

AMENDED IN SENATE JUNE 24, 2013

CALIFORNIA LEGISLATURE—2013–14 REGULAR SESSION

**ASSEMBLY BILL**

**No. 93**

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**Introduced by Committee on Budget (Blumenfield (Chair), Bloom, Bonilla, Campos, Chesbro, Daly, Dickinson, Gordon, Jones-Sawyer, Mitchell, Mullin, Muratsuchi, Nazarian, Rendon, Skinner, Stone, and Ting)**

January 10, 2013

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An act relating to the ~~Budget Act of 2013~~ to amend Section 13073.5 of, and to add Sections 7090, 7099.5, and 7119 to, the Government Code, to amend and repeal Sections 17053.33, 17053.34, 17053.45, 17053.46, 17053.47, 17053.70, 17053.74, 17053.75, 17235, 17267.2, 17267.6, 17268, 17276.2, 17276.5, 17276.6, 19136.8, 23612.2, 23622.7, 23622.8, 23633, 23634, 23645, 23646, 24356.6, 24356.7, 24356.8, 24384.5, 24416.2, 24416.5, and 24416.6 of, to add Section 18410.2 to, to add and repeal Sections 6377.1, 17053.73, 17059.2, 23626, and 23689 of, and to repeal and amend Sections 17053.80 and 23623 of, the Revenue and Taxation Code, relating to economic development, making an appropriation therefor, and declaring the urgency thereof, to take effect immediately.

LEGISLATIVE COUNSEL'S DIGEST

AB 93, as amended, Committee on Budget. ~~Budget Act of 2013.~~ *Economic development: taxation: credits, deductions, and net operating losses.*

(1) Existing law provides for the designation and oversight by the Department of Housing and Community Development of various economic development areas in the state, including enterprise zones, manufacturing enhancement areas, targeted tax areas, and local agency

*military base recovery areas, or LAMBRAs. Existing law allows various incentives to businesses operating in these areas.*

*This bill would repeal the provisions authorizing those designations on January 1, 2014.*

*(2) The Personal Income Tax Law and the Corporation Tax Law allow various credits against the taxes imposed by those laws, including hiring credits and sales and use tax credits for taxpayers within the specified economic development areas, and a hiring credit for taxpayers, other than those allowed a credit with respect to operating in the specified economic development areas. Those laws, for taxpayers engaged in business within specified economic development areas, authorize specified net operating loss carryovers and expense deductions in computing income subject to taxes. Those laws also authorize an interest deduction for interest received in payment of indebtedness of a person engaged in business in an enterprise zone.*

*This bill generally would make these provisions inoperative for taxable years beginning on or after January 1, 2014, and repeal these provisions on either December 1, 2014, or December 1, 2019, as provided. This bill would limit the application of sales and use tax credits to sales and use tax paid for purchases before January 1, 2014, and limit the carryover of those credits to the 5 succeeding years, limit the application of the hiring credits to employees hired within a specified period before January 1, 2014, and limit the interest deduction to interest received before January 1, 2014.*

*This bill would also allow a credit against tax under both laws for each taxable year beginning on or after January 1, 2014, and before January 1, 2025, in an amount as provided in a written agreement between the Governor's Office of Business and Economic Development and the taxpayer, agreed upon by the California Competes Tax Credit Committee as established by this bill, and based on specified factors, including, but not limited to, the number of jobs the taxpayer will create or retain in the state and the amount of investment in the state by the taxpayer. The bill would limit the aggregate amount of credits allowed to taxpayers to a specified sum per fiscal year.*

*This bill would, under both laws for taxable years beginning on or after January 1, 2014, and before January 1, 2019, allow a credit against tax for portions of the wages paid by a taxpayer engaged in a trade or business within a designated census tract, as defined, or a former enterprise zone to certain full-time employees who provide services for that taxpayer in connection with that trade or business.*

*The bill would require the Population Research Unit in the Department of Finance to identify designated census tracts in accordance with certain criteria.*

*(3) Existing sales and use tax laws impose taxes on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in this state, or on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer for storage, use, or other consumption in this state, and provides various exemptions from those taxes.*

*The bill would exempt from those taxes, on and after January 1, 2014, and before January 1, 2019, the gross receipts from the sale of, and the storage, use, or other consumption of, qualified tangible personal property purchased by a qualified person for use primarily in manufacturing, processing, refining, fabricating, or recycling of property, as specified; qualified tangible personal property purchased for use by a contractor for specified purposes, as provided; and qualified tangible personal property purchased for use by a qualified person to be used primarily in research and development, as provided. The bill would require the purchaser to furnish the retailer with an exemption certificate, as specified.*

*The Bradley-Burns Uniform Local Sales and Use Tax Law authorizes counties and cities to impose local sales and use taxes in conformity with the Sales and Use Tax Law, and existing law authorizes districts, as specified, to impose transactions and use taxes in conformity with the Transactions and Use Tax Law, which conforms to the Sales and Use Tax Law. Exemptions from state sales and use taxes are incorporated into these laws.*

*This bill would specify that this exemption does not apply to local sales and use taxes, transactions and use taxes, and specified state taxes from which revenues are deposited into the Local Public Safety Fund, the Education Protection Account, the Local Revenue Fund, the Fiscal Recovery Fund, or the Local Revenue Fund 2011.*

*(4) This bill would appropriate up to \$600,000 for allocation to a committee and departments, as specified, by the Director of Finance in furtherance of the objectives of this bill, as provided.*

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

~~*This bill would express the intent of the Legislature to enact statutory changes relating to the Budget Act of 2013.*~~

Vote: ~~majority~~<sup>2/3</sup>. 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. Section 7090 is added to the Government Code,
- 2     to read:
- 3     7090. Chapter 12.8 (commencing with Section 7070) is
- 4     repealed on January 1, 2014.
- 5     SEC. 2. Section 7099.5 is added to the Government Code, to
- 6     read:
- 7     7099.5. Chapter 12.93 (commencing with Section 7097) is
- 8     repealed on January 1, 2014.
- 9     SEC. 3. Section 7119 is added to the Government Code, to
- 10    read:
- 11    7119. Chapter 12.97 (commencing with Section 7105) is
- 12    repealed on January 1, 2014.
- 13    SEC. 4. Section 13073.5 of the Government Code is amended
- 14    to read:
- 15    13073.5. The Legislature finds and declares that: (1) population
- 16    size and distribution patterns in California exert a major influence
- 17    on the physical, social, and economic structure of the state and on
- 18    the quality of the environment generally; (2) sound and current
- 19    data and methods to estimate population trends are necessary to
- 20    enable state, regional, and local agencies to plan and function
- 21    properly; and (3) there is a critical need for a proper study of the
- 22    implications of present and future population trends in order that
- 23    state, regional, and local agencies might develop or reexamine
- 24    policies and actions based thereon.
- 25    The Population Research Unit shall:
- 26    (a) Develop basic demographic data and statistical compilations,
- 27    which may include a current population survey and a mid-decade
- 28    census.
- 29    (b) Design and test methods of research and data collection.
- 30    (c) Conduct local population estimates as required by law.
- 31    (d) Validate all official census data and population statistics.
- 32    (e) Analyze and prepare projections of enrollments in public
- 33    schools, colleges, and universities.
- 34    (f) Analyze governmental records to establish characteristics
- 35    of migration and distribution.

- 1 (g) Publish annual estimates of the population of the state and  
2 its composition.
- 3 (h) Prepare short- and long-range projections of population and  
4 its composition.
- 5 (i) Provide advisory services to state agencies and other levels  
6 of government.
- 7 (j) Evaluate and recommend data requirements for determining  
8 population and population growth.
- 9 (k) Analyze the demographic features of the causes and  
10 consequences of patterns of natural increase or decrease, migration,  
11 and population concentration within the state.
- 12 (l) Assess the need for population data required for determining  
13 the allocation of federal, state, and other subvention revenues.
- 14 (m) Request and obtain from any department, division,  
15 commission, or other agency of the state ~~such~~ all assistance and  
16 information ~~as will~~ to enable the unit to effectively carry out the  
17 provisions of this section.
- 18 (n) Cooperate with the Office of Planning and Research with  
19 respect to functions involving mutual areas of concern relating to  
20 demography and state planning.
- 21 (o) Enter into agreements to carry out the purposes of this  
22 section, including the application for and acceptance of federal  
23 funds or private foundation grants for demographic studies.
- 24 (p) Act as primary state government liaison with the Census  
25 Bureau, United States Department of Commerce, in the acquisition  
26 and distribution of census data and related documentation to state  
27 agencies.
- 28 (q) Administer, with other agencies, a State Census Data Center  
29 which will be responsible for acquiring decennial and other census  
30 data from the Bureau of the Census, and for providing necessary  
31 information to the Legislature and to the executive branch and for  
32 seeking to ensure the availability of census information to local  
33 governments. The unit and the Office of Planning and Research  
34 shall be responsible for designating subcenters of the State Census  
35 Data Center as needed. The unit will provide materials to  
36 subcenters of the State Census Data Center, will coordinate the  
37 efforts of the subcenters to avoid duplication and may consult in  
38 the design of standard reports to be offered by the center and its  
39 subcenters.

1 (r) Coordinate with the Office of Planning and Research  
2 Environmental Data Center for the purposes of ensuring  
3 consistency and compatibility of data products, improving public  
4 access to data, ensuring the consistent interpretation of data, and  
5 avoiding duplication of functions.

6 (s) (1) *Determine those census tracts that are to be designated*  
7 *census tracts based on data from the five-year American*  
8 *Community Survey (ACS). The census tracts that are within the*  
9 *highest quartile for both civilian unemployment and poverty*  
10 *statistics, as determined in paragraphs (2) and (3), shall be*  
11 *determined to be designated census tracts as described in*  
12 *paragraph (7) of subdivision (b) of Section 17053.73, and*  
13 *paragraph (7) of subdivision (b) of Section 23626 of the Revenue*  
14 *and Taxation Code.*

15 (2) *To determine the census tracts that are within the highest*  
16 *quartile of census tracts with the highest civilian unemployment,*  
17 *the census tracts shall be sorted by the respective civilian*  
18 *unemployment rate of each in ascending order, or from the lowest*  
19 *(0 percent) to the highest (100 percent) according to the following:*

20 (A) *Census tracts without a civilian labor force shall be*  
21 *excluded.*

22 (B) *After ordering the census tracts by the civilian*  
23 *unemployment rate of each, the census tracts shall be divided into*  
24 *four equal groups or quartiles as follows:*

25 (i) *The first quartile shall represent the lowest fourth of the*  
26 *census tracts (1 percent to less than 26 percent).*

27 (ii) *The second quartile shall represent the second fourth (26*  
28 *percent to less than 51 percent).*

29 (iii) *The third quartile shall represent the third fourth (51*  
30 *percent to less than 76 percent).*

31 (iv) *The fourth quartile shall represent the fourth fourth (76*  
32 *percent to 100 percent, inclusive).*

33 (C) *The last or highest quartile shall represent the top 25*  
34 *percent of the census tracts with the highest civilian unemployment*  
35 *rates.*

36 (3) *To determine the census tracts that are within the quartile*  
37 *of census tracts with the highest poverty, the census tracts shall*  
38 *be sorted by the respective percentage of population below poverty*  
39 *of each in ascending order, or from the lowest (0 percent) to the*  
40 *highest (100 percent) according to the following:*

- 1 (A) Consistent with poverty statistics in the ACS, which adhere  
2 to the standards specified by the federal Office of Management  
3 and Budget in Statistical Policy Directive 14, the poverty thresholds  
4 as specified by the United States Census Bureau shall be used to  
5 determine those individuals below poverty.
- 6 (B) To determine those individuals below poverty, different  
7 thresholds, as specified by the United States Census Bureau, shall  
8 be applied to families, people living alone, or people living with  
9 nonrelatives (unrelated individuals).
- 10 (C) If a family's total income is less than the dollar value of the  
11 appropriate threshold, then that family and every individual in it  
12 shall be considered to be below poverty.
- 13 (D) If an unrelated individual's total income is less than the  
14 appropriate threshold, then that individual shall be considered to  
15 be below poverty.
- 16 (E) Poverty status shall be determined for all people except  
17 institutionalized people, people in military group quarters, people  
18 in college dormitories, and unrelated individuals under 15 years  
19 of age.
- 20 (F) Census tracts that do not have a population for whom  
21 poverty status is determined shall be excluded.
- 22 (G) After ordering the census tracts by the respective percent  
23 below poverty of each, the census tracts shall be divided into four  
24 equal quartiles as follows:
- 25 (i) The first quartile shall represent the lowest fourth of the  
26 census tracts (1 percent to less than 26 percent).
- 27 (ii) The second quartile shall represent the second fourth (26  
28 percent to less than 51 percent).
- 29 (iii) The third quartile shall represent the third fourth (51  
30 percent to less than 76 percent).
- 31 (iv) The fourth quartile shall represent the fourth fourth (76  
32 percent to 100 percent, inclusive).
- 33 (H) The last or highest quartile shall represent the top 25  
34 percent of the census tracts with the highest percentage of  
35 population below poverty.
- 36 (4) To determine the census tracts that are within the lowest  
37 quartile of census tracts with the lowest civilian unemployment  
38 and poverty, the census tracts shall be sorted by the respective  
39 civilian unemployment and poverty rates of each in ascending

1 order, or from the lowest (0 percent) to the highest (100 percent)  
2 according to the following:

3 (A) Census tracts without a civilian labor force are to be  
4 excluded.

5 (B) After ordering the census tracts by the civilian  
6 unemployment and poverty rates of each, the census tracts shall  
7 be divided into four equal groups or quartiles as follows:

8 (i) The first quartile shall represent the lowest fourth of the  
9 census tracts (1 percent to less than 26 percent).

10 (ii) The second quartile shall represent the second fourth (26  
11 percent to less than 51 percent).

12 (iii) The third quartile shall represent the third fourth (51  
13 percent to less than 76 percent).

14 (iv) The fourth quartile shall represent the fourth fourth (76  
15 percent to 100 percent, inclusive).

16 (C) The first or lowest quartile shall represent the bottom 25  
17 percent of the census tracts with the lowest civilian unemployment  
18 and poverty rates.

19 SEC. 5. Section 6377.1 is added to the Revenue and Taxation  
20 Code, to read:

21 6377.1. (a) Except as provided in subdivision (e), on or after  
22 January 1, 2014, and before January 1, 2019, there are exempted  
23 from the taxes imposed by this part the gross receipts from the  
24 sale of, and the storage, use, or other consumption in this state of,  
25 any of the following:

26 (1) Qualified tangible personal property purchased for use by  
27 a qualified person to be used primarily in any stage of the  
28 manufacturing, processing, refining, fabricating, or recycling of  
29 tangible personal property, beginning at the point any raw  
30 materials are received by the qualified person and introduced into  
31 the process and ending at the point at which the manufacturing,  
32 processing, refining, fabricating, or recycling has altered tangible  
33 personal property to its completed form, including packaging, if  
34 required.

35 (2) Qualified tangible personal property purchased for use by  
36 a qualified person to be used primarily in research and  
37 development.

38 (3) Qualified tangible personal property purchased for use by  
39 a qualified person to be used primarily to maintain, repair,

1 *measure, or test any qualified tangible personal property described*  
2 *in paragraph (1) or (2).*

3 (4) *Qualified tangible personal property purchased for use by*  
4 *a contractor purchasing that property for use in the performance*  
5 *of a construction contract for the qualified person, that will use*  
6 *that property as an integral part of the manufacturing, processing,*  
7 *refining, fabricating, or recycling process, or as a research or*  
8 *storage facility for use in connection with those processes.*

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

10 (1) *“Fabricating” means to make, build, create, produce, or*  
11 *assemble components or tangible personal property to work in a*  
12 *new or different manner.*

13 (2) *“Manufacturing” means the activity of converting or*  
14 *conditioning tangible personal property by changing the form,*  
15 *composition, quality, or character of the property for ultimate sale*  
16 *at retail or use in the manufacturing of a product to be ultimately*  
17 *sold at retail. Manufacturing includes any improvements to*  
18 *tangible personal property that result in a greater service life or*  
19 *greater functionality than that of the original property.*

20 (3) *“Primarily” means 50 percent or more of the time.*

21 (4) *“Process” means the period beginning at the point at which*  
22 *any raw materials are received by the qualified person and*  
23 *introduced into the manufacturing, processing, refining,*  
24 *fabricating, or recycling activity of the qualified person and ending*  
25 *at the point at which the manufacturing, processing, refining,*  
26 *fabricating, or recycling activity of the qualified person has altered*  
27 *tangible personal property to its completed form, including*  
28 *packaging, if required. Raw materials shall be considered to have*  
29 *been introduced into the process when the raw materials are stored*  
30 *on the same premises where the qualified person’s manufacturing,*  
31 *processing, refining, fabricating, or recycling activity is conducted.*  
32 *Raw materials that are stored on premises other than where the*  
33 *qualified person’s manufacturing, processing, refining, fabricating,*  
34 *or recycling activity is conducted shall not be considered to have*  
35 *been introduced into the manufacturing, processing, refining,*  
36 *fabricating, or recycling process.*

37 (5) *“Processing” means the physical application of the materials*  
38 *and labor necessary to modify or change the characteristics of*  
39 *tangible personal property.*

1 (6) (A) “Qualified person” means a person that is primarily  
2 engaged in those lines of business described in Codes 3111 to  
3 3399, inclusive, 541711, or 541712 of the North American Industry  
4 Classification System (NAICS) published by the United States  
5 Office of Management and Budget (OMB), 2012 edition.

6 (B) Notwithstanding subparagraph (A), “qualified person”  
7 shall not include either of the following:

8 (i) An apportioning trade or business that is required to  
9 apportion its business income pursuant to subdivision (b) of Section  
10 25128.

11 (ii) A trade or business conducted wholly within this state that  
12 would be required to apportion its business income pursuant to  
13 subdivision (b) of Section 25128 if it were subject to apportionment  
14 pursuant to Section 25101.

15 (7) (A) “Qualified tangible personal property” includes, but  
16 is not limited to, all of the following:

17 (i) Machinery and equipment, including component parts and  
18 contrivances such as belts, shafts, moving parts, and operating  
19 structures.

20 (ii) Equipment or devices used or required to operate, control,  
21 regulate, or maintain the machinery, including, but not limited to,  
22 computers, data-processing equipment, and computer software,  
23 together with all repair and replacement parts with a useful life  
24 of one or more years therefor, whether purchased separately or  
25 in conjunction with a complete machine and regardless of whether  
26 the machine or component parts are assembled by the qualified  
27 person or another party.

28 (iii) Tangible personal property used in pollution control that  
29 meets standards established by this state or any local or regional  
30 governmental agency within this state.

31 (iv) Special purpose buildings and foundations used as an  
32 integral part of the manufacturing, processing, refining,  
33 fabricating, or recycling process, or that constitute a research or  
34 storage facility used during those processes. Buildings used solely  
35 for warehousing purposes after completion of those processes are  
36 not included.

37 (B) “Qualified tangible personal property” shall not include  
38 any of the following:

39 (i) Consumables with a useful life of less than one year.

1 (ii) Furniture, inventory, and equipment used in the extraction  
2 process, or equipment used to store finished products that have  
3 completed the manufacturing, processing, refining, fabricating,  
4 or recycling process.

5 (iii) Tangible personal property used primarily in  
6 administration, general management, or marketing.

7 (8) “Refining” means the process of converting a natural  
8 resource to an intermediate or finished product.

9 (9) “Research and development” means those activities that  
10 are described in Section 174 of the Internal Revenue Code or in  
11 any regulations thereunder.

12 (10) “Useful life” for tangible personal property that is treated  
13 as having a useful life of one or more years for state income or  
14 franchise tax purposes shall be deemed to have a useful life of one  
15 or more years for purposes of this section. “Useful life” for  
16 tangible personal property that is treated as having a useful life  
17 of less than one year for state income or franchise tax purposes  
18 shall be deemed to have a useful life of less than one year for  
19 purposes of this section.

20 (c) An exemption shall not be allowed under this section unless  
21 the purchaser furnishes the retailer with an exemption certificate,  
22 completed in accordance with any instructions or regulations as  
23 the board may prescribe, and the retailer retains the exemption  
24 certificate in its records and furnishes it to the board upon request.

25 (d) (1) Notwithstanding the Bradley-Burns Uniform Local  
26 Sales and Use Tax Law (Part 1.5 (commencing with Section 7200))  
27 and the Transactions and Use Tax Law (Part 1.6 (commencing  
28 with Section 7251)), the exemption established by this section shall  
29 not apply with respect to any tax levied by a county, city, or district  
30 pursuant to, or in accordance with, either of those laws.

31 (2) Notwithstanding subdivision (a), the exemption established  
32 by this section shall not apply with respect to any tax levied  
33 pursuant to Section 6051.2, 6051.5, 6201.2, or 6201.5, pursuant  
34 to Section 35 of Article XIII of the California Constitution, or any  
35 tax levied pursuant to Section 6051 or 6201 that is deposited in  
36 the State Treasury to the credit of the Local Revenue Fund 2011  
37 pursuant to Section 6051.15 or 6201.15.

38 (e) (1) Notwithstanding subdivision (a), the exemption provided  
39 by this section shall not apply to either of the following:

1 (A) Any tangible personal property purchased during any  
2 calendar year that exceeds two hundred million dollars  
3 (\$200,000,000) of purchases of qualified tangible personal  
4 property for which an exemption is claimed by a qualified person  
5 under this section. For purposes of this subparagraph, in the case  
6 of a qualified person that is required to be included in a combined  
7 report under Section 25101 or authorized to be included in a  
8 combined report under Section 25101.15, the aggregate of all  
9 purchases of qualified personal property for which an exemption  
10 is claimed pursuant to this section by all persons that are required  
11 or authorized to be included in a combined report shall not exceed  
12 two hundred million dollars (\$200,000,000) in any calendar year.

13 (B) The sale or storage, use, or other consumption of property  
14 that, within one year from the date of purchase, is removed from  
15 California, converted from an exempt use under subdivision (a)  
16 to some other use not qualifying for exemption, or used in a manner  
17 not qualifying for exemption.

18 (2) If a purchaser certifies in writing to the seller that the  
19 tangible personal property purchased without payment of the tax  
20 will be used in a manner entitling the seller to regard the gross  
21 receipts from the sale as exempt from the sales tax, and within one  
22 year from the date of purchase, the purchaser removes that  
23 property from California, converts that property for use in a  
24 manner not qualifying for the exemption, or uses that property in  
25 a manner not qualifying for the exemption, the purchaser shall be  
26 liable for payment of sales tax, with applicable interest, as if the  
27 purchaser were a retailer making a retail sale of the tangible  
28 personal property at the time the tangible personal property is  
29 removed, converted, or used, and the sales price of the tangible  
30 personal property to the purchaser shall be deemed the gross  
31 receipts from that retail sale.

32 (f) This section shall apply to leases of qualified tangible  
33 personal property classified as “continuing sales” and “continuing  
34 purchases” in accordance with Sections 6006.1 and 6010.1. The  
35 exemption established by this section shall apply to the rentals  
36 payable pursuant to the lease, provided the lessee is a qualified  
37 person and the tangible personal property is used in an activity  
38 described in subdivision (a).

39 (g) This section is repealed on January 1, 2019.

1     *SEC. 6. Section 17053.33 of the Revenue and Taxation Code*  
2     *is amended to read:*

3     17053.33. (a) For each taxable year beginning on or after  
4     January 1, 1998, *and before January 1, 2014*, there shall be allowed  
5     as a credit against the “net tax” (as defined in Section 17039) for  
6     the taxable year an amount equal to the sales or use tax paid or  
7     incurred during the taxable year by the qualified taxpayer in  
8     connection with the qualified taxpayer’s purchase of qualified  
9     ~~property.~~ *property before January 1, 2014.*

10    (b) For purposes of this section:

11    (1) “Qualified property” means property that meets all of the  
12    following requirements:

13    (A) Is any of the following:

14    (i) Machinery and machinery parts used for fabricating,  
15    processing, assembling, and manufacturing.

16    (ii) Machinery and machinery parts used for the production of  
17    renewable energy resources.

18    (iii) Machinery and machinery parts used for either of the  
19    following:

20    (I) Air pollution control mechanisms.

21    (II) Water pollution control mechanisms.

22    (iv) Data processing and communications equipment, such as  
23    computers, computer-automated drafting systems, copy machines,  
24    telephone systems, and faxes.

25    (v) Motion picture manufacturing equipment central to  
26    production and post production, such as cameras, audio recorders,  
27    and digital image and sound processing equipment.

28    (B) The total cost of qualified property purchased and placed  
29    in service in any taxable year that may be taken into account by  
30    any qualified taxpayer for purposes of claiming this credit shall  
31    not exceed one million dollars (\$1,000,000).

32    (C) The qualified property is used by the qualified taxpayer  
33    exclusively in a targeted tax area.

34    (D) The qualified property is purchased and placed in service  
35    before the date the targeted tax area designation expires, is revoked,  
36    is no longer binding, or becomes inoperative.

37    (2) (A) “Qualified taxpayer” means a person or entity that meets  
38    both of the following:

1 (i) Is engaged in a trade or business within a targeted tax area  
2 designated pursuant to Chapter 12.93 (commencing with Section  
3 7097) of Division 7 of Title 1 of the Government Code.

4 (ii) Is engaged in those lines of business described in Codes  
5 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299,  
6 inclusive; 4500 to 4599, inclusive; and 4700 to 5199, inclusive,  
7 of the Standard Industrial Classification (SIC) Manual published  
8 by the United States Office of Management and Budget, 1987  
9 edition.

10 (B) In the case of any pass-through entity, the determination of  
11 whether a taxpayer is a qualified taxpayer under this section shall  
12 be made at the entity level and any credit under this section or  
13 Section 23633 shall be allowed to the pass-through entity and  
14 passed through to the partners or shareholders in accordance with  
15 applicable provisions of this part or Part 11 (commencing with  
16 Section 23001). For purposes of this subparagraph, the term  
17 “pass-through entity” means any partnership or S corporation.

18 (3) “Targeted tax area” means the area designated pursuant to  
19 Chapter 12.93 (commencing with Section 7097) of Division 7 of  
20 Title 1 of the Government Code.

21 (c) If the qualified taxpayer is allowed a credit for qualified  
22 property pursuant to this section, only one credit shall be allowed  
23 to the taxpayer under this part with respect to that qualified  
24 property.

25 (d) If the qualified taxpayer has purchased property upon which  
26 a use tax has been paid or incurred, the credit provided by this  
27 section shall be allowed only if qualified property of a comparable  
28 quality and price is not timely available for purchase in this state.

29 (e) In the case where the credit otherwise allowed under this  
30 section exceeds the “net tax” for the taxable year, that portion of  
31 the credit that exceeds the “net tax” may be carried over and added  
32 to the credit, if any, in the ~~following year, and succeeding years~~  
33 *five taxable years*, if necessary, until the credit is exhausted. The  
34 credit shall be applied first to the earliest taxable years possible.

35 (f) Any qualified taxpayer who elects to be subject to this section  
36 shall not be entitled to increase the basis of the qualified property  
37 as otherwise required by Section 164(a) of the Internal Revenue  
38 Code with respect to sales or use tax paid or incurred in connection  
39 with the qualified taxpayer’s purchase of qualified property.

1 (g) (1) The amount of the credit otherwise allowed under this  
2 section and Section 17053.34, including any credit carryover from  
3 prior years, that may reduce the “net tax” for the taxable year shall  
4 not exceed the amount of tax that would be imposed on the  
5 qualified taxpayer’s business income attributable to the targeted  
6 tax area determined as if that attributable income represented all  
7 of the income of the qualified taxpayer subject to tax under this  
8 part.

9 (2) Attributable income shall be that portion of the taxpayer’s  
10 California source business income that is apportioned to the  
11 targeted tax ~~area~~. *area*. For that purpose, the taxpayer’s business  
12 income attributable to sources in this state first shall be determined  
13 in accordance with Chapter 17 (commencing with Section 25101)  
14 of Part 11. That business income shall be further apportioned to  
15 the targeted tax area in accordance with Article 2 (commencing  
16 with Section 25120) of Chapter 17 of Part 11, modified for  
17 purposes of this section in accordance with paragraph (3).

18 (3) Business income shall be apportioned to the targeted tax  
19 area by multiplying the total California business income of the  
20 taxpayer by a fraction, the numerator of which is the property  
21 factor plus the payroll factor, and the denominator of which is two.  
22 For purposes of this paragraph:

23 (A) The property factor is a fraction, the numerator of which is  
24 the average value of the taxpayer’s real and tangible personal  
25 property owned or rented and used in the targeted tax area during  
26 the taxable year, and the denominator of which is the average value  
27 of all the taxpayer’s real and tangible personal property owned or  
28 rented and used in this state during the taxable year.

29 (B) The payroll factor is a fraction, the numerator of which is  
30 the total amount paid by the taxpayer in the targeted tax area during  
31 the taxable year for compensation, and the denominator of which  
32 is the total compensation paid by the taxpayer in this state during  
33 the taxable year.

34 (4) The portion of any credit remaining, if any, after application  
35 of this subdivision, shall be carried over to succeeding taxable  
36 years, *if necessary, until the credit is exhausted*, as if it were an  
37 amount exceeding the “net tax” for the taxable year, as provided  
38 in subdivision (e). *However, the portion of any credit remaining*  
39 *for carryover to taxable years beginning on or after January 1,*  
40 *2014, if any, after application of this subdivision, shall be carried*

1 over only to the succeeding five taxable years if necessary, until  
2 the credit is exhausted, as if it were an amount exceeding the “net  
3 tax” for the taxable year, as provided in subdivision (e).

4 (5) In the event that a credit carryover is allowable under  
5 subdivision (e) for any taxable year after the targeted tax area  
6 designation has expired, has been revoked, is no longer binding,  
7 or has become inoperative, the targeted tax area shall be deemed  
8 to remain in existence for purposes of computing the limitation  
9 specified in this subdivision.

10 (h) The amendments made to this section by the act adding this  
11 subdivision shall apply to taxable years beginning on or after  
12 January 1, 1998.

13 (i) *This section is repealed on December 1, 2014.*

14 SEC. 7. *Section 17053.34 of the Revenue and Taxation Code*  
15 *is amended to read:*

16 17053.34. (a) For each taxable year beginning on or after  
17 January 1, 1998, there shall be allowed a credit against the “net  
18 tax” (as defined in Section 17039) to a qualified taxpayer who  
19 employs a qualified employee in a targeted tax area during the  
20 taxable year. The credit shall be equal to the sum of each of the  
21 following:

22 (1) Fifty percent of qualified wages in the first year of  
23 employment.

24 (2) Forty percent of qualified wages in the second year of  
25 employment.

26 (3) Thirty percent of qualified wages in the third year of  
27 employment.

28 (4) Twenty percent of qualified wages in the fourth year of  
29 employment.

30 (5) Ten percent of qualified wages in the fifth year of  
31 employment.

32 (b) For purposes of this section:

33 (1) “Qualified wages” means:

34 (A) That portion of wages paid or incurred by the qualified  
35 taxpayer during the taxable year to qualified employees that does  
36 not exceed 150 percent of the minimum wage.

37 (B) Wages received during the 60-month period beginning with  
38 the first day the employee commences employment with the  
39 qualified taxpayer. Reemployment in connection with any increase,  
40 including a regularly occurring seasonal increase, in the trade or

1 business operations of the qualified taxpayer does not constitute  
2 commencement of employment for purposes of this section.

3 (C) Qualified wages do not include any wages paid or incurred  
4 by the qualified taxpayer on or after the targeted tax area expiration  
5 date. However, wages paid or incurred with respect to qualified  
6 employees who are employed by the qualified taxpayer within the  
7 targeted tax area within the 60-month period prior to the targeted  
8 tax area expiration date shall continue to qualify for the credit  
9 under this section after the targeted tax area expiration date, in  
10 accordance with all provisions of this section applied as if the  
11 targeted tax area designation were still in existence and binding.

12 (2) “Minimum wage” means the wage established by the  
13 Industrial Welfare Commission as provided for in Chapter 1  
14 (commencing with Section 1171) of Part 4 of Division 2 of the  
15 Labor Code.

16 (3) “Targeted tax area expiration date” means the date the  
17 targeted tax area designation expires, is revoked, is no longer  
18 binding, *becomes inoperative*, or ~~becomes inoperative~~. *is repealed*.

19 (4) (A) “Qualified employee” means an individual who meets  
20 all of the following requirements:

21 (i) At least 90 percent of his or her services for the qualified  
22 taxpayer during the taxable year are directly related to the conduct  
23 of the qualified taxpayer’s trade or business located in a targeted  
24 tax area.

25 (ii) Performs at least 50 percent of his or her services for the  
26 qualified taxpayer during the taxable year in a targeted tax area.

27 (iii) Is hired by the qualified taxpayer after the date of original  
28 designation of the area in which services were performed as a  
29 targeted tax area.

30 (iv) Is any of the following:

31 (I) Immediately preceding the qualified employee’s  
32 commencement of employment with the qualified taxpayer, was  
33 a person eligible for services under the federal Job Training  
34 Partnership Act (29 U.S.C. Sec. 1501 et seq.), or its successor,  
35 who is receiving, or is eligible to receive, subsidized employment,  
36 training, or services funded by the federal Job Training Partnership  
37 Act, or its successor.

38 (II) Immediately preceding the qualified employee’s  
39 commencement of employment with the qualified taxpayer, was  
40 a person eligible to be a voluntary or mandatory registrant under

1 the Greater Avenues for Independence Act of 1985 (GAIN)  
2 provided for pursuant to Article 3.2 (commencing with Section  
3 11320) of Chapter 2 of Part 3 of Division 9 of the Welfare and  
4 Institutions Code, or its successor.

5 (III) Immediately preceding the qualified employee's  
6 commencement of employment with the qualified taxpayer, was  
7 an economically disadvantaged individual 14 years of age or older.

8 (IV) Immediately preceding the qualified employee's  
9 commencement of employment with the qualified taxpayer, was  
10 a dislocated worker who meets any of the following:

11 (aa) Has been terminated or laid off or who has received a notice  
12 of termination or layoff from employment, is eligible for or has  
13 exhausted entitlement to unemployment insurance benefits, and  
14 is unlikely to return to his or her previous industry or occupation.

15 (bb) Has been terminated or has received a notice of termination  
16 of employment as a result of any permanent closure or any  
17 substantial layoff at a plant, facility, or enterprise, including an  
18 individual who has not received written notification but whose  
19 employer has made a public announcement of the closure or layoff.

20 (cc) Is long-term unemployed and has limited opportunities for  
21 employment or reemployment in the same or a similar occupation  
22 in the area in which the individual resides, including an individual  
23 55 years of age or older who may have substantial barriers to  
24 employment by reason of age.

25 (dd) Was self-employed (including farmers and ranchers) and  
26 is unemployed as a result of general economic conditions in the  
27 community in which he or she resides or because of natural  
28 disasters.

29 (ee) Was a civilian employee of the Department of Defense  
30 employed at a military installation being closed or realigned under  
31 the Defense Base Closure and Realignment Act of 1990.

32 (ff) Was an active member of the Armed Forces or National  
33 Guard as of September 30, 1990, and was either involuntarily  
34 separated or separated pursuant to a special benefits program.

35 (gg) Is a seasonal or migrant worker who experiences chronic  
36 seasonal unemployment and underemployment in the agriculture  
37 industry, aggravated by continual advancements in technology and  
38 mechanization.

1 (hh) Has been terminated or laid off, or has received a notice  
2 of termination or layoff, as a consequence of compliance with the  
3 Clean Air Act.

4 (V) Immediately preceding the qualified employee's  
5 commencement of employment with the qualified taxpayer, was  
6 a disabled individual who is eligible for or enrolled in, or has  
7 completed a state rehabilitation plan or is a service-connected  
8 disabled veteran, veteran of the Vietnam era, or veteran who is  
9 recently separated from military service.

10 (VI) Immediately preceding the qualified employee's  
11 commencement of employment with the qualified taxpayer, was  
12 an ex-offender. An individual shall be treated as convicted if he  
13 or she was placed on probation by a state court without a finding  
14 of guilty.

15 (VII) Immediately preceding the qualified employee's  
16 commencement of employment with the qualified taxpayer, was  
17 a person eligible for or a recipient of any of the following:

18 (aa) Federal Supplemental Security Income benefits.

19 (bb) Aid to Families with Dependent Children.

20 (cc) CalFresh benefits.

21 (dd) State and local general assistance.

22 (VIII) Immediately preceding the qualified employee's  
23 commencement of employment with the qualified taxpayer, was  
24 a member of a federally recognized Indian tribe, band, or other  
25 group of Native American descent.

26 (IX) Immediately preceding the qualified employee's  
27 commencement of employment with the qualified taxpayer, was  
28 a resident of a targeted tax area.

29 (X) Immediately preceding the qualified employee's  
30 commencement of employment with the taxpayer, was a member  
31 of a targeted group as defined in Section 51(d) of the Internal  
32 Revenue Code, or its successor.

33 (B) Priority for employment shall be provided to an individual  
34 who is enrolled in a qualified program under the federal Job  
35 Training Partnership Act or the Greater Avenues for Independence  
36 Act of 1985 or who is eligible as a member of a targeted group  
37 under the Work Opportunity Tax Credit (Section 51 of the Internal  
38 Revenue Code), or its successor.

39 (5) (A) "Qualified taxpayer" means a person or entity that meets  
40 both of the following:

1 (i) Is engaged in a trade or business within a targeted tax area  
2 designated pursuant to Chapter 12.93 (commencing with Section  
3 7097) of Division 7 of Title 1 of the Government Code.

4 (ii) Is engaged in those lines of business described in Codes  
5 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299,  
6 inclusive; 4500 to 4599, inclusive; and 4700 to 5199, inclusive,  
7 of the Standard Industrial Classification (SIC) Manual published  
8 by the United States Office of Management and Budget, 1987  
9 edition.

10 (B) In the case of any passthrough entity, the determination of  
11 whether a taxpayer is a qualified taxpayer under this section shall  
12 be made at the entity level and any credit under this section or  
13 Section 23634 shall be allowed to the passthrough entity and passed  
14 through to the partners or shareholders in accordance with  
15 applicable provisions of this part or Part 11 (commencing with  
16 Section 23001). For purposes of this subdivision, the term  
17 “passthrough entity” means any partnership or S corporation.

18 (6) “Seasonal employment” means employment by a qualified  
19 taxpayer that has regular and predictable substantial reductions in  
20 trade or business operations.

21 (c) If the qualified taxpayer is allowed a credit for qualified  
22 wages pursuant to this section, only one credit shall be allowed to  
23 the taxpayer under this part with respect to those qualified wages.

24 (d) The qualified taxpayer shall do both of the following:

25 (1) Obtain from the Employment Development Department, as  
26 permitted by federal law, the local county or city Job Training  
27 Partnership Act administrative entity, the local county GAIN office  
28 or social services agency, or the local government administering  
29 the targeted tax area, a certification that provides that a qualified  
30 employee meets the eligibility requirements specified in clause  
31 (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The  
32 Employment Development Department may provide preliminary  
33 screening and referral to a certifying agency. The Department of  
34 Housing and Community Development shall develop regulations  
35 governing the issuance of certificates pursuant to subdivision (g)  
36 of Section 7097 of the Government Code, and shall develop forms  
37 for this purpose.

