “Solar energy system” means a solar energy device, in the  
2 form of either a photovoltaic or wind-driven system, with a peak  
3 generating capacity of up to, but not more than 200 kilowatts, used  
4 for the individual function of generating electricity, that is certified  
5 by the State Energy Resources Conservation and Development  
6 Commission and installed with a five-year warranty against  
7 breakdown or undue degradation.

8 (3) A credit may be allowed under this section with respect to  
9 only one solar energy system per each separate legal parcel of  
10 property or per each address of the taxpayer in the state.

11 (4) No credit may be allowed under this section unless the solar  
12 energy system is actually used for purposes of producing  
13 electricity and primarily used to meet the taxpayer’s own energy  
14 needs.

15 (d) No other credit and no deduction may be allowed under this  
16 part for any cost for which a credit is allowed by this section. The  
17 basis of the solar energy system shall be reduced by the amount  
18 allowed as a credit under subdivision (a) or (b).

19 (e) No credit shall be allowed to any taxpayer engaged in those  
20 lines of business described in Sector 22 of the North American  
21 Industry Classification System (NAICS) Manual published by the  
22 United States Office of Management and Budget, 1997 edition.

23 (f) If any solar energy system for which a credit is allowed  
24 pursuant to this section is thereafter sold or removed from this state  
25 within one year from the date the solar energy system is first placed  
26 in service in this state, the amount of credit allowed by this section  
27 for that solar energy system shall be recaptured by adding that  
28 credit amount to the net tax of the taxpayer for the taxable year in  
29 which the solar energy system is sold or removed.

30 (g) In the case where the credit allowed by this section exceeds  
31 the “net tax,” the excess may be carried over to reduce the “net  
32 tax” in the following year, and the succeeding seven years if  
33 necessary, until the credit is exhausted.

34 (h) This section shall remain in effect only until December 1,  
35 2006, and as of that date is repealed.

36 *SEC. 5. Section 17276.3 of the Revenue and Taxation Code is*  
37 *amended to read:*

38 17276.3. (a) Notwithstanding—~~Section~~ *Sections 17276,*  
39 *17276.1, 17276.2, 17276.4, 17276.5, 17276.6, and 17276.7* of this  
40 code and Section 172 of the Internal Revenue Code, no net



1 operating loss deduction shall be allowed ~~for all taxable years~~  
2 ~~beginning in the 1991 and 1992 calendar years pursuant to any of~~  
3 ~~those sections for any taxable year beginning on or after January~~  
4 ~~1, 2002, and before January 1, 2004.~~

5 (b) For any carryover of a net operating loss for which a  
6 deduction is denied by subdivision (a), the carryover period under  
7 Section 172 of the Internal Revenue Code shall be extended as  
8 follows:

9 ~~(1) By one year, for losses sustained in taxable years beginning~~  
10 ~~in 1991.~~

11 ~~(2) By two years, for losses sustained in taxable years~~  
12 ~~beginning prior to January 1, 1991.~~

13 ~~(c) Notwithstanding any other provision of this section, a~~  
14 ~~deduction shall be allowed to a “qualified taxpayer” as provided~~  
15 ~~in Sections 17276.1 and 17276.2 for taxable years beginning in the~~  
16 ~~1991 and 1992 calendar years.~~

17 ~~(1) By one year, for losses incurred on or after January 1, 2002,~~  
18 ~~and before January 1, 2003.~~

19 ~~(2) By two years, for losses incurred before January 1, 2002.~~

20 SEC. 6. Section 19136.8 of the Revenue and Taxation Code is  
21 amended to read:

22 19136.8. (a) No addition to tax shall be made under Section  
23 19136 for any period before April 15, 2003, with respect to any  
24 underpayment of an installment for the 2002 taxable year, to the  
25 extent that the underpayment was created or increased by any  
26 provision of ~~the act adding this section~~ law enacted or amended by  
27 an act chaptered during the 2002 calendar year.