38 (2) Retain a copy of the certification and provide it upon request  
39 to the Franchise Tax Board.

40 (e) (1) For purposes of this section:

1 (A) All employees of trades or businesses, which are not  
2 incorporated, that are under common control shall be treated as  
3 employed by a single taxpayer.

4 (B) The credit, if any, allowable by this section with respect to  
5 each trade or business shall be determined by reference to its  
6 proportionate share of the expense of the qualified wages giving  
7 rise to the credit, and shall be allocated in that manner.

8 (C) Principles that apply in the case of controlled groups of  
9 corporations, as specified in subdivision (d) of Section 23634,  
10 shall apply with respect to determining employment.

11 (2) If an employer acquires the major portion of a trade or  
12 business of another employer (hereinafter in this paragraph referred  
13 to as the “predecessor”) or the major portion of a separate unit of  
14 a trade or business of a predecessor, then, for purposes of applying  
15 this section (other than subdivision (f)) for any calendar year ending  
16 after that acquisition, the employment relationship between a  
17 qualified employee and an employer shall not be treated as  
18 terminated if the employee continues to be employed in that trade  
19 or business.

20 (f) (1) (A) If the employment, other than seasonal employment,  
21 of any qualified employee, with respect to whom qualified wages  
22 are taken into account under subdivision (a) is terminated by the  
23 qualified taxpayer at any time during the first 270 days of that  
24 employment (whether or not consecutive) or before the close of  
25 the 270th calendar day after the day in which that employee  
26 completes 90 days of employment with the qualified taxpayer, the  
27 tax imposed by this part for the taxable year in which that  
28 employment is terminated shall be increased by an amount equal  
29 to the credit allowed under subdivision (a) for that taxable year  
30 and all prior taxable years attributable to qualified wages paid or  
31 incurred with respect to that employee.

32 (B) If the seasonal employment of any qualified employee, with  
33 respect to whom qualified wages are taken into account under  
34 subdivision (a) is not continued by the qualified taxpayer for a  
35 period of 270 days of employment during the 60-month period  
36 beginning with the day the qualified employee commences seasonal  
37 employment with the qualified taxpayer, the tax imposed by this  
38 part, for the taxable year that includes the 60th month following  
39 the month in which the qualified employee commences seasonal  
40 employment with the qualified taxpayer, shall be increased by an

1 amount equal to the credit allowed under subdivision (a) for that  
2 taxable year and all prior taxable years attributable to qualified  
3 wages paid or incurred with respect to that qualified employee.

4 (2) (A) Subparagraph (A) of paragraph (1) shall not apply to  
5 any of the following:

6 (i) A termination of employment of a qualified employee who  
7 voluntarily leaves the employment of the qualified taxpayer.

8 (ii) A termination of employment of a qualified employee who,  
9 before the close of the period referred to in subparagraph (A) of  
10 paragraph (1), becomes disabled and unable to perform the services  
11 of that employment, unless that disability is removed before the  
12 close of that period and the qualified taxpayer fails to offer  
13 reemployment to that employee.

14 (iii) A termination of employment of a qualified employee, if  
15 it is determined that the termination was due to the misconduct (as  
16 defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of  
17 the California Code of Regulations) of that employee.

18 (iv) A termination of employment of a qualified employee due  
19 to a substantial reduction in the trade or business operations of the  
20 qualified taxpayer.

21 (v) A termination of employment of a qualified employee, if  
22 that employee is replaced by other qualified employees so as to  
23 create a net increase in both the number of employees and the  
24 hours of employment.

25 (B) Subparagraph (B) of paragraph (1) shall not apply to any  
26 of the following:

27 (i) A failure to continue the seasonal employment of a qualified  
28 employee who voluntarily fails to return to the seasonal  
29 employment of the qualified taxpayer.

30 (ii) A failure to continue the seasonal employment of a qualified  
31 employee who, before the close of the period referred to in  
32 subparagraph (B) of paragraph (1), becomes disabled and unable  
33 to perform the services of that seasonal employment, unless that  
34 disability is removed before the close of that period and the  
35 qualified taxpayer fails to offer seasonal employment to that  
36 qualified employee.

37 (iii) A failure to continue the seasonal employment of a qualified  
38 employee, if it is determined that the failure to continue the  
39 seasonal employment was due to the misconduct (as defined in

1 Sections 1256-30 to 1256-43, inclusive, of Title 22 of the California  
2 Code of Regulations) of that qualified employee.

3 (iv) A failure to continue seasonal employment of a qualified  
4 employee due to a substantial reduction in the regular seasonal  
5 trade or business operations of the qualified taxpayer.

6 (v) A failure to continue the seasonal employment of a qualified  
7 employee, if that qualified employee is replaced by other qualified  
8 employees so as to create a net increase in both the number of  
9 seasonal employees and the hours of seasonal employment.

10 (C) For purposes of paragraph (1), the employment relationship  
11 between the qualified taxpayer and a qualified employee shall not  
12 be treated as terminated by reason of a mere change in the form  
13 of conducting the trade or business of the qualified taxpayer, if the  
14 qualified employee continues to be employed in that trade or  
15 business and the qualified taxpayer retains a substantial interest  
16 in that trade or business.

17 (3) Any increase in tax under paragraph (1) shall not be treated  
18 as tax imposed by this part for purposes of determining the amount  
19 of any credit allowable under this part.

20 (g) In the case of an estate or trust, both of the following apply:

21 (1) The qualified wages for any taxable year shall be apportioned  
22 between the estate or trust and the beneficiaries on the basis of the  
23 income of the estate or trust allocable to each.

24 (2) Any beneficiary to whom any qualified wages have been  
25 apportioned under paragraph (1) shall be treated, for purposes of  
26 this part, as the employer with respect to those wages.

27 (h) For purposes of this section, “targeted tax area” means an  
28 area designated pursuant to Chapter 12.93 (commencing with  
29 Section 7097) of Division 7 of Title 1 of the Government Code.

30 (i) In the case where the credit otherwise allowed under this  
31 section exceeds the “net tax” for the taxable year, that portion of  
32 the credit that exceeds the “net tax” may be carried over and added  
33 to the credit, if any, in *the succeeding five* taxable years, *if*  
34 *necessary*, until the credit is exhausted. The credit shall be applied  
35 first to the earliest taxable years possible.

36 (j) (1) The amount of the credit otherwise allowed under this  
37 section and Section 17053.33, including any credit carryover from  
38 prior years, that may reduce the “net tax” for the taxable year shall  
39 not exceed the amount of tax that would be imposed on the  
40 qualified taxpayer’s business income attributable to the targeted

1 tax area determined as if that attributable income represented all  
2 of the income of the qualified taxpayer subject to tax under this  
3 part.

4 (2) Attributable income shall be that portion of the taxpayer's  
5 California source business income that is apportioned to the  
6 targeted tax area. For that purpose, the taxpayer's business income  
7 attributable to sources in this state first shall be determined in  
8 accordance with Chapter 17 (commencing with Section 25101) of  
9 Part 11. That business income shall be further apportioned to the  
10 targeted tax area in accordance with Article 2 (commencing with  
11 Section 25120) of Chapter 17 of Part 11, modified for purposes  
12 of this section in accordance with paragraph (3).

13 (3) Business income shall be apportioned to the targeted tax  
14 area by multiplying the total California business income of the  
15 taxpayer by a fraction, the numerator of which is the property  
16 factor plus the payroll factor, and the denominator of which is two.  
17 For purposes of this paragraph:

18 (A) The property factor is a fraction, the numerator of which is  
19 the average value of the taxpayer's real and tangible personal  
20 property owned or rented and used in the targeted tax area during  
21 the taxable year, and the denominator of which is the average value  
22 of all the taxpayer's real and tangible personal property owned or  
23 rented and used in this state during the taxable year.

24 (B) The payroll factor is a fraction, the numerator of which is  
25 the total amount paid by the taxpayer in the targeted tax area during  
26 the taxable year for compensation, and the denominator of which  
27 is the total compensation paid by the taxpayer in this state during  
28 the taxable year.

29 (4) The portion of any credit remaining, if any, after application  
30 of this subdivision, shall be carried over to succeeding taxable  
31 years, *if necessary, until the credit is exhausted*, as if it were an  
32 amount exceeding the "net tax" for the taxable year, as provided  
33 in subdivision ~~(h)~~ (i). *However, the portion of any credit remaining*  
34 *for carryover to taxable years beginning on or after January 1,*  
35 *2014, if any, after application of this subdivision, shall be carried*  
36 *over only to the succeeding five taxable years, if necessary, until*  
37 *the credit is exhausted, as if it were an amount exceeding the "net*  
38 *tax" for the taxable year, as provided in subdivision (i).*

39 (5) In the event that a credit carryover is allowable under  
40 subdivision ~~(h)~~ (i) for any taxable year after the targeted tax area

1 expiration date, the targeted tax area shall be deemed to remain in  
2 existence for purposes of computing the limitation specified in  
3 this subdivision.

4 *(k) (1) Except as provided in paragraph (2), this section shall*  
5 *cease to be operative for taxable years beginning on or after*  
6 *January 1, 2014, and shall be repealed on December 1, 2019.*

7 *(2) The section shall continue to apply with respect to qualified*  
8 *employees who are employed by the qualified taxpayer within the*  
9 *targeted tax area within the 60-month period immediately*  
10 *preceding January 1, 2014, and qualified wages paid or incurred*  
11 *with respect to those qualified employees shall continue to qualify*  
12 *for the credit under this section for taxable years beginning on or*  
13 *after January 1, 2014, in accordance with this section, as amended*  
14 *by the act adding this subdivision.*

15 *SEC. 8. Section 17053.45 of the Revenue and Taxation Code*  
16 *is amended to read:*

17 17053.45. (a) For each taxable year beginning on or after  
18 January 1, 1995, and before January 1, 2014, there shall be allowed  
19 as a credit against the “net tax” (as defined by Section 17039) an  
20 amount equal to the sales or use tax paid or incurred by the  
21 taxpayer in connection with the purchase of qualified property  
22 before January 1, 2014, to the extent that the qualified property  
23 does not exceed a value of one million dollars (\$1,000,000).

24 (b) For purposes of this section:

25 (1) “LAMBRA” means a local agency military base recovery  
26 area designated in accordance with Section 7114 of the Government  
27 Code.

28 (2) “Taxpayer” means a taxpayer that conducts a trade or  
29 business within a LAMBRA and, for the first two taxable years,  
30 has a net increase in jobs (defined as 2,000 paid hours per employee  
31 per year) of one or more employees in the LAMBRA.

32 (A) The net increase in the number of jobs shall be determined  
33 by subtracting the total number of full-time employees (defined  
34 as 2,000 paid hours per employee per year) the taxpayer employed  
35 in this state in the taxable year prior to commencing business  
36 operations in the LAMBRA from the total number of full-time  
37 employees the taxpayer employed in this state during the second  
38 taxable year after commencing business operations in the  
39 LAMBRA. For taxpayers who commence doing business in this  
40 state with their LAMBRA business operation, the number of

1 employees for the taxable year prior to commencing business  
2 operations in the LAMBRA shall be zero. If the taxpayer has a net  
3 increase in jobs in the state, the credit shall be allowed only if one  
4 or more full-time employees is employed within the LAMBRA.

5 (B) The total number of employees employed in the LAMBRA  
6 shall equal the sum of both of the following:

7 (i) The total number of hours worked in the LAMBRA for the  
8 taxpayer by employees (not to exceed 2,000 hours per employee)  
9 who are paid an hourly wage divided by 2,000.

10 (ii) The total number of months worked in the LAMBRA for  
11 the taxpayer by employees who are salaried employees divided  
12 by 12.

13 (C) In the case of a taxpayer who first commences doing  
14 business in the LAMBRA during the taxable year, for purposes of  
15 clauses (i) and (ii), respectively, of subparagraph (B), the divisors  
16 “2,000” and “12” shall be multiplied by a fraction, the numerator  
17 of which is the number of months of the taxable year that the  
18 taxpayer was doing business in the LAMBRA and the denominator  
19 of which is 12.

20 (3) “Qualified property” means property that is each of the  
21 following:

22 (A) Purchased by the taxpayer for exclusive use in a trade or  
23 business conducted within a LAMBRA.

24 (B) Purchased before the date the LAMBRA designation expires,  
25 is no longer binding, or becomes inoperative.

26 (C) Any of the following:

27 (i) High technology equipment, including, but not limited to,  
28 computers and electronic processing equipment.

29 (ii) Aircraft maintenance equipment, including, but not limited  
30 to, engine stands, hydraulic mules, power carts, test equipment,  
31 handtools, aircraft start carts, and tugs.

32 (iii) Aircraft components, including, but not limited to, engines,  
33 fuel control units, hydraulic pumps, avionics, starts, wheels, and  
34 tires.

35 (iv) Section 1245 property, as defined in Section 1245(a)(3) of  
36 the Internal Revenue Code.

37 (c) The credit provided under subdivision (a) shall be allowed  
38 only for qualified property manufactured in California unless  
39 qualified property of a comparable quality and price is not available  
40 for timely purchase and delivery from a California manufacturer.

1 (d) In the case where the credit otherwise allowed under this  
2 section exceeds the “net tax” for the taxable year, that portion of  
3 the credit which exceeds the “net tax” may be carried over and  
4 added to the credit, if any, in *the succeeding five taxable years, if*  
5 *necessary*, until the credit is exhausted. The credit shall be applied  
6 first to the earliest taxable years possible.

7 (e) Any taxpayer who elects to be subject to this section shall  
8 not be entitled to increase the basis of the property as otherwise  
9 required by Section 164(a) of the Internal Revenue Code with  
10 respect to sales or use tax paid or incurred in connection with the  
11 purchase of qualified property.

12 (f) (1) The amount of credit otherwise allowed under this  
13 section and Section 17053.46, including any credit carryover from  
14 prior years, that may reduce the “net tax” for the taxable year shall  
15 not exceed the amount of tax that would be imposed on the  
16 taxpayer’s business income attributed to a LAMBRA determined  
17 as if that attributable income represented all the income of the  
18 taxpayer subject to tax under this part.

19 (2) Attributable income is that portion of the taxpayer’s  
20 California source business income that is apportioned to the  
21 LAMBRA. For that purpose, the taxpayer’s business income that  
22 is attributable to sources in this state shall first be determined in  
23 accordance with Chapter 17 (commencing with Section 25101) of  
24 Part 11. That business income shall be further apportioned to the  
25 LAMBRA in accordance with Article 2 (commencing with Section  
26 25120) of Chapter 17 of Part 11, as modified for purposes of this  
27 section in accordance with paragraph (3).

28 (3) Income shall be apportioned to a LAMBRA by multiplying  
29 the total California business income of the taxpayer by a fraction,  
30 the numerator of which is the property factor, plus the payroll  
31 factor, and the denominator of which is two. For purposes of this  
32 paragraph:

33 (A) The property factor is a fraction, the numerator of which is  
34 the average value of the taxpayer’s real and tangible personal  
35 property owned or rented and used in the LAMBRA during the  
36 taxable year, and the denominator of which is the average value  
37 of all the taxpayer’s real and tangible personal property owned or  
38 rented and used in this state during the taxable year.

39 (B) The payroll factor is a fraction, the numerator of which is  
40 the total amount paid by the taxpayer in the LAMBRA during the

1 taxable year for compensation, and the denominator of which is  
2 the total compensation paid by the taxpayer in this state during the  
3 taxable year.

4 (4) The portion of any credit remaining, if any, after application  
5 of this subdivision, shall be carried over to succeeding taxable  
6 years, *if necessary, until the credit is exhausted*, as if it were an  
7 amount exceeding the “net tax” for the taxable year, as provided  
8 in subdivision (d). *However, the portion of any credit remaining*  
9 *for carryover to taxable years beginning on or after January 1,*  
10 *2014, if any, after application of this subdivision, shall be carried*  
11 *over only to the succeeding five taxable years, if necessary, until*  
12 *the credit is exhausted, as if it were an amount exceeding the “net*  
13 *tax” for the taxable year, as provided in subdivision (d).*

14 (g) (1) If the qualified property is disposed of or no longer used  
15 by the taxpayer in the LAMBRA, at any time before the close of  
16 the second taxable year after the property is placed in service, the  
17 amount of the credit previously claimed, with respect to that  
18 property, shall be added to the taxpayer’s tax liability in the taxable  
19 year of that disposition or nonuse.

20 (2) At the close of the second taxable year, if the taxpayer has  
21 not increased the number of its employees as determined by  
22 paragraph (2) of subdivision (b), then the amount of the credit  
23 previously claimed shall be added to the taxpayer’s net tax for the  
24 taxpayer’s second taxable year.

25 (h) If the taxpayer is allowed a credit for qualified property  
26 pursuant to this section, only one credit shall be allowed to the  
27 taxpayer under this part with respect to that qualified property.

28 (i) The amendments made to this section by the act adding this  
29 subdivision shall apply to taxable years beginning on or after  
30 January 1, 1998.

31 (j) *This section is repealed on December 1, 2014.*

32 *SEC. 9. Section 17053.46 of the Revenue and Taxation Code*  
33 *is amended to read:*

34 17053.46. (a) For each taxable year beginning on or after  
35 January 1, 1995, there shall be allowed as a credit against the “net  
36 tax” (as defined in Section 17039) to a qualified taxpayer for hiring  
37 a qualified disadvantaged individual or a qualified displaced  
38 employee during the taxable year for employment in the LAMBRA.  
39 The credit shall be equal to the sum of each of the following:

1 (1) Fifty percent of the qualified wages in the first year of  
2 employment.

3 (2) Forty percent of the qualified wages in the second year of  
4 employment.

5 (3) Thirty percent of the qualified wages in the third year of  
6 employment.

7 (4) Twenty percent of the qualified wages in the fourth year of  
8 employment.

9 (5) Ten percent of the qualified wages in the fifth year of  
10 employment.

11 (b) For purposes of this section:

12 (1) “Qualified wages” means:

13 (A) That portion of wages paid or incurred by the employer  
14 during the taxable year to qualified disadvantaged individuals or  
15 qualified displaced employees that does not exceed 150 percent  
16 of the minimum wage.

17 (B) The total amount of qualified wages which may be taken  
18 into account for purposes of claiming the credit allowed under this  
19 section shall not exceed two million dollars (\$2,000,000) per  
20 taxable year.

21 (C) Wages received during the 60-month period beginning with  
22 the first day the individual commences employment with the  
23 taxpayer. Reemployment in connection with any increase, including  
24 a regularly occurring seasonal increase, in the trade or business  
25 operations of the qualified taxpayer does not constitute  
26 commencement of employment for purposes of this section.

27 (D) Qualified wages do not include any wages paid or incurred  
28 by the qualified taxpayer on or after the LAMBRA expiration date.  
29 However, wages paid or incurred with respect to qualified  
30 disadvantaged individuals or qualified displaced employees who  
31 are employed by the qualified taxpayer within the LAMBRA within  
32 the 60-month period prior to the LAMBRA expiration date shall  
33 continue to qualify for the credit under this section after the  
34 LAMBRA expiration date, in accordance with all provisions of  
35 this section applied as if the LAMBRA designation were still in  
36 existence and binding.

37 (2) “Minimum wage” means the wage established by the  
38 Industrial Welfare Commission as provided for in Chapter 1  
39 (commencing with Section 1171) of Part 4 of Division 2 of the  
40 Labor Code.

1 (3) “LAMBRA” means a local agency military base recovery  
2 area designated in accordance with Section 7114 of the Government  
3 Code.

4 (4) “Qualified disadvantaged individual” means an individual  
5 who satisfies all of the following requirements:

6 (A) (i) At least 90 percent of whose services for the taxpayer  
7 during the taxable year are directly related to the conduct of the  
8 taxpayer’s trade or business located in a LAMBRA.

9 (ii) Who performs at least 50 percent of his or her services for  
10 the taxpayer during the taxable year in the LAMBRA.

11 (B) Who is hired by the employer after the designation of the  
12 area as a LAMBRA in which the individual’s services were  
13 primarily performed.

14 (C) Who is any of the following immediately preceding the  
15 individual’s commencement of employment with the taxpayer:

16 (i) An individual who has been determined eligible for services  
17 under the federal Job Training Partnership Act (29 U.S.C. Sec.  
18 1501 et seq.).

19 (ii) Any voluntary or mandatory registrant under the Greater  
20 Avenues for Independence Act of 1985 as provided pursuant to  
21 Article 3.2 (commencing with Section 11320) of Chapter 2 of Part  
22 3 of Division 9 of the Welfare and Institutions Code.

23 (iii) An economically disadvantaged individual age 16 years or  
24 older.

25 (iv) A dislocated worker who meets any of the following  
26 conditions:

27 (I) Has been terminated or laid off or who has received a notice  
28 of termination or layoff from employment, is eligible for or has  
29 exhausted entitlement to unemployment insurance benefits, and  
30 is unlikely to return to his or her previous industry or occupation.

31 (II) Has been terminated or has received a notice of termination  
32 of employment as a result of any permanent closure or any  
33 substantial layoff at a plant, facility, or enterprise, including an  
34 individual who has not received written notification but whose  
35 employer has made a public announcement of the closure or layoff.

36 (III) Is long-term unemployed and has limited opportunities for  
37 employment or reemployment in the same or a similar occupation  
38 in the area in which the individual resides, including an individual  
39 55 years of age or older who may have substantial barriers to  
40 employment by reason of age.

1 (IV) Was self-employed (including farmers and ranchers) and  
2 is unemployed as a result of general economic conditions in the  
3 community in which he or she resides or because of natural  
4 disasters.

5 (V) Was a civilian employee of the Department of Defense  
6 employed at a military installation being closed or realigned under  
7 the Defense Base Closure and Realignment Act of 1990.

8 (VI) Was an active member of the Armed Forces or National  
9 Guard as of September 30, 1990, and was either involuntarily  
10 separated or separated pursuant to a special benefits program.

11 (VII) Experiences chronic seasonal unemployment and  
12 underemployment in the agriculture industry, aggravated by  
13 continual advancements in technology and mechanization.

14 (VIII) Has been terminated or laid off or has received a notice  
15 of termination or layoff as a consequence of compliance with the  
16 Clean Air Act.

17 (v) An individual who is enrolled in or has completed a state  
18 rehabilitation plan or is a service-connected disabled veteran,  
19 veteran of the Vietnam era, or veteran who is recently separated  
20 from military service.

21 (vi) An ex-offender. An individual shall be treated as convicted  
22 if he or she was placed on probation by a state court without a  
23 finding of guilty.

24 (vii) A recipient of:

25 (I) Federal Supplemental Security Income benefits.

26 (II) Aid to Families with Dependent Children.

27 (III) CalFresh benefits.

28 (IV) State and local general assistance.

29 (viii) Is a member of a federally recognized Indian tribe, band,  
30 or other group of Native American descent.

31 (5) “Qualified taxpayer” means a taxpayer or partnership that  
32 conducts a trade or business within a LAMBRA and, for the first  
33 two taxable years, has a net increase in jobs (defined as 2,000 paid  
34 hours per employee per year) of one or more employees in the  
35 LAMBRA.

36 (A) The net increase in the number of jobs shall be determined  
37 by subtracting the total number of full-time employees (defined  
38 as 2,000 paid hours per employee per year) the taxpayer employed  
39 in this state in the taxable year prior to commencing business  
40 operations in the LAMBRA from the total number of full-time

1 employees the taxpayer employed in this state during the second  
2 taxable year after commencing business operations in the  
3 LAMBRA. For taxpayers who commence doing business in this  
4 state with their LAMBRA business operation, the number of  
5 employees for the taxable year prior to commencing business  
6 operations in the LAMBRA shall be zero. If the taxpayer has a net  
7 increase in jobs in the state, the credit shall be allowed only if one  
8 or more full-time employees is employed within the LAMBRA.

9 (B) The total number of employees employed in the LAMBRA  
10 shall equal the sum of both of the following:

11 (i) The total number of hours worked in the LAMBRA for the  
12 taxpayer by employees (not to exceed 2,000 hours per employee)  
13 who are paid an hourly wage divided by 2,000.

14 (ii) The total number of months worked in the LAMBRA for  
15 the taxpayer by employees who are salaried employees divided  
16 by 12.

17 (C) In the case of a taxpayer who first commences doing  
18 business in the LAMBRA during the taxable year, for purposes of  
19 clauses (i) and (ii), respectively, of subparagraph (B), the divisors  
20 “2,000” and “12” shall be multiplied by a fraction, the numerator  
21 of which is the number of months of the taxable year that the  
22 taxpayer was doing business in the LAMBRA and the denominator  
23 of which is 12.

24 (6) “Qualified displaced employee” means an individual who  
25 satisfies all of the following requirements:

26 (A) Any civilian or military employee of a base or former base  
27 who has been displaced as a result of a federal base closure act.

28 (B) (i) At least 90 percent of whose services for the taxpayer  
29 during the taxable year are directly related to the conduct of the  
30 taxpayer’s trade or business located in a LAMBRA.

31 (ii) Who performs at least 50 percent of his or her services for  
32 the taxpayer during the taxable year in a LAMBRA.

33 (C) Who is hired by the employer after the designation of the  
34 area in which services were performed as a LAMBRA.

35 (7) “Seasonal employment” means employment by a qualified  
36 taxpayer that has regular and predictable substantial reductions in  
37 trade or business operations.

38 (8) “LAMBRA expiration date” means the date the LAMBRA  
39 designation expires, is no longer binding, *becomes inoperative*, or  
40 ~~becomes inoperative~~; *is repealed*.

1 (c) For qualified disadvantaged individuals or qualified displaced  
2 employees hired on or after January 1, 2001, the taxpayer shall do  
3 both of the following:

4 (1) Obtain from the Employment Development Department, as  
5 permitted by federal law, the local county or city Job Training  
6 Partnership Act administrative entity, the local county GAIN office  
7 or social services agency, or the local government administering  
8 the LAMBRA, a certification that provides that a qualified  
9 disadvantaged individual or qualified displaced employee meets  
10 the eligibility requirements specified in subparagraph (C) of  
11 paragraph (4) of subdivision (b) or subparagraph (A) of paragraph  
12 (6) of subdivision (b). The Employment Development Department  
13 may provide preliminary screening and referral to a certifying  
14 agency. The Department of Housing and Community Development  
15 shall develop regulations governing the issuance of certificates  
16 pursuant to Section 7114.2 of the Government Code and shall  
17 develop forms for this purpose.

18 (2) Retain a copy of the certification and provide it upon request  
19 to the Franchise Tax Board.

20 (d) (1) For purposes of this section, both of the following apply:

21 (A) All employees of trades or businesses that are under  
22 common control shall be treated as employed by a single employer.

23 (B) The credit (if any) allowable by this section with respect to  
24 each trade or business shall be determined by reference to its  
25 proportionate share of the qualified wages giving rise to the credit.

26 The regulations prescribed under this paragraph shall be based  
27 on principles similar to the principles that apply in the case of  
28 controlled groups of corporations as specified in subdivision (e)  
29 of Section 23622.

30 (2) If an employer acquires the major portion of a trade or  
31 business of another employer (hereinafter in this paragraph referred  
32 to as the “predecessor”) or the major portion of a separate unit of  
33 a trade or business of a predecessor, then, for purposes of applying  
34 this section (other than subdivision (d)) for any calendar year  
35 ending after that acquisition, the employment relationship between  
36 an employee and an employer shall not be treated as terminated if  
37 the employee continues to be employed in that trade or business.

38 (e) (1) (A) If the employment, other than seasonal employment,  
39 of any employee, with respect to whom qualified wages are taken  
40 into account under subdivision (a), is terminated by the taxpayer

1 at any time during the first 270 days of that employment (whether  
2 or not consecutive) or before the close of the 270th calendar day  
3 after the day in which that employee completes 90 days of  
4 employment with the taxpayer, the tax imposed by this part for  
5 the taxable year in which that employment is terminated shall be  
6 increased by an amount (determined under those regulations) equal  
7 to the credit allowed under subdivision (a) for that taxable year  
8 and all prior taxable years attributable to qualified wages paid or  
9 incurred with respect to that employee.

10 (B) If the seasonal employment of any qualified disadvantaged  
11 individual, with respect to whom qualified wages are taken into  
12 account under subdivision (a), is not continued by the qualified  
13 taxpayer for a period of 270 days of employment during the  
14 60-month period beginning with the day the qualified  
15 disadvantaged individual commences seasonal employment with  
16 the qualified taxpayer, the tax imposed by this part, for the taxable  
17 year that includes the 60th month following the month in which  
18 the qualified disadvantaged individual commences seasonal  
19 employment with the qualified taxpayer, shall be increased by an  
20 amount equal to the credit allowed under subdivision (a) for that  
21 taxable year and all prior taxable years attributable to qualified  
22 wages paid or incurred with respect to that qualified disadvantaged  
23 individual.

24 (2) (A) Subparagraph (A) of paragraph (1) shall not apply to  
25 any of the following:

26 (i) A termination of employment of an employee who voluntarily  
27 leaves the employment of the taxpayer.

28 (ii) A termination of employment of an individual who, before  
29 the close of the period referred to in subparagraph (A) of paragraph  
30 (1), becomes disabled to perform the services of that employment,  
31 unless that disability is removed before the close of that period  
32 and the taxpayer fails to offer reemployment to that individual.

33 (iii) A termination of employment of an individual, if it is  
34 determined that the termination was due to the misconduct (as  
35 defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of  
36 the California Code of Regulations) of that individual.

37 (iv) A termination of employment of an individual due to a  
38 substantial reduction in the trade or business operations of the  
39 taxpayer.

1 (v) A termination of employment of an individual, if that  
2 individual is replaced by other qualified employees so as to create  
3 a net increase in both the number of employees and the hours of  
4 employment.

5 (B) Subparagraph (B) of paragraph (1) shall not apply to any  
6 of the following:

7 (i) A failure to continue the seasonal employment of a qualified  
8 disadvantaged individual who voluntarily fails to return to the  
9 seasonal employment of the qualified taxpayer.

10 (ii) A failure to continue the seasonal employment of a qualified  
11 disadvantaged individual who, before the close of the period  
12 referred to in subparagraph (B) of paragraph (1), becomes disabled  
13 and unable to perform the services of that seasonal employment,  
14 unless that disability is removed before the close of that period  
15 and the qualified taxpayer fails to offer seasonal employment to  
16 that individual.

17 (iii) A failure to continue the seasonal employment of a qualified  
18 disadvantaged individual, if it is determined that the failure to  
19 continue the seasonal employment was due to the misconduct (as  
20 defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of  
21 the California Code of Regulations) of that qualified disadvantaged  
22 individual.

23 (iv) A failure to continue seasonal employment of a qualified  
24 disadvantaged individual due to a substantial reduction in the  
25 regular seasonal trade or business operations of the qualified  
26 taxpayer.

27 (v) A failure to continue the seasonal employment of a qualified  
28 disadvantaged individual, if that individual is replaced by other  
29 qualified displaced employees so as to create a net increase in both  
30 the number of seasonal employees and the hours of seasonal  
31 employment.

32 (C) For purposes of paragraph (1), the employment relationship  
33 between the taxpayer and an employee shall not be treated as  
34 terminated by reason of a mere change in the form of conducting  
35 the trade or business of the taxpayer, if the employee continues to  
36 be employed in that trade or business and the taxpayer retains a  
37 substantial interest in that trade or business.

38 (3) Any increase in tax under paragraph (1) shall not be treated  
39 as tax imposed by this part for purposes of determining the amount  
40 of any credit allowable under this part.

1 (4) At the close of the second taxable year, if the taxpayer has  
2 not increased the number of its employees as determined by  
3 paragraph (5) of subdivision (b), then the amount of the credit  
4 previously claimed shall be added to the taxpayer's net tax for the  
5 taxpayer's second taxable year.

6 (f) In the case of an estate or trust, both of the following apply:

7 (1) The qualified wages for any taxable year shall be apportioned  
8 between the estate or trust and the beneficiaries on the basis of the  
9 income of the estate or trust allocable to each.

10 (2) Any beneficiary to whom any qualified wages have been  
11 apportioned under paragraph (1) shall be treated (for purposes of  
12 this part) as the employer with respect to those wages.

13 (g) The credit shall be reduced by the credit allowed under  
14 Section 17053.7. The credit shall also be reduced by the federal  
15 credit allowed under Section 51 of the Internal Revenue Code.

16 In addition, any deduction otherwise allowed under this part for  
17 the wages or salaries paid or incurred by the taxpayer upon which  
18 the credit is based shall be reduced by the amount of the credit,  
19 prior to any reduction required by subdivision (h) or (i).

20 (h) In the case where the credit otherwise allowed under this  
21 section exceeds the "net tax" for the taxable year, that portion of  
22 the credit that exceeds the "net tax" may be carried over and added  
23 to the credit, if any, in *the succeeding five taxable years, if*  
24 *necessary*, until the credit is exhausted. The credit shall be applied  
25 first to the earliest taxable years possible.

26 (i) (1) The amount of credit otherwise allowed under this section  
27 and Section 17053.45, including prior year credit carryovers, that  
28 may reduce the "net tax" for the taxable year shall not exceed the  
29 amount of tax that would be imposed on the taxpayer's business  
30 income attributed to a LAMBRA determined as if that attributed  
31 income represented all of the net income of the taxpayer subject  
32 to tax under this part.

33 (2) Attributable income shall be that portion of the taxpayer's  
34 California source business income that is apportioned to the  
35 LAMBRA. For that purpose, the taxpayer's business income that  
36 is attributable to sources in this state first shall be determined in  
37 accordance with Chapter 17 (commencing with Section 25101) of  
38 Part 11. That business income shall be further apportioned to the  
39 LAMBRA in accordance with Article 2 (commencing with Section

1 25120) of Chapter 17 of Part 11, modified for purposes of this  
2 section in accordance with paragraph (3).

3 (3) Income shall be apportioned to a LAMBRA by multiplying  
4 the total California business income of the taxpayer by a fraction,  
5 the numerator of which is the property factor plus the payroll factor,  
6 and the denominator of which is two. For purposes of this  
7 paragraph:

8 (A) The property factor is a fraction, the numerator of which is  
9 the average value of the taxpayer's real and tangible personal  
10 property owned or rented and used in the LAMBRA during the  
11 taxable year, and the denominator of which is the average value  
12 of all the taxpayer's real and tangible personal property owned or  
13 rented and used in this state during the taxable year.

14 (B) The payroll factor is a fraction, the numerator of which is  
15 the total amount paid by the taxpayer in the LAMBRA during the  
16 taxable year for compensation, and the denominator of which is  
17 the total compensation paid by the taxpayer in this state during the  
18 taxable year.

19 (4) The portion of any credit remaining, if any, after application  
20 of this subdivision, shall be carried over to succeeding taxable  
21 years, *if necessary, until the credit is exhausted*, as if it were an  
22 amount exceeding the "net tax" for the taxable year, as provided  
23 in subdivision (h). *However, the portion of any credit remaining*  
24 *for carryover to taxable years beginning on or after January 1,*  
25 *2014, if any, after application of this subdivision, shall be carried*  
26 *over only to the succeeding five taxable years if necessary, until*  
27 *the credit is exhausted, as if it were an amount exceeding the "net*  
28 *tax" for the taxable year, as provided in subdivision (h).*

29 (j) If the taxpayer is allowed a credit pursuant to this section for  
30 qualified wages paid or incurred, only one credit shall be allowed  
31 to the taxpayer under this part with respect to any wage consisting  
32 in whole or in part of those qualified wages.

33 (k) (1) *Except as provided in paragraph (2), this section shall*  
34 *cease to be operative for taxable years beginning on or after*  
35 *January 1, 2014, and shall be repealed on December 1, 2019.*

36 (2) *The section shall continue to apply with respect to qualified*  
37 *employees who are employed by the qualified taxpayer within the*  
38 *LAMBRA within the 60-month period immediately preceding*  
39 *January 1, 2014, and qualified wages paid or incurred with respect*  
40 *to those qualified employees shall continue to qualify for the credit*

1 *under this section for taxable years beginning on or after January*  
2 *1, 2014, in accordance with this section, as amended by the act*  
3 *adding this subdivision.*

4 *SEC. 10. Section 17053.47 of the Revenue and Taxation Code*  
5 *is amended to read:*

6 17053.47. (a) For each taxable year beginning on or after  
7 January 1, 1998, there shall be allowed a credit against the “net  
8 tax” (as defined in Section 17039) to a qualified taxpayer for hiring  
9 a qualified disadvantaged individual during the taxable year for  
10 employment in the manufacturing enhancement area. The credit  
11 shall be equal to the sum of each of the following:

12 (1) Fifty percent of the qualified wages in the first year of  
13 employment.

14 (2) Forty percent of the qualified wages in the second year of  
15 employment.

16 (3) Thirty percent of the qualified wages in the third year of  
17 employment.

18 (4) Twenty percent of the qualified wages in the fourth year of  
19 employment.

20 (5) Ten percent of the qualified wages in the fifth year of  
21 employment.

22 (b) For purposes of this section:

23 (1) “Qualified wages” means:

24 (A) That portion of wages paid or incurred by the qualified  
25 taxpayer during the taxable year to qualified disadvantaged  
26 individuals that does not exceed 150 percent of the minimum wage.

27 (B) The total amount of qualified wages which may be taken  
28 into account for purposes of claiming the credit allowed under this  
29 section shall not exceed two million dollars (\$2,000,000) per  
30 taxable year.

31 (C) Wages received during the 60-month period beginning with  
32 the first day the qualified disadvantaged individual commences  
33 employment with the qualified taxpayer. Reemployment in  
34 connection with any increase, including a regularly occurring  
35 seasonal increase, in the trade or business operations of the taxpayer  
36 does not constitute commencement of employment for purposes  
37 of this section.

38 (D) Qualified wages do not include any wages paid or incurred  
39 by the qualified taxpayer on or after the manufacturing  
40 enhancement area expiration date. However, wages paid or incurred

1 with respect to qualified employees who are employed by the  
2 qualified taxpayer within the manufacturing enhancement area  
3 within the 60-month period prior to the manufacturing enhancement  
4 area expiration date shall continue to qualify for the credit under  
5 this section after the manufacturing enhancement area expiration  
6 date, in accordance with all provisions of this section applied as  
7 if the manufacturing enhancement area designation were still in  
8 existence and binding.

9 (2) “Minimum wage” means the wage established by the  
10 Industrial Welfare Commission as provided for in Chapter 1  
11 (commencing with Section 1171) of Part 4 of Division 2 of the  
12 Labor Code.

13 (3) “Manufacturing enhancement area” means an area designated  
14 pursuant to Section 7073.8 of the Government Code according to  
15 the procedures of Chapter 12.8 (commencing with Section 7070)  
16 of Division 7 of Title 1 of the Government Code.

17 (4) “Manufacturing enhancement area expiration date” means  
18 the date the manufacturing enhancement area designation expires,  
19 is no longer binding, *becomes inoperative*, or ~~becomes inoperative.~~  
20 *is repealed*.

21 (5) “Qualified disadvantaged individual” means an individual  
22 who satisfies all of the following requirements:

23 (A) (i) At least 90 percent of whose services for the qualified  
24 taxpayer during the taxable year are directly related to the conduct  
25 of the qualified taxpayer’s trade or business located in a  
26 manufacturing enhancement area.

27 (ii) Who performs at least 50 percent of his or her services for  
28 the qualified taxpayer during the taxable year in the manufacturing  
29 enhancement area.

30 (B) Who is hired by the qualified taxpayer after the designation  
31 of the area as a manufacturing enhancement area in which the  
32 individual’s services were primarily performed.

33 (C) Who is any of the following immediately preceding the  
34 individual’s commencement of employment with the qualified  
35 taxpayer:

36 (i) An individual who has been determined eligible for services  
37 under the federal Job Training Partnership Act (29 U.S.C. Sec.  
38 1501 et seq.), or its successor.

39 (ii) Any voluntary or mandatory registrant under the Greater  
40 Avenues for Independence Act of 1985, or its successor, as

1 provided pursuant to Article 3.2 (commencing with Section 11320)  
2 of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions  
3 Code.

4 (iii) Any individual who has been certified eligible by the  
5 Employment Development Department under the federal Targeted  
6 Jobs Tax Credit Program, or its successor, whether or not this  
7 program is in effect.

8 (6) “Qualified taxpayer” means any taxpayer engaged in a trade  
9 or business within a manufacturing enhancement area designated  
10 pursuant to Section 7073.8 of the Government Code and who meets  
11 all of the following requirements:

12 (A) Is engaged in those lines of business described in Codes  
13 0211 to 0291, inclusive, Code 0723, or in Codes 2011 to 3999,  
14 inclusive, of the Standard Industrial Classification (SIC) Manual  
15 published by the United States Office of Management and Budget,  
16 1987 edition.

17 (B) At least 50 percent of the qualified taxpayer’s workforce  
18 hired after the designation of the manufacturing enhancement area  
19 is composed of individuals who, at the time of hire, are residents  
20 of the county in which the manufacturing enhancement area is  
21 located.

22 (C) Of this percentage of local hires, at least 30 percent shall  
23 be qualified disadvantaged individuals.

24 (7) “Seasonal employment” means employment by a qualified  
25 taxpayer that has regular and predictable substantial reductions in  
26 trade or business operations.

27 (c) (1) For purposes of this section, all of the following apply:

28 (A) All employees of trades or businesses that are under  
29 common control shall be treated as employed by a single qualified  
30 taxpayer.

31 (B) The credit (if any) allowable by this section with respect to  
32 each trade or business shall be determined by reference to its  
33 proportionate share of the expense of the qualified wages giving  
34 rise to the credit and shall be allocated in that manner.

35 (C) Principles that apply in the case of controlled groups of  
36 corporations, as specified in subdivision (d) of Section 23622.7,  
37 shall apply with respect to determining employment.

38 (2) If a qualified taxpayer acquires the major portion of a trade  
39 or business of another employer (hereinafter in this paragraph  
40 referred to as the “predecessor”) or the major portion of a separate

1 unit of a trade or business of a predecessor, then, for purposes of  
2 applying this section (other than subdivision (d)) for any calendar  
3 year ending after that acquisition, the employment relationship  
4 between a qualified disadvantaged individual and a qualified  
5 taxpayer shall not be treated as terminated if the qualified  
6 disadvantaged individual continues to be employed in that trade  
7 or business.

8 (d) (1) (A) If the employment, other than seasonal employment,  
9 of any qualified disadvantaged individual, with respect to whom  
10 qualified wages are taken into account under subdivision (b) is  
11 terminated by the qualified taxpayer at any time during the first  
12 270 days of that employment (whether or not consecutive) or before  
13 the close of the 270th calendar day after the day in which that  
14 qualified disadvantaged individual completes 90 days of  
15 employment with the qualified taxpayer, the tax imposed by this  
16 part for the taxable year in which that employment is terminated  
17 shall be increased by an amount equal to the credit allowed under  
18 subdivision (a) for that taxable year and all prior taxable years  
19 attributable to qualified wages paid or incurred with respect to that  
20 qualified disadvantaged individual.

21 (B) If the seasonal employment of any qualified disadvantaged  
22 individual, with respect to whom qualified wages are taken into  
23 account under subdivision (a) is not continued by the qualified  
24 taxpayer for a period of 270 days of employment during the  
25 60-month period beginning with the day the qualified  
26 disadvantaged individual commences seasonal employment with  
27 the qualified taxpayer, the tax imposed by this part, for the taxable  
28 year that includes the 60th month following the month in which  
29 the qualified disadvantaged individual commences seasonal  
30 employment with the qualified taxpayer, shall be increased by an  
31 amount equal to the credit allowed under subdivision (a) for that  
32 taxable year and all prior taxable years attributable to qualified  
33 wages paid or incurred with respect to that qualified disadvantaged  
34 individual.

35 (2) (A) Subparagraph (A) of paragraph (1) does not apply to  
36 any of the following:

37 (i) A termination of employment of a qualified disadvantaged  
38 individual who voluntarily leaves the employment of the qualified  
39 taxpayer.

1 (ii) A termination of employment of a qualified disadvantaged  
2 individual who, before the close of the period referred to in  
3 subparagraph (A) of paragraph (1), becomes disabled to perform  
4 the services of that employment, unless that disability is removed  
5 before the close of that period and the taxpayer fails to offer  
6 reemployment to that individual.

7 (iii) A termination of employment of a qualified disadvantaged  
8 individual, if it is determined that the termination was due to the  
9 misconduct (as defined in Sections 1256-30 to 1256-43, inclusive,  
10 of Title 22 of the California Code of Regulations) of that individual.

11 (iv) A termination of employment of a qualified disadvantaged  
12 individual due to a substantial reduction in the trade or business  
13 operations of the qualified taxpayer.

14 (v) A termination of employment of a qualified disadvantaged  
15 individual, if that individual is replaced by other qualified  
16 disadvantaged individuals so as to create a net increase in both the  
17 number of employees and the hours of employment.

18 (B) Subparagraph (B) of paragraph (1) shall not apply to any  
19 of the following:

20 (i) A failure to continue the seasonal employment of a qualified  
21 disadvantaged individual who voluntarily fails to return to the  
22 seasonal employment of the qualified taxpayer.

23 (ii) A failure to continue the seasonal employment of a qualified  
24 disadvantaged individual who, before the close of the period  
25 referred to in subparagraph (B) of paragraph (1), becomes disabled  
26 and unable to perform the services of that seasonal employment,  
27 unless that disability is removed before the close of that period  
28 and the qualified taxpayer fails to offer seasonal employment to  
29 that qualified disadvantaged individual.

30 (iii) A failure to continue the seasonal employment of a qualified  
31 disadvantaged individual, if it is determined that the failure to  
32 continue the seasonal employment was due to the misconduct (as  
33 defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of  
34 the California Code of Regulations) of that qualified disadvantaged  
35 individual.

36 (iv) A failure to continue seasonal employment of a qualified  
37 disadvantaged individual due to a substantial reduction in the  
38 regular seasonal trade or business operations of the qualified  
39 taxpayer.

1 (v) A failure to continue the seasonal employment of a qualified  
2 disadvantaged individual, if that qualified disadvantaged individual  
3 is replaced by other qualified disadvantaged individuals so as to  
4 create a net increase in both the number of seasonal employees  
5 and the hours of seasonal employment.

6 (C) For purposes of paragraph (1), the employment relationship  
7 between the qualified taxpayer and a qualified disadvantaged  
8 individual shall not be treated as terminated by reason of a mere  
9 change in the form of conducting the trade or business of the  
10 qualified taxpayer, if the qualified disadvantaged individual  
11 continues to be employed in that trade or business and the qualified  
12 taxpayer retains a substantial interest in that trade or business.

13 (3) Any increase in tax under paragraph (1) shall not be treated  
14 as tax imposed by this part for purposes of determining the amount  
15 of any credit allowable under this part.

16 (e) In the case of an estate or trust, both of the following apply:

17 (1) The qualified wages for any taxable year shall be apportioned  
18 between the estate or trust and the beneficiaries on the basis of the  
19 income of the estate or trust allocable to each.

20 (2) Any beneficiary to whom any qualified wages have been  
21 apportioned under paragraph (1) shall be treated (for purposes of  
22 this part) as the employer with respect to those wages.

23 (f) The credit shall be reduced by the credit allowed under  
24 Section 17053.7. The credit shall also be reduced by the federal  
25 credit allowed under Section 51 of the Internal Revenue Code.

26 In addition, any deduction otherwise allowed under this part for  
27 the wages or salaries paid or incurred by the qualified taxpayer  
28 upon which the credit is based shall be reduced by the amount of  
29 the credit, prior to any reduction required by subdivision (g) or  
30 (h).

31 (g) In the case where the credit otherwise allowed under this  
32 section exceeds the “net tax” for the taxable year, that portion of  
33 the credit that exceeds the “net tax” may be carried over and added  
34 to the credit, if any, in *the succeeding five taxable years, if*  
35 *necessary*, until the credit is exhausted. The credit shall be applied  
36 first to the earliest taxable years possible.

37 (h) (1) The amount of credit otherwise allowed under this  
38 section, including prior year credit carryovers, that may reduce  
39 the “net tax” for the taxable year shall not exceed the amount of  
40 tax that would be imposed on the qualified taxpayer’s business

1 income attributed to a manufacturing enhancement area determined  
2 as if that attributed income represented all of the net income of the  
3 qualified taxpayer subject to tax under this part.

4 (2) Attributable income shall be that portion of the taxpayer's  
5 California source business income that is apportioned to the  
6 manufacturing enhancement area. For that purpose, the taxpayer's  
7 business income that is attributable to sources in this state first  
8 shall be determined in accordance with Chapter 17 (commencing  
9 with Section 25101) of Part 11. That business income shall be  
10 further apportioned to the manufacturing enhancement area in  
11 accordance with Article 2 (commencing with Section 25120) of  
12 Chapter 17 of Part 11, modified for purposes of this section in  
13 accordance with paragraph (3).

14 (3) Income shall be apportioned to a manufacturing enhancement  
15 area by multiplying the total California business income of the  
16 taxpayer by a fraction, the numerator of which is the property  
17 factor plus the payroll factor, and the denominator of which is two.  
18 For purposes of this paragraph:

19 (A) The property factor is a fraction, the numerator of which is  
20 the average value of the taxpayer's real and tangible personal  
21 property owned or rented and used in the manufacturing  
22 enhancement area during the taxable year, and the denominator  
23 of which is the average value of all the taxpayer's real and tangible  
24 personal property owned or rented and used in this state during  
25 the taxable year.

26 (B) The payroll factor is a fraction, the numerator of which is  
27 the total amount paid by the taxpayer in the manufacturing  
28 enhancement area during the taxable year for compensation, and  
29 the denominator of which is the total compensation paid by the  
30 taxpayer in this state during the taxable year.

31 (4) The portion of any credit remaining, if any, after application  
32 of this subdivision, shall be carried over to succeeding taxable  
33 years, *if necessary, until the credit is exhausted*, as if it were an  
34 amount exceeding the "net tax" for the taxable year, as provided  
35 in subdivision (g). *However, the portion of any credit remaining*  
36 *for carryover to taxable years beginning on or after January 1,*  
37 *2014, if any, after application of this subdivision, shall be carried*  
38 *over only to the succeeding five taxable years if necessary, until*  
39 *the credit is exhausted, as if it were an amount exceeding the "net*  
40 *tax" for the taxable year, as provided in subdivision (g).*

1 (i) If the taxpayer is allowed a credit pursuant to this section for  
2 qualified wages paid or incurred, only one credit shall be allowed  
3 to the taxpayer under this part with respect to any wage consisting  
4 in whole or in part of those qualified wages.

5 (j) The qualified taxpayer shall do both of the following:

6 (1) Obtain from the Employment Development Department, as  
7 permitted by federal law, the local county or city Job Training  
8 Partnership Act administrative entity, the local county GAIN office  
9 or social services agency, or the local government administering  
10 the manufacturing enhancement area, a certification that provides  
11 that a qualified disadvantaged individual meets the eligibility  
12 requirements specified in paragraph (5) of subdivision (b). The  
13 Employment Development Department may provide preliminary  
14 screening and referral to a certifying agency. The Department of  
15 Housing and Community Development shall develop regulations  
16 governing the issuance of certificates pursuant to subdivision (d)  
17 of Section 7086 of the Government Code and shall develop forms  
18 for this purpose.

19 (2) Retain a copy of the certification and provide it upon request  
20 to the Franchise Tax Board.

21 *(k) (1) Except as provided in paragraph (2), this section shall*  
22 *cease to be operative for taxable years beginning on or after*  
23 *January 1, 2014, and shall be repealed on December 1, 2019.*

24 *(2) The section shall continue to apply with respect to qualified*  
25 *employees who are employed by the qualified taxpayer within the*  
26 *manufacturing enhancement area within the 60-month period*  
27 *immediately preceding January 1, 2014, and qualified wages paid*  
28 *or incurred with respect to those qualified employees shall continue*  
29 *to qualify for the credit under this section for taxable years*  
30 *beginning on or after January 1, 2014, in accordance with the*  
31 *provisions of this section, as amended by the act adding this*  
32 *subdivision.*

33 *SEC. 11. Section 17053.70 of the Revenue and Taxation Code*  
34 *is amended to read:*

35 17053.70. (a) There shall be allowed as a credit against the  
36 “net tax” (as defined in Section 17039) for the taxable year an  
37 amount equal to the sales or use tax paid or incurred during the  
38 taxable year by the taxpayer in connection with the taxpayer’s  
39 purchase of qualified ~~property.~~ *property before January 1, 2014.*

40 (b) For purposes of this section:

1 (1) “Taxpayer” means a person or entity engaged in a trade or  
2 business within an enterprise zone.  
3 (2) “Qualified property” means:  
4 (A) Any of the following:  
5 (i) Machinery and machinery parts used for fabricating,  
6 processing, assembling, and manufacturing.  
7 (ii) Machinery and machinery parts used for the production of  
8 renewable energy resources.  
9 (iii) Machinery and machinery parts used for either of the  
10 following:  
11 (I) Air pollution control mechanisms.  
12 (II) Water pollution control mechanisms.  
13 (iv) Data processing and communications equipment, including,  
14 but not limited, to computers, computer-automated drafting  
15 systems, copy machines, telephone systems, and faxes.  
16 (v) Motion picture manufacturing equipment central to  
17 production and postproduction, including, but not limited to,  
18 cameras, audio recorders, and digital image and sound processing  
19 equipment.  
20 (B) The total cost of qualified property purchased and placed  
21 in service in any taxable year that may be taken into account by  
22 any taxpayer for purposes of claiming this credit shall not exceed  
23 one million dollars (\$1,000,000).  
24 (C) The qualified property is used by the taxpayer exclusively  
25 in an enterprise zone.  
26 (D) The qualified property is purchased and placed in service  
27 before the date the enterprise zone designation expires, is no longer  
28 binding, or becomes inoperative.  
29 (3) “Enterprise zone” means the area designated as an enterprise  
30 zone pursuant to Chapter 12.8 (commencing with Section 7070)  
31 of Division 7 of Title 1 of the Government Code *as it read on the*  
32 *effective date of the act amending this section.*  
33 (c) If the taxpayer has purchased property upon which a use tax  
34 has been paid or incurred, the credit provided by this section shall  
35 be allowed only if qualified property of a comparable quality and  
36 price is not timely available for purchase in this state.  
37 (d) In the case where the credit otherwise allowed under this  
38 section exceeds the “net tax” for the taxable year, that portion of  
39 the credit that exceeds the “net tax” may be carried over and added  
40 to the credit, if any, in *the* succeeding *five* taxable years, *if*

1 *necessary*, until the credit is exhausted. The credit shall be applied  
2 first to the earliest taxable years possible.

3 (e) Any taxpayer ~~who~~ *that* elects to be subject to this section  
4 shall not be entitled to increase the basis of the qualified property  
5 as otherwise required by Section 164(a) of the Internal Revenue  
6 Code with respect to sales or use tax paid or incurred in connection  
7 with the taxpayer's purchase of qualified property.

8 (f) (1) The amount of the credit otherwise allowed under this  
9 section and Section 17053.74, including any credit carryover from  
10 prior years, that may reduce the "net tax" for the taxable year shall  
11 not exceed the amount of tax that would be imposed on the  
12 taxpayer's business income attributable to the enterprise zone  
13 determined as if that attributable income represented all of the  
14 income of the taxpayer subject to tax under this part.

15 (2) Attributable income shall be that portion of the taxpayer's  
16 California source business income that is apportioned to the  
17 enterprise zone. For that purpose, the taxpayer's business income  
18 attributable to sources in this state first shall be determined in  
19 accordance with Chapter 17 (commencing with Section 25101) of  
20 Part 11. That business income shall be further apportioned to the  
21 enterprise zone in accordance with Article 2 (commencing with  
22 Section 25120) of Chapter 17 of Part 11, modified for purposes  
23 of this section in accordance with paragraph (3).

24 (3) Business income shall be apportioned to the enterprise zone  
25 by multiplying the total California business income of the taxpayer  
26 by a fraction, the numerator of which is the property factor plus  
27 the payroll factor, and the denominator of which is two. For  
28 purposes of this paragraph:

29 (A) The property factor is a fraction, the numerator of which is  
30 the average value of the taxpayer's real and tangible personal  
31 property owned or rented and used in the enterprise zone during  
32 the taxable year, and the denominator of which is the average value  
33 of all the taxpayer's real and tangible personal property owned or  
34 rented and used in this state during the taxable year.

35 (B) The payroll factor is a fraction, the numerator of which is  
36 the total amount paid by the taxpayer in the enterprise zone during  
37 the taxable year for compensation, and the denominator of which  
38 is the total compensation paid by the taxpayer in this state during  
39 the taxable year.

1 (4) The portion of any credit remaining, if any, after application  
2 of this subdivision, shall be carried over to succeeding taxable  
3 years, *if necessary, until the credit is exhausted*, as if it were an  
4 amount exceeding the “net tax” for the taxable year, as provided  
5 in subdivision (d). *However, the portion of any credit remaining*  
6 *for carryover to taxable years beginning on or after January 1,*  
7 *2014, if any, after application of this subdivision, shall be carried*  
8 *over only to the succeeding five taxable years, if necessary, until*  
9 *the credit is exhausted, as if it were an amount exceeding the “net*  
10 *tax” for the taxable year, as provided in subdivision (d).*

11 (g) The amendments made to this section by the act adding this  
12 subdivision shall apply to taxable years beginning on or after  
13 January 1, 1998.

14 (h) *This section is repealed on December 1, 2014.*

15 *SEC. 12. Section 17053.73 is added to the Revenue and*  
16 *Taxation Code, to read:*

17 *17053.73. (a) (1) For each taxable year beginning on or after*  
18 *January 1, 2014, and before January 1, 2019, there shall be*  
19 *allowed to a qualified taxpayer that hires a qualified full-time*  
20 *employee and pays or incurs qualified wages attributable to work*  
21 *performed by the qualified full-time employee in a designated*  
22 *census tract or former enterprise zone, and that receives a tentative*  
23 *credit reservation for that qualified full-time employee, a credit*  
24 *against the “net tax,” as defined in Section 17039, in an amount*  
25 *calculated under this section.*

26 (2) *The amount of the credit allowable under this section for a*  
27 *taxable year shall be equal to the product of the tentative credit*  
28 *amount for the taxable year and the applicable percentage for that*  
29 *taxable year.*

30 (3) (A) *If a qualified taxpayer relocates to a designated census*  
31 *tract or former enterprise zone, the qualified taxpayer shall be*  
32 *allowed a credit with respect to qualified wages for each qualified*  
33 *full-time employee employed within the new location only if the*  
34 *qualified taxpayer provides each employee at the previous location*  
35 *or locations a written offer of employment at the new location in*  
36 *the designated census tract or former enterprise zone with*  
37 *comparable compensation.*

38 (B) *For purposes of this paragraph, “relocates to a designated*  
39 *census tract or former enterprise zone” means an increase in the*  
40 *number of qualified full-time employees, employed by a qualified*

1 taxpayer, within a designated census tract or tracts or former  
2 enterprise zone within a 12-month period in which there is a  
3 decrease in the number of full-time employees, employed by the  
4 qualified taxpayer in this state, but outside of designated census  
5 tracts or former enterprise zone.

6 (C) This paragraph shall not apply to a small business.

7 (4) The credit allowed by this section may be claimed only on  
8 a timely filed original return of the qualified taxpayer and only  
9 with respect to a qualified full-time employee for whom the  
10 qualified taxpayer has received a tentative credit reservation.

11 (b) For purposes of this section:

12 (1) The “tentative credit amount” for a taxable year shall be  
13 equal to the product of the applicable credit percentage for each  
14 qualified full-time employee and the qualified wages paid by the  
15 qualified taxpayer during the taxable year to that qualified full-time  
16 employee.

17 (2) The “applicable percentage” for a taxable year shall be  
18 equal to a fraction, the numerator of which is the net increase in  
19 the total number of full-time employees employed in this state  
20 during the taxable year, determined on an annual full-time  
21 equivalent basis, as compared with the total number of full-time  
22 employees employed in this state during the base year, determined  
23 on the same basis, and the denominator of which shall be the total  
24 number of qualified full-time employees employed in this state  
25 during the taxable year. The applicable percentage shall not exceed  
26 100 percent.

27 (3) The “applicable credit percentage” means the credit  
28 percentage for the calendar year during which a qualified full-time  
29 employee was first employed by the qualified taxpayer. The  
30 applicable credit percentage for all calendar years shall be 35  
31 percent.

32 (4) “Base year” means the 2013 taxable year, except in the  
33 case of a qualified taxpayer who first hires a qualified full-time  
34 employee in a taxable year beginning on or after January 1, 2015,  
35 the base year means the taxable year immediately preceding the  
36 taxable year in which a qualified full-time employee was first hired  
37 by the qualified taxpayer.

38 (5) “Acquired” includes any gift, inheritance, transfer incident  
39 to divorce, or any other transfer, whether or not for consideration.

40 (6) “Annual full-time equivalent” means either of the following:

1 (A) *In the case of a full-time employee paid hourly qualified*  
2 *wages, “annual full-time equivalent” means the total number of*  
3 *hours worked for the qualified taxpayer by the employee, not to*  
4 *exceed 2,000 hours per employee, divided by 2,000.*

5 (B) *In the case of a salaried full-time employee, “annual*  
6 *full-time equivalent” means the total number of weeks worked for*  
7 *the qualified taxpayer by the employee divided by 52.*

8 (7) *“Designated census tract” means a census tract within the*  
9 *state that is determined by the Department of Finance to have a*  
10 *civilian unemployment rate that is within the top 25 percent of all*  
11 *census tracts within the state and has a poverty rate within the top*  
12 *25 percent of all census tracts within the state, as prescribed in*  
13 *Section 13073.5 of the Government Code.*

14 (8) *“Former enterprise zone” means an enterprise zone*  
15 *designated under former Chapter 12.8 (commencing with former*  
16 *Section 7070 of the Government Code), as in effect on December*  
17 *31, 2011, excluding any census tract within an enterprise zone*  
18 *that is identified by the Department of Finance pursuant to Section*  
19 *13073.5 of the Government Code as a census tract within the lowest*  
20 *quartile of census tracts with the lowest civilian unemployment.*

21 (9) *“Minimum wage” means the wage established pursuant to*  
22 *Chapter 1 (commencing with Section 1171) of Part 4 of Division*  
23 *2 of the Labor Code.*

24 (10) (A) *“Qualified full-time employee” means an individual*  
25 *who meets all of the following requirements:*

26 (i) *Performs at least 50 percent of his or her services for the*  
27 *qualified taxpayer during the taxable year in a designated census*  
28 *tract or former enterprise zone.*

29 (ii) *Receives starting wages that are at least 150 percent of the*  
30 *minimum wage.*

31 (iii) *Is hired by the qualified taxpayer on or after January 1,*  
32 *2014.*

33 (iv) *Is hired by the qualified taxpayer after the date the*  
34 *Department of Finance determines that the census tract or*  
35 *enterprise zone referred to in clause (i) is a designated census*  
36 *tract or former enterprise zone.*

37 (v) *Satisfies either of the following conditions:*

38 (I) *Is paid qualified wages by the qualified taxpayer for services*  
39 *not less than an average of 35 hours per week.*

1 (II) *Is a salaried employee and was paid compensation during*  
2 *the taxable year for full-time employment, within the meaning of*  
3 *Section 515 of the Labor Code, by the qualified taxpayer.*

4 (vi) *Upon commencement of employment with the qualified*  
5 *taxpayer, satisfies any of the following conditions:*

6 (I) *Was unemployed for the six months immediately preceding*  
7 *employment with the qualified taxpayer. In the case of an individual*  
8 *that completed a program of study at a college, university, or other*  
9 *postsecondary educational institution, received a baccalaureate,*  
10 *postgraduate, or professional degree, and was unemployed for the*  
11 *six months immediately preceding employment with the qualified*  
12 *taxpayer, that individual must have completed that program of*  
13 *study at least 12 months prior to the individual's commencement*  
14 *of employment with the qualified taxpayer.*

15 (II) *Is a veteran that had not been employed since separation*  
16 *from service in the Armed Forces of the United States.*

17 (III) *Was a recipient of the credit allowed under Section 32 of*  
18 *the Internal Revenue Code, relating to earned income, as*  
19 *applicable for federal purposes, for the previous taxable year.*

20 (B) *An individual may be considered a qualified full-time*  
21 *employee only for the period of time commencing with the date*  
22 *the individual is first employed by the qualified taxpayer and*  
23 *ending 60 months thereafter.*

24 (11) (A) *“Qualified taxpayer” means a person or entity engaged*  
25 *in a trade or business within a designated census tract or former*  
26 *enterprise zone that, during the taxable year, pays or incurs*  
27 *qualified wages.*

28 (B) *“Qualified small business taxpayer” means a qualified*  
29 *taxpayer that is a small business.*

30 (C) *In the case of any pass-thru entity, the determination of*  
31 *whether a taxpayer is a qualified taxpayer or a qualified small*  
32 *business taxpayer under this section shall be made at the entity*  
33 *level and any credit under this section or Section 23626 shall be*  
34 *allowed to the pass-thru entity and passed through to the partners*  
35 *and shareholders in accordance with applicable provisions of this*  
36 *part or Part 11 (commencing with Section 23001). For purposes*  
37 *of this subdivision, the term “pass-thru entity” means any*  
38 *partnership or “S” corporation.*

39 (D) *“Qualified taxpayers” shall not include any of the following:*

- 1 (i) Employers that provide temporary help services, as described  
 2 in Code 561320 of the North American Industry Classification  
 3 System (NAICS) published by the United States Office of  
 4 Management and Budget, 2012 Edition.
- 5 (ii) Employers that provide retail trade services, as described  
 6 in Sector 44-45 of the North American Industry Classification  
 7 System (NAICS) published by the United States Office of  
 8 Management and Budget, 2012 Edition.
- 9 (iii) Employers that are primarily engaged in providing food  
 10 services, as described in Code 711110, 722511, 722513, 722514,  
 11 or 722515 of the North American Industry Classification System  
 12 (NAICS) published by the United States Office of Management  
 13 and Budget, 2012 edition.
- 14 (iv) Employers that are primarily engaged in services as  
 15 described in Code 713210, 721120, or 722410 of the North  
 16 American Industry Classification System (NAICS) published by  
 17 the United States Office of Management and Budget, 2012 edition.
- 18 (E) Subparagraph (D) shall not apply to a taxpayer that is a  
 19 “small business.”
- 20 (12) “Qualified wages” means those wages that meet all of the  
 21 following requirements:
- 22 (A) That portion of wages paid or incurred by the qualified  
 23 taxpayer during the taxable year to each qualified full-time  
 24 employee that exceeds 150 percent of minimum wage, but does  
 25 not exceed 350 percent of minimum wage.
- 26 (B) Wages paid or incurred during the 60-month period  
 27 beginning with the first day the qualified full-time employee  
 28 commences employment with the qualified taxpayer. In the case  
 29 of any employee who is reemployed, including a regularly  
 30 occurring seasonal increase, in the trade or business operations  
 31 of the qualified taxpayer, this reemployment shall not be treated  
 32 as constituting commencement of employment for purposes of this  
 33 section.
- 34 (C) Except as provided in paragraph (3) of subdivision (m),  
 35 qualified wages shall not include any wages paid or incurred by  
 36 the qualified taxpayer on or after the date that the Department of  
 37 Finance’s redesignation of designated census tracts is effective,  
 38 as provided in paragraph (2) of subdivision (g), so that a census  
 39 tract is no longer a designated census tract.

1 (13) “Seasonal employment” means employment by a qualified  
2 taxpayer that has regular and predictable substantial reductions  
3 in trade or business operations.

4 (14) (A) “Small business” means a trade or business that has  
5 aggregate gross receipts, less returns and allowances reportable  
6 to this state, of less than two million dollars (\$2,000,000) during  
7 the previous taxable year.

8 (B) (i) For purposes of this paragraph, “gross receipts, less  
9 returns and allowances reportable to this state,” means the sum  
10 of the gross receipts from the production of business income, as  
11 defined in subdivision (a) of Section 25120, and the gross receipts  
12 from the production of nonbusiness income, as defined in  
13 subdivision (d) of Section 25120.

14 (ii) In the case of any trade or business activity conducted by a  
15 partnership or an “S” corporation, the limitations set forth in  
16 subparagraph (A) shall be applied to the partnership or “S”  
17 corporation at the entity level.

18 (15) An individual is “unemployed” for any period for which  
19 the individual is all of the following:

20 (A) Not in receipt of wages subject to withholding under Section  
21 13020 of the Unemployment Insurance Code for that period.

22 (B) Not a self-employed individual (within the meaning of  
23 Section 401(c)(1)(B) of the Internal Revenue Code, relating to  
24 self-employed individual) for that period.

25 (C) Not a registered full-time student at a high school, college,  
26 university, or other postsecondary educational institution for that  
27 period.

28 (c) The net increase in full-time employees of a qualified  
29 taxpayer shall be determined as provided by this subdivision:

30 (1) (A) The net increase in full-time employees shall be  
31 determined on an annual full-time equivalent basis by subtracting  
32 from the amount determined in subparagraph (C) the amount  
33 determined in subparagraph (B).

34 (B) The total number of full-time employees employed in the  
35 preceding taxable year by the taxpayer and by any trade or  
36 business acquired by the taxpayer during the current taxable year.

37 (C) The total number of full-time employees employed in the  
38 current taxable year by the taxpayer and by any trade or business  
39 acquired during the current taxable year.

1     (2) *For taxpayers who first commence doing business in this*  
2 *state during the taxable year, the number of full-time employees*  
3 *for the base year shall be zero.*

4     (d) *For purposes of this section:*

5     (1) *All employees of the trades or businesses that are treated*  
6 *as related under Section 267, 318, or 707 of the Internal Revenue*  
7 *Code shall be treated as employed by a single taxpayer.*

8     (2) *In determining whether the taxpayer has first commenced*  
9 *doing business in this state during the taxable year, the provisions*  
10 *of subdivision (f) of Section 17276.20, without application of*  
11 *paragraph (7) of that subdivision, shall apply.*

12     (e) (1) *To be eligible for the credit allowed by this section, a*  
13 *qualified taxpayer shall, upon hiring a qualified full-time employee,*  
14 *request a tentative credit reservation from the Franchise Tax Board*  
15 *within 30 days of complying with the Employment Development*  
16 *Department's new hire reporting requirements as provided in*  
17 *Section 1088.5 of the Unemployment Insurance Code, in a form*  
18 *and manner prescribed by the Franchise Tax Board.*

19     (2) *To obtain a tentative credit reservation with respect to a*  
20 *qualified full-time employee, the qualified taxpayer shall provide*  
21 *necessary information, as determined by the Franchise Tax Board,*  
22 *including the name, social security number, the start date of*  
23 *employment, the rate of pay of the qualified full-time employee,*  
24 *and the qualified taxpayer's gross receipts, less returns and*  
25 *allowances, for the previous taxable year.*

26     (3) *The qualified taxpayer shall provide the Franchise Tax*  
27 *Board an annual certification of employment with respect to each*  
28 *qualified full-time employee hired in a previous taxable year, on*  
29 *or before, the 15th day of the third month of the taxable year. The*  
30 *certification shall include necessary information, as determined*  
31 *by the Franchise Tax Board, including the name, social security*  
32 *number, start date of employment, and rate of pay for each*  
33 *qualified full-time employee employed by the qualified taxpayer.*

34     (4) *A tentative credit reservation provided to a taxpayer with*  
35 *respect to an employee of that taxpayer shall not constitute a*  
36 *determination by the Franchise Tax Board with respect to any of*  
37 *the requirements of this section regarding a taxpayer's eligibility*  
38 *for the credit authorized by this section.*

39     (f) *The Franchise Tax Board shall do all of the following:*

1 (1) Approve a tentative credit reservation with respect to a  
2 qualified full-time employee hired during a calendar year and  
3 advise the qualified taxpayer of the applicable credit percentage  
4 and the small business applicable credit percentage that may apply  
5 with respect to the qualified full-time employee.

6 (2) Determine and publish on its Internet Web site, on or before  
7 September 1 of each calendar year, the applicable credit  
8 percentage and small business applicable credit percentage for  
9 the following calendar year.

10 (3) Estimate the tentative credit wage base amount and the small  
11 business tentative credit wage base amount for a calendar year  
12 based on the starting wage or salary and full-time employment for  
13 an entire calendar year.

14 (4) Determine the aggregate tentative reservation amount and  
15 the aggregate small business tentative reservation amount for a  
16 calendar year.

17 (5) Notwithstanding Section 19542, provide as a searchable  
18 database on its Internet Web site, for each taxable year beginning  
19 on or after January 1, 2014, and before January 1, 2019, the  
20 employer names, amounts of tax credit claimed, and number of  
21 new jobs created for each taxable year pursuant to this section  
22 and Section 23623.

23 (g) (1) The Department of Finance shall, by January 1, 2014,  
24 and by January 1 of every fifth year thereafter, provide the  
25 Franchise Tax Board with a list of the designated census tracts  
26 and a list of census tracts with the lowest civilian unemployment  
27 rate.

28 (2) The redesignation of designated census tracts and lowest  
29 civilian unemployment census tracts by the Department of Finance  
30 as provided in Section 13073.5 of the Government Code shall be  
31 effective, for purposes of this credit, one year after the date the  
32 Department of Finance redesignates the designated census tracts.

33 (h) For purposes of this section:

34 (1) All employees of the trades or businesses that are treated  
35 as related under Section 267, 318, or 707 of the Internal Revenue  
36 Code shall be treated as employed by a single taxpayer.

37 (2) All employees of trades or businesses that are not  
38 incorporated, and that are under common control, shall be treated  
39 as employed by a single taxpayer.

1 (3) *The credit, if any, allowable by this section with respect to*  
2 *each trade or business shall be determined by reference to its*  
3 *proportionate share of the expense of the qualified wages giving*  
4 *rise to the credit, and shall be allocated to that trade or business*  
5 *in that manner.*

6 (4) *Principles that apply in the case of controlled groups of*  
7 *corporations, as specified in subdivision (h) of Section 23626,*  
8 *shall apply with respect to determining employment.*

9 (5) *If an employer acquires the major portion of a trade or*  
10 *business of another employer, hereinafter in this paragraph*  
11 *referred to as the predecessor, or the major portion of a separate*  
12 *unit of a trade or business of a predecessor, then, for purposes of*  
13 *applying this section, other than subdivision (i), for any taxable*  
14 *year ending after that acquisition, the employment relationship*  
15 *between a qualified full-time employee and an employer shall not*  
16 *be treated as terminated if the employee continues to be employed*  
17 *in that trade or business.*

18 (i) (1) *If the employment of any qualified full-time employee,*  
19 *with respect to whom qualified wages are taken into account under*  
20 *subdivision (a), is terminated by the qualified taxpayer at any time*  
21 *during the first 36 months after commencing employment with the*  
22 *qualified taxpayer, whether or not consecutive, the tax imposed*  
23 *by this part for the taxable year in which that employment is*  
24 *terminated shall be increased by an amount equal to the credit*  
25 *allowed under subdivision (a) for that taxable year and all prior*  
26 *taxable years attributable to qualified wages paid or incurred with*  
27 *respect to that employee.*

28 (2) *Paragraph (1) shall not apply to any of the following:*

29 (A) *A termination of employment of a qualified full-time*  
30 *employee who voluntarily leaves the employment of the qualified*  
31 *taxpayer.*

32 (B) *A termination of employment of a qualified full-time*  
33 *employee who, before the close of the period referred to in*  
34 *paragraph (1), becomes disabled and unable to perform the*  
35 *services of that employment, unless that disability is removed*  
36 *before the close of that period and the qualified taxpayer fails to*  
37 *offer reemployment to that employee.*

38 (C) *A termination of employment of a qualified full-time*  
39 *employee, if it is determined that the termination was due to the*

1 *misconduct, as defined in Sections 1256-30 to 1256-43, inclusive,*  
2 *of Title 22 of the California Code of Regulations, of that employee.*

3 (D) *A termination of employment of a qualified full-time*  
4 *employee due to a substantial reduction in the trade or business*  
5 *operations of the qualified taxpayer.*

6 (E) *A termination of employment of a qualified full-time*  
7 *employee, if that employee is replaced by other qualified full-time*  
8 *employees so as to create a net increase in both the number of*  
9 *employees and the hours of employment.*

10 (F) *A termination of employment of a qualified full-time*  
11 *employee, when that employment is considered seasonal*  
12 *employment and the qualified employee is rehired on a seasonal*  
13 *basis.*

14 (3) *For purposes of paragraph (1), the employment relationship*  
15 *between the qualified taxpayer and a qualified full-time employee*  
16 *shall not be treated as terminated by reason of a mere change in*  
17 *the form of conducting the trade or business of the qualified*  
18 *taxpayer, if the qualified full-time employee continues to be*  
19 *employed in that trade or business and the qualified taxpayer*  
20 *retains a substantial interest in that trade or business.*

21 (4) *Any increase in tax under paragraph (1) shall not be treated*  
22 *as tax imposed by this part for purposes of determining the amount*  
23 *of any credit allowable under this part.*

24 (j) *In the case of an estate or trust, both of the following apply:*

25 (1) *The qualified wages for any taxable year shall be*  
26 *apportioned between the estate or trust and the beneficiaries on*  
27 *the basis of the income of the estate or trust allocable to each.*

28 (2) *Any beneficiary to whom any qualified wages have been*  
29 *apportioned under paragraph (1) shall be treated, for purposes*  
30 *of this part, as the employer with respect to those wages.*

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

35 (l) *The Franchise Tax Board may prescribe rules, guidelines,*  
36 *or procedures necessary or appropriate to carry out the purposes*  
37 *of this section, including any guidelines regarding the allocation*  
38 *of the credit allowed under this section. Chapter 3.5 (commencing*  
39 *with Section 11340) of Part 1 of Division 3 of Title 2 of the*  
40 *Government Code shall not apply to any rule, guideline, or*

1 *procedure prescribed by the Franchise Tax Board pursuant to this*  
2 *section.*

3 *(m) (1) This section shall remain in effect only until December*  
4 *1, 2024, and as of that date is repealed.*

5 *(2) Notwithstanding paragraph (1) of subdivision (a), this*  
6 *section shall continue to be operative for taxable years beginning*  
7 *on or after January 1, 2019, but only with respect to qualified*  
8 *full-time employees who commenced employment with a qualified*  
9 *taxpayer in a designated census tract or former enterprise zone*  
10 *in a taxable year beginning before January 1, 2019.*

11 *(3) This section shall remain operative for any qualified*  
12 *taxpayer with respect to any qualified full-time employee after the*  
13 *designated census tract is no longer designated or a former*  
14 *enterprise zone ceases to be a former enterprise zone, as defined*  
15 *in this section, for the remaining period, if any, of the 60-month*  
16 *period after the original date of hiring of an otherwise qualified*  
17 *full-time employee and any wages paid or incurred with respect*  
18 *to those qualified full-time employees after the designated census*  
19 *tract is no longer designated or a former enterprise zone ceases*  
20 *to be a former enterprise zone, as defined in this section, shall be*  
21 *treated as qualified wages under this section, provided the*  
22 *employee satisfies any other requirements of paragraphs (10) and*  
23 *(12) of subdivision (b), as if the designated census tract was still*  
24 *designated and binding.*

25 *SEC. 13. Section 17053.74 of the Revenue and Taxation Code*  
26 *is amended to read:*

27 17053.74. (a) There shall be allowed a credit against the “net  
28 tax” (as defined in Section 17039) to a taxpayer who employs a  
29 qualified employee in an enterprise zone during the taxable year.  
30 The credit shall be equal to the sum of each of the following:

31 (1) Fifty percent of qualified wages in the first year of  
32 employment.