28 (b) No addition of tax shall be made under Section 19142 for  
29 any period before April 15, 2003, with respect to any  
30 underpayment of an installment for the 2002 taxable year, to the  
31 extent that the underpayment was created or increased by any  
32 provision of ~~the act adding this section~~ law enacted or amended by  
33 an act chaptered during the 2002 calendar year.

34 (c) The Franchise Tax Board shall implement this section in a  
35 reasonable manner.

36 SEC. 7. Section 23457 of the Revenue and Taxation Code, as  
37 amended by Section 37 of Chapter 35 of the Statutes of 2002, is  
38 amended to read:

39 23457. For purposes of this part, Section 57 of the Internal  
40 Revenue Code is modified as follows:



1 (a) Section 57(a)(5) of the Internal Revenue Code, relating to  
2 tax-exempt interest, shall not be applicable.

3 ~~(b) Section 57(a) of the Internal Revenue Code, relating to~~  
4 ~~items of tax preference, is modified to include as an item of tax~~  
5 ~~preference the amount by which the deduction allowable under~~  
6 ~~Section 24348 for the taxable year for a reasonable addition to a~~  
7 ~~reserve for bad debts exceeds the amount that would have been~~  
8 ~~allowable had the taxpayer maintained its bad debt reserve for all~~  
9 ~~taxable years on the basis of actual experience.~~

10 ~~(e)~~Section 57(a)(6) of the Internal Revenue Code, relating to  
11 accelerated depreciation or amortization on certain property  
12 placed in service before January 1, 1987, is modified to read: With  
13 respect to each property as described in Section 1250(c) of the  
14 Internal Revenue Code as that provision read on April 1, 1970, the  
15 amount by which the deduction allowable for the taxable year for  
16 exhaustion, wear, tear, obsolescence, or amortization exceeds the  
17 depreciation deduction that would have been allowable for the  
18 taxable year, had the taxpayer depreciated the property under the  
19 straight line method for each taxable year of its useful life  
20 (determined without regard to Section 24354.2 or 24381) for  
21 which the taxpayer has held the property.

22 *SEC. 8. Section 23684 of the Revenue and Taxation Code is*  
23 *amended to read:*

24 23684. (a) For each taxable year beginning on or after  
25 January 1, 2001, and before January 1, 2002, and for each taxable  
26 year beginning on or after January 1, 2003, and before January 1,  
27 2004, there shall be allowed as a credit against the “tax,” as  
28 defined in Section 23036, an amount equal to the lesser of 15  
29 percent of the cost that is paid or incurred by a taxpayer, after  
30 deducting the value of any other municipal, state, or federal  
31 sponsored financial incentives, during the taxable year for the  
32 purchase and installation of any solar energy system installed on  
33 property in this state, or the applicable dollar amount per rated watt  
34 of that solar energy system, as determined by the Franchise Tax  
35 Board in consultation with the State Energy Resources  
36 Conservation and Development Commission.

37 (b) For each taxable year beginning on or after January 1, 2004,  
38 and before January 1, 2006, there shall be allowed as a credit  
39 against the “net tax,” as defined in Section 17039, an amount  
40 equal to the lesser of 7.5 percent of the cost that is paid or incurred



1 by a taxpayer, after deducting the value of any other municipal,  
2 state, or federal sponsored financial incentives, during the taxable  
3 year for the purchase and installation of any solar energy system  
4 installed on property in this state, or the applicable dollar amount  
5 per rated watt of that solar energy system, as determined by the  
6 Franchise Tax Board in consultation with the State Energy  
7 Resources Conservation and Development Commission.

8 (c) For purposes of this section:

9 (1) “Applicable dollar amount” means four dollars and fifty  
10 cents (\$4.50) for any taxable year beginning on or after January 1,  
11 2001, and before January 1, 2006.

12 (2) “Solar energy system” means a solar energy device, in the  
13 form of either a photovoltaic or wind-driven system, with a peak  
14 generating capacity of up to, but not more than 200 kilowatts, used  
15 for the individual function of generating electricity, that is certified  
16 by the State Energy Resources Conservation and Development  
17 Commission and installed with a five-year warranty against  
18 breakdown or undue degradation.

19 (3) A credit may be allowed under this section with respect to  
20 only one solar energy system per each separate legal parcel of  
21 property or per each address of the taxpayer in the state.

22 (4) No credit may be allowed under this section unless the solar  
23 energy system is actually used for purposes of producing  
24 electricity and is primarily used to meet the taxpayer’s own energy  
25 needs.

26 (d) No other credit and no deduction may be allowed under this  
27 part for any cost for which a credit is allowed by this section. The  
28 basis of the solar energy system shall be reduced by the amount  
29 allowed as a credit under subdivision (a) or (b).

30 (e) No credit may be allowed to any taxpayer engaged in those  
31 lines of business described in Sector 22 of the North American  
32 Industry Classification System (NAICS) Manual published by the  
33 United States Office of Management and Budget, 1997 edition.

34 (f) If any solar energy system for which a credit is allowed  
35 pursuant to this section is thereafter sold or removed from this state  
36 within one year from the date the solar energy system is first placed  
37 in service in this state, the amount of credit allowed by this section  
38 for that solar energy system shall be recaptured by adding that  
39 credit amount to the tax of the taxpayer for the taxable year in  
40 which the solar energy system is sold or removed.



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

5 (h) This section shall remain in effect only until December 1,  
6 2006, and as of that date is repealed.

7 *SEC. 9. Section 24348 of the Revenue and Taxation Code is*  
8 *amended to read:*

9 24348. (a) ~~(1)~~—There shall be allowed as a deduction either  
10 of the following:

11 ~~(A)~~

12 (1) Debts which become worthless within the taxable year in an  
13 amount not in excess of the part charged off within that taxable  
14 year.

15 ~~(B)~~

16 (2) In the case of a ~~savings and loan association, bank, or~~  
17 ~~financial corporation,~~ in lieu of any deduction under subparagraph  
18 ~~(A) paragraph (1),~~ in the discretion of the Franchise Tax Board,  
19 a reasonable addition to a reserve for bad debts *determined in*  
20 *accordance with Section 585 of the Internal Revenue Code,*  
21 *relating to reserves for losses on loans of banks, except as*  
22 *otherwise provided.*

23 ~~(2)~~

24 (b) When satisfied that a debt is recoverable in part only, the  
25 Franchise Tax Board may allow that debt, in an amount not in  
26 excess of the part charged off within the taxable year, as a  
27 deduction; provided, however, that if a portion of a debt is claimed  
28 and allowed as a deduction in any year, no deduction shall be  
29 allowed in any subsequent year for any portion of the debt which  
30 in any prior year was charged off, regardless of whether claimed  
31 as a deduction in that prior year.

32 ~~(b) (1) The amendments to this section made during the~~  
33 ~~1985–86 Regular Session by the act adding this subdivision shall~~  
34 ~~apply only to taxable years beginning after December 31, 1987.~~

35 (2) ~~In the case of any taxpayer who maintained a reserve for bad~~  
36 ~~debts for that taxpayer’s last taxable year beginning before January~~  
37 ~~1, 1988, and who is required by the amendments to this section to~~  
38 ~~change its method of accounting for any taxable year, all of the~~  
39 ~~following shall apply:~~

40 ~~(A) That change shall be treated as initiated by the taxpayer.~~



1 ~~(B) That change shall be treated as made with the consent of the~~  
2 ~~Franchise Tax Board.~~

3 ~~(C) The net amount of adjustments required by Article 6~~  
4 ~~(commencing with Section 24721) of Chapter 13, to be taken into~~  
5 ~~account by the taxpayer shall:~~

6 ~~(i) In the case of a taxpayer maintaining a reserve under former~~  
7 ~~subdivision (b) (prior to the amendments made during the~~  
8 ~~1985-86 Regular Session by the act adding this subdivision), be~~  
9 ~~reduced by the balance in the suspense account under paragraph~~  
10 ~~(4) of that subdivision as of the close of such last taxable year; and~~