33 (2) Forty percent of qualified wages in the second year of  
34 employment.

35 (3) Thirty percent of qualified wages in the third year of  
36 employment.

37 (4) Twenty percent of qualified wages in the fourth year of  
38 employment.

39 (5) Ten percent of qualified wages in the fifth year of  
40 employment.

1 (b) For purposes of this section:

2 (1) “Qualified wages” means:

3 (A) (i) Except as provided in clause (ii), that portion of wages  
4 paid or incurred by the taxpayer during the taxable year to qualified  
5 employees that does not exceed 150 percent of the minimum wage.

6 (ii) For up to 1,350 qualified employees who are employed by  
7 the taxpayer in the Long Beach Enterprise Zone in aircraft  
8 manufacturing activities described in Codes 3721 to 3728,  
9 inclusive, and Code 3812 of the Standard Industrial Classification  
10 (SIC) Manual published by the United States Office of  
11 Management and Budget, 1987 edition, “qualified wages” means  
12 that portion of hourly wages that does not exceed 202 percent of  
13 the minimum wage.

14 (B) Wages received during the 60-month period beginning with  
15 the first day the employee commences employment with the  
16 taxpayer. Reemployment in connection with any increase, including  
17 a regularly occurring seasonal increase, in the trade or business  
18 operations of the taxpayer does not constitute commencement of  
19 employment for purposes of this section.

20 (C) Qualified wages do not include any wages paid or incurred  
21 by the taxpayer on or after the zone expiration date. However,  
22 wages paid or incurred with respect to qualified employees who  
23 are employed by the taxpayer within the enterprise zone within  
24 the 60-month period prior to the zone expiration date shall continue  
25 to qualify for the credit under this section after the zone expiration  
26 date, in accordance with all provisions of this section applied as  
27 if the enterprise zone designation were still in existence and  
28 binding.

29 (2) “Minimum wage” means the wage established by the  
30 Industrial Welfare Commission as provided for in Chapter 1  
31 (commencing with Section 1171) of Part 4 of Division 2 of the  
32 Labor Code.

33 (3) “Zone expiration date” means the date the enterprise zone  
34 designation expires, is no longer binding, *becomes inoperative*, or  
35 ~~becomes inoperative~~; *is repealed*.

36 (4) (A) “Qualified employee” means an individual who meets  
37 all of the following requirements:

38 (i) At least 90 percent of whose services for the taxpayer during  
39 the taxable year are directly related to the conduct of the taxpayer’s  
40 trade or business located in an enterprise zone.

- 1 (ii) Performs at least 50 percent of his or her services for the  
2 taxpayer during the taxable year in an enterprise zone.
- 3 (iii) Is hired by the taxpayer after the date of original designation  
4 of the area in which services were performed as an enterprise zone.
- 5 (iv) Is any of the following:
  - 6 (I) Immediately preceding the qualified employee's  
7 commencement of employment with the taxpayer, was a person  
8 eligible for services under the federal Job Training Partnership  
9 Act (29 U.S.C. Sec. 1501 et seq.), or its successor, who is receiving,  
10 or is eligible to receive, subsidized employment, training, or  
11 services funded by the federal Job Training Partnership Act, or its  
12 successor.
  - 13 (II) Immediately preceding the qualified employee's  
14 commencement of employment with the taxpayer, was a person  
15 eligible to be a voluntary or mandatory registrant under the Greater  
16 Avenues for Independence Act of 1985 (GAIN) provided for  
17 pursuant to Article 3.2 (commencing with Section 11320) of  
18 Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions  
19 Code, or its successor.
  - 20 (III) Immediately preceding the qualified employee's  
21 commencement of employment with the taxpayer, was an  
22 economically disadvantaged individual 14 years of age or older.
  - 23 (IV) Immediately preceding the qualified employee's  
24 commencement of employment with the taxpayer, was a dislocated  
25 worker who meets any of the following:
    - 26 (aa) Has been terminated or laid off or who has received a notice  
27 of termination or layoff from employment, is eligible for or has  
28 exhausted entitlement to unemployment insurance benefits, and  
29 is unlikely to return to his or her previous industry or occupation.
    - 30 (bb) Has been terminated or has received a notice of termination  
31 of employment as a result of any permanent closure or any  
32 substantial layoff at a plant, facility, or enterprise, including an  
33 individual who has not received written notification but whose  
34 employer has made a public announcement of the closure or layoff.
    - 35 (cc) Is long-term unemployed and has limited opportunities for  
36 employment or reemployment in the same or a similar occupation  
37 in the area in which the individual resides, including an individual  
38 55 years of age or older who may have substantial barriers to  
39 employment by reason of age.

1 (dd) Was self-employed (including farmers and ranchers) and  
2 is unemployed as a result of general economic conditions in the  
3 community in which he or she resides or because of natural  
4 disasters.

5 (ee) Was a civilian employee of the Department of Defense  
6 employed at a military installation being closed or realigned under  
7 the Defense Base Closure and Realignment Act of 1990.

8 (ff) Was an active member of the armed forces or National  
9 Guard as of September 30, 1990, and was either involuntarily  
10 separated or separated pursuant to a special benefits program.

11 (gg) Is a seasonal or migrant worker who experiences chronic  
12 seasonal unemployment and underemployment in the agriculture  
13 industry, aggravated by continual advancements in technology and  
14 mechanization.

15 (hh) Has been terminated or laid off, or has received a notice  
16 of termination or layoff, as a consequence of compliance with the  
17 Clean Air Act.

18 (V) Immediately preceding the qualified employee's  
19 commencement of employment with the taxpayer, was a disabled  
20 individual who is eligible for or enrolled in, or has completed a  
21 state rehabilitation plan or is a service-connected disabled veteran,  
22 veteran of the Vietnam era, or veteran who is recently separated  
23 from military service.

24 (VI) Immediately preceding the qualified employee's  
25 commencement of employment with the taxpayer, was an  
26 ex-offender. An individual shall be treated as convicted if he or  
27 she was placed on probation by a state court without a finding of  
28 guilt.

29 (VII) Immediately preceding the qualified employee's  
30 commencement of employment with the taxpayer, was a person  
31 eligible for or a recipient of any of the following:

32 (aa) Federal Supplemental Security Income benefits.

33 (bb) Aid to Families with Dependent Children.

34 (cc) CalFresh benefits.

35 (dd) State and local general assistance.

36 (VIII) Immediately preceding the qualified employee's  
37 commencement of employment with the taxpayer, was a member  
38 of a federally recognized Indian tribe, band, or other group of  
39 Native American descent.

1 (IX) Immediately preceding the qualified employee's  
2 commencement of employment with the taxpayer, was a resident  
3 of a targeted employment area, as defined in Section 7072 of the  
4 Government Code.

5 (X) An employee who qualified the taxpayer for the enterprise  
6 zone hiring credit under former Section 17053.8 or the program  
7 area hiring credit under former Section 17053.11.

8 (XI) Immediately preceding the qualified employee's  
9 commencement of employment with the taxpayer, was a member  
10 of a targeted group, as defined in Section 51(d) of the Internal  
11 Revenue Code, or its successor.

12 (B) Priority for employment shall be provided to an individual  
13 who is enrolled in a qualified program under the federal Job  
14 Training Partnership Act or the Greater Avenues for Independence  
15 Act of 1985 or who is eligible as a member of a targeted group  
16 under the Work Opportunity Tax Credit (Section 51 of the Internal  
17 Revenue Code), or its successor.

18 (5) "Taxpayer" means a person or entity engaged in a trade or  
19 business within an enterprise zone designated pursuant to Chapter  
20 12.8 (commencing with Section 7070) of the Government Code.

21 (6) "Seasonal employment" means employment by a taxpayer  
22 that has regular and predictable substantial reductions in trade or  
23 business operations.

24 (c) The taxpayer shall do both of the following:

25 (1) Obtain from the Employment Development Department, as  
26 permitted by federal law, the local county or city Job Training  
27 Partnership Act administrative entity, the local county GAIN office  
28 or social services agency, or the local government administering  
29 the enterprise zone, a certification which provides that a qualified  
30 employee meets the eligibility requirements specified in clause  
31 (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The  
32 Employment Development Department may provide preliminary  
33 screening and referral to a certifying agency. The Employment  
34 Development Department shall develop a form for this purpose.  
35 The Department of Housing and Community Development shall  
36 develop regulations governing the issuance of certificates by local  
37 governments pursuant to subdivision (a) of Section 7086 of the  
38 Government Code.

39 (2) Retain a copy of the certification and provide it upon request  
40 to the Franchise Tax Board.

1 (d) (1) For purposes of this section:

2 (A) All employees of trades or businesses, which are not  
3 incorporated, that are under common control shall be treated as  
4 employed by a single taxpayer.

5 (B) The credit, if any, allowable by this section with respect to  
6 each trade or business shall be determined by reference to its  
7 proportionate share of the expense of the qualified wages giving  
8 rise to the credit, and shall be allocated in that manner.

9 (C) Principles that apply in the case of controlled groups of  
10 corporations, as specified in subdivision (d) of Section 23622.7,  
11 shall apply with respect to determining employment.

12 (2) If an employer acquires the major portion of a trade or  
13 business of another employer (hereinafter in this paragraph referred  
14 to as the “predecessor”) or the major portion of a separate unit of  
15 a trade or business of a predecessor, then, for purposes of applying  
16 this section (other than subdivision (e)) for any calendar year  
17 ending after that acquisition, the employment relationship between  
18 a qualified employee and an employer shall not be treated as  
19 terminated if the employee continues to be employed in that trade  
20 or business.

21 (e) (1) (A) If the employment, other than seasonal employment,  
22 of any qualified employee, with respect to whom qualified wages  
23 are taken into account under subdivision (a), is terminated by the  
24 taxpayer at any time during the first 270 days of that employment  
25 (whether or not consecutive) or before the close of the 270th  
26 calendar day after the day in which that employee completes 90  
27 days of employment with the taxpayer, the tax imposed by this  
28 part for the taxable year in which that employment is terminated  
29 shall be increased by an amount equal to the credit allowed under  
30 subdivision (a) for that taxable year and all prior taxable years  
31 attributable to qualified wages paid or incurred with respect to that  
32 employee.

33 (B) If the seasonal employment of any qualified employee, with  
34 respect to whom qualified wages are taken into account under  
35 subdivision (a), is not continued by the taxpayer for a period of  
36 270 days of employment during the 60-month period beginning  
37 with the day the qualified employee commences seasonal  
38 employment with the taxpayer, the tax imposed by this part, for  
39 the taxable year that includes the 60th month following the month  
40 in which the qualified employee commences seasonal employment

1 with the taxpayer, shall be increased by an amount equal to the  
2 credit allowed under subdivision (a) for that taxable year and all  
3 prior taxable years attributable to qualified wages paid or incurred  
4 with respect to that qualified employee.

5 (2) (A) Subparagraph (A) of paragraph (1) shall not apply to  
6 any of the following:

7 (i) A termination of employment of a qualified employee who  
8 voluntarily leaves the employment of the taxpayer.

9 (ii) A termination of employment of a qualified employee who,  
10 before the close of the period referred to in paragraph (1), becomes  
11 disabled and unable to perform the services of that employment,  
12 unless that disability is removed before the close of that period  
13 and the taxpayer fails to offer reemployment to that employee.

14 (iii) A termination of employment of a qualified employee, if  
15 it is determined that the termination was due to the misconduct (as  
16 defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of  
17 the California Code of Regulations) of that employee.

18 (iv) A termination of employment of a qualified employee due  
19 to a substantial reduction in the trade or business operations of the  
20 taxpayer.

21 (v) A termination of employment of a qualified employee, if  
22 that employee is replaced by other qualified employees so as to  
23 create a net increase in both the number of employees and the  
24 hours of employment.

25 (B) Subparagraph (B) of paragraph (1) shall not apply to any  
26 of the following:

27 (i) A failure to continue the seasonal employment of a qualified  
28 employee who voluntarily fails to return to the seasonal  
29 employment of the taxpayer.

30 (ii) A failure to continue the seasonal employment of a qualified  
31 employee who, before the close of the period referred to in  
32 subparagraph (B) of paragraph (1), becomes disabled and unable  
33 to perform the services of that seasonal employment, unless that  
34 disability is removed before the close of that period and the  
35 taxpayer fails to offer seasonal employment to that qualified  
36 employee.

37 (iii) A failure to continue the seasonal employment of a qualified  
38 employee, if it is determined that the failure to continue the  
39 seasonal employment was due to the misconduct (as defined in

1 Sections 1256-30 to 1256-43, inclusive, of Title 22 of the California  
2 Code of Regulations) of that qualified employee.

3 (iv) A failure to continue seasonal employment of a qualified  
4 employee due to a substantial reduction in the regular seasonal  
5 trade or business operations of the taxpayer.

6 (v) A failure to continue the seasonal employment of a qualified  
7 employee, if that qualified employee is replaced by other qualified  
8 employees so as to create a net increase in both the number of  
9 seasonal employees and the hours of seasonal employment.

10 (C) For purposes of paragraph (1), the employment relationship  
11 between the taxpayer and a qualified employee shall not be treated  
12 as terminated by reason of a mere change in the form of conducting  
13 the trade or business of the taxpayer, if the qualified employee  
14 continues to be employed in that trade or business and the taxpayer  
15 retains a substantial interest in that trade or business.

16 (3) Any increase in tax under paragraph (1) shall not be treated  
17 as tax imposed by this part for purposes of determining the amount  
18 of any credit allowable under this part.

19 (f) In the case of an estate or trust, both of the following apply:

20 (1) The qualified wages for any taxable year shall be apportioned  
21 between the estate or trust and the beneficiaries on the basis of the  
22 income of the estate or trust allocable to each.

23 (2) Any beneficiary to whom any qualified wages have been  
24 apportioned under paragraph (1) shall be treated, for purposes of  
25 this part, as the employer with respect to those wages.

26 (g) For purposes of this section, “enterprise zone” means an  
27 area designated as an enterprise zone pursuant to Chapter 12.8  
28 (commencing with Section 7070) of Division 7 of Title 1 of the  
29 Government Code.

30 (h) The credit allowable under this section shall be reduced by  
31 the credit allowed under Sections 17053.10, 17053.17, and  
32 17053.46 claimed for the same employee. The credit shall also be  
33 reduced by the federal credit allowed under Section 51 of the  
34 Internal Revenue Code.

35 In addition, any deduction otherwise allowed under this part for  
36 the wages or salaries paid or incurred by the taxpayer upon which  
37 the credit is based shall be reduced by the amount of the credit,  
38 prior to any reduction required by subdivision (i) or (j).

39 (i) In the case where the credit otherwise allowed under this  
40 section exceeds the “net tax” for the taxable year, that portion of

1 the credit that exceeds the “net tax” may be carried over and added  
2 to the credit, if any, in *the* succeeding *five* taxable years, *if*  
3 *necessary*, until the credit is exhausted. The credit shall be applied  
4 first to the earliest taxable years possible.

5 (j) (1) The amount of the credit otherwise allowed under this  
6 section and Section 17053.70, including any credit carryover from  
7 prior years, that may reduce the “net tax” for the taxable year shall  
8 not exceed the amount of tax which would be imposed on the  
9 taxpayer’s business income attributable to the enterprise zone  
10 determined as if that attributable income represented all of the  
11 income of the taxpayer subject to tax under this part.

12 (2) Attributable income shall be that portion of the taxpayer’s  
13 California source business income that is apportioned to the  
14 enterprise zone. For that purpose, the taxpayer’s business income  
15 attributable to sources in this state first shall be determined in  
16 accordance with Chapter 17 (commencing with Section 25101) of  
17 Part 11. That business income shall be further apportioned to the  
18 enterprise zone in accordance with Article 2 (commencing with  
19 Section 25120) of Chapter 17 of Part 11, modified for purposes  
20 of this section in accordance with paragraph (3).

21 (3) Business income shall be apportioned to the enterprise zone  
22 by multiplying the total California business income of the taxpayer  
23 by a fraction, the numerator of which is the property factor plus  
24 the payroll factor, and the denominator of which is two. For  
25 purposes of this paragraph:

26 (A) The property factor is a fraction, the numerator of which is  
27 the average value of the taxpayer’s real and tangible personal  
28 property owned or rented and used in the enterprise zone during  
29 the taxable year, and the denominator of which is the average value  
30 of all the taxpayer’s real and tangible personal property owned or  
31 rented and used in this state during the taxable year.

32 (B) The payroll factor is a fraction, the numerator of which is  
33 the total amount paid by the taxpayer in the enterprise zone during  
34 the taxable year for compensation, and the denominator of which  
35 is the total compensation paid by the taxpayer in this state during  
36 the taxable year.

37 (4) The portion of any credit remaining, if any, after application  
38 of this subdivision, shall be carried over to succeeding taxable  
39 years, *if necessary, until the credit is exhausted*, as if it were an  
40 amount exceeding the “net tax” for the taxable year, as provided

1 in subdivision (i). *However, the portion of any credit remaining*  
2 *for carryover to taxable years beginning on or after January 1,*  
3 *2014, if any, after application of this subdivision, shall be carried*  
4 *over only to the succeeding five taxable years if necessary, until*  
5 *the credit is exhausted, as if it were an amount exceeding the “net*  
6 *tax” for the taxable year, as provided in subdivision (i).*

7 (k) The changes made to this section by the act adding this  
8 subdivision shall apply to taxable years beginning on or after  
9 January 1, 1997.

10 (l) (1) *Except as provided in paragraph (2), this section shall*  
11 *cease to be operative for taxable years beginning on or after*  
12 *January 1, 2014, and shall be repealed on December 1, 2019.*

13 (2) *The section shall continue to apply with respect to qualified*  
14 *employees who are employed by the qualified taxpayer within the*  
15 *enterprise zone within the 60-month period immediately preceding*  
16 *January 1, 2014, and qualified wages paid or incurred with respect*  
17 *to those qualified employees shall continue to qualify for the credit*  
18 *under this section for taxable years beginning on or after January*  
19 *1, 2014, in accordance with this section, as amended by the act*  
20 *adding this subdivision.*

21 *SEC. 14. Section 17053.75 of the Revenue and Taxation Code*  
22 *is amended to read:*

23 17053.75. (a) There shall be allowed as a credit against the  
24 “net tax” (as defined by Section 17039) for the taxable year an  
25 amount equal to five percent of the qualified wages received by  
26 the taxpayer during the taxable year.

27 (b) For purposes of this section:

28 (1) “Qualified employee” means a taxpayer who meets both of  
29 the following:

30 (A) Is described in clauses (i) and (ii) of subparagraph (A) of  
31 paragraph (4) of subdivision (b) of Section 17053.74.

32 (B) Is not an employee of the federal government or of this state  
33 or of any political subdivision of this state.

34 (2) (A) “Qualified wages” means “wages,” as defined in  
35 subsection (b) of Section 3306 of the Internal Revenue Code,  
36 attributable to services performed for an employer with respect to  
37 whom the taxpayer is a qualified employee in an amount that does  
38 not exceed one and one-half times the dollar limitation specified  
39 in that subsection.

1 (B) “Qualified wages” does not include any compensation  
2 received from the federal government or this state or any political  
3 subdivision of this state.

4 (C) “Qualified wages” does not include any wages received on  
5 or after the date the enterprise zone designation expires, is no  
6 longer binding, or becomes inoperative.

7 (3) “Enterprise zone” means any area designated as an enterprise  
8 zone pursuant to Chapter 12.8 (commencing with Section 7070)  
9 of Division 7 of Title 1 of the Government Code.

10 (c) For each dollar of income received by the taxpayer in excess  
11 of qualified wages, as defined in this section, the credit shall be  
12 reduced by nine cents (\$0.09).

13 (d) The amount of the credit allowed by this section in any  
14 taxable year shall not exceed the amount of tax that would be  
15 imposed on the taxpayer’s income attributable to employment  
16 within the enterprise zone as if that income represented all of the  
17 income of the taxpayer subject to tax under this part.

18 (e) *This section shall cease to be operative for taxable years*  
19 *beginning on or after January 1, 2014, and shall be repealed on*  
20 *December 1, 2014.*

21 *SEC. 15. Section 17053.80 of the Revenue and Taxation Code,*  
22 *as added by Section 3 of Chapter 10 of the 3rd Extraordinary*  
23 *Session of the Statutes of 2009, is repealed.*

24 ~~17053.80.—(a) For each taxable year beginning on or after~~  
25 ~~January 1, 2009, there shall be allowed as a credit against the “net~~  
26 ~~tax,” as defined in Section 17039, three thousand dollars (\$3,000)~~  
27 ~~for each net increase in qualified full-time employees, as specified~~  
28 ~~in subdivision (c), hired during the taxable year by a qualified~~  
29 ~~employer.~~

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

31 ~~(1) “Acquired” includes any gift, inheritance, transfer incident~~  
32 ~~to divorce, or any other transfer, whether or not for consideration.~~

33 ~~(2) “Qualified full-time employee” means:~~

34 ~~(A) A qualified employee who was paid qualified wages by the~~  
35 ~~qualified employer for services of not less than an average of 35~~  
36 ~~hours per week.~~

37 ~~(B) A qualified employee who was a salaried employee and~~  
38 ~~was paid compensation during the taxable year for full-time~~  
39 ~~employment, within the meaning of Section 515 of the Labor Code,~~  
40 ~~by the qualified employer.~~

1 ~~(3) A “qualified employee” shall not include any of the~~  
2 ~~following:~~

3 ~~(A) An employee certified as a qualified employee in an~~  
4 ~~enterprise zone designated in accordance with Chapter 12.8~~  
5 ~~(commencing with Section 7070) of Division 7 of Title 1 of the~~  
6 ~~Government Code.~~

7 ~~(B) An employee certified as a qualified disadvantaged~~  
8 ~~individual in a manufacturing enhancement area designated in~~  
9 ~~accordance with Section 7073.8 of the Government Code.~~

10 ~~(C) An employee certified as a qualified employee in a targeted~~  
11 ~~tax area designated in accordance with Section 7097 of the~~  
12 ~~Government Code.~~

13 ~~(D) An employee certified as a qualified disadvantaged~~  
14 ~~individual or a qualified displaced employee in a local agency~~  
15 ~~military base recovery area (LAMBRA) designated in accordance~~  
16 ~~with Chapter 12.97 (commencing with Section 7105) of Division~~  
17 ~~7 of Title 1 of the Government Code.~~

18 ~~(E) An employee whose wages are included in calculating any~~  
19 ~~other credit allowed under this part.~~

20 ~~(4) “Qualified employer” means a taxpayer that, as of the last~~  
21 ~~day of the preceding taxable year, employed a total of 20 or fewer~~  
22 ~~employees.~~

23 ~~(5) “Qualified wages” means wages subject to Division 6~~  
24 ~~(commencing with Section 13000) of the Unemployment Insurance~~  
25 ~~Code.~~

26 ~~(6) “Annual full-time equivalent” means either of the following:~~

27 ~~(A) In the case of a full-time employee paid hourly qualified~~  
28 ~~wages, “annual full-time equivalent” means the total number of~~  
29 ~~hours worked for the taxpayer by the employee (not to exceed~~  
30 ~~2,000 hours per employee) divided by 2,000.~~

31 ~~(B) In the case of a salaried full-time employee, “annual~~  
32 ~~full-time equivalent” means the total number of weeks worked for~~  
33 ~~the taxpayer by the employee divided by 52.~~

34 ~~(e) The net increase in qualified full-time employees of a~~  
35 ~~qualified employer shall be determined as provided by this~~  
36 ~~subdivision:~~

37 ~~(1) (A) The net increase in qualified full-time employees shall~~  
38 ~~be determined on an annual full-time equivalent basis by~~  
39 ~~subtracting from the amount determined in subparagraph (C) the~~  
40 ~~amount determined in subparagraph (B).~~

1     ~~(B) The total number of qualified full-time employees employed~~  
2     ~~in the preceding taxable year by the taxpayer and by any trade or~~  
3     ~~business acquired by the taxpayer during the current taxable year.~~

4     ~~(C) The total number of full-time employees employed in the~~  
5     ~~current taxable year by the taxpayer and by any trade or business~~  
6     ~~acquired during the current taxable year.~~

7     ~~(2) For taxpayers who first commence doing business in this~~  
8     ~~state during the taxable year, the number of full-time employees~~  
9     ~~for the immediately preceding prior taxable year shall be zero.~~

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

14    ~~(e) Any deduction otherwise allowed under this part for qualified~~  
15    ~~wages shall not be reduced by the amount of the credit allowed~~  
16    ~~under this section.~~

17    ~~(f) For purposes of this section:~~

18    ~~(1) All employees of the trades or businesses that are treated as~~  
19    ~~related under either Section 267, 318, or 707 of the Internal~~  
20    ~~Revenue Code shall be treated as employed by a single taxpayer.~~

21    ~~(2) In determining whether the taxpayer has first commenced~~  
22    ~~doing business in this state during the taxable year, the provisions~~  
23    ~~of subdivision (f) of Section 17276, without application of~~  
24    ~~paragraph (7) of that subdivision, shall apply.~~

25    ~~(g) (1) (A) Credit under this section and Section 23623 shall~~  
26    ~~be allowed only for credits claimed on timely filed original returns~~  
27    ~~received by the Franchise Tax Board on or before the cut-off date~~  
28    ~~established by the Franchise Tax Board.~~

29    ~~(B) For purposes of this paragraph, the cut-off date shall be the~~  
30    ~~last day of the calendar quarter within which the Franchise Tax~~  
31    ~~Board estimates it will have received timely filed original returns~~  
32    ~~claiming credits under this section and Section 23623 that~~  
33    ~~cumulatively total four hundred million dollars (\$400,000,000)~~  
34    ~~for all taxable years.~~

35    ~~(2) The date a return is received shall be determined by the~~  
36    ~~Franchise Tax Board.~~

37    ~~(3) (A) The determinations of the Franchise Tax Board with~~  
38    ~~respect to the cut-off date, the date a return is received, and whether~~  
39    ~~a return has been timely filed for purposes of this subdivision may~~  
40    ~~not be reviewed in any administrative or judicial proceeding~~

1 ~~(B) Any disallowance of a credit claimed due to a determination~~  
2 ~~under this subdivision, including the application of the limitation~~  
3 ~~specified in paragraph (1), shall be treated as a mathematical error~~  
4 ~~appearing on the return. Any amount of tax resulting from such~~  
5 ~~disallowance may be assessed by the Franchise Tax Board in the~~  
6 ~~same manner as provided by Section 19051.~~

7 ~~(4) The Franchise Tax Board shall periodically provide notice~~  
8 ~~on its Web site with respect to the amount of credit under this~~  
9 ~~section and Section 23623 claimed on timely filed original returns~~  
10 ~~received by the Franchise Tax Board.~~

11 ~~(h) (1) The Franchise Tax Board may prescribe rules, guidelines~~  
12 ~~or procedures necessary or appropriate to carry out the purposes~~  
13 ~~of this section, including any guidelines regarding the limitation~~  
14 ~~on total credits allowable under this section and Section 23623~~  
15 ~~and guidelines necessary to avoid the application of paragraph (2)~~  
16 ~~of subdivision (f) through split-ups, shell corporations, partnerships,~~  
17 ~~tiered ownership structures, or otherwise.~~

18 ~~(2) Chapter 3.5 (commencing with Section 11340) of Part 1 of~~  
19 ~~Division 3 of Title 2 of the Government Code does not apply to~~  
20 ~~any standard, criterion, procedure, determination, rule, notice, or~~  
21 ~~guideline established or issued by the Franchise Tax Board~~  
22 ~~pursuant to this section.~~

23 ~~(i) This section shall remain in effect only until December 1 of~~  
24 ~~the calendar year after the year of the cut-off date, and as of that~~  
25 ~~December 1 is repealed.~~

26 *SEC. 16. Section 17053.80 of the Revenue and Taxation Code,*  
27 *as added by Section 3 of Chapter 10 of the 3rd Extraordinary*  
28 *Session of the Statutes of 2009, is amended to read:*

29 17053.80. (a) For each taxable year beginning on or after  
30 January 1, 2009, there shall be allowed as a credit against the “net  
31 tax,” as defined in Section 17039, three thousand dollars (\$3,000)  
32 for each net increase in qualified full-time employees, as specified  
33 in subdivision (c), hired during the taxable year by a qualified  
34 employer.

35 (b) For purposes of this section:

36 (1) “Acquired” includes any gift, inheritance, transfer incident  
37 to divorce, or any other transfer, whether or not for consideration.

38 (2) “Qualified full-time employee” means:

1 (A) A qualified employee who was paid qualified wages by the  
2 qualified employer for services of not less than an average of 35  
3 hours per week.

4 (B) A qualified employee who was a salaried employee and  
5 was paid compensation during the taxable year for full-time  
6 employment, within the meaning of Section 515 of the Labor Code,  
7 by the qualified employer.

8 (3) A “qualified employee” shall not include any of the  
9 following:

10 (A) An employee certified as a qualified employee in an  
11 enterprise zone designated in accordance with Chapter 12.8  
12 (commencing with Section 7070) of Division 7 of Title 1 of the  
13 Government Code.

14 (B) An employee certified as a qualified disadvantaged  
15 individual in a manufacturing enhancement area designated in  
16 accordance with Section 7073.8 of the Government Code.

17 (C) An employee certified as a qualified employee in a targeted  
18 tax area designated in accordance with Section 7097 of the  
19 Government Code.

20 (D) An employee certified as a qualified disadvantaged  
21 individual or a qualified displaced employee in a local agency  
22 military base recovery area (LAMBRA) designated in accordance  
23 with Chapter 12.97 (commencing with Section 7105) of Division  
24 7 of Title 1 of the Government Code.

25 (E) An employee whose wages are included in calculating any  
26 other credit allowed under this part.

27 (4) “Qualified employer” means a taxpayer that, as of the last  
28 day of the preceding taxable year, employed a total of 20 or fewer  
29 employees.

30 (5) “Qualified wages” means wages subject to Division 6  
31 (commencing with Section 13000) of the Unemployment Insurance  
32 Code.

33 (6) “Annual full-time equivalent” means either of the following:

34 (A) In the case of a full-time employee paid hourly qualified  
35 wages, “annual full-time equivalent” means the total number of  
36 hours worked for the taxpayer by the employee (not to exceed  
37 2,000 hours per employee) divided by 2,000.

38 (B) In the case of a salaried full-time employee, “annual  
39 full-time equivalent” means the total number of weeks worked for  
40 the taxpayer by the employee divided by 52.

1 (c) The net increase in qualified full-time employees of a  
2 qualified employer shall be determined as provided by this  
3 subdivision:

4 (1) (A) The net increase in qualified full-time employees shall  
5 be determined on an annual full-time equivalent basis by  
6 subtracting from the amount determined in subparagraph (C) the  
7 amount determined in subparagraph (B).

8 (B) The total number of qualified full-time employees employed  
9 in the preceding taxable year by the taxpayer and by any trade or  
10 business acquired by the taxpayer during the current taxable year.

11 (C) The total number of full-time employees employed in the  
12 current taxable year by the taxpayer and by any trade or business  
13 acquired during the current taxable year.

14 (2) For taxpayers who first commence doing business in this  
15 state during the taxable year, the number of full-time employees  
16 for the immediately preceding prior taxable year shall be zero.

17 (d) In the case where the credit allowed by this section exceeds  
18 the “net tax,” the excess may be carried over to reduce the “net  
19 tax” in the following year, and succeeding seven years if necessary,  
20 until the credit is exhausted.

21 (e) Any deduction otherwise allowed under this part for qualified  
22 wages shall not be reduced by the amount of the credit allowed  
23 under this section.

24 (f) For purposes of this section:

25 (1) All employees of the trades or businesses that are treated as  
26 related under either Section 267, 318, or 707 of the Internal  
27 Revenue Code shall be treated as employed by a single taxpayer.

28 (2) In determining whether the taxpayer has first commenced  
29 doing business in this state during the taxable year, the provisions  
30 of subdivision (f) of Section 17276, without application of  
31 paragraph (7) of that subdivision, shall apply.

32 (g) (1) (A) Credit under this section and Section 23623 shall  
33 be allowed only for credits claimed on timely filed original returns  
34 received by the Franchise Tax Board on or before the cut-off date  
35 established by the Franchise Tax Board.

36 (B) For purposes of this paragraph, the cut-off date shall be the  
37 last day of the calendar quarter within which the Franchise Tax  
38 Board estimates it will have received timely filed original returns  
39 claiming credits under this section and Section 23623 that

1 cumulatively total four hundred million dollars (\$400,000,000)  
2 for all taxable years.

3 (2) The date a return is received shall be determined by the  
4 Franchise Tax Board.

5 (3) (A) The determinations of the Franchise Tax Board with  
6 respect to the cut-off date, the date a return is received, and whether  
7 a return has been timely filed for purposes of this subdivision may  
8 not be reviewed in any administrative or judicial proceeding

9 (B) Any disallowance of a credit claimed due to a determination  
10 under this subdivision, including the application of the limitation  
11 specified in paragraph (1), shall be treated as a mathematical error  
12 appearing on the return. Any amount of tax resulting from such  
13 disallowance may be assessed by the Franchise Tax Board in the  
14 same manner as provided by Section 19051.

15 (4) The Franchise Tax Board shall periodically provide notice  
16 on its Web site with respect to the amount of credit under this  
17 section and Section 23623 claimed on timely filed original returns  
18 received by the Franchise Tax Board.

19 (h) (1) The Franchise Tax Board may prescribe rules, guidelines  
20 or procedures necessary or appropriate to carry out the purposes  
21 of this section, including any guidelines regarding the limitation  
22 on total credits allowable under this section and Section 23623  
23 and guidelines necessary to avoid the application of paragraph (2)  
24 of subdivision (f) through split-ups, shell corporations, partnerships,  
25 tiered ownership structures, or otherwise.

26 (2) Chapter 3.5 (commencing with Section 11340) of Part 1 of  
27 Division 3 of Title 2 of the Government Code does not apply to  
28 any standard, criterion, procedure, determination, rule, notice, or  
29 guideline established or issued by the Franchise Tax Board  
30 pursuant to this section.

31 (i) *This section shall cease to be operative for taxable years*  
32 *beginning on or after January 1, 2014, and shall be repealed on*  
33 *December 1, 2014.*

34 *SEC. 17. Section 17059.2 is added to the Revenue and Taxation*  
35 *Code, to read:*

36 *17059.2. (a) (1) For each taxable year beginning on and after*  
37 *January 1, 2014, and before January 1, 2025, there shall be*  
38 *allowed as a credit against the "net tax," as defined in Section*  
39 *17039, an amount as determined by the committee pursuant to*  
40 *paragraph (2) and approved pursuant to Section 18410.2.*

1     (2) *The amount of credit allocated to a taxpayer for a taxable*  
2 *year pursuant to this section shall be as set forth in a written*  
3 *agreement between GO-Biz and the taxpayer and shall be based*  
4 *on, but not limited to, the following factors:*

5     (A) *The number of jobs the taxpayer will create or retain in this*  
6 *state.*

7     (B) *The compensation paid or proposed to be paid by the*  
8 *taxpayer to its employees, including wages and fringe benefits.*

9     (C) *The amount of investment in this state by the taxpayer.*

10    (D) *The extent of unemployment in the area in which the*  
11 *taxpayer's project or business is proposed or located.*

12    (E) *The incentives available to the taxpayer in this state,*  
13 *including incentives from the state, local government, and other*  
14 *entities.*

15    (F) *The incentives available to the taxpayer in other states.*

16    (G) *The duration of the proposed project and the duration the*  
17 *taxpayer commits to remain in this state.*

18    (H) *The overall economic impact in this state of the taxpayer's*  
19 *project or business.*

20    (I) *The strategic importance of the taxpayer's project or business*  
21 *to the state, region, or locality.*

22    (J) *The opportunity for future growth and expansion in this state*  
23 *by the taxpayer's business.*

24    (K) *The extent to which the anticipated benefit to the state*  
25 *exceeds the projected benefit to the taxpayer from the tax credit.*

26    (3) *The written agreement entered into pursuant to paragraph*  
27 *(2) shall include:*

28    (A) *Terms and conditions that include a minimum compensation*  
29 *level and a minimum job retention period.*

30    (B) *Provisions indicating whether the credit is to be allocated*  
31 *in full upon approval or in increments based on mutually agreed*  
32 *upon milestones when satisfactorily met by the taxpayer.*

33    (C) *Provisions that allow the committee to recapture the credit,*  
34 *in whole or in part, if the taxpayer fails to fulfill the terms and*  
35 *conditions of the written agreement.*

36    (b) *For purposes of this section:*

37    (1) *"Committee" means the California Competes Tax Credit*  
38 *Committee established pursuant to Section 18410.2.*

39    (2) *"GO-Biz" means the Governor's Office of Business and*  
40 *Economic Development.*

- 1     (c) For purposes of this section, GO-Biz shall do the following:
- 2     (1) Give priority to a taxpayer whose project or business is
- 3     located or proposed to be located in an area of high unemployment
- 4     or poverty.
- 5     (2) Negotiate with a taxpayer the terms and conditions of
- 6     proposed written agreements that provide the credit allowed
- 7     pursuant to this section to a taxpayer.
- 8     (3) Provide the negotiated written agreement to the committee
- 9     for its approval pursuant to Section 18410.2.
- 10    (4) Inform the Franchise Tax Board of the terms and conditions
- 11    of the written agreement upon approval of the written agreement
- 12    by the committee.
- 13    (5) Inform the Franchise Tax Board of any recapture, in whole
- 14    or in part, of a previously allocated credit upon approval of the
- 15    recapture by the committee.
- 16    (6) Post on its Internet Web site all of the following:
- 17    (A) The name of each taxpayer allocated a credit pursuant to
- 18    this section.
- 19    (B) The estimated amount of the investment by each taxpayer.
- 20    (C) The estimated number of jobs created or retained.
- 21    (D) The amount of the credit allocated to the taxpayer.
- 22    (E) The amount of the credit recaptured from the taxpayer, if
- 23    applicable.
- 24    (d) For purposes of this section, the Franchise Tax Board shall
- 25    do all of the following:
- 26    (1) (A) Except as provided in subparagraph (B), review the
- 27    books and records of all taxpayers allocated a credit pursuant to
- 28    this section to ensure compliance with the terms and conditions
- 29    of the written agreement between the taxpayer and GO-Biz.
- 30    (B) In the case of a taxpayer that is a “small business,” as
- 31    defined in Section 17053.73, review the books and records of the
- 32    taxpayer allocated a credit pursuant to this section to ensure
- 33    compliance with the terms and conditions of the written agreement
- 34    between the taxpayer and GO-Biz when, in the sole discretion of
- 35    the Franchise Tax Board, a review of those books and records is
- 36    appropriate or necessary in the best interests of the state.
- 37    (2) Notwithstanding Section 19542:
- 38    (A) Notify GO-Biz of a possible breach of the written agreement
- 39    by a taxpayer and provide detailed information regarding the basis
- 40    for that determination.