11 ~~(ii) Be taken into account ratably in each of the first four~~  
12 ~~taxable years beginning after December 31, 1987.~~

13 ~~(c) (1) The amendments to this section made by the act adding~~  
14 ~~this subdivision shall apply only to taxable years beginning on or~~  
15 ~~after January 1, 2002.~~

16 ~~(2) In the case of any taxpayer that maintained a reserve for bad~~  
17 ~~debts for the taxpayer's last taxable year beginning before January~~  
18 ~~1, 2002, and that is required by the amendments to this section to~~  
19 ~~change its method of computing reserves for bad debts, all of the~~  
20 ~~following shall apply:~~

21 ~~(A) That change shall be treated as a change in a method of~~  
22 ~~accounting.~~

23 ~~(B) That change shall be treated as initiated by the taxpayer.~~

24 ~~(C) That change shall be treated as made with the consent of the~~  
25 ~~Franchise Tax Board.~~

26 ~~(D) The net amount of adjustments required by Article 6~~  
27 ~~(commencing with Section 24721) of Chapter 13 to be taken into~~  
28 ~~account by the taxpayer:~~

29 ~~(i) Shall be determined by taking into account only "applicable~~  
30 ~~excess reserves" (as defined in subdivision (d)), and~~

31 ~~(ii) As so determined, shall be taken into account ratably in~~  
32 ~~each of the first four taxable years beginning on or after January~~  
33 ~~1, 2002.~~

34 ~~(d) (1) Except as provided in paragraph (2), the term~~  
35 ~~"applicable excess reserves" means the balance of the reserves~~  
36 ~~described in former subparagraph (B) of paragraph (1) of~~  
37 ~~subdivision (a) (prior to the amendments made by the act adding~~  
38 ~~this subdivision) as of the close of the taxpayer's last taxable year~~  
39 ~~beginning before January 1, 2002.~~



1 (2) (A) The term “applicable excess reserves” means, in the  
2 case of a bank (as defined in Section 581 of the Internal Revenue  
3 Code) that was not a large bank (as defined in Section 585(c)(2))  
4 of the Internal Revenue Code for its first taxable year beginning  
5 on or after January 1, 2002, the excess (if any) of:

6 (i) The balance of the reserves described in former  
7 subparagraph (B) of paragraph (1) of subdivision (a) (prior to the  
8 amendments made by the act adding this subdivision) as of the  
9 close of the taxpayer’s last taxable year beginning before January  
10 1, 2002, over

11 (ii) An amount that is not less than the amount that would be the  
12 balance of those reserves as of the close of its last taxable year  
13 beginning before January 1, 2002, if the additions to those reserves  
14 for all taxable years had been determined under Section  
15 585(b)(2)(A) of the Internal Revenue Code.

16 (B) The opening balance of the reserve for bad debts as of the  
17 beginning of the first taxable year beginning on or after January  
18 1, 2002, shall be the balance determined under clause (ii) of  
19 subparagraph (A).

20 SEC. 10. Section 24416.3 of the Revenue and Taxation Code  
21 is amended to read:

22 24416.3. (a) Notwithstanding ~~Section~~ Sections 24416,  
23 24416.1, 24416.2, 24416.4, 24416.5, 24416.6, and 24416.7 of this  
24 code and Section 172 of the Internal Revenue Code, no net  
25 operating loss deduction shall be allowed ~~for all income years~~  
26 ~~beginning in the 1991 and 1992 calendar years pursuant to any of~~  
27 ~~those sections for any taxable year beginning on or after January~~  
28 ~~1, 2002, and before January 1, 2004.~~

29 (b) For any carryover of a net operating loss for which a  
30 deduction is denied by subdivision (a), the carryover period under  
31 Section 172 of the Internal Revenue Code shall ~~be~~ be extended as  
32 follows:

33 ~~(1) By one year, for losses sustained in income years beginning~~  
34 ~~in 1991.~~

35 ~~(2) By two years, for losses sustained in income years~~  
36 ~~beginning prior to January 1, 1991.~~

37 ~~(c) Notwithstanding any other provision of this section, a~~  
38 ~~deduction shall be allowed to a “qualified taxpayer” as provided~~  
39 ~~in Sections 24416.1 and 24416.2 for income years beginning in the~~  
40 ~~1991 and 1992 calendar years.~~



1 (1) *By one year, for losses incurred on or after January 1, 2002,*  
2 *and before January 1, 2003.*

3 (2) *By two years, for losses incurred before January 1, 2002.*

4 *SEC. 11. Section 24449 of the Revenue and Taxation Code is*  
5 *amended to read:*

6 24449. (a) Section 291 of the Internal Revenue Code,  
7 relating to special rules relating to corporate preference items,  
8 shall apply, except as otherwise provided.

9 (b) ~~For purposes of this section:~~

10 ~~(1) The reference in Section 291(a)(3) to “a deduction under~~  
11 ~~this chapter” shall be modified to mean the deduction under~~  
12 ~~Section 24348 of this part.~~

13 ~~(2) The reference in Section 291(b)(1) of the Internal Revenue~~  
14 ~~Code to “Section 263(c)” shall be modified to mean the deduction~~  
15 ~~under Section 24423 of this part.~~

16 *SEC. 12. Article 4 (commencing with Section 30133) is added*  
17 *to Chapter 2 of Part 13 of Division 2 of the Revenue and Taxation*  
18 *Code, to read:*

19

20 *Article 4. General Fund Surtax on Tobacco*

21

22 30133. (a) *In addition to the taxes imposed upon the*  
23 *distribution of cigarettes by Article 1 (commencing with Section*  
24 *30101), Article 2 (commencing with Section 30121), Article 3*  
25 *(commencing with Section 30131), and any other taxes in this*  
26 *chapter, there shall be imposed an additional surtax upon every*  
27 *distributor of cigarettes at the rate of twenty-five mills (\$0.025) for*  
28 *each cigarette distributed.*

29 (b) *The tax imposed under this section shall be imposed on*  
30 *cigarettes in the possession or under the control of every dealer*  
31 *and distributor on and after 12:01 a.m. on September 1, 2002.*

32 30135. (a) *Every dealer and wholesaler, for the privilege of*  
33 *holding or storing cigarettes for sale, use, or consumption, shall*  
34 *pay a floor stock tax for each cigarette in his or her possession or*  
35 *under his or her control in this state at 12:01 a.m. on September*  
36 *1, 2002, at the rate of two and one-half cents (\$0.025) for each*  
37 *cigarette.*

38 (b) *Every dealer and wholesaler shall file a return with the*  
39 *board on or before October 15, 2002, on a form prescribed by the*  
40 *board, showing the number of cigarettes in his or her possession*



1 or under his or her control at 12:01 a.m. on September 1, 2002. The  
2 amount of tax shall be computed and shown on the return.

3 (c) Every licensed cigarette distributor, for the privilege of  
4 distributing cigarettes and for holding or storing cigarettes for  
5 sale, use, or consumption, shall pay a cigarette indicia adjustment  
6 tax for each California cigarette tax stamp that is affixed to any  
7 package of cigarettes and for each unaffixed California cigarette  
8 tax stamp in his or her possession or under his or her control at  
9 12:01 a.m. on September 1, 2002, at the following rates:

10 (1) Sixty-two and one-half cents (\$0.625) for each stamp  
11 bearing the designation "25."

12 (2) Fifty cents (\$0.50) for each stamp bearing the designation  
13 "20."

14 (3) Twenty-five cents (\$0.25) for each stamp bearing the  
15 designation "10."

16 These amounts shall be reduced by a discount to a licensed  
17 distributor in the amount determined in accordance with Section  
18 30166.