1 (B) Provide information to GO-Biz with respect to whether a  
2 taxpayer is a “small business,” as defined in Section 17053.73.

3 (e) In the case where the credit allowed under this section  
4 exceeds the “net tax,” as defined in Section 17059, for a taxable  
5 year, the excess credit may be carried over to reduce the “net tax”  
6 in the following taxable year, and succeeding five taxable years,  
7 if necessary, until the credit has been exhausted.

8 (f) Any recapture, in whole or in part, of a credit approved by  
9 the committee pursuant to Section 18410.2 shall be treated as a  
10 mathematical error appearing on the return. Any amount of tax  
11 resulting from that recapture shall be assessed by the Franchise  
12 Tax Board in the same manner as provided by Section 19051. The  
13 amount of tax resulting from the recapture shall be added to the  
14 tax otherwise due by the taxpayer for the taxable year in which  
15 the committee’s recapture determination occurred.

16 (g) (1) The aggregate amount of credit that may be allocated  
17 in any fiscal year pursuant to this section and Section 23689 shall  
18 be an amount equal to the sum of subparagraphs (A), (B), (C), and  
19 (D):

20 (A) Thirty million dollars (\$30,000,000) for the 2013–14 fiscal  
21 year, one hundred fifty million dollars (\$150,000,000) for the  
22 2014–15 fiscal year, and two hundred million dollars  
23 (\$200,000,000) for each fiscal year from 2015–16 to 2018–19,  
24 inclusive.

25 (B) The unallocated credit amount, if any, from the preceding  
26 fiscal year.

27 (C) The amount of any previously allocated credits that have  
28 been recaptured.

29 (D) The amount by which the exemptions claimed in the prior  
30 year pursuant to Section 6377.1 plus the amounts claimed in the  
31 prior year pursuant to this section and Sections 17053.73, 23626,  
32 and 23689 are less than seven hundred fifty million dollars  
33 (\$750,000,000).

34 (2) Each fiscal year, 25 percent of the aggregate amount of the  
35 credit that may be allocated pursuant to this section and Section  
36 23689 shall be reserved for small business, as defined in Section  
37 17053.73 or 23626.

38 (3) Each fiscal year, no more than 20 percent of the aggregate  
39 amount of the credit that may be allocated pursuant to this section  
40 shall be allocated to any one taxpayer.

1 (h) GO-Biz may prescribe rules and regulations as necessary  
2 to carry out the purposes of this section. Any rule or regulation  
3 prescribed pursuant to this section may be by adoption of an  
4 emergency regulation in accordance with Chapter 3.5  
5 (commencing with Section 11340) of Part 1 of Division 3 of Title  
6 2 of the Government Code.

7 (i) (1) A written agreement between GO-Biz and a taxpayer  
8 with respect to the credit authorized by this section shall not  
9 restrict, broaden, or otherwise alter the ability to prohibit the  
10 taxpayer to assign that credit or any portion thereof in accordance  
11 with Section 23663.

12 (2) A written agreement between GO-Biz and a taxpayer with  
13 respect to the credit authorized by this section shall comply with  
14 existing law on the date the agreement is executed.

15 (j) This section is repealed on December 1, 2025.

16 SEC. 18. Section 17235 of the Revenue and Taxation Code is  
17 amended to read:

18 17235. (a) There shall be allowed as a deduction the amount  
19 of net interest received by the taxpayer before January 1, 2014,  
20 in payment on indebtedness of a person or entity engaged in the  
21 conduct of a trade or business located in an enterprise zone.

22 (b) ~~No~~A deduction shall *not* be allowed under this section unless  
23 at the time the indebtedness is incurred each of the following  
24 requirements are met:

25 (1) The trade or business is located solely within an enterprise  
26 zone.

27 (2) The indebtedness is incurred solely in connection with  
28 activity within the enterprise zone.

29 (3) The taxpayer has no equity or other ownership interest in  
30 the debtor.

31 (c) “Enterprise zone” means an area designated as an enterprise  
32 zone pursuant to Chapter 12.8 (commencing with Section 7070)  
33 of Division 7 of Title 1 of the Government Code.

34 (d) This section shall cease to be operative for taxable years  
35 beginning on or after January 1, 2014, and shall be repealed on  
36 December 1 2014.

37 SEC. 19. Section 17267.2 of the Revenue and Taxation Code  
38 is amended to read:

39 17267.2. (a) A taxpayer may elect to treat 40 percent of the  
40 cost of any Section 17267.2 property as an expense which is not

1 chargeable to a capital account. Any cost so treated shall be allowed  
2 as a deduction for the taxable year in which the taxpayer places  
3 the Section 17267.2 property in service.

4 (b) In the case of a husband and wife filing separate returns for  
5 a taxable year, the applicable amount under subdivision (a) shall  
6 be equal to 50 percent of the percentage specified in subdivision  
7 (a).

8 (c) (1) An election under this section for any taxable year shall  
9 do both of the following:

10 (A) Specify the items of Section 17267.2 property to which the  
11 election applies and the percentage of the cost of each of those  
12 items that are to be taken into account under subdivision (a).

13 (B) Be made on the taxpayer's original return of the tax imposed  
14 by this part for the taxable year.

15 (2) Any election made under this section, and any specification  
16 contained in that election, may not be revoked except with the  
17 consent of the Franchise Tax Board.

18 (d) (1) For purposes of this section, "Section 17267.2 property"  
19 means any recovery property that is:

20 (A) Section 1245 property (as defined in Section 1245(a) (3) of  
21 the Internal Revenue Code).

22 (B) Purchased and placed in service by the taxpayer for  
23 exclusive use in a trade or business conducted within an enterprise  
24 zone designated pursuant to Chapter 12.8 (commencing with  
25 Section 7070) of Division 7 of Title 1 of the Government Code.

26 (C) Purchased and placed in service before the date the  
27 enterprise zone designation expires, is no longer binding, or  
28 becomes inoperative.

29 (2) For purposes of paragraph (1), "purchase" means any  
30 acquisition of property, but only if both of the following apply:

31 (A) The property is not acquired from a person whose  
32 relationship to the person acquiring it would result in the  
33 disallowance of losses under Section 267 or Section 707 (b) of the  
34 Internal Revenue Code. However, in applying Section 267(b) and  
35 267(c) for purposes of this section, Section 267(c) (4) shall be  
36 treated as providing that the family of an individual shall include  
37 only the individual's spouse, ancestors, and lineal descendants.

38 (B) The basis of the property in the hands of the person acquiring  
39 it is not determined in whole or in part by reference to the adjusted

1 basis of that property in the hands of the person from whom it is  
2 acquired.

3 (3) For purposes of this section, the cost of property does not  
4 include that portion of the basis of the property that is determined  
5 by reference to the basis of other property held at any time by the  
6 person acquiring the property.

7 (4) This section shall not apply to estates and trusts.

8 (5) This section shall not apply to any property for which the  
9 taxpayer may not make an election for the taxable year under  
10 Section 179 of the Internal Revenue Code because of the  
11 application of the provisions of Section 179(d) of the Internal  
12 Revenue Code.

13 (6) In the case of a partnership, the percentage limitation  
14 specified in subdivision (a) shall apply at the partnership level and  
15 at the partner level.

16 (e) For purposes of this section, “taxpayer” means a person or  
17 entity who conducts a trade or business within an enterprise zone  
18 designated pursuant to Chapter 12.8 (commencing with Section  
19 7070) of Division 7 of Title 1 of the Government Code.

20 (f) Any taxpayer who elects to be subject to this section shall  
21 not be entitled to claim for the same property, the deduction under  
22 Section 179 of the Internal Revenue Code, relating to an election  
23 to expense certain depreciable business assets. However, the  
24 taxpayer may claim depreciation by any method permitted by  
25 Section 168 of the Internal Revenue Code, commencing with the  
26 taxable year following the taxable year in which the Section  
27 17267.2 property is placed in service.

28 (g) The aggregate cost of all Section 17267.2 property that may  
29 be taken into account under subdivision (a) for any taxable year  
30 shall not exceed the following applicable amount for the taxable  
31 year of the designation of the relevant enterprise zone and taxable  
32 years thereafter:

33		
34		The applicable
35		amount is:
36	Taxable year of designation .....	\$100,000
37	1st taxable year thereafter .....	100,000
38	2nd taxable year thereafter .....	75,000
39	3rd taxable year thereafter .....	75,000
40	Each taxable year thereafter .....	50,000

1 (h) Any amounts deducted under subdivision (a) with respect  
2 to property subject to this section that ceases to be used in the  
3 taxpayer's trade or business within an enterprise zone at any time  
4 before the close of the second taxable year after the property is  
5 placed in service shall be included in income in the taxable year  
6 in which the property ceases to be so used.

7 (i) *This section shall cease to be operative for taxable years*  
8 *beginning on or after January 1, 2014, and shall be repealed on*  
9 *December 1, 2014.*

10 SEC. 20. *Section 17267.6 of the Revenue and Taxation Code*  
11 *is amended to read:*

12 17267.6. (a) For each taxable year beginning on or after  
13 January 1, 1998, a qualified taxpayer may elect to treat 40 percent  
14 of the cost of any Section 17267.6 property as an expense that is  
15 not chargeable to a capital account. Any cost so treated shall be  
16 allowed as a deduction for the taxable year in which the qualified  
17 taxpayer places the Section 17267.6 property in service.

18 (b) In the case of a husband and wife filing separate returns for  
19 a taxable year, the applicable amount under subdivision (a) shall  
20 be equal to 50 percent of the percentage specified in subdivision  
21 (a).

22 (c) (1) An election under this section for any taxable year shall  
23 do both of the following:

24 (A) Specify the items of Section 17267.6 property to which the  
25 election applies and the percentage of the cost of each of those  
26 items that are to be taken into account under subdivision (a).

27 (B) Be made on the qualified taxpayer's original return of the  
28 tax imposed by this part for the taxable year.

29 (2) Any election made under this section, and any specification  
30 contained in that election, may not be revoked except with the  
31 consent of the Franchise Tax Board.

32 (d) (1) For purposes of this section, "Section 17267.6 property"  
33 means any recovery property that is:

34 (A) Section 1245 property (as defined in Section 1245(a)(3) of  
35 the Internal Revenue Code).

36 (B) Purchased and placed in service by the qualified taxpayer  
37 for exclusive use in a trade or business conducted within a targeted  
38 tax area designated pursuant to Chapter 12.93 (commencing with  
39 Section 7097) of Division 7 of Title 1 of the Government Code.

1 (C) Purchased and placed in service before the date the targeted  
2 tax area designation expires, is revoked, is no longer binding, or  
3 becomes inoperative.

4 (2) For purposes of paragraph (1), “purchase” means any  
5 acquisition of property, but only if both of the following apply:

6 (A) The property is not acquired from a person whose  
7 relationship to the person acquiring it would result in the  
8 disallowance of losses under Section 267 or Section 707(b) of the  
9 Internal Revenue Code. However, in applying Sections 267(b) and  
10 267(c) for purposes of this section, Section 267(c)(4) shall be  
11 treated as providing that the family of an individual shall include  
12 only the individual’s spouse, ancestors, and lineal descendants.

13 (B) The basis of the property in the hands of the person acquiring  
14 it is not determined in whole or in part by reference to the adjusted  
15 basis of that property in the hands of the person from whom it is  
16 acquired.

17 (3) For purposes of this section, the cost of property does not  
18 include that portion of the basis of the property that is determined  
19 by reference to the basis of other property held at any time by the  
20 person acquiring the property.

21 (4) This section shall not apply to estates and trusts.

22 (5) This section shall not apply to any property for which the  
23 qualified taxpayer may not make an election for the taxable year  
24 under Section 179 of the Internal Revenue Code because of the  
25 application of the provisions of Section 179(d) of the Internal  
26 Revenue Code.

27 (6) In the case of a partnership, the percentage limitation  
28 specified in subdivision (a) shall apply at the partnership level and  
29 at the partner level.

30 (e) (1) For purposes of this section, “qualified taxpayer” means  
31 a person or entity that meets both of the following:

32 (A) Is engaged in a trade or business within a targeted tax area  
33 designated pursuant to Chapter 12.93 (commencing with Section  
34 7097) of Division 7 of Title 1 of the Government Code.

35 (B) Is engaged in those lines of business described in Codes  
36 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299,  
37 inclusive; 4500 to 4599, inclusive, and 4700 to 5199, inclusive,  
38 of the Standard Industrial Classification (SIC) Manual published  
39 by the United State Office of Management and Budget, 1987  
40 edition.

1 (2) In the case of any pass-through entity, the determination of  
 2 whether a taxpayer is a qualified taxpayer under this section shall  
 3 be made at the entity level and any deduction under this section  
 4 or Section 24356.6 shall be allowed to the pass-through entity and  
 5 passed through to the partners or shareholders in accordance with  
 6 applicable provisions of this part of Part 11 (commencing with  
 7 Section 23001). For purposes of this subparagraph, the term  
 8 “pass-through entity” means any partnership or S corporation.

9 (f) Any qualified taxpayer who elects to be subject to this section  
 10 shall not be entitled to claim for the same property, the deduction  
 11 under Section 179 of the Internal Revenue Code, relating to an  
 12 election to expense certain depreciable business assets. However,  
 13 the qualified taxpayer may claim depreciation by any method  
 14 permitted by Section 168 of the Internal Revenue Code,  
 15 commencing with the taxable year following the taxable year in  
 16 which the Section 17267.6 property is placed in service.

17 (g) The aggregate cost of all Section 17267.6 property that may  
 18 be taken into account under subdivision (a) for any taxable year  
 19 shall not exceed the following applicable amount for the taxable  
 20 year of the designation of the relevant targeted tax area and taxable  
 21 years thereafter:

22		The applicable
23		amount is:
24		
25	Taxable year of designation .....	\$100,000
26	1st taxable year thereafter .....	100,000
27	2nd taxable year thereafter .....	75,000
28	3rd taxable year thereafter .....	75,000
29	Each taxable year thereafter .....	50,000
30		

31 (h) Any amounts deducted under subdivision (a) with respect  
 32 to Section 17267.6 property that ceases to be used in the qualified  
 33 taxpayer’s trade or business within a targeted tax area at any time  
 34 before the close of the second taxable year after the property is  
 35 placed in service shall be included in income in the taxable year  
 36 in which the property ceases to be so used.

37 (i) *This section shall cease to be operative for taxable years*  
 38 *beginning on or after January 1, 2014, and shall be repealed on*  
 39 *December 1, 2014.*

1     *SEC. 21. Section 17268 of the Revenue and Taxation Code is*  
2     *amended to read:*

3     17268. (a) For each taxable year beginning on or after January  
4     1, 1995, a taxpayer may elect to treat 40 percent of the cost of any  
5     Section 17268 property as an expense that is not chargeable to the  
6     capital account. Any cost so treated shall be allowed as a deduction  
7     for the taxable year in which the taxpayer places the Section 17268  
8     property in service.

9     (b) In the case of a husband or wife filing separate returns for  
10    a taxable year in which a spouse is entitled to the deduction under  
11    subdivision (a), the applicable amount shall be equal to 50 percent  
12    of the amount otherwise determined under subdivision (a).

13    (c) (1) An election under this section for any taxable year shall  
14    meet both of the following requirements:

15    (A) Specify the items of Section 17268 property to which the  
16    election applies and the portion of the cost of each of those items  
17    that is to be taken into account under subdivision (a).

18    (B) Be made on the taxpayer's return of the tax imposed by this  
19    part for the taxable year.

20    (2) Any election made under this section, and any specification  
21    contained in that election, may not be revoked except with the  
22    consent of the Franchise Tax Board.

23    (d) (1) For purposes of this section, "Section 17268 property"  
24    means any recovery property that is each of the following:

25    (A) Section 1245 property (as defined in Section 1245(a)(3) of  
26    the Internal Revenue Code).

27    (B) Purchased by the taxpayer for exclusive use in a trade or  
28    business conducted within a LAMBRA.

29    (C) Purchased before the date the LAMBRA designation expires,  
30    is no longer binding, or becomes inoperative.

31    (2) For purposes of paragraph (1), "purchase" means any  
32    acquisition of property, but only if both of the following apply:

33    (A) The property is not acquired from a person whose  
34    relationship to the person acquiring it would result in the  
35    disallowance of losses under Section 267 or 707(b) of the Internal  
36    Revenue Code (but, in applying Section 267(b) and Section 267(c)  
37    of the Internal Revenue Code for purposes of this section, Section  
38    267(c)(4) of the Internal Revenue Code shall be treated as  
39    providing that the family of an individual shall include only his or  
40    her spouse, ancestors, and lineal descendants).

1 (B) The basis of the property in the hands of the person acquiring  
2 it is not determined by either of the following:

3 (i) In whole or in part by reference to the adjusted basis of the  
4 property in the hands of the person from whom acquired.

5 (ii) Under Section 1014 of the Internal Revenue Code, relating  
6 to basis of property acquired from a decedent.

7 (3) For purposes of this section, the cost of property does not  
8 include that portion of the basis of the property that is determined  
9 by reference to the basis of other property held at any time by the  
10 person acquiring the property.

11 (4) This section shall not apply to estates and trusts.

12 (5) This section shall not apply to any property for which the  
13 taxpayer may not make an election for the taxable year under  
14 Section 179 of the Internal Revenue Code because of the provisions  
15 of Section 179(d) of the Internal Revenue Code.

16 (6) In the case of a partnership, the dollar limitation in  
17 subdivision (f) shall apply at the partnership level and at the partner  
18 level.

19 (7) This section shall not apply to any property described in  
20 Section 168(f) of the Internal Revenue Code, relating to property  
21 to which Section 168 of the Internal Revenue Code does not apply.

22 (e) For purposes of this section:

23 (1) "LAMBRA" means a local agency military base recovery  
24 area designated in accordance with the provisions of Section 7114  
25 of the Government Code.

26 (2) "Taxpayer" means a taxpayer that conducts a trade or  
27 business within a LAMBRA and, for the first two taxable years,  
28 has a net increase in jobs (defined as 2,000 paid hours per employee  
29 per year) of one or more employees in the LAMBRA.

30 (A) The net increase in the number of jobs shall be determined  
31 by subtracting the total number of full-time employees (defined  
32 as 2,000 paid hours per employee per year) the taxpayer employed  
33 in this state in the taxable year prior to commencing business  
34 operations in the LAMBRA from the total number of full-time  
35 employees the taxpayer employed in this state during the second  
36 taxable year after commencing business operations in the  
37 LAMBRA. For taxpayers who commence doing business in this  
38 state with their LAMBRA business operation, the number of  
39 employees for the taxable year prior to commencing business  
40 operations in the LAMBRA shall be zero. If the taxpayer has a net

1 increase in jobs in the state, the credit shall be allowed only if one  
2 or more full-time employees is employed within the LAMBRA.

3 (B) The total number of employees employed in the LAMBRA  
4 shall equal the sum of both of the following:

5 (i) The total number of hours worked in the LAMBRA for the  
6 taxpayer by employees (not to exceed 2,000 hours per employee)  
7 who are paid an hourly wage divided by 2,000.

8 (ii) The total number of months worked in the LAMBRA for  
9 the taxpayer by employees who are salaried employees divided  
10 by 12.

11 (C) In the case of a taxpayer who first commences doing  
12 business in the LAMBRA during the taxable year, for purposes of  
13 clauses (i) and (ii), respectively, of subparagraph (B) the divisors  
14 “2,000” and “12” shall be multiplied by a fraction, the numerator  
15 of which is the number of months of the taxable year that the  
16 taxpayer was doing business in the LAMBRA and the denominator  
17 of which is 12.

18 (f) The aggregate cost of all Section 17268 property that may  
19 be taken into account under subdivision (a) for any taxable year  
20 shall not exceed the following applicable amounts for the taxable  
21 year of the designation of the relevant LAMBRA and taxable years  
22 thereafter:

23		
24		The applicable
25		amount is:
26	Taxable year of designation .....	\$100,000
27	1st taxable year thereafter .....	100,000
28	2nd taxable year thereafter .....	75,000
29	3rd taxable year thereafter .....	75,000
30	Each taxable year thereafter .....	50,000

31  
32 (g) This section shall apply only to property that is used  
33 exclusively in a trade or business conducted within a LAMBRA.

34 (h) (1) Any amounts deducted under subdivision (a) with respect  
35 to property that ceases to be used in the trade or business within  
36 a LAMBRA at any time before the close of the second taxable  
37 year after the property was placed in service shall be included in  
38 income for that year.

39 (2) At the close of the second taxable year, if the taxpayer has  
40 not increased the number of its employees as determined by

1 paragraph (2) of subdivision (e), then the amount of the deduction  
2 previously claimed shall be added to the taxpayer's taxable income  
3 for the taxpayer's second taxable year.

4 (i) Any taxpayer who elects to be subject to this section shall  
5 not be entitled to claim for the same property the deduction under  
6 Section 179 of the Internal Revenue Code, relating to an election  
7 to expense certain depreciable business assets.

8 (j) *This section shall cease to be operative for taxable years*  
9 *beginning on or after January 1, 2014, and shall be repealed on*  
10 *December 1, 2014.*

11 *SEC. 22. Section 17276.2 of the Revenue and Taxation Code*  
12 *is amended to read:*

13 17276.2. (a) The term "qualified taxpayer" as used in Section  
14 17276.1 includes a person or entity engaged in the conduct of a  
15 trade or business within an enterprise zone designated pursuant to  
16 Chapter 12.8 (commencing with Section 7070) of Division 7 of  
17 Title 1 of the Government Code. For purposes of this subdivision,  
18 all of the following shall apply:

19 (1) A net operating loss shall not be a net operating loss  
20 carryback to any taxable year and a net operating loss for any  
21 taxable year beginning on or after the date that the area in which  
22 the taxpayer conducts a trade or business is designated as an  
23 enterprise zone shall be a net operating loss carryover to each of  
24 the 15 taxable years following the taxable year of loss.

25 (2) For purposes of this subdivision:

26 (A) "Net operating loss" means the loss determined under  
27 Section 172 of the Internal Revenue Code, as modified by Section  
28 17276.1, attributable to the taxpayer's business activities within  
29 the enterprise zone (as defined in Chapter 12.8 (commencing with  
30 Section 7070) of Division 7 of Title 1 of the Government Code)  
31 prior to the enterprise zone expiration date. That attributable loss  
32 shall be determined in accordance with Chapter 17 (commencing  
33 with Section 25101) of Part 11, modified for purposes of this  
34 subdivision, as follows:

35 (i) Loss shall be apportioned to the enterprise zone by  
36 multiplying total loss from the business by a fraction, the numerator  
37 of which is the property factor plus the payroll factor, and the  
38 denominator of which is two.

39 (ii) "The enterprise zone" shall be substituted for "this state."

1 (B) A net operating loss carryover shall be a deduction only  
2 with respect to the taxpayer's business income attributable to the  
3 enterprise zone as defined in Chapter 12.8 (commencing with  
4 Section 7070) of Division 7 of Title 1 of the Government Code.

5 (C) Attributable income is that portion of the taxpayer's  
6 California source business income that is apportioned to the  
7 enterprise zone. For that purpose, the taxpayer's business income  
8 attributable to sources in this state first shall be determined in  
9 accordance with Chapter 17 (commencing with Section 25101) of  
10 Part 11. That business income shall be further apportioned to the  
11 enterprise zone in accordance with Article 2 (commencing with  
12 Section 25120) of Chapter 17 of Part 11, modified for purposes  
13 of this subdivision as follows:

14 (i) Business income shall be apportioned to the enterprise zone  
15 by multiplying the total California business income of the taxpayer  
16 by a fraction, the numerator of which is the property factor plus  
17 the payroll factor, and the denominator of which is two. For  
18 purposes of this clause:

19 (I) The property factor is a fraction, the numerator of which is  
20 the average value of the taxpayer's real and tangible personal  
21 property owned or rented and used in the enterprise zone during  
22 the taxable year, and the denominator of which is the average value  
23 of all the taxpayer's real and tangible personal property owned or  
24 rented and used in this state during the taxable year.

25 (II) The payroll factor is a fraction, the numerator of which is  
26 the total amount paid by the taxpayer in the enterprise zone during  
27 the taxable year for compensation, and the denominator of which  
28 is the total compensation paid by the taxpayer in this state during  
29 the taxable year.

30 (ii) If a loss carryover is allowable pursuant to this section for  
31 any taxable year after the enterprise zone designation has expired,  
32 the enterprise zone shall be deemed to remain in existence for  
33 purposes of computing the limitation set forth in subparagraph (B)  
34 and allowing a net operating loss deduction.

35 (D) "Enterprise zone expiration date" means the date the  
36 enterprise zone designation expires, is no longer binding, or  
37 becomes inoperative.

38 (3) The changes made to this subdivision by the act adding this  
39 paragraph shall apply to taxable years beginning on or after January  
40 1, 1998.

1 (b) A taxpayer who qualifies as a “qualified taxpayer” under  
2 one or more sections shall, for the taxable year of the net operating  
3 loss and any taxable year to which that net operating loss may be  
4 carried, designate on the original return filed for each year the  
5 section which applies to that taxpayer with respect to that net  
6 operating loss. If the taxpayer is eligible to qualify under more  
7 than one section, the designation is to be made after taking into  
8 account subdivision (c).

9 (c) If a taxpayer is eligible to qualify under this section and  
10 either Section 17276.4, 17276.5, or 17276.6 as a “qualified  
11 taxpayer,” with respect to a net operating loss in a taxable year,  
12 the taxpayer shall designate which section is to apply to the  
13 taxpayer.

14 (d) Notwithstanding Section 17276, the amount of the loss  
15 determined under this section or Section 17276.4, 17276.5, or  
16 17276.6 shall be the only net operating loss allowed to be carried  
17 over from that taxable year and the designation under subdivision  
18 (b) shall be included in the election under Section 17276.1.

19 (e) *This section shall cease to be operative for taxable years*  
20 *beginning on or after January 1, 2014, and shall be repealed on*  
21 *December 1, 2014.*

22 *SEC. 23. Section 17276.5 of the Revenue and Taxation Code*  
23 *is amended to read:*

24 17276.5. (a) For each taxable year beginning on or after  
25 January 1, 1995, the term “qualified taxpayer” as used in Section  
26 17276.1 includes a taxpayer engaged in the conduct of a trade or  
27 business within a LAMBRA. For purposes of this subdivision, all  
28 of the following shall apply:

29 (1) A net operating loss shall not be a net operating loss  
30 carryback for any taxable year, and a net operating loss for any  
31 taxable year beginning on or after the date the area in which the  
32 taxpayer conducts a trade or business is designated a LAMBRA  
33 shall be a net operating loss carryover to each following taxable  
34 year that ends before the LAMBRA expiration date or to each of  
35 the 15 taxable years following the taxable year of loss, if longer.

36 (2) “LAMBRA” means a local agency military base recovery  
37 area designated in accordance with Section 7114 of the Government  
38 Code.

39 (3) “Taxpayer” means a person or entity that conducts a trade  
40 or business within a LAMBRA and, for the first two taxable years,

1 has a net increase in jobs (defined as 2,000 paid hours per employee  
 2 per year) of one or more employees in the LAMBRA and this state.  
 3 For purposes of this paragraph:

4 (A) The net increase in the number of jobs shall be determined  
 5 by subtracting the total number of full-time employees (defined  
 6 as 2,000 paid hours per employee per year) the taxpayer employed  
 7 in this state in the taxable year prior to commencing business  
 8 operations in the LAMBRA from the total number of full-time  
 9 employees the taxpayer employed in this state during the second  
 10 taxable year after commencing business operations in the  
 11 LAMBRA. For taxpayers who commence doing business in this  
 12 state with their LAMBRA business operation, the number of  
 13 employees for the taxable year prior to commencing business  
 14 operations in the LAMBRA shall be zero. The deduction shall be  
 15 allowed only if the taxpayer has a net increase in jobs in the state,  
 16 and if one or more full-time employees is employed within the  
 17 LAMBRA.

18 (B) The total number of employees employed in the LAMBRA  
 19 shall equal the sum of both of the following:

20 (i) The total number of hours worked in the LAMBRA for the  
 21 taxpayer by employees (not to exceed 2,000 hours per employee)  
 22 who are paid an hourly wage divided by 2,000.

23 (ii) The total number of months worked in the LAMBRA for  
 24 the taxpayer by employees who are salaried employees divided  
 25 by 12.

26 (C) In the case of a taxpayer who first commences doing  
 27 business in the LAMBRA during the taxable year, for purposes of  
 28 clauses (i) and (ii), respectively, of subparagraph (B), the divisors  
 29 “2,000” and “12” shall be multiplied by a fraction, the numerator  
 30 of which is the number of months of the taxable year that the  
 31 taxpayer was doing business in the LAMBRA and the denominator  
 32 of which is 12.

33 (4) “Net operating loss” means the loss determined under  
 34 Section 172 of the Internal Revenue Code, as modified by Section  
 35 17276.1, attributable to the taxpayer’s business activities within a  
 36 LAMBRA prior to the LAMBRA expiration date. The attributable  
 37 loss shall be determined in accordance with Chapter 17  
 38 (commencing with Section 25101) of Part 11, modified for  
 39 purposes of this section as follows:

1 (A) Loss shall be apportioned to a LAMBRA by multiplying  
2 total loss from the business by a fraction, the numerator of which  
3 is the property factor plus the payroll factor, and the denominator  
4 of which is 2.

5 (B) “The LAMBRA” shall be substituted for “this state.”

6 (5) A net operating loss carryover shall be a deduction only with  
7 respect to the taxpayer’s business income attributable to a  
8 LAMBRA.

9 (6) Attributable income is that portion of the taxpayer’s  
10 California source business income that is apportioned to the  
11 LAMBRA. For that purpose, the taxpayer’s business income  
12 attributable to sources in this state first shall be determined in  
13 accordance with Chapter 17 (commencing with Section 25101) of  
14 Part 11. That business income shall be further apportioned to the  
15 LAMBRA in accordance with Article 2 (commencing with Section  
16 25120) of Chapter 17 of Part 11, modified for purposes of this  
17 subdivision as follows:

18 (A) Business income shall be apportioned to a LAMBRA by  
19 multiplying total California business income of the taxpayer by a  
20 fraction, the numerator of which is the property factor plus the  
21 payroll factor, and the denominator of which is two. For purposes  
22 of this clause:

23 (i) The property factor is a fraction, the numerator of which is  
24 the average value of the taxpayer’s real and tangible personal  
25 property owned or rented and used in the LAMBRA during the  
26 taxable year, and the denominator of which is the average value  
27 of all the taxpayer’s real and tangible personal property owned or  
28 rented and used in this state during the taxable year.

29 (ii) The payroll factor is a fraction, the numerator of which is  
30 the total amount paid by the taxpayer in the LAMBRA during the  
31 taxable year for compensation, and the denominator of which is  
32 the total compensation paid by the taxpayer in this state during the  
33 taxable year.

34 (B) If a loss carryover is allowable pursuant to this section for  
35 any taxable year after the LAMBRA designation has expired, the  
36 LAMBRA shall be deemed to remain in existence for purposes of  
37 computing the limitation specified in paragraph (5) and allowing  
38 a net operating loss deduction.

1 (7) “LAMBRA expiration date” means the date the LAMBRA  
2 designation expires, is no longer binding, or becomes inoperative  
3 pursuant to Section 7110 of the Government Code.

4 (b) A taxpayer who qualifies as a “qualified taxpayer” under  
5 one or more sections shall, for the taxable year of the net operating  
6 loss and any taxable year to which that net operating loss may be  
7 carried, designate on the original return filed for each year the  
8 section that applies to that taxpayer with respect to that net  
9 operating loss. If the taxpayer is eligible to qualify under more  
10 than one section, the designation is to be made after taking into  
11 account subdivision (c).

12 (c) If a taxpayer is eligible to qualify under this section and  
13 either Section 17276.2, 17276.4, or 17276.6 as a “qualified  
14 taxpayer,” with respect to a net operating loss in a taxable year,  
15 the taxpayer shall designate which section is to apply to the  
16 taxpayer.

17 (d) Notwithstanding Section 17276, the amount of the loss  
18 determined under this section or Section 17276.2, 17276.4, or  
19 17276.6 shall be the only net operating loss allowed to be carried  
20 over from that taxable year and the designation under subdivision  
21 (b) shall be included in the election under Section 17276.1.

22 (e) This section shall apply to taxable years beginning on or  
23 after January 1, 1998.

24 (f) *This section shall cease to be operative for taxable years*  
25 *beginning on or after January 1, 2014, and shall be repealed on*  
26 *December 1, 2014.*

27 *SEC. 24. Section 17276.6 of the Revenue and Taxation Code*  
28 *is amended to read:*

29 17276.6. (a) For each taxable year beginning on or after  
30 January 1, 1998, the term “qualified taxpayer” as used in Section  
31 17276.1 includes a person or entity that meets both of the  
32 following:

33 (1) Is engaged in a trade or business within a targeted tax area  
34 designated pursuant to Chapter 12.93 (commencing with Section  
35 7097) of Division 7 of Title 1 of the Government Code.

36 (2) Is engaged in those lines of business described in Codes  
37 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299,  
38 inclusive; 4500 to 4599, inclusive; and 4700 to 5199, inclusive,  
39 of the Standard Industrial Classification (SIC) Manual published  
40 by the United States Office of Management and Budget, 1987

1 edition. In the case of any pass-through entity, the determination  
2 of whether a taxpayer is a qualified taxpayer under this section  
3 shall be made at the entity level.

4 (b) For purposes of subdivision (a), all of the following shall  
5 apply:

6 (1) A net operating loss shall not be a net operating loss  
7 carryback to any taxable year and a net operating loss for any  
8 taxable year beginning on or after the date that the area in which  
9 the qualified taxpayer conducts a trade or business is designated  
10 as a targeted tax area shall be a net operating loss carryover to each  
11 of the 15 taxable years following the taxable year of loss.

12 (2) “Net operating loss” means the loss determined under  
13 Section 172 of the Internal Revenue Code, as modified by Section  
14 17276.1, attributable to the qualified taxpayer’s business activities  
15 within the targeted tax area (as defined in Chapter 12.93  
16 (commencing with Section 7097) of Division 7 of Title 1 of the  
17 Government Code) prior to the targeted tax area expiration date.  
18 That attributable loss shall be determined in accordance with  
19 Chapter 17 (commencing with Section 25101) of Part 11, modified  
20 for purposes of this section as follows:

21 (A) Loss shall be apportioned to the targeted tax area by  
22 multiplying total loss from the business by a fraction, the numerator  
23 of which is the property factor plus the payroll factor, and the  
24 denominator of which is 2.

25 (B) “The targeted tax area” shall be substituted for “this state.”

26 (3) A net operating loss carryover shall be a deduction only with  
27 respect to the qualified taxpayer’s business income attributable to  
28 the targeted tax area as defined in Chapter 12.93 (commencing  
29 with Section 7097) of Division 7 of Title 1 of the Government  
30 Code.

31 (4) Attributable income shall be that portion of the qualified  
32 taxpayer’s California source business income that is apportioned  
33 to the targeted tax area. For that purpose, the qualified taxpayer’s  
34 business income attributable to sources in this state first shall be  
35 determined in accordance with Chapter 17 (commencing with  
36 Section 25101) of Part 11. That business income shall be further  
37 apportioned to the targeted tax area in accordance with Article 2  
38 (commencing with Section 25120) of Chapter 17 of Part 11,  
39 modified for purposes of this subdivision as follows:

1 (A) Business income shall be apportioned to the targeted tax  
2 area by multiplying the total business income of the taxpayer by  
3 a fraction, the numerator of which is the property factor plus the  
4 payroll factor, and the denominator of which is two. For purposes  
5 of this clause:

6 (i) The property factor is a fraction, the numerator of which is  
7 the average value of the taxpayer's real and tangible personal  
8 property owned or rented and used in the targeted tax area during  
9 the taxable year, and the denominator of which is the average value  
10 of all the taxpayer's real and tangible personal property owned or  
11 rented and used in this state during the taxable year.

12 (ii) The payroll factor is a fraction, the numerator of which is  
13 the total amount paid by the taxpayer in the targeted tax area during  
14 the taxable year for compensation, and the denominator of which  
15 is the total compensation paid by the taxpayer in this state during  
16 the taxable year.

17 (B) If a loss carryover is allowable pursuant to this subdivision  
18 for any taxable year after the targeted tax area expiration date, the  
19 targeted tax area designation shall be deemed to remain in existence  
20 for purposes of computing the limitation specified in subparagraph  
21 (B) and allowing a net operating loss deduction.

22 (5) "Targeted tax area expiration date" means the date the  
23 targeted tax area designation expires, is revoked, is no longer  
24 binding, or becomes inoperative.

25 ~~(b)~~

26 (c) A taxpayer who qualifies as a "qualified taxpayer" under  
27 one or more sections shall, for the taxable year of the net operating  
28 loss and any taxable year to which that net operating loss may be  
29 carried, designate on the original return filed for each year the  
30 section that applies to that taxpayer with respect to that net  
31 operating loss. If the taxpayer is eligible to qualify under more  
32 than one section, the designation is to be made after taking into  
33 account subdivision ~~(e)~~. (d).

34 ~~(e)~~

35 (d) If a taxpayer is eligible to qualify under this section and  
36 either Section 17276.2, 17276.4, or 17276.5 as a "qualified  
37 taxpayer," with respect to a net operating loss in a taxable year,  
38 the taxpayer shall designate which section is to apply to the  
39 taxpayer.

40 ~~(d)~~

1 (e) Notwithstanding Section 17276, the amount of the loss  
2 determined under this section or Section 17276.2, 17276.4, or  
3 17276.5 shall be the only net operating loss allowed to be carried  
4 over from that taxable year and the designation under subdivision  
5 ~~(b)~~ (c) shall be included in the election under Section 17276.1.

6 ~~(e)~~

7 (f) This section shall apply to taxable years beginning on or  
8 after January 1, 1998.

9 (g) *This section shall cease to be operative for taxable years  
10 beginning on or after January 1, 2014, and shall be repealed on  
11 December 1, 2014.*

12 *SEC. 25. Section 18410.2 is added to the Revenue and Taxation  
13 Code, to read:*

14 *18410.2. (a) The California Competes Tax Credit Committee  
15 is hereby established. The committee shall consist of the Treasurer,  
16 the Director of Finance, the Director of the Governor's Office of  
17 Business and Economic Development, and an appointee of the  
18 Senate and Assembly, or their designated representatives.*

19 *(b) For purposes of Sections 17059.2 and 23689, the California  
20 Competes Tax Credit Committee shall do all of the following:*

21 *(1) Approve or reject any written agreement for a tax credit  
22 allocation by resolution at a duly noticed public meeting held in  
23 accordance with the Bagley-Keene Open Meeting Act (Article 9  
24 commencing with Section 11120) of Chapter 1 of Part 1 of  
25 Division 3 of Title 2 of the Government Code), but only after  
26 receipt of the fully executed written agreement between the  
27 taxpayer and the Governor's Office of Business and Economic  
28 Development.*

29 *(2) Approve or reject any recommendation to recapture, in  
30 whole or in part, a tax credit allocation by resolution at a duly  
31 noticed public meeting held in accordance with the Bagley-Keene  
32 Open Meeting Act (Article 9 commencing with Section 11120) of  
33 Chapter 1 of Part 1 of Division 3 of Title 2 of the Government  
34 Code), but only after receipt of the recommendation from the  
35 Governor's Office of Business and Economic Development  
36 pursuant to the terms of the fully executed written agreement.*

37 *SEC. 26. Section 19136.8 of the Revenue and Taxation Code  
38 is amended to read:*

39 *19136.8. (a) No addition to tax shall be made under Section  
40 19136 with respect to any underpayment of an installment to the*

1 extent that the underpayment was created or increased by the  
2 disallowance of a credit under subdivision (g) of Section 17053.80.

3 (b) No addition to tax shall be made under Section 19142 with  
4 respect to any underpayment of an installment to the extent that  
5 the underpayment was created or increased by the disallowance  
6 of a credit under subdivision (g) of Section 23623.

7 (c) The Franchise Tax Board shall adopt procedures, forms, and  
8 instructions necessary to implement this section in a reasonable  
9 manner.

10 (d) *This section shall cease to be operative for taxable years*  
11 *beginning on or after January 1, 2014, and shall be repealed on*  
12 *December 1, 2014.*

13 *SEC. 27. Section 23612.2 of the Revenue and Taxation Code*  
14 *is amended to read:*

15 23612.2. (a) There shall be allowed as a credit against the  
16 “tax” (as defined by Section 23036) for the taxable year an amount  
17 equal to the sales or use tax paid or incurred during the taxable  
18 year by the taxpayer in connection with the taxpayer’s purchase  
19 of ~~qualified property.~~ *property before January 1, 2014.*

20 (b) For purposes of this section:

21 (1) “Taxpayer” means a corporation engaged in a trade or  
22 business within an enterprise zone.

23 (2) “Qualified property” means:

24 (A) Any of the following:

25 (i) Machinery and machinery parts used for fabricating,  
26 processing, assembling, and manufacturing.

27 (ii) Machinery and machinery parts used for the production of  
28 renewable energy resources.

29 (iii) Machinery and machinery parts used for either of the  
30 following:

31 (I) Air pollution control mechanisms.

32 (II) Water pollution control mechanisms.

33 (iv) Data-processing and communications equipment, including,  
34 but not limited to, computers, computer-automated drafting  
35 systems, copy machines, telephone systems, and faxes.

36 (v) Motion picture manufacturing equipment central to  
37 production and postproduction, including, but not limited to,  
38 cameras, audio recorders, and digital image and sound processing  
39 equipment.

1 (B) The total cost of qualified property purchased and placed  
2 in service in any taxable year that may be taken into account by  
3 any taxpayer for purposes of claiming this credit shall not exceed  
4 twenty million dollars (\$20,000,000).

5 (C) The qualified property is used by the taxpayer exclusively  
6 in an enterprise zone.

7 (D) The qualified property is purchased and placed in service  
8 before the date the enterprise zone designation expires, is no longer  
9 binding, or becomes inoperative.

10 (3) “Enterprise zone” means the area designated as an enterprise  
11 zone pursuant to Chapter 12.8 (commencing with Section 7070)  
12 of Division 7 of Title 1 of the Government Code *as it read on the*  
13 *effective date of the act amending this section.*

14 (c) If the taxpayer has purchased property upon which a use tax  
15 has been paid or incurred, the credit provided by this section shall  
16 be allowed only if qualified property of a comparable quality and  
17 price is not timely available for purchase in this state.

18 (d) In the case where the credit otherwise allowed under this  
19 section exceeds the “tax” for the taxable year, that portion of the  
20 credit which exceeds the “tax” may be carried over and added to  
21 the credit, if any, in the ~~following year, and succeeding~~ *succeeding*  
22 *five taxable* years if necessary, until the credit is exhausted. The  
23 credit shall be applied first to the earliest taxable years possible.

24 (e) Any taxpayer ~~who~~ *that* elects to be subject to this section  
25 shall not be entitled to increase the basis of the qualified property  
26 as otherwise required by Section 164(a) of the Internal Revenue  
27 Code with respect to sales or use tax paid or incurred in connection  
28 with the taxpayer’s purchase of qualified property.

29 (f) (1) The amount of credit otherwise allowed under this  
30 section and Section 23622.7, including any credit carryover from  
31 prior years, that may reduce the “tax” for the taxable year shall  
32 not exceed the amount of tax which would be imposed on the  
33 taxpayer’s business income attributable to the enterprise zone  
34 determined as if that attributable income represented all of the  
35 income of the taxpayer subject to tax under this part.

36 (2) Attributable income shall be that portion of the taxpayer’s  
37 California source business income that is apportioned to the  
38 enterprise zone. For that purpose, the taxpayer’s business income  
39 attributable to sources in this state first shall be determined in  
40 accordance with Chapter 17 (commencing with Section 25101).

1 That business income shall be further apportioned to the enterprise  
2 zone in accordance with Article 2 (commencing with Section  
3 25120) of Chapter 17, modified for purposes of this section in  
4 accordance with paragraph (3).

5 (3) Business income shall be apportioned to the enterprise zone  
6 by multiplying the total California business income of the taxpayer  
7 by a fraction, the numerator of which is the property factor plus  
8 the payroll factor, and the denominator of which is two. For  
9 purposes of this paragraph:

10 (A) The property factor is a fraction, the numerator of which is  
11 the average value of the taxpayer's real and tangible personal  
12 property owned or rented and used in the enterprise zone during  
13 the taxable year, and the denominator of which is the average value  
14 of all the taxpayer's real and tangible personal property owned or  
15 rented and used in this state during the taxable year.

16 (B) The payroll factor is a fraction, the numerator of which is  
17 the total amount paid by the taxpayer in the enterprise zone during  
18 the taxable year for compensation, and the denominator of which  
19 is the total compensation paid by the taxpayer in this state during  
20 the taxable year.

21 (4) The portion of any credit remaining, if any, after application  
22 of this subdivision, shall be carried over to succeeding taxable  
23 ~~years, years if necessary, until the credit is exhausted,~~ as if it were  
24 an amount exceeding the "tax" for the taxable year, as provided  
25 in subdivision (d). *However, the portion of any credit remaining*  
26 *for carryover to taxable years beginning on January 1, 2014, if*  
27 *any, after application of this subdivision, shall be carried over*  
28 *only to the succeeding five taxable years if necessary, until the*  
29 *credit is exhausted, as if it were an amount exceeding the "tax"*  
30 *for the taxable year, as provided in subdivision (d).*

31 (g) The amendments made to this section by the act adding this  
32 subdivision shall apply to taxable years beginning on or after  
33 January 1, 1998.

34 (h) *This section is repealed on December 1, 2014.*

35 SEC. 28. *Section 23622.7 of the Revenue and Taxation Code*  
36 *is amended to read:*

37 23622.7. (a) There shall be allowed a credit against the "tax"  
38 (as defined by Section 23036) to a taxpayer who employs a  
39 qualified employee in an enterprise zone during the taxable year.  
40 The credit shall be equal to the sum of each of the following:

1 (1) Fifty percent of qualified wages in the first year of  
2 employment.

3 (2) Forty percent of qualified wages in the second year of  
4 employment.

5 (3) Thirty percent of qualified wages in the third year of  
6 employment.

7 (4) Twenty percent of qualified wages in the fourth year of  
8 employment.

9 (5) Ten percent of qualified wages in the fifth year of  
10 employment.

11 (b) For purposes of this section:

12 (1) “Qualified wages” means:

13 (A) (i) Except as provided in clause (ii), that portion of wages  
14 paid or incurred by the taxpayer during the taxable year to qualified  
15 employees that does not exceed 150 percent of the minimum wage.

16 (ii) For up to 1,350 qualified employees who are employed by  
17 the taxpayer in the Long Beach Enterprise Zone in aircraft  
18 manufacturing activities described in Codes 3721 to 3728,  
19 inclusive, and Code 3812 of the Standard Industrial Classification  
20 (SIC) Manual published by the United States Office of  
21 Management and Budget, 1987 edition, “qualified wages” means  
22 that portion of hourly wages that does not exceed 202 percent of  
23 the minimum wage.

24 (B) Wages received during the 60-month period beginning with  
25 the first day the employee commences employment with the  
26 taxpayer. Reemployment in connection with any increase, including  
27 a regularly occurring seasonal increase, in the trade or business  
28 operations of the taxpayer does not constitute commencement of  
29 employment for purposes of this section.

30 (C) Qualified wages do not include any wages paid or incurred  
31 by the taxpayer on or after the zone expiration date. However,  
32 wages paid or incurred with respect to qualified employees who  
33 are employed by the taxpayer within the enterprise zone within  
34 the 60-month period prior to the zone expiration date shall continue  
35 to qualify for the credit under this section after the zone expiration  
36 date, in accordance with all provisions of this section applied as  
37 if the enterprise zone designation were still in existence and  
38 binding.

39 (2) “Minimum wage” means the wage established by the  
40 Industrial Welfare Commission as provided for in Chapter 1

1 (commencing with Section 1171) of Part 4 of Division 2 of the  
2 Labor Code.

3 (3) “Zone expiration date” means the date the enterprise zone  
4 designation expires, is no longer binding, *becomes inoperative*, or  
5 ~~becomes inoperative~~; *is repealed*.

6 (4) (A) “Qualified employee” means an individual who meets  
7 all of the following requirements:

8 (i) At least 90 percent of whose services for the taxpayer during  
9 the taxable year are directly related to the conduct of the taxpayer’s  
10 trade or business located in an enterprise zone.

11 (ii) Performs at least 50 percent of his or her services for the  
12 taxpayer during the taxable year in an enterprise zone.

13 (iii) Is hired by the taxpayer after the date of original designation  
14 of the area in which services were performed as an enterprise zone.

15 (iv) Is any of the following:

16 (I) Immediately preceding the qualified employee’s  
17 commencement of employment with the taxpayer, was a person  
18 eligible for services under the federal Job Training Partnership  
19 Act (29 U.S.C. Sec. 1501 et seq.), or its successor, who is receiving,  
20 or is eligible to receive, subsidized employment, training, or  
21 services funded by the federal Job Training Partnership Act, or its  
22 successor.

23 (II) Immediately preceding the qualified employee’s  
24 commencement of employment with the taxpayer, was a person  
25 eligible to be a voluntary or mandatory registrant under the Greater  
26 Avenues for Independence Act of 1985 (GAIN) provided for  
27 pursuant to Article 3.2 (commencing with Section 11320) of  
28 Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions  
29 Code, or its successor.

30 (III) Immediately preceding the qualified employee’s  
31 commencement of employment with the taxpayer, was an  
32 economically disadvantaged individual 14 years of age or older.

33 (IV) Immediately preceding the qualified employee’s  
34 commencement of employment with the taxpayer, was a dislocated  
35 worker who meets any of the following:

36 (aa) Has been terminated or laid off or who has received a notice  
37 of termination or layoff from employment, is eligible for or has  
38 exhausted entitlement to unemployment insurance benefits, and  
39 is unlikely to return to his or her previous industry or occupation.

1 (bb) Has been terminated or has received a notice of termination  
2 of employment as a result of any permanent closure or any  
3 substantial layoff at a plant, facility, or enterprise, including an  
4 individual who has not received written notification but whose  
5 employer has made a public announcement of the closure or layoff.

6 (cc) Is long-term unemployed and has limited opportunities for  
7 employment or reemployment in the same or a similar occupation  
8 in the area in which the individual resides, including an individual  
9 55 years of age or older who may have substantial barriers to  
10 employment by reason of age.

11 (dd) Was self-employed (including farmers and ranchers) and  
12 is unemployed as a result of general economic conditions in the  
13 community in which he or she resides or because of natural  
14 disasters.

15 (ee) Was a civilian employee of the Department of Defense  
16 employed at a military installation being closed or realigned under  
17 the Defense Base Closure and Realignment Act of 1990.

18 (ff) Was an active member of the armed forces or National  
19 Guard as of September 30, 1990, and was either involuntarily  
20 separated or separated pursuant to a special benefits program.

21 (gg) Is a seasonal or migrant worker who experiences chronic  
22 seasonal unemployment and underemployment in the agriculture  
23 industry, aggravated by continual advancements in technology and  
24 mechanization.

25 (hh) Has been terminated or laid off, or has received a notice  
26 of termination or layoff, as a consequence of compliance with the  
27 Clean Air Act.

28 (V) Immediately preceding the qualified employee's  
29 commencement of employment with the taxpayer, was a disabled  
30 individual who is eligible for or enrolled in, or has completed a  
31 state rehabilitation plan or is a service-connected disabled veteran,  
32 veteran of the Vietnam era, or veteran who is recently separated  
33 from military service.

34 (VI) Immediately preceding the qualified employee's  
35 commencement of employment with the taxpayer, was an  
36 ex-offender. An individual shall be treated as convicted if he or  
37 she was placed on probation by a state court without a finding of  
38 guilt.

1 (VII) Immediately preceding the qualified employee's  
2 commencement of employment with the taxpayer, was a person  
3 eligible for or a recipient of any of the following:

4 (aa) Federal Supplemental Security Income benefits.

5 (bb) Aid to Families with Dependent Children.

6 (cc) CalFresh benefits.

7 (dd) State and local general assistance.

8 (VIII) Immediately preceding the qualified employee's  
9 commencement of employment with the taxpayer, was a member  
10 of a federally recognized Indian tribe, band, or other group of  
11 Native American descent.

12 (IX) Immediately preceding the qualified employee's  
13 commencement of employment with the taxpayer, was a resident  
14 of a targeted employment area (as defined in Section 7072 of the  
15 Government Code).

16 (X) An employee who qualified the taxpayer for the enterprise  
17 zone hiring credit under former Section 23622 or the program area  
18 hiring credit under former Section 23623.

19 (XI) Immediately preceding the qualified employee's  
20 commencement of employment with the taxpayer, was a member  
21 of a targeted group, as defined in Section 51(d) of the Internal  
22 Revenue Code, or its successor.

23 (B) Priority for employment shall be provided to an individual  
24 who is enrolled in a qualified program under the federal Job  
25 Training Partnership Act or the Greater Avenues for Independence  
26 Act of 1985 or who is eligible as a member of a targeted group  
27 under the Work Opportunity Tax Credit (Section 51 of the Internal  
28 Revenue Code), or its successor.

29 (5) "Taxpayer" means a corporation engaged in a trade or  
30 business within an enterprise zone designated pursuant to Chapter  
31 12.8 (commencing with Section 7070) of Division 7 of Title 1 of  
32 the Government Code.

33 (6) "Seasonal employment" means employment by a taxpayer  
34 that has regular and predictable substantial reductions in trade or  
35 business operations.

36 (c) The taxpayer shall do both of the following:

37 (1) Obtain from the Employment Development Department, as  
38 permitted by federal law, the local county or city Job Training  
39 Partnership Act administrative entity, the local county GAIN office  
40 or social services agency, or the local government administering

1 the enterprise zone, a certification that provides that a qualified  
2 employee meets the eligibility requirements specified in clause  
3 (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The  
4 Employment Development Department may provide preliminary  
5 screening and referral to a certifying agency. The Employment  
6 Development Department shall develop a form for this purpose.  
7 The Department of Housing and Community Development shall  
8 develop regulations governing the issuance of certificates by local  
9 governments pursuant to subdivision (a) of Section 7086 of the  
10 Government Code.

11 (2) Retain a copy of the certification and provide it upon request  
12 to the Franchise Tax Board.

13 (d) (1) For purposes of this section:

14 (A) All employees of all corporations which are members of  
15 the same controlled group of corporations shall be treated as  
16 employed by a single taxpayer.

17 (B) The credit, if any, allowable by this section to each member  
18 shall be determined by reference to its proportionate share of the  
19 expense of the qualified wages giving rise to the credit, and shall  
20 be allocated in that manner.

21 (C) For purposes of this subdivision, “controlled group of  
22 corporations” means “controlled group of corporations” as defined  
23 in Section 1563(a) of the Internal Revenue Code, except that:

24 (i) “More than 50 percent” shall be substituted for “at least 80  
25 percent” each place it appears in Section 1563(a)(1) of the Internal  
26 Revenue Code.

27 (ii) The determination shall be made without regard to  
28 subsections (a)(4) and (e)(3)(C) of Section 1563 of the Internal  
29 Revenue Code.

30 (2) If an employer acquires the major portion of a trade or  
31 business of another employer (hereinafter in this paragraph referred  
32 to as the “predecessor”) or the major portion of a separate unit of  
33 a trade or business of a predecessor, then, for purposes of applying  
34 this section (other than subdivision (e)) for any calendar year  
35 ending after that acquisition, the employment relationship between  
36 a qualified employee and an employer shall not be treated as  
37 terminated if the employee continues to be employed in that trade  
38 or business.

39 (e) (1) (A) If the employment, other than seasonal employment,  
40 of any qualified employee with respect to whom qualified wages

1 are taken into account under subdivision (a) is terminated by the  
2 taxpayer at any time during the first 270 days of that employment,  
3 whether or not consecutive, or before the close of the 270th  
4 calendar day after the day in which that employee completes 90  
5 days of employment with the taxpayer, the tax imposed by this  
6 part for the taxable year in which that employment is terminated  
7 shall be increased by an amount equal to the credit allowed under  
8 subdivision (a) for that taxable year and all prior taxable years  
9 attributable to qualified wages paid or incurred with respect to that  
10 employee.

11 (B) If the seasonal employment of any qualified employee, with  
12 respect to whom qualified wages are taken into account under  
13 subdivision (a) is not continued by the taxpayer for a period of  
14 270 days of employment during the 60-month period beginning  
15 with the day the qualified employee commences seasonal  
16 employment with the taxpayer, the tax imposed by this part, for  
17 the taxable year that includes the 60th month following the month  
18 in which the qualified employee commences seasonal employment  
19 with the taxpayer, shall be increased by an amount equal to the  
20 credit allowed under subdivision (a) for that taxable year and all  
21 prior taxable years attributable to qualified wages paid or incurred  
22 with respect to that qualified employee.

23 (2) (A) Subparagraph (A) of paragraph (1) shall not apply to  
24 any of the following:

25 (i) A termination of employment of a qualified employee who  
26 voluntarily leaves the employment of the taxpayer.

27 (ii) A termination of employment of a qualified employee who,  
28 before the close of the period referred to in subparagraph (A) of  
29 paragraph (1), becomes disabled and unable to perform the services  
30 of that employment, unless that disability is removed before the  
31 close of that period and the taxpayer fails to offer reemployment  
32 to that employee.

33 (iii) A termination of employment of a qualified employee, if  
34 it is determined that the termination was due to the misconduct (as  
35 defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of  
36 the California Code of Regulations) of that employee.

37 (iv) A termination of employment of a qualified employee due  
38 to a substantial reduction in the trade or business operations of the  
39 taxpayer.

1 (v) A termination of employment of a qualified employee, if  
2 that employee is replaced by other qualified employees so as to  
3 create a net increase in both the number of employees and the  
4 hours of employment.

5 (B) Subparagraph (B) of paragraph (1) shall not apply to any  
6 of the following:

7 (i) A failure to continue the seasonal employment of a qualified  
8 employee who voluntarily fails to return to the seasonal  
9 employment of the taxpayer.

10 (ii) A failure to continue the seasonal employment of a qualified  
11 employee who, before the close of the period referred to in  
12 subparagraph (B) of paragraph (1), becomes disabled and unable  
13 to perform the services of that seasonal employment, unless that  
14 disability is removed before the close of that period and the  
15 taxpayer fails to offer seasonal employment to that qualified  
16 employee.

17 (iii) A failure to continue the seasonal employment of a qualified  
18 employee, if it is determined that the failure to continue the  
19 seasonal employment was due to the misconduct (as defined in  
20 Sections 1256-30 to 1256-43, inclusive, of Title 22 of the California  
21 Code of Regulations) of that qualified employee.

22 (iv) A failure to continue seasonal employment of a qualified  
23 employee due to a substantial reduction in the regular seasonal  
24 trade or business operations of the taxpayer.

25 (v) A failure to continue the seasonal employment of a qualified  
26 employee, if that qualified employee is replaced by other qualified  
27 employees so as to create a net increase in both the number of  
28 seasonal employees and the hours of seasonal employment.

29 (C) For purposes of paragraph (1), the employment relationship  
30 between the taxpayer and a qualified employee shall not be treated  
31 as terminated by either of the following:

32 (i) By a transaction to which Section 381(a) of the Internal  
33 Revenue Code applies, if the qualified employee continues to be  
34 employed by the acquiring corporation.

35 (ii) By reason of a mere change in the form of conducting the  
36 trade or business of the taxpayer, if the qualified employee  
37 continues to be employed in that trade or business and the taxpayer  
38 retains a substantial interest in that trade or business.

1 (3) Any increase in tax under paragraph (1) shall not be treated  
2 as tax imposed by this part for purposes of determining the amount  
3 of any credit allowable under this part.

4 (f) Rules similar to the rules provided in Section 46(e) and (h)  
5 of the Internal Revenue Code shall apply to both of the following:

6 (1) An organization to which Section 593 of the Internal  
7 Revenue Code applies.

8 (2) A regulated investment company or a real estate investment  
9 trust subject to taxation under this part.

10 (g) For purposes of this section, “enterprise zone” means an  
11 area designated as an enterprise zone pursuant to Chapter 12.8  
12 (commencing with Section 7070) of Division 7 of Title 1 of the  
13 Government Code.

14 (h) The credit allowable under this section shall be reduced by  
15 the credit allowed under Sections 23623.5, 23625, and 23646  
16 claimed for the same employee. The credit shall also be reduced  
17 by the federal credit allowed under Section 51 of the Internal  
18 Revenue Code.

19 In addition, any deduction otherwise allowed under this part for  
20 the wages or salaries paid or incurred by the taxpayer upon which  
21 the credit is based shall be reduced by the amount of the credit,  
22 prior to any reduction required by subdivision (i) or (j).

23 (i) In the case where the credit otherwise allowed under this  
24 section exceeds the “tax” for the taxable year, that portion of the  
25 credit that exceeds the “tax” may be carried over and added to the  
26 credit, if any, in *the succeeding five taxable years, if necessary*,  
27 until the credit is exhausted. The credit shall be applied first to the  
28 earliest taxable years possible.

29 (j) (1) The amount of the credit otherwise allowed under this  
30 section and Section 23612.2, including any credit carryover from  
31 prior years, that may reduce the “tax” for the taxable year shall  
32 not exceed the amount of tax which would be imposed on the  
33 taxpayer’s business income attributable to the enterprise zone  
34 determined as if that attributable income represented all of the  
35 income of the taxpayer subject to tax under this part.

36 (2) Attributable income shall be that portion of the taxpayer’s  
37 California source business income that is apportioned to the  
38 enterprise zone. For that purpose, the taxpayer’s business  
39 attributable to sources in this state first shall be determined in  
40 accordance with Chapter 17 (commencing with Section 25101).

1 That business income shall be further apportioned to the enterprise  
2 zone in accordance with Article 2 (commencing with Section  
3 25120) of Chapter 17, modified for purposes of this section in  
4 accordance with paragraph (3).

5 (3) Business income shall be apportioned to the enterprise zone  
6 by multiplying the total California business income of the taxpayer  
7 by a fraction, the numerator of which is the property factor plus  
8 the payroll factor, and the denominator of which is two. For  
9 purposes of this paragraph:

10 (A) The property factor is a fraction, the numerator of which is  
11 the average value of the taxpayer's real and tangible personal  
12 property owned or rented and used in the enterprise zone during  
13 the income year, and the denominator of which is the average value  
14 of all the taxpayer's real and tangible personal property owned or  
15 rented and used in this state during the income year.

16 (B) The payroll factor is a fraction, the numerator of which is  
17 the total amount paid by the taxpayer in the enterprise zone during  
18 the income year for compensation, and the denominator of which  
19 is the total compensation paid by the taxpayer in this state during  
20 the income year.

21 (4) The portion of any credit remaining, if any, after application  
22 of this subdivision, shall be carried over to succeeding taxable  
23 years, *if necessary, until the credit is exhausted*, as if it were an  
24 amount exceeding the "tax" for the taxable year, as provided in  
25 subdivision (i). *However, the portion of any credit remaining for*  
26 *carryover to taxable years beginning on or after January 1, 2014,*  
27 *if any, after application of this subdivision, shall be carried over*  
28 *only to the succeeding five taxable years if necessary, until the*  
29 *credit is exhausted, as if it were an amount exceeding the "tax"*  
30 *for the taxable year, as provided in subdivision (i).*

31 (k) The changes made to this section by the act adding this  
32 subdivision shall apply to taxable years on or after January 1, 1997.

33 (l) (1) *Except as provided in paragraph (2), this section shall*  
34 *cease to be operative for taxable years beginning on or after*  
35 *January 1, 2014, and shall be repealed on December 1, 2019.*

36 (2) *The section shall continue to apply with respect to qualified*  
37 *employees who are employed by the qualified taxpayer within the*  
38 *enterprise zone within the 60-month period immediately preceding*  
39 *January 1, 2014, and qualified wages paid or incurred with respect*  
40 *to those qualified employees shall continue to qualify for the credit*

1 *under this section for taxable years beginning on or after January*  
2 *1, 2014, in accordance with this section, as amended by the act*  
3 *adding this subdivision.*

4 *SEC. 29. Section 23622.8 of the Revenue and Taxation Code*  
5 *is amended to read:*

6 23622.8. (a) For each taxable year beginning on or after  
7 January 1, 1998, there shall be allowed a credit against the “tax”  
8 (as defined in Section 23036) to a qualified taxpayer for hiring a  
9 qualified disadvantaged individual during the taxable year for  
10 employment in the manufacturing enhancement area. The credit  
11 shall be equal to the sum of each of the following:

12 (1) Fifty percent of the qualified wages in the first year of  
13 employment.

14 (2) Forty percent of the qualified wages in the second year of  
15 employment.

16 (3) Thirty percent of the qualified wages in the third year of  
17 employment.

18 (4) Twenty percent of the qualified wages in the fourth year of  
19 employment.

20 (5) Ten percent of the qualified wages in the fifth year of  
21 employment.

22 (b) For purposes of this section:

23 (1) “Qualified wages” means:

24 (A) That portion of wages paid or incurred by the qualified  
25 taxpayer during the taxable year to qualified disadvantaged  
26 individuals that does not exceed 150 percent of the minimum wage.

27 (B) The total amount of qualified wages which may be taken  
28 into account for purposes of claiming the credit allowed under this  
29 section shall not exceed two million dollars (\$2,000,000) per  
30 taxable year.

31 (C) Wages received during the 60-month period beginning with  
32 the first day the qualified disadvantaged individual commences  
33 employment with the qualified taxpayer. Reemployment in  
34 connection with any increase, including a regularly occurring  
35 seasonal increase, in the trade or business operations of the  
36 qualified taxpayer does not constitute commencement of  
37 employment for purposes of this section.

38 (D) Qualified wages do not include any wages paid or incurred  
39 by the qualified taxpayer on or after the manufacturing  
40 enhancement area expiration date. However, wages paid or incurred

1 with respect to qualified employees who are employed by the  
2 qualified taxpayer within the manufacturing enhancement area  
3 within the 60-month period prior to the manufacturing enhancement  
4 area expiration date shall continue to qualify for the credit under  
5 this section after the manufacturing enhancement area expiration  
6 date, in accordance with all provisions of this section applied as  
7 if the manufacturing enhancement area designation were still in  
8 existence and binding.

9 (2) “Minimum wage” means the wage established by the  
10 Industrial Welfare Commission as provided for in Chapter 1  
11 (commencing with Section 1171) of Part 4 of Division 2 of the  
12 Labor Code.

13 (3) “Manufacturing enhancement area” means an area designated  
14 pursuant to Section 7073.8 of the Government Code according to  
15 the procedures of Chapter 12.8 (commencing with Section 7070)  
16 of Division 7 of Title 1 of the Government Code.

17 (4) “Manufacturing enhancement area expiration date” means  
18 the date the manufacturing enhancement area designation expires,  
19 is no longer binding, *becomes inoperative*, or ~~becomes inoperative.~~  
20 *is repealed*.

21 (5) “Qualified disadvantaged individual” means an individual  
22 who satisfies all of the following requirements:

23 (A) (i) At least 90 percent of whose services for the qualified  
24 taxpayer during the taxable year are directly related to the conduct  
25 of the qualified taxpayer’s trade or business located in a  
26 manufacturing enhancement area.

27 (ii) Who performs at least 50 percent of his or her services for  
28 the qualified taxpayer during the taxable year in the manufacturing  
29 enhancement area.

30 (B) Who is hired by the qualified taxpayer after the designation  
31 of the area as a manufacturing enhancement area in which the  
32 individual’s services were primarily performed.

33 (C) Who is any of the following immediately preceding the  
34 individual’s commencement of employment with the qualified  
35 taxpayer:

36 (i) An individual who has been determined eligible for services  
37 under the federal Job Training Partnership Act (29 U.S.C. Sec.  
38 1501 et seq.) or its successor.

39 (ii) Any voluntary or mandatory registrant under the Greater  
40 Avenues for Independence Act of 1985, or its successor, as

1 provided pursuant to Article 3.2 (commencing with Section 11320)  
2 of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions  
3 Code.

4 (iii) Any individual who has been certified eligible by the  
5 Employment Development Department under the federal Targeted  
6 Jobs Tax Credit Program, or its successor, whether or not this  
7 program is in effect.

8 (6) “Qualified taxpayer” means any corporation engaged in a  
9 trade or business within a manufacturing enhancement area  
10 designated pursuant to Section 7073.8 of the Government Code  
11 and that meets all of the following requirements:

12 (A) Is engaged in those lines of business described in Codes  
13 0211 to 0291, inclusive, Code 0723, or in Codes 2011 to 3999,  
14 inclusive, of the Standard Industrial Classification (SIC) Manual  
15 published by the United States Office of Management and Budget,  
16 1987 edition.

17 (B) At least 50 percent of the qualified taxpayer’s workforce  
18 hired after the designation of the manufacturing enhancement area  
19 is composed of individuals who, at the time of hire, are residents  
20 of the county in which the manufacturing enhancement area is  
21 located.

22 (C) Of this percentage of local hires, at least 30 percent shall  
23 be qualified disadvantaged individuals.

24 (7) “Seasonal employment” means employment by a qualified  
25 taxpayer that has regular and predictable substantial reductions in  
26 trade or business operations.

27 (c) (1) For purposes of this section, all of the following apply:

28 (A) All employees of all corporations that are members of the  
29 same controlled group of corporations shall be treated as employed  
30 by a single qualified taxpayer.

31 (B) The credit (if any) allowable by this section with respect to  
32 each member shall be determined by reference to its proportionate  
33 share of the expenses of the qualified wages giving rise to the  
34 credit and shall be allocated in that manner.

35 (C) Principles that apply in the case of controlled groups of  
36 corporations, as specified in subdivision (d) of Section 23622.7,  
37 shall apply with respect to determining employment.

38 (2) If a qualified taxpayer acquires the major portion of a trade  
39 or business of another employer (hereinafter in this paragraph  
40 referred to as the “predecessor”) or the major portion of a separate

1 unit of a trade or business of a predecessor, then, for purposes of  
2 applying this section (other than subdivision (d)) for any calendar  
3 year ending after that acquisition, the employment relationship  
4 between a qualified disadvantaged individual and a qualified  
5 taxpayer shall not be treated as terminated if the qualified  
6 disadvantaged individual continues to be employed in that trade  
7 or business.

8 (d) (1) (A) If the employment, other than seasonal employment,  
9 of any qualified disadvantaged individual, with respect to whom  
10 qualified wages are taken into account under subdivision (b) is  
11 terminated by the qualified taxpayer at any time during the first  
12 270 days of that employment (whether or not consecutive) or before  
13 the close of the 270th calendar day after the day in which that  
14 qualified disadvantaged individual completes 90 days of  
15 employment with the qualified taxpayer, the tax imposed by this  
16 part for the taxable year in which that employment is terminated  
17 shall be increased by an amount equal to the credit allowed under  
18 subdivision (a) for that taxable year and all prior taxable years  
19 attributable to qualified wages paid or incurred with respect to that  
20 qualified disadvantaged individual.

21 (B) If the seasonal employment of any qualified disadvantaged  
22 individual, with respect to whom qualified wages are taken into  
23 account under subdivision (a) is not continued by the qualified  
24 taxpayer for a period of 270 days of employment during the  
25 60-month period beginning with the day the qualified  
26 disadvantaged individual commences seasonal employment with  
27 the qualified taxpayer, the tax imposed by this part, for the income  
28 year that includes the 60th month following the month in which  
29 the qualified disadvantaged individual commences seasonal  
30 employment with the qualified taxpayer, shall be increased by an  
31 amount equal to the credit allowed under subdivision (a) for that  
32 taxable year and all prior taxable years attributable to qualified  
33 wages paid or incurred with respect to that qualified disadvantaged  
34 individual.

35 (2) (A) Subparagraph (A) of paragraph (1) does not apply to  
36 any of the following:

37 (i) A termination of employment of a qualified disadvantaged  
38 individual who voluntarily leaves the employment of the qualified  
39 taxpayer.

1 (ii) A termination of employment of a qualified disadvantaged  
2 individual who, before the close of the period referred to in  
3 subparagraph (A) of paragraph (1), becomes disabled to perform  
4 the services of that employment, unless that disability is removed  
5 before the close of that period and the qualified taxpayer fails to  
6 offer reemployment to that individual.

7 (iii) A termination of employment of a qualified disadvantaged  
8 individual, if it is determined that the termination was due to the  
9 misconduct (as defined in Sections 1256-30 to 1256-43, inclusive,  
10 of Title 22 of the California Code of Regulations) of that individual.

11 (iv) A termination of employment of a qualified disadvantaged  
12 individual due to a substantial reduction in the trade or business  
13 operations of the qualified taxpayer.

14 (v) A termination of employment of a qualified disadvantaged  
15 individual, if that individual is replaced by other qualified  
16 disadvantaged individuals so as to create a net increase in both the  
17 number of employees and the hours of employment.

18 (B) Subparagraph (B) of paragraph (1) shall not apply to any  
19 of the following:

20 (i) A failure to continue the seasonal employment of a qualified  
21 disadvantaged individual who voluntarily fails to return to the  
22 seasonal employment of the qualified taxpayer.

23 (ii) A failure to continue the seasonal employment of a qualified  
24 disadvantaged individual who, before the close of the period  
25 referred to in subparagraph (B) of paragraph (1), becomes disabled  
26 and unable to perform the services of that seasonal employment,  
27 unless that disability is removed before the close of that period  
28 and the qualified taxpayer fails to offer seasonal employment to  
29 that qualified disadvantaged individual.

30 (iii) A failure to continue the seasonal employment of a qualified  
31 disadvantaged individual, if it is determined that the failure to  
32 continue the seasonal employment was due to the misconduct (as  
33 defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of  
34 the California Code of Regulations) of that qualified disadvantaged  
35 individual.

36 (iv) A failure to continue seasonal employment of a qualified  
37 disadvantaged individual due to a substantial reduction in the  
38 regular seasonal trade or business operations of the qualified  
39 taxpayer.

1 (v) A failure to continue the seasonal employment of a qualified  
2 disadvantaged individual, if that qualified disadvantaged individual  
3 is replaced by other qualified disadvantaged individuals so as to  
4 create a net increase in both the number of seasonal employees  
5 and the hours of seasonal employment.

6 (C) For purposes of paragraph (1), the employment relationship  
7 between the qualified taxpayer and a qualified disadvantaged  
8 individual shall not be treated as terminated by either of the  
9 following:

10 (i) By a transaction to which Section 381(a) of the Internal  
11 Revenue Code applies, if the qualified disadvantaged individual  
12 continues to be employed by the acquiring corporation.

13 (ii) By reason of a mere change in the form of conducting the  
14 trade or business of the qualified taxpayer, if the qualified  
15 disadvantaged individual continues to be employed in that trade  
16 or business and the qualified taxpayer retains a substantial interest  
17 in that trade or business.

18 (3) Any increase in tax under paragraph (1) shall not be treated  
19 as tax imposed by this part for purposes of determining the amount  
20 of any credit allowable under this part.

21 (e) The credit shall be reduced by the credit allowed under  
22 Section 23621. The credit shall also be reduced by the federal  
23 credit allowed under Section 51 of the Internal Revenue Code.

24 In addition, any deduction otherwise allowed under this part for  
25 the wages or salaries paid or incurred by the qualified taxpayer  
26 upon which the credit is based shall be reduced by the amount of  
27 the credit, prior to any reduction required by subdivision (f) or (g).

28 (f) In the case where the credit otherwise allowed under this  
29 section exceeds the “tax” for the taxable year, that portion of the  
30 credit that exceeds the “tax” may be carried over and added to the  
31 credit, if any, in *the succeeding five taxable years, if necessary*,  
32 until the credit is exhausted. The credit shall be applied first to the  
33 earliest taxable years possible.

34 (g) (1) The amount of credit otherwise allowed under this  
35 section, including prior year credit carryovers, that may reduce  
36 the “tax” for the taxable year shall not exceed the amount of tax  
37 that would be imposed on the qualified taxpayer’s business income  
38 attributed to a manufacturing enhancement area determined as if  
39 that attributed income represented all of the net income of the  
40 qualified taxpayer subject to tax under this part.

1 (2) Attributable income is that portion of the taxpayer's  
2 California source business income that is apportioned to the  
3 manufacturing enhancement area. For that purpose, the taxpayer's  
4 business income attributable to sources in this state first shall be  
5 determined in accordance with Chapter 17 (commencing with  
6 Section 25101). That business income shall be further apportioned  
7 to the manufacturing enhancement area in accordance with Article  
8 2 (commencing with Section 25120) of Chapter 17, modified for  
9 purposes of this section in accordance with paragraph (3).

10 (3) Income shall be apportioned to a manufacturing enhancement  
11 area by multiplying the total California business income of the  
12 taxpayer by a fraction, the numerator of which is the property  
13 factor plus the payroll factor, and the denominator of which is two.  
14 For the purposes of this paragraph:

15 (A) The property factor is a fraction, the numerator of which is  
16 the average value of the taxpayer's real and tangible personal  
17 property owned or rented and used in the manufacturing  
18 enhancement area during the taxable year, and the denominator  
19 of which is the average value of all the taxpayer's real and tangible  
20 personal property owned or rented and used in this state during  
21 the taxable year.

22 (B) The payroll factor is a fraction, the numerator of which is  
23 the total amount paid by the taxpayer in the manufacturing  
24 enhancement area during the taxable year for compensation, and  
25 the denominator of which is the total compensation paid by the  
26 taxpayer in this state during the taxable year.