19 (d) Every licensed cigarette distributor shall file a return with  
20 the board on or before October 15, 2002, on a form prescribed by  
21 the board, showing the number of stamps in paragraphs (1), (2),  
22 and (3) of subdivision (c). The amount of tax shall be computed and  
23 shown on the return.

24 (e) The taxes required to be paid by this section are due and  
25 payable on or before October 15, 2002. Payments shall be made  
26 by remittances payable to the board and the payments shall  
27 accompany the forms required to be filed by this section.

28 (f) Any amount required to be paid by this section that is not  
29 timely paid shall bear interest at the rate and by the method  
30 established pursuant to Section 30202 from October 15, 2002,  
31 until paid, and shall be subject to determination, and  
32 redetermination, and any penalties provided with respect to  
33 determinations and redeterminations.

34 30137. Except for payments of refunds made pursuant to  
35 Article 1 (commencing with Section 30361) of Chapter 6, and  
36 reimbursement of the State Board of Equalization for expenses  
37 incurred in the administration and collection of the taxes imposed  
38 by this article, all moneys raised pursuant to the taxes imposed by  
39 this article shall be transmitted by the board to the Treasurer for  
40 deposit in the General Fund.



1 SEC. 13. It is the intent of the Legislature that, in order to  
2 improve compliance with state tax laws and to accelerate the  
3 collection of accounts determined to be at high risk for collection,  
4 the staff of the Franchise Tax Board shall, pursuant to Section  
5 19444 of the Revenue and Taxation Code as added by this act,  
6 expeditiously institute special collection efforts to commence on  
7 October 1, 2002, and end on June 30, 2003.

8 SEC. 14. The appropriations made by this act are in  
9 augmentation of the appropriations made in Section 2.00 of  
10 Assembly Bill 425 as amended June 25, 2002, and are subject to  
11 the provisions of that act, as appropriate, including, as applicable,  
12 the provisions of that act that apply to the items of appropriation  
13 that are augmented by this act. The references in this act to item  
14 numbers refer to items of appropriation in Section 2.00 of  
15 Assembly Bill 425.

16 SEC. 15. The sum of twelve million three hundred thousand  
17 dollars (\$12,300,000) is hereby appropriated from the General  
18 Fund to the Technology, Trade and Commerce Agency, in  
19 augmentation of the appropriation made in Item 2920-101-0001,  
20 for the grants for the Science, Technology and Innovation  
21 program, Economic Development program, Biomass program,  
22 and Small Business Development Centers.

23 SEC. 16. The sum of ten million dollars (\$10,000,000) is  
24 hereby appropriated from the General Fund to the Technology,  
25 Trade and Commerce Agency, in augmentation of the  
26 appropriation made in Item 2920-101-3005 for the Film  
27 California First program.

28 SEC. 17. The sum of ten million dollars (\$10,000,000) is  
29 hereby appropriated from the General Fund to the California Film  
30 First Fund, in augmentation of the appropriation made in Item  
31 2920-111-0001 for the Film California First program.

32 SEC. 18. The sum of seventy-two million five hundred  
33 thousand dollars (\$72,500,000) is hereby appropriated from the  
34 General Fund to the Department of Health Services, in  
35 augmentation of the appropriation made in Item 4260-101-0001,  
36 for increasing the payment to providers.

37 SEC. 19. The sum of eighty-seven million nine hundred  
38 fifty-nine thousand dollars (\$87,959,000) is hereby appropriated  
39 from the General Fund to the Department of Health Services, in



1 augmentation of the appropriation made in Item 4260-101-0001,  
2 for the reimbursement of county administration costs.

3 SEC. 20. The sum of fifty million fourteen thousand dollars  
4 (\$50,014,000) is hereby appropriated from the General Fund to  
5 the Managed Risk Medical Insurance Board, in augmentation of  
6 the appropriation made in Item 4280-101-0001, for the payment  
7 of claims against the Health Families Program.

8 SEC. 21. The sum of two million four hundred sixteen  
9 thousand dollars (\$2,416,000) is hereby appropriated from the  
10 General Fund to the Managed Risk Medical Insurance Board, in  
11 augmentation of the appropriation made in Item 4280-102-0001,  
12 for the payment of claims against the Healthy Families Program.