27 (4) The portion of any credit remaining, if any, after application  
28 of this subdivision, shall be carried over to succeeding taxable  
29 years, *if necessary, until the credit is exhausted*, as if it were an  
30 amount exceeding the "tax" for the taxable year, as provided in  
31 subdivision (g). *However, the portion of any credit remaining for*  
32 *carryover to taxable years beginning on or after January 1, 2014,*  
33 *if any, after application of this subdivision, shall be carried over*  
34 *only to the succeeding five taxable years if necessary, until the*  
35 *credit is exhausted, as if it were an amount exceeding the "tax"*  
36 *for the taxable year, as provided in subdivision (g).*

37 (h) If the taxpayer is allowed a credit pursuant to this section  
38 for qualified wages paid or incurred, only one credit shall be  
39 allowed to the taxpayer under this part with respect to any wage  
40 consisting in whole or in part of those qualified wages.

1 (i) The qualified taxpayer shall do both of the following:

2 (1) Obtain from the Employment Development Department, as  
3 permitted by federal law, the local county or city Job Training  
4 Partnership Act administrative entity, the local county GAIN office  
5 or social services agency, or the local government administering  
6 the manufacturing enhancement area, a certification that provides  
7 that a qualified disadvantaged individual meets the eligibility  
8 requirements specified in paragraph (5) of subdivision (b). The  
9 Employment Development Department may provide preliminary  
10 screening and referral to a certifying agency. The Department of  
11 Housing and Community Development shall develop regulations  
12 governing the issuance of certificates pursuant to subdivision (d)  
13 of Section 7086 of the Government Code and shall develop forms  
14 for this purpose.

15 (2) Retain a copy of the certification and provide it upon request  
16 to the Franchise Tax Board.

17 (j) (1) *Except as provided in paragraph (2), this section shall*  
18 *cease to be operative for taxable years beginning on or after*  
19 *January 1, 2014, and shall be repealed on December 1, 2019.*

20 (2) *The section shall continue to apply with respect to qualified*  
21 *employees who are employed by the qualified taxpayer within the*  
22 *manufacturing enhancement area within the 60-month period*  
23 *immediately preceding January 1, 2014, and qualified wages paid*  
24 *or incurred with respect to those qualified employees shall continue*  
25 *to qualify for the credit under this section for taxable years*  
26 *beginning on or after January 1, 2014, in accordance with this*  
27 *section, as amended by the act adding this subdivision.*

28 *SEC. 30. Section 23623 of the Revenue and Taxation Code, as*  
29 *added by Section 8 of Chapter 10 of the 3rd Extraordinary Session*  
30 *of the Statutes of 2009, is repealed.*

31 ~~23623. (a) For each taxable year beginning on or after January~~  
32 ~~1, 2009, there shall be allowed as a credit against the "tax," as~~  
33 ~~defined in Section 23036, three thousand dollars (\$3,000) for each~~  
34 ~~net increase in qualified full-time employees, as specified in~~  
35 ~~subdivision (c), hired during the taxable year by a qualified~~  
36 ~~employer.~~

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

38 (1) ~~"Acquired" includes any gift, inheritance, transfer incident~~  
39 ~~to divorce, or any other transfer, whether or not for consideration.~~

40 (2) ~~"Qualified full-time employee" means:~~

1 ~~(A) A qualified employee who was paid qualified wages during~~  
2 ~~the taxable year by the qualified employer for services of not less~~  
3 ~~than an average of 35 hours per week.~~

4 ~~(B) A qualified employee who was a salaried employee and~~  
5 ~~was paid compensation during the taxable year for full-time~~  
6 ~~employment, within the meaning of Section 515 of the Labor Code,~~  
7 ~~by the qualified employer.~~

8 ~~(3) A “qualified employee” shall not include any of the~~  
9 ~~following:~~

10 ~~(A) An employee certified as a qualified employee in an~~  
11 ~~enterprise zone designated in accordance with Chapter 12.8~~  
12 ~~(commencing with Section 7070) of Division 7 of Title 1 of the~~  
13 ~~Government Code.~~

14 ~~(B) An employee certified as a qualified disadvantaged~~  
15 ~~individual in a manufacturing enhancement area designated in~~  
16 ~~accordance with Section 7073.8 of the Government Code.~~

17 ~~(C) An employee certified as a qualified employee in a targeted~~  
18 ~~tax area designated in accordance with Section 7097 of the~~  
19 ~~Government Code.~~

20 ~~(D) An employee certified as a qualified disadvantaged~~  
21 ~~individual or a qualified displaced employee in a local agency~~  
22 ~~military base recovery area (LAMBRA) designated in accordance~~  
23 ~~with Chapter 12.97 (commencing with Section 7105) of Division~~  
24 ~~7 of Title 1 of the Government Code.~~

25 ~~(E) An employee whose wages are included in calculating any~~  
26 ~~other credit allowed under this part.~~

27 ~~(4) “Qualified employer” means a taxpayer that, as of the last~~  
28 ~~day of the preceding taxable year, employed a total of 20 or fewer~~  
29 ~~employees.~~

30 ~~(5) “Qualified wages” means wages subject to Division 6~~  
31 ~~(commencing with Section 13000) of the Unemployment Insurance~~  
32 ~~Code.~~

33 ~~(6) “Annual full-time equivalent” means either of the following:~~

34 ~~(A) In the case of a full-time employee paid hourly qualified~~  
35 ~~wages, “annual full-time equivalent” means the total number of~~  
36 ~~hours worked for the taxpayer by the employee (not to exceed~~  
37 ~~2,000 hours per employee) divided by 2,000.~~

38 ~~(B) In the case of a salaried full-time employee, “annual~~  
39 ~~full-time equivalent” means the total number of weeks worked for~~  
40 ~~the taxpayer by the employee divided by 52.~~

1 ~~(e) The net increase in qualified full-time employees of a~~  
2 ~~qualified employer shall be determined as provided by this~~  
3 ~~subdivision:~~

4 ~~(1) (A) The net increase in qualified full-time employees shall~~  
5 ~~be determined on an annual full-time equivalent basis by~~  
6 ~~subtracting from the amount determined in subparagraph (C) the~~  
7 ~~amount determined in subparagraph (B):~~

8 ~~(B) The total number of qualified full-time employees employed~~  
9 ~~in the preceding taxable year by the taxpayer and by any trade or~~  
10 ~~business acquired by the taxpayer during the current taxable year.~~

11 ~~(C) The total number of full-time employees employed in the~~  
12 ~~current taxable year by the taxpayer and by any trade or business~~  
13 ~~acquired during the current taxable year.~~

14 ~~(2) For taxpayers who first commence doing business in this~~  
15 ~~state during the taxable year, the number of full-time employees~~  
16 ~~for the immediately preceding prior taxable year shall be zero.~~

17 ~~(d) In the case where the credit allowed by this section exceeds~~  
18 ~~the “tax,” the excess may be carried over to reduce the “tax” in~~  
19 ~~the following year, and succeeding seven years if necessary, until~~  
20 ~~the credit is exhausted.~~

21 ~~(e) Any deduction otherwise allowed under this part for qualified~~  
22 ~~wages shall not be reduced by the amount of the credit allowed~~  
23 ~~under this section.~~

24 ~~(f) For purposes of this section:~~

25 ~~(1) All employees of the trades or businesses that are treated as~~  
26 ~~related under either Section 267, 318, or 707 of the Internal~~  
27 ~~Revenue Code shall be treated as employed by a single taxpayer.~~

28 ~~(2) In determining whether the taxpayer has first commenced~~  
29 ~~doing business in this state during the taxable year, the provisions~~  
30 ~~of subdivision (f) of Section 17276, without application of~~  
31 ~~paragraph (7) of that subdivision, shall apply.~~

32 ~~(g) (1) (A) Credit under this section and Section 17053.80 shall~~  
33 ~~be allowed only for credits claimed on timely filed original returns~~  
34 ~~received by the Franchise Tax Board on or before the cut-off date~~  
35 ~~established by the Franchise Tax Board.~~

36 ~~(B) For purposes of this paragraph, the cut-off date shall be the~~  
37 ~~last day of the calendar quarter within which the Franchise Tax~~  
38 ~~Board estimates it will have received timely filed original returns~~  
39 ~~claiming credits under this section and Section 17053.80 that~~

1 ~~cumulatively total four hundred million dollars (\$400,000,000)~~  
2 ~~for all taxable years.~~

3 ~~(2) The date a return is received shall be determined by the~~  
4 ~~Franchise Tax Board.~~

5 ~~(3) (A) The determinations of the Franchise Tax Board with~~  
6 ~~respect to the cut-off date, the date a return is received, and whether~~  
7 ~~a return has been timely filed for purposes of this subdivision may~~  
8 ~~not be reviewed in any administrative or judicial proceeding.~~

9 ~~(B) Any disallowance of a credit claimed due to a determination~~  
10 ~~under this subdivision, including the application of the limitation~~  
11 ~~specified in paragraph (1), shall be treated as a mathematical error~~  
12 ~~appearing on the return. Any amount of tax resulting from such~~  
13 ~~disallowance may be assessed by the Franchise Tax Board in the~~  
14 ~~same manner as provided by Section 19051.~~

15 ~~(4) The Franchise Tax Board shall periodically provide notice~~  
16 ~~on its Web site with respect to the amount of credit under this~~  
17 ~~section and Section 17053.80 claimed on timely filed original~~  
18 ~~returns received by the Franchise Tax Board.~~

19 ~~(h) (1) The Franchise Tax Board may prescribe rules, guidelines~~  
20 ~~or procedures necessary or appropriate to carry out the purposes~~  
21 ~~of this section, including any guidelines regarding the limitation~~  
22 ~~on total credits allowable under this section and Section 17053.80~~  
23 ~~and guidelines necessary to avoid the application of paragraph (2)~~  
24 ~~of subdivision (f) through split-ups, shell corporations, partnerships,~~  
25 ~~tiered ownership structures, or otherwise.~~

26 ~~(2) Chapter 3.5 (commencing with Section 11340) of Part 1 of~~  
27 ~~Division 3 of Title 2 of the Government Code does not apply to~~  
28 ~~any standard, criterion, procedure, determination, rule, notice, or~~  
29 ~~guideline established or issued by the Franchise Tax Board~~  
30 ~~pursuant to this section.~~

31 ~~(i) This section shall remain in effect only until December 1 of~~  
32 ~~the calendar year after the year of the cut-off date, and as of that~~  
33 ~~December 1 is repealed.~~

34 ~~17053.80. (a) For each taxable year beginning on or after~~  
35 ~~January 1, 2009, there shall be allowed as a credit against the “net~~  
36 ~~tax,” as defined in Section 17039, three thousand dollars (\$3,000)~~  
37 ~~for each net increase in qualified full-time employees, as specified~~  
38 ~~in subdivision (c), hired during the taxable year by a qualified~~  
39 ~~employer.~~

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

- 1     ~~(1) “Acquired” includes any gift, inheritance, transfer incident~~  
2 ~~to divorce, or any other transfer, whether or not for consideration.~~
- 3     ~~(2) “Qualified full-time employee” means:~~
- 4     ~~(A) A qualified employee who was paid qualified wages by the~~  
5 ~~qualified employer for services of not less than an average of 35~~  
6 ~~hours per week.~~
- 7     ~~(B) A qualified employee who was a salaried employee and~~  
8 ~~was paid compensation during the taxable year for full-time~~  
9 ~~employment, within the meaning of Section 515 of the Labor Code,~~  
10 ~~by the qualified employer.~~
- 11     ~~(3) A “qualified employee” shall not include any of the~~  
12 ~~following:~~
- 13     ~~(A) An employee certified as a qualified employee in an~~  
14 ~~enterprise zone designated in accordance with Chapter 12.8~~  
15 ~~(commencing with Section 7070) of Division 7 of Title 1 of the~~  
16 ~~Government Code.~~
- 17     ~~(B) An employee certified as a qualified disadvantaged~~  
18 ~~individual in a manufacturing enhancement area designated in~~  
19 ~~accordance with Section 7073.8 of the Government Code.~~
- 20     ~~(C) An employee certified as a qualified employee in a targeted~~  
21 ~~tax area designated in accordance with Section 7097 of the~~  
22 ~~Government Code.~~
- 23     ~~(D) An employee certified as a qualified disadvantaged~~  
24 ~~individual or a qualified displaced employee in a local agency~~  
25 ~~military base recovery area (LAMBRA) designated in accordance~~  
26 ~~with Chapter 12.97 (commencing with Section 7105) of Division~~  
27 ~~7 of Title 1 of the Government Code.~~
- 28     ~~(E) An employee whose wages are included in calculating any~~  
29 ~~other credit allowed under this part.~~
- 30     ~~(4) “Qualified employer” means a taxpayer that, as of the last~~  
31 ~~day of the preceding taxable year, employed a total of 20 or fewer~~  
32 ~~employees.~~
- 33     ~~(5) “Qualified wages” means wages subject to Division 6~~  
34 ~~(commencing with Section 13000) of the Unemployment Insurance~~  
35 ~~Code.~~
- 36     ~~(6) “Annual full-time equivalent” means either of the following:~~  
37     ~~(A) In the case of a full-time employee paid hourly qualified~~  
38 ~~wages, “annual full-time equivalent” means the total number of~~  
39 ~~hours worked for the taxpayer by the employee (not to exceed~~  
40 ~~2,000 hours per employee) divided by 2,000.~~

1 ~~(B) In the case of a salaried full-time employee, “annual~~  
2 ~~full-time equivalent” means the total number of weeks worked for~~  
3 ~~the taxpayer by the employee divided by 52.~~

4 ~~(e) The net increase in qualified full-time employees of a~~  
5 ~~qualified employer shall be determined as provided by this~~  
6 ~~subdivision:~~

7 ~~(1) (A) The net increase in qualified full-time employees shall~~  
8 ~~be determined on an annual full-time equivalent basis by~~  
9 ~~subtracting from the amount determined in subparagraph (C) the~~  
10 ~~amount determined in subparagraph (B).~~

11 ~~(B) The total number of qualified full-time employees employed~~  
12 ~~in the preceding taxable year by the taxpayer and by any trade or~~  
13 ~~business acquired by the taxpayer during the current taxable year.~~

14 ~~(C) The total number of full-time employees employed in the~~  
15 ~~current taxable year by the taxpayer and by any trade or business~~  
16 ~~acquired during the current taxable year.~~

17 ~~(2) For taxpayers who first commence doing business in this~~  
18 ~~state during the taxable year, the number of full-time employees~~  
19 ~~for the immediately preceding prior taxable year shall be zero.~~

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

24 ~~(e) Any deduction otherwise allowed under this part for qualified~~  
25 ~~wages shall not be reduced by the amount of the credit allowed~~  
26 ~~under this section.~~

27 ~~(f) For purposes of this section:~~

28 ~~(1) All employees of the trades or businesses that are treated as~~  
29 ~~related under either Section 267, 318, or 707 of the Internal~~  
30 ~~Revenue Code shall be treated as employed by a single taxpayer.~~

31 ~~(2) In determining whether the taxpayer has first commenced~~  
32 ~~doing business in this state during the taxable year, the provisions~~  
33 ~~of subdivision (f) of Section 17276, without application of~~  
34 ~~paragraph (7) of that subdivision, shall apply.~~

35 ~~(g) (1) (A) Credit under this section and Section 23623 shall~~  
36 ~~be allowed only for credits claimed on timely filed original returns~~  
37 ~~received by the Franchise Tax Board on or before the cut-off date~~  
38 ~~established by the Franchise Tax Board.~~

39 ~~(B) For purposes of this paragraph, the cut-off date shall be the~~  
40 ~~last day of the calendar quarter within which the Franchise Tax~~

1 Board estimates it will have received timely filed original returns  
2 claiming credits under this section and Section 23623 that  
3 cumulatively total four hundred million dollars (\$400,000,000)  
4 for all taxable years.

5 (2) The date a return is received shall be determined by the  
6 Franchise Tax Board.

7 (3) (A) The determinations of the Franchise Tax Board with  
8 respect to the cut-off date, the date a return is received, and whether  
9 a return has been timely filed for purposes of this subdivision may  
10 not be reviewed in any administrative or judicial proceeding

11 (B) Any disallowance of a credit claimed due to a determination  
12 under this subdivision, including the application of the limitation  
13 specified in paragraph (1), shall be treated as a mathematical error  
14 appearing on the return. Any amount of tax resulting from such  
15 disallowance may be assessed by the Franchise Tax Board in the  
16 same manner as provided by Section 19051.

17 (4) The Franchise Tax Board shall periodically provide notice  
18 on its Web site with respect to the amount of credit under this  
19 section and Section 23623 claimed on timely filed original returns  
20 received by the Franchise Tax Board.

21 (h) (1) The Franchise Tax Board may prescribe rules, guidelines  
22 or procedures necessary or appropriate to carry out the purposes  
23 of this section, including any guidelines regarding the limitation  
24 on total credits allowable under this section and Section 23623  
25 and guidelines necessary to avoid the application of paragraph (2)  
26 of subdivision (f) through split-ups, shell corporations, partnerships,  
27 tiered ownership structures, or otherwise.

28 (2) Chapter 3.5 (commencing with Section 11340) of Part 1 of  
29 Division 3 of Title 2 of the Government Code does not apply to  
30 any standard, criterion, procedure, determination, rule, notice, or  
31 guideline established or issued by the Franchise Tax Board  
32 pursuant to this section.

33 (i) This section shall remain in effect only until December 1 of  
34 the calendar year after the year of the cut-off date, and as of that  
35 December 1 is repealed.

36 *SEC. 31. Section 23623 of the Revenue and Taxation Code, as*  
37 *added by Section 8 of Chapter 17 of the 3rd Extraordinary Session*  
38 *of the Statutes of 2009, is amended to read:*

39 23623. (a) For each taxable year beginning on or after January  
40 1, 2009, there shall be allowed as a credit against the "tax," as

1 defined in Section 23036, three thousand dollars (\$3,000) for each  
2 net increase in qualified full-time employees, as specified in  
3 subdivision (c), hired during the taxable year by a qualified  
4 employer.

5 (b) For purposes of this section:

6 (1) “Acquired” includes any gift, inheritance, transfer incident  
7 to divorce, or any other transfer, whether or not for consideration.

8 (2) “Qualified full-time employee” means:

9 (A) A qualified employee who was paid qualified wages during  
10 the taxable year by the qualified employer for services of not less  
11 than an average of 35 hours per week.

12 (B) A qualified employee who was a salaried employee and  
13 was paid compensation during the taxable year for full-time  
14 employment, within the meaning of Section 515 of the Labor Code,  
15 by the qualified employer.

16 (3) A “qualified employee” shall not include any of the  
17 following:

18 (A) An employee certified as a qualified employee in an  
19 enterprise zone designated in accordance with Chapter 12.8  
20 (commencing with Section 7070) of Division 7 of Title 1 of the  
21 Government Code.

22 (B) An employee certified as a qualified disadvantaged  
23 individual in a manufacturing enhancement area designated in  
24 accordance with Section 7073.8 of the Government Code.

25 (C) An employee certified as a qualified employee in a targeted  
26 tax area designated in accordance with Section 7097 of the  
27 Government Code.

28 (D) An employee certified as a qualified disadvantaged  
29 individual or a qualified displaced employee in a local agency  
30 military base recovery area (LAMBRA) designated in accordance  
31 with Chapter 12.97 (commencing with Section 7105) of Division  
32 7 of Title 1 of the Government Code.

33 (E) An employee whose wages are included in calculating any  
34 other credit allowed under this part.

35 (4) “Qualified employer” means a taxpayer that, as of the last  
36 day of the preceding taxable year, employed a total of 20 or fewer  
37 employees.

38 (5) “Qualified wages” means wages subject to Division 6  
39 (commencing with Section 13000) of the Unemployment Insurance  
40 Code.

1 (6) “Annual full-time equivalent” means either of the following:

2 (A) In the case of a full-time employee paid hourly qualified  
3 wages, “annual full-time equivalent” means the total number of  
4 hours worked for the taxpayer by the employee (not to exceed  
5 2,000 hours per employee) divided by 2,000.

6 (B) In the case of a salaried full-time employee, “annual  
7 full-time equivalent” means the total number of weeks worked for  
8 the taxpayer by the employee divided by 52.

9 (c) The net increase in qualified full-time employees of a  
10 qualified employer shall be determined as provided by this  
11 subdivision:

12 (1) (A) The net increase in qualified full-time employees shall  
13 be determined on an annual full-time equivalent basis by  
14 subtracting from the amount determined in subparagraph (C) the  
15 amount determined in subparagraph (B).

16 (B) The total number of qualified full-time employees employed  
17 in the preceding taxable year by the taxpayer and by any trade or  
18 business acquired by the taxpayer during the current taxable year.

19 (C) The total number of full-time employees employed in the  
20 current taxable year by the taxpayer and by any trade or business  
21 acquired during the current taxable year.

22 (2) For taxpayers who first commence doing business in this  
23 state during the taxable year, the number of full-time employees  
24 for the immediately preceding prior taxable year shall be zero.

25 (d) In the case where the credit allowed by this section exceeds  
26 the “tax,” the excess may be carried over to reduce the “tax” in  
27 the following year, and succeeding seven years if necessary, until  
28 the credit is exhausted.

29 (e) Any deduction otherwise allowed under this part for qualified  
30 wages shall not be reduced by the amount of the credit allowed  
31 under this section.

32 (f) For purposes of this section:

33 (1) All employees of the trades or businesses that are treated as  
34 related under either Section 267, 318, or 707 of the Internal  
35 Revenue Code shall be treated as employed by a single taxpayer.

36 (2) In determining whether the taxpayer has first commenced  
37 doing business in this state during the taxable year, the provisions  
38 of subdivision (f) of Section 17276, without application of  
39 paragraph (7) of that subdivision, shall apply.

1 (g) (1) (A) Credit under this section and Section 17053.80 shall  
2 be allowed only for credits claimed on timely filed original returns  
3 received by the Franchise Tax Board on or before the cut-off date  
4 established by the Franchise Tax Board.

5 (B) For purposes of this paragraph, the cut-off date shall be the  
6 last day of the calendar quarter within which the Franchise Tax  
7 Board estimates it will have received timely filed original returns  
8 claiming credits under this section and Section 17053.80 that  
9 cumulatively total four hundred million dollars (\$400,000,000)  
10 for all taxable years.

11 (2) The date a return is received shall be determined by the  
12 Franchise Tax Board.

13 (3) (A) The determinations of the Franchise Tax Board with  
14 respect to the cut-off date, the date a return is received, and whether  
15 a return has been timely filed for purposes of this subdivision may  
16 not be reviewed in any administrative or judicial proceeding.

17 (B) Any disallowance of a credit claimed due to a determination  
18 under this subdivision, including the application of the limitation  
19 specified in paragraph (1), shall be treated as a mathematical error  
20 appearing on the return. Any amount of tax resulting from such  
21 disallowance may be assessed by the Franchise Tax Board in the  
22 same manner as provided by Section 19051.

23 (4) The Franchise Tax Board shall periodically provide notice  
24 on its Web site with respect to the amount of credit under this  
25 section and Section 17053.80 claimed on timely filed original  
26 returns received by the Franchise Tax Board.

27 (h) (1) The Franchise Tax Board may prescribe rules, guidelines  
28 or procedures necessary or appropriate to carry out the purposes  
29 of this section, including any guidelines regarding the limitation  
30 on total credits allowable under this section and Section 17053.80  
31 and guidelines necessary to avoid the application of paragraph (2)  
32 of subdivision (f) through split-ups, shell corporations, partnerships,  
33 tiered ownership structures, or otherwise.

34 (2) Chapter 3.5 (commencing with Section 11340) of Part 1 of  
35 Division 3 of Title 2 of the Government Code does not apply to  
36 any standard, criterion, procedure, determination, rule, notice, or  
37 guideline established or issued by the Franchise Tax Board  
38 pursuant to this section.

39 (i) This section shall ~~remain in effect only until December 1 of~~  
40 ~~the calendar year~~ *cease to be operative for taxable years beginning*

1 ~~on or after the year of the cut-off date, January 1, 2014, and as of~~  
2 ~~that shall be repealed on December 1 is repealed: 1, 2014.~~

3 SEC. 32. Section 23626 is added to the Revenue and Taxation  
4 Code, to read:

5 23626. (a) (1) For each taxable year beginning on or after  
6 January 1, 2014, and before January 1, 2019, there shall be  
7 allowed to a qualified taxpayer that hires a qualified full-time  
8 employee and pays or incurs qualified wages attributable to work  
9 performed by the qualified full-time employee in a designated  
10 census tract or former enterprise zone, and that receives a tentative  
11 credit reservation for that qualified full-time employee, a credit  
12 against the "tax," as defined by Section 23036, in an amount  
13 calculated under this section.

14 (2) The amount of the credit allowable under this section for a  
15 taxable year shall be equal to the product of the tentative credit  
16 amount for the taxable year and the applicable percentage for the  
17 taxable year.

18 (3) (A) If a qualified taxpayer relocates to a designated census  
19 tract or former enterprise zone, the qualified taxpayer shall be  
20 allowed a credit with respect to qualified wages for each qualified  
21 full-time employee who is employed within the new location only  
22 if the qualified taxpayer provides each employee at the previous  
23 location or locations a written offer of employment at the new  
24 location in the designated census tract or former enterprise zone  
25 with comparable compensation.

26 (B) For purposes of this paragraph, "relocates to a designated  
27 census tract or former enterprise zone " means an increase in the  
28 number of qualified full-time employees, employed by a qualified  
29 taxpayer, within a designated census tract or tracts or former  
30 enterprise zone within a 12-month period in which there is a  
31 decrease in the number of full-time employees, employed by the  
32 qualified taxpayer in this state, but outside of designated census  
33 tracts or former enterprise zone.

34 (4) The credit allowed by this section may only be claimed on  
35 a timely filed original return of the qualified taxpayer and only  
36 with respect to a qualified full-time employee for whom the  
37 qualified taxpayer has received a tentative credit reservation.

38 (C) This paragraph shall not apply to a small business.

39 (b) For purposes of this section:

1 (1) The “tentative credit amount” for a taxable year shall be  
2 equal to the product of the applicable credit percentage for each  
3 qualified full-time employee and the qualified wages paid by the  
4 qualified taxpayer during the taxable year to that qualified full-time  
5 employee.

6 (2) The “applicable percentage” for a taxable year shall be  
7 equal to a fraction, the numerator of which is the net increase in  
8 the total number of full-time employees employed in this state  
9 during the taxable year, determined on an annual full-time  
10 equivalent basis, as compared with the total number of full-time  
11 employees employed in this state during the base year, determined  
12 on the same basis, and the denominator of which shall be the total  
13 number of qualified full-time employees employed in this state  
14 during the taxable year. The applicable percentage shall not exceed  
15 100 percent.

16 (3) The “applicable credit percentage” means the credit  
17 percentage for the calendar year during which a qualified full-time  
18 employee was first employed by the qualified taxpayer. The  
19 applicable credit percentage for all calendar years shall be 35  
20 percent.

21 (4) “Base year” means the 2013 taxable year, or in the case of  
22 a qualified taxpayer who first hires a qualified full-time employee  
23 in a taxable year beginning on or after January 2015, the taxable  
24 year immediately preceding the taxable year in which the qualified  
25 full-time employee was hired.

26 (5) “Acquired” includes any gift, inheritance, transfer incident  
27 to divorce, or any other transfer, whether or not for consideration.

28 (6) “Annual full-time equivalent” means either of the following:

29 (A) In the case of a full-time employee paid hourly qualified  
30 wages, “annual full-time equivalent” means the total number of  
31 hours worked for the qualified taxpayer by the employee (not to  
32 exceed 2,000 hours per employee) divided by 2,000.

33 (B) In the case of a salaried full-time employee, “annual  
34 full-time equivalent” means the total number of weeks worked for  
35 the qualified taxpayer by the employee divided by 52.

36 (7) “Designated census tract” means a census tract within the  
37 state that is determined by the Department of Finance to have a  
38 civilian unemployment rate that is within the top 25 percent of all  
39 census tracts within the state and has a poverty rate within the top

1 25 percent of all census tracts within the state, as prescribed in  
2 Section 13073.5 of the Government Code.

3 (8) “Former enterprise zone” means an enterprise zone  
4 designated under former Chapter 12.8 (commencing with former  
5 section 7070 of the Government Code), as in effect on December  
6 31, 2011, excluding any census tract within an enterprise zone  
7 that is identified by the Department of Finance pursuant to Section  
8 13073.5 of the Government Code as a census tract within the lowest  
9 quartile of census tracts with the lowest civilian unemployment.

10 (9) “Minimum wage” means the wage established pursuant to  
11 Chapter 1 (commencing with Section 1171) of Part 4 of Division  
12 2 of the Labor Code.

13 (10) (A) “Qualified full-time employee” means an individual  
14 who meets all of the following requirements:

15 (i) Performs at least 50 percent of his or her services for the  
16 qualified taxpayer during the taxable year in a designated census  
17 tract.

18 (ii) Receives starting wages that are at least 150 percent of the  
19 minimum wage.

20 (iii) Is hired by the qualified taxpayer on or after January 1,  
21 2014.

22 (iv) Is hired by the qualified taxpayer after the date the  
23 Department of Finance determines that the census tract or  
24 enterprise zone referred to in clause (i) is a designated census  
25 tract or former enterprise zone.

26 (v) Satisfies either of the following conditions:

27 (I) Is paid qualified wages by the qualified taxpayer for services  
28 not less than an average of 35 hours per week.

29 (II) Is a salaried employee and was paid compensation during  
30 the taxable year for full-time employment, within the meaning of  
31 Section 515 of the Labor Code, by the qualified taxpayer.

32 (vii) Upon commencement of employment with the qualified  
33 taxpayer, satisfies any of the following conditions:

34 (I) Was unemployed for the six months immediately preceding  
35 employment with the qualified taxpayer. In the case of an individual  
36 who completed a program of study at a college, university, or other  
37 postsecondary educational institution, received a baccalaureate,  
38 postgraduate, or professional degree, and was unemployed for the  
39 six months immediately preceding employment with the qualified  
40 taxpayer, that individual must have completed that program of

1 study at least 12 months prior to the individual's commencement  
2 of employment with the qualified taxpayer.

3 (II) Is a veteran that had not been employed since separation  
4 from service in the Armed Forces of the United States.

5 (III) Was a recipient of the credit allowed under Section 32 of  
6 the Internal Revenue Code, relating to earned income, as  
7 applicable for federal purposes, for the previous taxable year.

8 (B) An individual may only be considered a qualified full-time  
9 employee for the period of time commencing with the date the  
10 individual is first employed by the qualified taxpayer and ending  
11 60 months thereafter.

12 (11) (A) "Qualified taxpayer" means a corporation engaged  
13 in a trade or business within designated census tract or former  
14 enterprise zone that, during the taxable year, pays or incurs  
15 qualified wages.

16 (B) "Qualified small business taxpayer" means a qualified  
17 taxpayer that is a small business.

18 (C) In the case of any pass-thru entity, the determination of  
19 whether a taxpayer is a qualified taxpayer or a qualified small  
20 business taxpayer under this section shall be made at the entity  
21 level and any credit under this section or Section 17053.73 shall  
22 be allowed to the pass-thru entity and passed through to the  
23 partners and shareholders in accordance with applicable  
24 provisions of this part or Part 10 (commencing with Section  
25 17001). For purposes of this subdivision, the term "pass-thru  
26 entity" means any partnership or "S" corporation.

27 (D) "Qualified taxpayer" shall not include any of the following:

28 (i) Employers that provide temporary help services, as described  
29 in Code 561320 of the North American Industry Classification  
30 System (NAICS) published by the United States Office of  
31 Management and Budget, 2012 edition.

32 (ii) Employers that provide retail trade services, as described  
33 in Sector 44-45 of the North American Industry Classification  
34 System (NAICS) published by the United States Office of  
35 Management and Budget, 2012 edition.

36 (iii) Employers that are primarily engaged in providing food  
37 services, as described in Code 711110, 722511, 722513, 722514,  
38 or 722515 of the North American Industry Classification System  
39 (NAICS) published by the United States Office of Management  
40 and Budget, 2012 edition.

1 (iv) Employers that are primarily engaged in services as  
2 described in Code 713210, 721120, or 722410 of the North  
3 American Industry Classification System (NAICS) published by  
4 the United States Office of Management and Budget, 2012 edition.

5 (E) Subparagraph (D) shall not apply to a taxpayer that is a  
6 “small business.”

7 (12) “Qualified wages” means those wages that meet all of the  
8 following requirements:

9 (A) That portion of wages paid or incurred by the qualified  
10 taxpayer during the taxable year to each qualified full-time  
11 employee that exceeds 150 percent of minimum wage, but does  
12 not exceed 350 percent of the minimum wage.

13 (B) Wages paid or incurred during the 60-month period  
14 beginning with the first day the qualified full-time employee  
15 commences employment with the qualified taxpayer. In the case  
16 of any employee who is reemployed, including regularly occurring  
17 seasonal increase, in the trade or business operations of the  
18 qualified taxpayer, this reemployment shall not be treated as  
19 constituting commencement of employment for purposes of this  
20 section.

21 (C) Except as provided in paragraph (3) of subdivision (j),  
22 qualified wages shall not include any wages paid or incurred by  
23 the qualified taxpayer on or after the date that the Department of  
24 Finance’s redesignation of designated census tracts is effective,  
25 as provided in paragraph (2) of subdivision (e), so that a census  
26 tract is no longer determined to be a designated census tract.

27 (13) “Seasonal employment” means employment by a qualified  
28 taxpayer that has regular and predictable substantial reductions  
29 in trade or business operations.

30 (14) (A) “Small business” means a trade or business that has  
31 aggregate gross receipts, less returns and allowances reportable  
32 to this state, of less than two million dollars (\$2,000,000) during  
33 the previous taxable year.

34 (B) (i) For purposes of this paragraph, “gross receipts, less  
35 returns and allowances reportable to this state,” means the sum  
36 of the gross receipts from the production of business income, as  
37 defined in subdivision (a) of Section 25120, and the gross receipts  
38 from the production of nonbusiness income, as defined in  
39 subdivision (d) of Section 25120.

1 (ii) In the case of any trade or business activity conducted by a  
2 partnership or an “S” corporation, the limitations set forth in  
3 subparagraph (A) shall be applied to the partnership or “S”  
4 corporation at the entity level.

5 (15) An individual is “unemployed” for any period for which  
6 the individual is all of the following:

7 (A) Not in receipt of wages subject to withholding under Section  
8 13020 of the Unemployment Insurance Code for that period.

9 (B) Not a self-employed individual (within the meaning of  
10 Section 401(c)(1)(B) of the Internal Revenue Code, relating to  
11 self-employed individual) for that period.

12 (C) Not a registered full-time student at a high school, college,  
13 university, or other postsecondary educational institution for that  
14 period.

15 (c) The net increase in full-time employees of a qualified  
16 taxpayer shall be determined as provided by this subdivision:

17 (1) (A) The net increase in full-time employees shall be  
18 determined on an annual full-time equivalent basis by subtracting  
19 from the amount determined in subparagraph (C) the amount  
20 determined in subparagraph (B).

21 (B) The total number of full-time employees employed in the  
22 base year by the taxpayer and by any trade or business acquired  
23 by the taxpayer during the current taxable year.

24 (C) The total number of full-time employees employed in the  
25 current taxable year by the taxpayer and by any trade or business  
26 acquired during the current taxable year.

27 (2) For taxpayers who first commence doing business in this  
28 state during the taxable year, the number of full-time employees  
29 for the base year shall be zero.

30 (d) For purposes of this section:

31 (1) All employees of the trades or businesses that are treated  
32 as related under Section 267, 318, or 707 of the Internal Revenue  
33 Code shall be treated as employed by a single taxpayer.

34 (2) In determining whether the taxpayer has first commenced  
35 doing business in this state during the taxable year, the provisions  
36 of subdivision (g) of Section 24416.20, without application of  
37 paragraph (7) of that subdivision, shall apply.

38 (e) (1) To be eligible for the credit allowed by this section, a  
39 qualified taxpayer shall, upon hiring a qualified full-time employee,  
40 request a tentative credit reservation from the Franchise Tax Board

1 *within 30 days of complying with the Employment development*  
2 *Department's new hire reporting requirement as provided in*  
3 *Section 1088.5 of the Unemployment Insurance code.*

4 (2) *To obtain a tentative credit reservation with respect to a*  
5 *qualified full-time employee, the qualified taxpayer shall provide*  
6 *necessary information, as determined by the Franchise Tax Board,*  
7 *including the name, the social security number, the start date of*  
8 *employment, the rate of pay of the qualified full-time employee,*  
9 *and the qualified taxpayer's gross receipts, less returns and*  
10 *allowances in this state, for the previous taxable year.*

11 (3) *The qualified taxpayer shall provide the Franchise Tax*  
12 *Board an annual certification of employment with respect to each*  
13 *qualified full-time employee hire in a previous taxable year, on or*  
14 *before the 15th day of the third month of the taxable year. The*  
15 *certification shall include necessary information, as determined*  
16 *by the Franchise Tax Board, including the name, social security*  
17 *number, start date of employment, and rate of pay for each*  
18 *qualified full-time employee employed by the qualified taxpayer.*

19 (4) *A tentative credit reservation provided to a taxpayer with*  
20 *respect to an employee of that taxpayer shall not constitute a*  
21 *determination by the Franchise Tax Board with respect to any of*  
22 *the requirements of this section regarding a taxpayer's eligibility*  
23 *for the credit authorized by this section.*

24 (f) *The Franchise Tax Board shall do all of the following:*

25 (1) *Approve a tentative credit reservation with respect to a*  
26 *qualified full-time employee hired during a calendar year and*  
27 *advise the qualified taxpayer of the applicable credit percentage*  
28 *and the small business applicable credit percentage that may apply*  
29 *with respect to that qualified full-time employee.*

30 (2) *Determine and publish on its Internet Web site, on or before*  
31 *September 1 of each calendar year, the applicable credit*  
32 *percentage and small business applicable credit percentage for*  
33 *the following calendar year.*

34 (3) *Estimate the tentative credit wage base amount and the small*  
35 *business tentative credit wage base amount for a calendar year*  
36 *based on the starting wage or salary and full-time employment for*  
37 *an entire calendar year.*

38 (4) *Determine the aggregate tentative reservation amount and*  
39 *the aggregate small business tentative reservation amount for a*  
40 *calendar year.*

1 (5) Notwithstanding section 19542, provide as a searchable  
2 database on its Internet Web site, for each taxable year beginning  
3 on or after January 1, 2014, and before January 1, 2019, the  
4 employer names, amounts of tax credit claimed, and number of  
5 new jobs created for each taxable year pursuant to this section  
6 and section 17053.73.

7 (g) (1) The Department of Finance shall, by January 1, 2014,  
8 and by January 1 of every fifth year thereafter, provide the  
9 Franchise Tax Board with a list of the designated census tracts  
10 and a list of census tracts with the lowest civilian unemployment  
11 rate.

12 (2) The redesignation of designated census tracts and lowest  
13 civilian unemployment census tracts by the Department of Finance  
14 as provided in Section 13073.5 of the Government Code shall be  
15 effective, for purposes of this credit, one year after the date that  
16 the Department of Finance redesignates the designated census  
17 tracts.

18 (h) (1) For purposes of this section:

19 (A) All employees of the trades or businesses that are treated  
20 as related under Section 267, 318, or 707 of the Internal Revenue  
21 Code shall be treated as employed by a single qualified taxpayer.