13 SEC. 22. The sum of twenty-two million four hundred  
14 sixty-eight thousand dollars (\$22,468,000) is hereby appropriated  
15 from the General Fund to the Department of Social Services, in  
16 augmentation of the appropriation made in Item 5180-111-0001,  
17 for the costs associated with a cost-of-living adjustment in the  
18 SSI/SSP program.

19 SEC. 23. The sum of five million five hundred seventy-five  
20 thousand dollars (\$5,575,000) is hereby appropriated from the  
21 General Fund to the Department of Social Services, in  
22 augmentation of the appropriation made in Item 5180-151-0001,  
23 for the support of the Adult Protective Services program.

24 SEC. 24. The sum of eighteen million five hundred thousand  
25 dollars (\$18,500,000) is hereby appropriated from the General  
26 Fund to Local Government Financing in augmentation of the  
27 appropriation made in Item 9210-106-0001, for providing grants  
28 to local government for high technology law enforcement.

29 SEC. 25. The sum of thirty-nine million one hundred thousand  
30 dollars (\$39,100,000) is hereby appropriated from the General  
31 Fund to the California State University, in augmentation of the  
32 appropriation made in Item 6610-001-0001, for the support of  
33 educational programs.

34 SEC. 26. The sum of thirty-one million five hundred thirty-two  
35 thousand dollars (\$31,532,000) is hereby appropriated from the  
36 General Fund to the California State Library, in augmentation of  
37 the appropriation made in Item 6120-221-0001, for the support of  
38 the California Library Foundation.

39 SEC. 27. The sum of forty-three million one hundred thousand  
40 dollars (\$43,100,000) is hereby appropriated from the General



1 *Fund to the University of California, in augmentation of the*  
2 *appropriation made in Item 6440-001-0001, for educational*  
3 *programs.*

4 *SEC. 28. The sum of fifteen million five hundred thousand*  
5 *dollars (\$15,500,000) is hereby reverted to the General Fund from*  
6 *Item 7980-101-0001, with the reverted amounts apportioned*  
7 *among the scheduled allocation of funds in the item.*

8 *SEC. 29. The sum of eighteen million three hundred*  
9 *eighty-seven thousand dollars (\$18,387,000) is hereby*  
10 *appropriated from the General Fund to the Arts Council, in*  
11 *augmentation of the appropriation made in Item 8260-101-0001,*  
12 *for grants to local arts organizations.*

13 *SEC. 30. The sum of two million dollars (\$2,000,000) is*  
14 *hereby appropriated from the General Fund to the Arts Council,*  
15 *in augmentation of the appropriation made in Item*  
16 *8260-102-0001, for the support of the Tools for Tolerance*  
17 *program.*

18 *SEC. 31. The sum of eleven million five hundred eighty-five*  
19 *thousand dollars (\$11,585,000) is hereby appropriated from the*  
20 *General Fund to the Military Department, in augmentation of the*  
21 *appropriation made in Item 8940-001-0001, for support of*  
22 *programs in schools.*

23 *SEC. 32. The sum of three billion seven hundred twenty-four*  
24 *million dollars (\$3,724,000,000) is hereby appropriated from the*  
25 *General Fund to Tax Relief, in augmentation of the appropriation*  
26 *made in Item 9100-111-0001, for transfer to local governments for*  
27 *the amount associated with the Vehicle License Fee offset.*

28 *SEC. 33. The sum of eighteen million five hundred thousand*  
29 *dollars (\$18,500,000) is hereby appropriated from the General*  
30 *Fund to Local Government Financing, in augmentation of the*  
31 *appropriation made in Item 9210-107-0001, for allocation to*  
32 *specified county sheriffs' departments to enhance law enforcement*  
33 *efforts in the 2002–03 fiscal year, pursuant to the provisions of*  
34 *Section 95.31 of the Revenue and Taxation Code.*

35 *SEC. 34. The sum of thirty-eight million two hundred twenty*  
36 *thousand dollars (\$38,220,000) is hereby appropriated from the*  
37 *General Fund to Local Government Financing, in augmentation*  
38 *of the appropriation made in Item 9210-104-0001, for reimbursing*  
39 *cities for their costs associated with the booking fees levied*  
40 *pursuant to Chapter 466 of the Statutes of 1990.*



1 SEC. 35. *The sum of thirty-nine million dollars (\$39,000,000)*  
2 *is hereby appropriated from the General Fund to Tax Relief, in*  
3 *augmentation of the appropriation made in Item 9100-101-0001,*  
4 *for reimbursement to local government for costs associated with*  
5 *the Williamson Act (Chapter 7 (commencing with Section 51200)*  
6 *of Part 1 of Division 1 of Title 5 of the Government Code).*

7 SEC. 36. *The sum of fifty-one million five hundred thousand*  
8 *dollars (\$51,500,000) is hereby appropriated from the General*  
9 *Fund to Local Government Financing, in augmentation of the*  
10 *appropriation made in Item 9210-105-0001, for providing*  
11 *assistance to counties for the costs of administering the property*  
12 *tax.*

13 SEC. 37. *The sum of two hundred thirty-two million six*  
14 *hundred thousand dollars (\$232,600,000) is hereby appropriated*  
15 *from the General Fund to Local Government Finance, in*  
16 *augmentation of the appropriation made in Item 9210-101-0001,*  
17 *for juvenile justice grants and the COPS program.*

18 SEC. 38. *The sum of one hundred fourteen million dollars*  
19 *(\$114,000,000) is hereby appropriated from the General Fund to*  
20 *the Scholarshare Investment Board, in augmentation of the*  
21 *appropriation made in Item 0954-001-0001, for assistance to*  
22 *students.*

23 SEC. 39. *The sum of thirteen million nine hundred thousand*  
24 *dollars (\$13,900,000) is hereby appropriated from the General*  
25 *Fund to the University of California, in augmentation of the*  
26 *appropriation made in Item 6440-004-0001, for the costs*  
27 *associated with starting up the Merced campus of the University*  
28 *of California.*

29 SEC. 40. *The sum of seventy-five million dollars*  
30 *(\$75,000,000) is hereby appropriated from the General Fund to*  
31 *the California Department of Forestry and Fire Protection, in*  
32 *augmentation of the appropriation made in Item 3540-001-0001,*  
33 *for the costs associated with firefighting.*

34 SEC. 41. *The sum of two million nine hundred thousand*  
35 *dollars (\$2,900,000) is hereby appropriated from the General*  
36 *Fund to the Office of Criminal Justice Planning, in augmentation*  
37 *of the appropriation made in Item 8100-101-0001, for local*  
38 *assistance to continue to wage the War on Methamphetamine.*

39 SEC. 42. *This act is an urgency statute necessary for the*  
40 *immediate preservation of the public peace, health, or safety*



1 *within the meaning of Article IV of the Constitution and shall go*  
2 *into immediate effect. The facts constituting the necessity are:*

3 *In view of the fact that the State of California is experiencing a*  
4 *fiscal crisis, in order to improve compliance with state tax laws and*  
5 *to accelerate the collection of accounts that might not otherwise*  
6 *be collected, and in order to provide for sufficient revenues for the*  
7 *funding of the critical needs of the state, it is necessary that this act*  
8 *take effect immediately. In order to make certain necessary*  
9 *augmentations to the appropriations made by the Budget Act of*  
10 *2002 for support of state government for the 2002–03 fiscal year,*  
11 *it is necessary that this act take effect immediately.*

12 ~~act to make the necessary statutory changes to implement the~~  
13 ~~Budget Act of 2001 relative to funding local government.~~

14 \_\_\_\_\_

15 CORRECTIONS

16 **Heading — Lines 4–8.**

17 \_\_\_\_\_

18