22 (B) All employees of all corporations that are members of the  
23 same controlled group of corporations shall be treated as employed  
24 by a single qualified taxpayer.

25 (C) The credit, if any, allowable by this section to each member  
26 shall be determined by reference to its proportionate share of the  
27 expense of the qualified wages giving rise to the credit, and shall  
28 be allocated in that manner.

29 (D) If a qualified taxpayer acquires the major portion of a trade  
30 or business of another taxpayer, hereinafter in this paragraph  
31 referred to as the predecessor, or the major portion of a separate  
32 unit of a trade or business of a predecessor, then, for purposes of  
33 applying this section for any taxable year ending after that  
34 acquisition, the employment relationship between a qualified  
35 full-time employee and a qualified taxpayer shall not be treated  
36 as terminated if the employee continues to be employed in that  
37 trade or business.

38 (2) For purposes of this subdivision, "controlled group of  
39 corporations" means a controlled group of corporations as defined  
40 in Section 1563(a) of the Internal Revenue Code, except that:

1 (A) “More than 50 percent” shall be substituted for “at least  
2 80 percent” each place it appears in Section 1563(a)(1) of the  
3 Internal Revenue Code.

4 (B) The determination shall be made without regard to  
5 subsections (a)(4) and (e)(3)(C) of Section 1563 of the Internal  
6 Revenue Code.

7 (3) Rules similar to the rules provided in Sections 46(e) and  
8 46(h) of the Internal Revenue Code, as in effect on November 4,  
9 1990, shall apply to both of the following:

10 (A) An organization to which Section 593 of the Internal  
11 Revenue Code applies.

12 (B) A regulated investment company or a real estate investment  
13 trust subject to taxation under this part.

14 (i) (1) If the employment of any qualified full-time employee,  
15 with respect to whom qualified wages are taken into account under  
16 subdivision (a), is terminated by the qualified taxpayer at any time  
17 during the first 36 months after commencing employment with the  
18 qualified taxpayer, whether or not consecutive, the tax imposed  
19 by this part for the taxable year in which that employment is  
20 terminated shall be increased by an amount equal to the credit  
21 allowed under subdivision (a) for that taxable year and all prior  
22 taxable years attributable to qualified wages paid or incurred with  
23 respect to that employee.

24 (2) Paragraph (1) shall not apply to any of the following:

25 (A) A termination of employment of a qualified full-time  
26 employee who voluntarily leaves the employment of the qualified  
27 taxpayer.

28 (B) A termination of employment of a qualified full-time  
29 employee who, before the close of the period referred to in  
30 paragraph (1), becomes disabled and unable to perform the  
31 services of that employment, unless that disability is removed  
32 before the close of that period and the qualified taxpayer fails to  
33 offer reemployment to that employee.

34 (C) A termination of employment of a qualified full-time  
35 employee, if it is determined that the termination was due to the  
36 misconduct, as defined in Sections 1256-30 to 1256-43, inclusive,  
37 of Title 22 of the California Code of Regulations, of that employee.

38 (D) A termination of employment of a qualified full-time  
39 employee due to a substantial reduction in the trade or business  
40 operations of the qualified taxpayer.

1 (E) A termination of employment of a qualified full-time  
2 employee, if that employee is replaced by other qualified full-time  
3 employees so as to create a net increase in both the number of  
4 employees and the hours of employment.

5 (F) A termination of employment of a qualified full-time  
6 employee, when that employment is considered seasonal  
7 employment and the qualified employee is rehired on a seasonal  
8 basis.

9 (3) For purposes of paragraph (1), the employment relationship  
10 between the qualified taxpayer and a qualified full-time employee  
11 shall not be treated as terminated by reason of a mere change in  
12 the form of conducting the trade or business of the qualified  
13 taxpayer, if the qualified full-time employee continues to be  
14 employed in that trade or business and the qualified taxpayer  
15 retains a substantial interest in that trade or business.

16 (4) Any increase in tax under paragraph (1) shall not be treated  
17 as tax imposed by this part for purposes of determining the amount  
18 of any credit allowable under this part.

19 (j) In the case where the credit allowed by this section exceeds  
20 the “tax,” the excess may be carried over to reduce the “tax” in  
21 the following year, and the succeeding four years if necessary,  
22 until exhausted.

23 (k) The Franchise Tax Board may prescribe rules, guidelines,  
24 or procedures necessary or appropriate to carry out the purposes  
25 of this section, including any guidelines regarding the allocation  
26 of the credit allowed under this section. Chapter 3.5 (commencing  
27 with Section 11340) of Part 1 of Division 3 of Title 2 of the  
28 Government Code shall not apply to any rule, guideline, or  
29 procedure prescribed by the Franchise Tax Board pursuant to this  
30 section.

31 (l) (1) This section shall remain in effect only until December  
32 1, 2024, and as of that date is repealed.

33 (2) Notwithstanding paragraph (1) of subdivision (a), this  
34 section shall continue to be operative for taxable years beginning  
35 on or after January 1, 2019, but only with respect to qualified  
36 full-time employees who commenced employment with a qualified  
37 taxpayer in a designated census tract or former enterprise zone  
38 in a taxable year beginning before January 1, 2019.

39 (3) This section shall remain operative for any qualified  
40 taxpayer with respect to any qualified full-time employee after the

1 *designated census tract is no longer designated or a former*  
2 *enterprise zone ceases to be a former enterprise zone, as defined*  
3 *in this section, for the remaining period, if any, of the 60-month*  
4 *period after the original date of hiring of an otherwise qualified*  
5 *full-time employee and any wages paid or incurred with respect*  
6 *to those qualified full-time employees after the designated census*  
7 *tract is no longer designated or a former enterprise zone ceases*  
8 *to be a former enterprise zone, as defined in this section, shall be*  
9 *treated as qualified wages under this section, provided the*  
10 *employee satisfies any other requirements of paragraphs (10) and*  
11 *(12) of subdivision (b), as if the designated census tract was still*  
12 *designated and binding.*

13 *SEC. 33. Section 23633 of the Revenue and Taxation Code is*  
14 *amended to read:*

15 23633. (a) For each taxable year beginning on or after January  
16 1, 1998, and before January 1, 2014, there shall be allowed as a  
17 credit against the “tax” (as defined by Section 23036) for the  
18 taxable year an amount equal to the sales or use tax paid or incurred  
19 during the taxable year by the qualified taxpayer in connection  
20 with the qualified taxpayer’s purchase of qualified ~~property.~~  
21 *property before January 1, 2014.*

22 (b) For purposes of this section:

23 (1) “Qualified property” means property that meets all of the  
24 following requirements:

25 (A) Is any of the following:

26 (i) Machinery and machinery parts used for fabricating,  
27 processing, assembling, and manufacturing.

28 (ii) Machinery and machinery parts used for the production of  
29 renewable energy resources.

30 (iii) Machinery and machinery parts used for either of the  
31 following:

32 (I) Air pollution control mechanisms.

33 (II) Water pollution control mechanisms.

34 (iv) Data-processing and communications equipment, such as  
35 computers, computer-automated drafting systems, copy machines,  
36 telephone systems, and faxes.

37 (v) Motion picture manufacturing equipment central to  
38 production and post production, such as cameras, audio recorders,  
39 and digital image and sound processing equipment.

1 (B) The total cost of qualified property purchased and placed  
2 in service in any taxable year that may be taken into account by  
3 any qualified taxpayer for purposes of claiming this credit shall  
4 not exceed twenty million dollars (\$20,000,000).

5 (C) The qualified property is used by the qualified taxpayer  
6 exclusively in a targeted tax area.

7 (D) The qualified property is purchased and placed in service  
8 before the date the targeted tax area designation expires, is revoked,  
9 is no longer binding, or becomes inoperative.

10 (2) (A) “Qualified taxpayer” means a corporation that meets  
11 both of the following:

12 (i) Is engaged in a trade or business within a targeted tax area  
13 designated pursuant to Chapter 12.93 (commencing with Section  
14 7097) of Division 7 of Title 1 of the Government Code.

15 (ii) Is engaged in those lines of business described in Codes  
16 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299,  
17 inclusive; 4500 to 4599, inclusive; and 4700 to 5199, inclusive,  
18 of the Standard Industrial Classification (SIC) Manual published  
19 by the United States Office of Management and Budget, 1987  
20 edition.

21 (B) In the case of any pass-through entity, the determination of  
22 whether a taxpayer is a qualified taxpayer under this section shall  
23 be made at the entity level and any credit under this section or  
24 Section 17053.33 shall be allowed to the pass-through entity and  
25 passed through to the partners or shareholders in accordance with  
26 applicable provisions of this part or Part 10 (commencing with  
27 Section 17001). For purposes of this subparagraph, the term  
28 “pass-through entity” means any partnership or S corporation.

29 (3) “Targeted tax area” means the area designated pursuant to  
30 Chapter 12.93 (commencing with Section 7097) of Division 7 of  
31 Title 1 of the Government Code.

32 (c) If the qualified taxpayer is allowed a credit for qualified  
33 property pursuant to this section, only one credit shall be allowed  
34 to the taxpayer under this part with respect to that qualified  
35 property.

36 (d) If the qualified taxpayer has purchased property upon which  
37 a use tax has been paid or incurred, the credit provided by this  
38 section shall be allowed only if qualified property of a comparable  
39 quality and price is not timely available for purchase in this state.

1 (e) In the case where the credit otherwise allowed under this  
2 section exceeds the “tax” for the taxable year, that portion of the  
3 credit that exceeds the “tax” may be carried over and added to the  
4 credit, if any, in the ~~following year, and succeeding years~~ *five*  
5 *taxable years*, if necessary, until the credit is exhausted. The credit  
6 shall be applied first to the earliest taxable years possible.

7 (f) Any qualified taxpayer who elects to be subject to this section  
8 shall not be entitled to increase the basis of the qualified property  
9 as otherwise required by Section 164(a) of the Internal Revenue  
10 Code with respect to sales or use tax paid or incurred in connection  
11 with the qualified taxpayer’s purchase of qualified property.

12 (g) (1) The amount of credit otherwise allowed under this  
13 section and Section 23634, including any credit carryover from  
14 prior years, that may reduce the “tax” for the taxable year shall  
15 not exceed the amount of tax that would be imposed on the  
16 qualified taxpayer’s business income attributable to the targeted  
17 tax area determined as if that attributable income represented all  
18 of the income of the qualified taxpayer subject to tax under this  
19 part.

20 (2) Attributable income shall be that portion of the taxpayer’s  
21 California source business income that is apportioned to the  
22 targeted tax area. For that purpose, the taxpayer’s business income  
23 attributable to sources in this state first shall be determined in  
24 accordance with Chapter 17 (commencing with Section 25101).  
25 That business income shall be further apportioned to the targeted  
26 tax area in accordance with Article 2 (commencing with Section  
27 25120) of Chapter 17, modified for purposes of this section in  
28 accordance with paragraph (3).

29 (3) Business income shall be apportioned to the targeted tax  
30 area by multiplying the total California business income of the  
31 taxpayer by a fraction, the numerator of which is the property  
32 factor plus the payroll factor, and the denominator of which is two.  
33 For purposes of this paragraph:

34 (A) The property factor is a fraction, the numerator of which is  
35 the average value of the taxpayer’s real and tangible personal  
36 property owned or rented and used in the targeted tax area during  
37 the taxable year and the denominator of which is the average value  
38 of all the taxpayer’s real and tangible personal property owned or  
39 rented and used in this state during the taxable year.

1 (B) The payroll factor is a fraction, the numerator of which is  
2 the total amount paid by the taxpayer in the targeted tax area during  
3 the taxable year for compensation, and the denominator of which  
4 is the total compensation paid by the taxpayer in this state during  
5 the taxable year.

6 (4) The portion of any credit remaining, if any, after application  
7 of this subdivision, shall be carried over to succeeding taxable  
8 years, *if necessary, until the credit is exhausted*, as if it were an  
9 amount exceeding the “tax” for the taxable year, as provided in  
10 subdivision (e). *However, the portion of any credit remaining for*  
11 *carryover to taxable years beginning on or after January 1, 2014,*  
12 *if any, after application of this subdivision, shall be carried over*  
13 *only to the succeeding five taxable years if necessary, until the*  
14 *credit is exhausted, as if it were an amount exceeding the “tax”*  
15 *for the taxable year, as provided in subdivision (e).*

16 (5) In the event that a credit carryover is allowable under  
17 subdivision (e) for any taxable year after the targeted tax area  
18 designation has expired, has been revoked, is no longer binding,  
19 or has become inoperative, the targeted tax area shall be deemed  
20 to remain in existence for purposes of computing the limitation  
21 specified in this subdivision.

22 (h) The changes made to this section by the act adding this  
23 subdivision shall apply to taxable years beginning on or after  
24 January 1, 1998.

25 (i) *This section is repealed on December 1, 2014.*

26 *SEC. 34. Section 23634 of the Revenue and Taxation Code is*  
27 *amended to read:*

28 23634. (a) For each taxable year beginning on or after January  
29 1, 1998, there shall be allowed a credit against the “tax” (as defined  
30 by Section 23036) to a qualified taxpayer who employs a qualified  
31 employee in a targeted tax area during the taxable year. The credit  
32 shall be equal to the sum of each of the following:

33 (1) Fifty percent of qualified wages in the first year of  
34 employment.

35 (2) Forty percent of qualified wages in the second year of  
36 employment.

37 (3) Thirty percent of qualified wages in the third year of  
38 employment.

39 (4) Twenty percent of qualified wages in the fourth year of  
40 employment.

1 (5) Ten percent of qualified wages in the fifth year of  
2 employment.

3 (b) For purposes of this section:

4 (1) “Qualified wages” means:

5 (A) That portion of wages paid or incurred by the qualified  
6 taxpayer during the taxable year to qualified employees that does  
7 not exceed 150 percent of the minimum wage.

8 (B) Wages received during the 60-month period beginning with  
9 the first day the employee commences employment with the  
10 qualified taxpayer. Reemployment in connection with any increase,  
11 including a regularly occurring seasonal increase, in the trade or  
12 business operations of the qualified taxpayer does not constitute  
13 commencement of employment for purposes of this section.

14 (C) Qualified wages do not include any wages paid or incurred  
15 by the qualified taxpayer on or after the targeted tax area expiration  
16 date. However, wages paid or incurred with respect to qualified  
17 employees who are employed by the qualified taxpayer within the  
18 targeted tax area within the 60-month period prior to the targeted  
19 tax area expiration date shall continue to qualify for the credit  
20 under this section after the targeted tax area expiration date, in  
21 accordance with all provisions of this section applied as if the  
22 targeted tax area designation were still in existence and binding.

23 (2) “Minimum wage” means the wage established by the  
24 Industrial Welfare Commission as provided for in Chapter 1  
25 (commencing with Section 1171) of Part 4 of Division 2 of the  
26 Labor Code.

27 (3) “Targeted tax area expiration date” means the date the  
28 targeted tax area designation expires, is revoked, is no longer  
29 binding, *becomes inoperative*, or ~~becomes inoperative~~; *is repealed*.

30 (4) (A) “Qualified employee” means an individual who meets  
31 all of the following requirements:

32 (i) At least 90 percent of his or her services for the qualified  
33 taxpayer during the taxable year are directly related to the conduct  
34 of the qualified taxpayer’s trade or business located in a targeted  
35 tax area.

36 (ii) Performs at least 50 percent of his or her services for the  
37 qualified taxpayer during the taxable year in a targeted tax area.

38 (iii) Is hired by the qualified taxpayer after the date of original  
39 designation of the area in which services were performed as a  
40 targeted tax area.

1 (iv) Is any of the following:

2 (I) Immediately preceding the qualified employee's  
 3 commencement of employment with the qualified taxpayer, was  
 4 a person eligible for services under the federal Job Training  
 5 Partnership Act (29 U.S.C. Sec. 1501 et seq.), or its successor,  
 6 who is receiving, or is eligible to receive, subsidized employment,  
 7 training, or services funded by the federal Job Training Partnership  
 8 Act, or its successor.

9 (II) Immediately preceding the qualified employee's  
 10 commencement of employment with the qualified taxpayer, was  
 11 a person eligible to be a voluntary or mandatory registrant under  
 12 the Greater Avenues for Independence Act of 1985 (GAIN)  
 13 provided for pursuant to Article 3.2 (commencing with Section  
 14 11320) of Chapter 2 of Part 3 of Division 9 of the Welfare and  
 15 Institutions Code, or its successor.

16 (III) Immediately preceding the qualified employee's  
 17 commencement of employment with the qualified taxpayer, was  
 18 an economically disadvantaged individual 14 years of age or older.

19 (IV) Immediately preceding the qualified employee's  
 20 commencement of employment with the qualified taxpayer, was  
 21 a dislocated worker who meets any of the following:

22 (aa) Has been terminated or laid off or who has received a notice  
 23 of termination or layoff from employment, is eligible for or has  
 24 exhausted entitlement to unemployment insurance benefits, and  
 25 is unlikely to return to his or her previous industry or occupation.

26 (bb) Has been terminated or has received a notice of termination  
 27 of employment as a result of any permanent closure or any  
 28 substantial layoff at a plant, facility, or enterprise, including an  
 29 individual who has not received written notification but whose  
 30 employer has made a public announcement of the closure or layoff.

31 (cc) Is long-term unemployed and has limited opportunities for  
 32 employment or reemployment in the same or a similar occupation  
 33 in the area in which the individual resides, including an individual  
 34 55 years of age or older who may have substantial barriers to  
 35 employment by reason of age.

36 (dd) Was self-employed (including farmers and ranchers) and  
 37 is unemployed as a result of general economic conditions in the  
 38 community in which he or she resides or because of natural  
 39 disasters.

1 (ee) Was a civilian employee of the Department of Defense  
2 employed at a military installation being closed or realigned under  
3 the Defense Base Closure and Realignment Act of 1990.

4 (ff) Was an active member of the Armed Forces or National  
5 Guard as of September 30, 1990, and was either involuntarily  
6 separated or separated pursuant to a special benefits program.

7 (gg) Is a seasonal or migrant worker who experiences chronic  
8 seasonal unemployment and underemployment in the agriculture  
9 industry, aggravated by continual advancements in technology and  
10 mechanization.

11 (hh) Has been terminated or laid off, or has received a notice  
12 of termination or layoff, as a consequence of compliance with the  
13 Clean Air Act.

14 (V) Immediately preceding the qualified employee's  
15 commencement of employment with the qualified taxpayer, was  
16 a disabled individual who is eligible for or enrolled in, or has  
17 completed a state rehabilitation plan or is a service-connected  
18 disabled veteran, veteran of the Vietnam era, or veteran who is  
19 recently separated from military service.

20 (VI) Immediately preceding the qualified employee's  
21 commencement of employment with the qualified taxpayer, was  
22 an ex-offender. An individual shall be treated as convicted if he  
23 or she was placed on probation by a state court without a finding  
24 of guilt.

25 (VII) Immediately preceding the qualified employee's  
26 commencement of employment with the qualified taxpayer, was  
27 a person eligible for or a recipient of any of the following:

28 (aa) Federal Supplemental Security Income benefits.

29 (bb) Aid to Families with Dependent Children.

30 (cc) CalFresh benefits.

31 (dd) State and local general assistance.

32 (VIII) Immediately preceding the qualified employee's  
33 commencement of employment with the qualified taxpayer, was  
34 a member of a federally recognized Indian tribe, band, or other  
35 group of Native American descent.

36 (IX) Immediately preceding the qualified employee's  
37 commencement of employment with the qualified taxpayer, was  
38 a resident of a targeted tax area.

39 (X) Immediately preceding the qualified employee's  
40 commencement of employment with the taxpayer, was a member

1 of a targeted group, as defined in Section 51(d) of the Internal  
2 Revenue Code, or its successor.

3 (B) Priority for employment shall be provided to an individual  
4 who is enrolled in a qualified program under the federal Job  
5 Training Partnership Act or the Greater Avenues for Independence  
6 Act of 1985 or who is eligible as a member of a targeted group  
7 under the Work Opportunity Tax Credit (Section 51 of the Internal  
8 Revenue Code), or its successor.

9 (5) (A) “Qualified taxpayer” means a person or entity that meets  
10 both of the following:

11 (i) Is engaged in a trade or business within a targeted tax area  
12 designated pursuant to Chapter 12.93 (commencing with Section  
13 7097) of Division 7 of Title 1 of the Government Code.

14 (ii) Is engaged in those lines of business described in Codes  
15 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299,  
16 inclusive; 4500 to 4599, inclusive; and 4700 to 5199, inclusive,  
17 of the Standard Industrial Classification (SIC) Manual published  
18 by the United States Office of Management and Budget, 1987  
19 edition.

20 (B) In the case of any passthrough entity, the determination of  
21 whether a taxpayer is a qualified taxpayer under this section shall  
22 be made at the entity level and any credit under this section or  
23 Section 17053.34 shall be allowed to the passthrough entity and  
24 passed through to the partners or shareholders in accordance with  
25 applicable provisions of this part or Part 10 (commencing with  
26 Section 17001). For purposes of this subparagraph, the term  
27 “passthrough entity” means any partnership or S corporation.

28 (6) “Seasonal employment” means employment by a qualified  
29 taxpayer that has regular and predictable substantial reductions in  
30 trade or business operations.

31 (c) If the qualified taxpayer is allowed a credit for qualified  
32 wages pursuant to this section, only one credit shall be allowed to  
33 the taxpayer under this part with respect to those qualified wages.

34 (d) The qualified taxpayer shall do both of the following:

35 (1) Obtain from the Employment Development Department, as  
36 permitted by federal law, the local county or city Job Training  
37 Partnership Act administrative entity, the local county GAIN office  
38 or social services agency, or the local government administering  
39 the targeted tax area, a certification that provides that a qualified  
40 employee meets the eligibility requirements specified in clause

1 (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The  
2 Employment Development Department may provide preliminary  
3 screening and referral to a certifying agency. The Department of  
4 Housing and Community Development shall develop regulations  
5 for the issuance of certificates pursuant to subdivision (g) of  
6 Section 7097 of the Government Code, and shall develop forms  
7 for this purpose.

8 (2) Retain a copy of the certification and provide it upon request  
9 to the Franchise Tax Board.

10 (e) (1) For purposes of this section:

11 (A) All employees of all corporations that are members of the  
12 same controlled group of corporations shall be treated as employed  
13 by a single taxpayer.

14 (B) The credit, if any, allowable by this section to each member  
15 shall be determined by reference to its proportionate share of the  
16 expense of the qualified wages giving rise to the credit, and shall  
17 be allocated in that manner.

18 (C) For purposes of this subdivision, “controlled group of  
19 corporations” means “controlled group of corporations” as defined  
20 in Section 1563(a) of the Internal Revenue Code, except that:

21 (i) “More than 50 percent” shall be substituted for “at least 80  
22 percent” each place it appears in Section 1563(a)(1) of the Internal  
23 Revenue Code.

24 (ii) The determination shall be made without regard to  
25 subsections (a)(4) and (e)(3)(C) of Section 1563 of the Internal  
26 Revenue Code.

27 (2) If an employer acquires the major portion of a trade or  
28 business of another employer (hereinafter in this paragraph referred  
29 to as the “predecessor”) or the major portion of a separate unit of  
30 a trade or business of a predecessor, then, for purposes of applying  
31 this section (other than subdivision (f)) for any calendar year ending  
32 after that acquisition, the employment relationship between a  
33 qualified employee and an employer shall not be treated as  
34 terminated if the employee continues to be employed in that trade  
35 or business.

36 (f) (1) (A) If the employment, other than seasonal employment,  
37 of any qualified employee with respect to whom qualified wages  
38 are taken into account under subdivision (a) is terminated by the  
39 qualified taxpayer at any time during the first 270 days of that  
40 employment (whether or not consecutive) or before the close of

1 the 270th calendar day after the day in which that employee  
2 completes 90 days of employment with the qualified taxpayer, the  
3 tax imposed by this part for the taxable year in which that  
4 employment is terminated shall be increased by an amount equal  
5 to the credit allowed under subdivision (a) for that taxable year  
6 and all prior taxable years attributable to qualified wages paid or  
7 incurred with respect to that employee.

8 (B) If the seasonal employment of any qualified employee, with  
9 respect to whom qualified wages are taken into account under  
10 subdivision (a) is not continued by the qualified taxpayer for a  
11 period of 270 days of employment during the 60-month period  
12 beginning with the day the qualified employee commences seasonal  
13 employment with the qualified taxpayer, the tax imposed by this  
14 part, for the taxable year that includes the 60th month following  
15 the month in which the qualified employee commences seasonal  
16 employment with the qualified taxpayer, shall be increased by an  
17 amount equal to the credit allowed under subdivision (a) for that  
18 taxable year and all prior taxable years attributable to qualified  
19 wages paid or incurred with respect to that qualified employee.

20 (2) (A) Subparagraph (A) of paragraph (1) shall not apply to  
21 any of the following:

22 (i) A termination of employment of a qualified employee who  
23 voluntarily leaves the employment of the qualified taxpayer.

24 (ii) A termination of employment of a qualified employee who,  
25 before the close of the period referred to in subparagraph (A) of  
26 paragraph (1), becomes disabled and unable to perform the services  
27 of that employment, unless that disability is removed before the  
28 close of that period and the qualified taxpayer fails to offer  
29 reemployment to that employee.

30 (iii) A termination of employment of a qualified employee, if  
31 it is determined that the termination was due to the misconduct (as  
32 defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of  
33 the California Code of Regulations) of that employee.

34 (iv) A termination of employment of a qualified employee due  
35 to a substantial reduction in the trade or business operations of the  
36 taxpayer.

37 (v) A termination of employment of a qualified employee, if  
38 that employee is replaced by other qualified employees so as to  
39 create a net increase in both the number of employees and the  
40 hours of employment.

1 (B) Subparagraph (B) of paragraph (1) shall not apply to any  
2 of the following:

3 (i) A failure to continue the seasonal employment of a qualified  
4 employee who voluntarily fails to return to the seasonal  
5 employment of the qualified taxpayer.

6 (ii) A failure to continue the seasonal employment of a qualified  
7 employee who, before the close of the period referred to in  
8 subparagraph (B) of paragraph (1), becomes disabled and unable  
9 to perform the services of that seasonal employment, unless that  
10 disability is removed before the close of that period and the  
11 qualified taxpayer fails to offer seasonal employment to that  
12 qualified employee.

13 (iii) A failure to continue the seasonal employment of a qualified  
14 employee, if it is determined that the failure to continue the  
15 seasonal employment was due to the misconduct (as defined in  
16 Sections 1256-30 to 1256-43, inclusive, of Title 22 of the California  
17 Code of Regulations) of that qualified employee.

18 (iv) A failure to continue seasonal employment of a qualified  
19 employee due to a substantial reduction in the regular seasonal  
20 trade or business operations of the qualified taxpayer.

21 (v) A failure to continue the seasonal employment of a qualified  
22 employee, if that qualified employee is replaced by other qualified  
23 employees so as to create a net increase in both the number of  
24 seasonal employees and the hours of seasonal employment.

25 (C) For purposes of paragraph (1), the employment relationship  
26 between the qualified taxpayer and a qualified employee shall not  
27 be treated as terminated by either of the following:

28 (i) By a transaction to which Section 381(a) of the Internal  
29 Revenue Code applies, if the qualified employee continues to be  
30 employed by the acquiring corporation.

31 (ii) By reason of a mere change in the form of conducting the  
32 trade or business of the qualified taxpayer, if the qualified  
33 employee continues to be employed in that trade or business and  
34 the qualified taxpayer retains a substantial interest in that trade or  
35 business.

36 (3) Any increase in tax under paragraph (1) shall not be treated  
37 as tax imposed by this part for purposes of determining the amount  
38 of any credit allowable under this part.

39 (g) Rules similar to the rules provided in Sections 46(e) and (h)  
40 of the Internal Revenue Code shall apply to both of the following:

1 (1) An organization to which Section 593 of the Internal  
2 Revenue Code applies.

3 (2) A regulated investment company or a real estate investment  
4 trust subject to taxation under this part.

5 (h) For purposes of this section, “targeted tax area” means an  
6 area designated pursuant to Chapter 12.93 (commencing with  
7 Section 7097) of Division 7 of Title 1 of the Government Code.

8 (i) In the case where the credit otherwise allowed under this  
9 section exceeds the “tax” for the taxable year, that portion of the  
10 credit that exceeds the “tax” may be carried over and added to the  
11 credit, if any, in *the* succeeding *five* taxable years, *if necessary*,  
12 until the credit is exhausted. The credit shall be applied first to the  
13 earliest taxable years possible.

14 (j) (1) The amount of the credit otherwise allowed under this  
15 section and Section 23633, including any credit carryover from  
16 prior years, that may reduce the “tax” for the taxable year shall  
17 not exceed the amount of tax that would be imposed on the  
18 qualified taxpayer’s business income attributable to the targeted  
19 tax area determined as if that attributable income represented all  
20 of the income of the qualified taxpayer subject to tax under this  
21 part.

22 (2) Attributable income shall be that portion of the taxpayer’s  
23 California source business income that is apportioned to the  
24 targeted tax area. For that purpose, the taxpayer’s business income  
25 attributable to sources in this state first shall be determined in  
26 accordance with Chapter 17 (commencing with Section 25101).  
27 That business income shall be further apportioned to the targeted  
28 tax area in accordance with Article 2 (commencing with Section  
29 25120) of Chapter 17, modified for purposes of this section in  
30 accordance with paragraph (3).

31 (3) Business income shall be apportioned to the targeted tax  
32 area by multiplying the total California business income of the  
33 taxpayer by a fraction, the numerator of which is the property  
34 factor plus the payroll factor, and the denominator of which is two.  
35 For purposes of this paragraph:

36 (A) The property factor is a fraction, the numerator of which is  
37 the average value of the taxpayer’s real and tangible personal  
38 property owned or rented and used in the targeted tax area during  
39 the taxable year, and the denominator of which is the average value

1 of all the taxpayer's real and tangible personal property owned or  
2 rented and used in this state during the taxable year.

3 (B) The payroll factor is a fraction, the numerator of which is  
4 the total amount paid by the taxpayer in the targeted tax area during  
5 the taxable year for compensation, and the denominator of which  
6 is the total compensation paid by the taxpayer in this state during  
7 the taxable year.

8 (4) The portion of any credit remaining, if any, after application  
9 of this subdivision, shall be carried over to succeeding taxable  
10 years, *if necessary, until the credit is exhausted*, as if it were an  
11 amount exceeding the "tax" for the taxable year, as provided in  
12 subdivision ~~(h)~~ (i). *However, the portion of any credit remaining*  
13 *for carryover to taxable years beginning on or after January 1,*  
14 *2014, if any, after application of this subdivision, shall be carried*  
15 *over only to the succeeding five taxable years if necessary, until*  
16 *the credit is exhausted, as if it were an amount exceeding the "tax"*  
17 *for the taxable year, as provided in subdivision (i).*

18 (5) In the event that a credit carryover is allowable under  
19 subdivision (h) for any taxable year after the targeted tax area  
20 designation has expired or been revoked, the targeted tax area shall  
21 be deemed to remain in existence for purposes of computing the  
22 limitation specified in this subdivision.

23 (k) (1) *Except as provided in paragraph (2), this section shall*  
24 *cease to be operative for taxable years beginning on or after*  
25 *January 1, 2014, and shall be repealed on December 1, 2019.*

26 (2) *The section shall continue to apply with respect to qualified*  
27 *employees who are employed by the qualified taxpayer within the*  
28 *targeted tax area within the 60-month period immediately*  
29 *preceding January 1, 2014, and qualified wages paid or incurred*  
30 *with respect to those qualified employees shall continue to qualify*  
31 *for the credit under this section for taxable years beginning on or*  
32 *after January 1, 2014, in accordance with this section, as amended*  
33 *by the act adding this subdivision.*

34 SEC. 35. *Section 23645 of the Revenue and Taxation Code is*  
35 *amended to read:*

36 23645. (a) For each taxable year beginning on or after January  
37 1, 1995, and before January 1, 2014, there shall be allowed as a  
38 credit against the "tax" (as defined by Section 23036) for the  
39 taxable year an amount equal to the sales or use tax paid or incurred  
40 by the taxpayer in connection with the purchase of qualified

1 property *before January 1, 2014*, to the extent that the qualified  
2 property does not exceed a value of twenty million dollars  
3 (\$20,000,000).

4 (b) For purposes of this section:

5 (1) “LAMBRA” means a local agency military base recovery  
6 area designated in accordance with Section 7114 of the Government  
7 Code.

8 (2) “Taxpayer” means a corporation that conducts a trade or  
9 business within a LAMBRA and, for the first two taxable years,  
10 has a net increase in jobs (defined as 2,000 paid hours per employee  
11 per year) of one or more employees in the LAMBRA.

12 (A) The net increase in the number of jobs shall be determined  
13 by subtracting the total number of full-time employees (defined  
14 as 2,000 paid hours per employee per year) the taxpayer employed  
15 in this state in the taxable year prior to commencing business  
16 operations in the LAMBRA from the total number of full-time  
17 employees the taxpayer employed in this state during the second  
18 taxable year after commencing business operations in the  
19 LAMBRA. For taxpayers who commence doing business in this  
20 state with their LAMBRA business operation, the number of  
21 employees for the taxable year prior to commencing business  
22 operations in the LAMBRA shall be zero. If the taxpayer has a net  
23 increase in jobs in the state, the credit shall be allowed only if one  
24 or more full-time employees is employed within the LAMBRA.

25 (B) The total number of employees employed in the LAMBRA  
26 shall equal the sum of both of the following:

27 (i) The total number of hours worked in the LAMBRA for the  
28 taxpayer by employees (not to exceed 2,000 hours per employee)  
29 who are paid an hourly wage divided by 2,000.

30 (ii) The total number of months worked in the LAMBRA for  
31 the taxpayer by employees that are salaried employees divided by  
32 12.

33 (C) In the case of a taxpayer who first commences doing  
34 business in the LAMBRA during the taxable year, for purposes of  
35 clauses (i) and (ii), respectively, of subparagraph (B) the divisors  
36 “2,000” and “12” shall be multiplied by a fraction, the numerator  
37 of which is the number of months of the taxable year that the  
38 taxpayer was doing business in the LAMBRA and the denominator  
39 of which is 12.

1 (3) “Qualified property” means property that is each of the  
2 following:

3 (A) Purchased by the taxpayer for exclusive use in a trade or  
4 business conducted within a LAMBRA.

5 (B) Purchased before the date the LAMBRA designation expires,  
6 is no longer binding, or becomes inoperative.

7 (C) Any of the following:

8 (i) High technology equipment, including, but not limited to,  
9 computers and electronic processing equipment.

10 (ii) Aircraft maintenance equipment, including, but not limited  
11 to, engine stands, hydraulic mules, power carts, test equipment,  
12 handtools, aircraft start carts, and tugs.

13 (iii) Aircraft components, including, but not limited to, engines,  
14 fuel control units, hydraulic pumps, avionics, starts, wheels, and  
15 tires.

16 (iv) Section 1245 property, as defined in Section 1245(a)(3) of  
17 the Internal Revenue Code.

18 (c) The credit provided under subdivision (a) shall only be  
19 allowed for qualified property manufactured in California unless  
20 qualified property of a comparable quality and price is not available  
21 for timely purchase and delivery from a California manufacturer.

22 (d) In the case where the credit otherwise allowed under this  
23 section exceeds the “tax” for the taxable year, that portion of the  
24 credit which exceeds the “tax” may be carried over and added to  
25 the credit, if any, in *the succeeding five taxable years, if necessary*,  
26 until the credit is exhausted. The credit shall be applied first to the  
27 earliest taxable years possible.

28 (e) Any taxpayer who elects to be subject to this section shall  
29 not be entitled to increase the basis of the property as otherwise  
30 required by Section 164(a) of the Internal Revenue Code with  
31 respect to sales or use tax paid or incurred in connection with the  
32 purchase of qualified property.

33 (f) (1) The amount of the credit otherwise allowed under this  
34 section and Section 23646, including any credit carryovers from  
35 prior years, that may reduce the “tax” for the taxable year shall  
36 not exceed the amount of tax that would be imposed on the  
37 taxpayer’s business income attributed to a LAMBRA determined  
38 as if that attributable income represented all the income of the  
39 taxpayer subject to tax under this part.

1 (2) Attributable income shall be that portion of the taxpayer's  
2 California source business income that is apportioned to the  
3 LAMBRA. For that purpose, the taxpayer's business income that  
4 is attributable to sources in this state shall first be determined in  
5 accordance with Chapter 17 (commencing with Section 25101).  
6 That business income shall be further apportioned to the LAMBRA  
7 in accordance with Article 2 (commencing with Section 25120)  
8 of Chapter 17, modified for purposes of this section in accordance  
9 with paragraph (3).

10 (3) Income shall be apportioned to a LAMBRA by multiplying  
11 the total California business income of the taxpayer by a fraction,  
12 the numerator of which is the property factor, plus the payroll  
13 factor, and the denominator of which is two. For purposes of this  
14 paragraph:

15 (A) The property factor is a fraction, the numerator of which is  
16 the average value of the taxpayer's real and tangible personal  
17 property owned or rented and used in the LAMBRA during the  
18 taxable year, and the denominator of which is the average value  
19 of all the taxpayer's real and tangible personal property owned or  
20 rented and used in this state during the taxable year.

21 (B) The payroll factor is a fraction, the numerator of which is  
22 the total amount paid by the taxpayer in the LAMBRA during the  
23 taxable year for compensation, and the denominator of which is  
24 the total compensation paid by the taxpayer in this state during the  
25 taxable year.

26 (4) The portion of any credit remaining, if any, after application  
27 of this subdivision, shall be carried over to succeeding taxable  
28 years, *if necessary, until the credit is exhausted*, as if it were an  
29 amount exceeding the "tax" for the taxable year, as provided in  
30 subdivision (d). *However, the portion of any credit remaining for*  
31 *carryover to taxable years beginning on or after January 1, 2014,*  
32 *if any, after application of this subdivision, shall be carried over*  
33 *only to the succeeding five taxable years, if necessary, until the*  
34 *credit is exhausted, as if it were an amount exceeding the "tax"*  
35 *for the taxable year, as provided in subdivision (d).*

36 (g) (1) If the qualified property is disposed of or no longer used  
37 by the taxpayer in the LAMBRA, at any time before the close of  
38 the second taxable year after the property is placed in service, the  
39 amount of the credit previously claimed, with respect to that

1 property, shall be added to the taxpayer's tax liability in the taxable  
2 year of that disposition or nonuse.

3 (2) At the close of the second taxable year, if the taxpayer has  
4 not increased the number of its employees as determined by  
5 paragraph (2) of subdivision (b), then the amount of the credit  
6 previously claimed shall be added to the taxpayer's tax for the  
7 taxpayer's second taxable year.

8 (h) If the taxpayer is allowed a credit for qualified property  
9 pursuant to this section, only one credit shall be allowed to the  
10 taxpayer under this part with respect to that qualified property.

11 (i) The amendments made to this section by the act adding this  
12 subdivision shall apply to taxable years beginning on or after  
13 January 1, 1998.

14 (j) *This section is repealed on December 1, 2014.*

15 *SEC. 36. Section 23646 of the Revenue and Taxation Code is*  
16 *amended to read:*

17 23646. (a) For each taxable year beginning on or after January  
18 1, 1995, there shall be allowed as a credit against the "tax" (as  
19 defined in Section 23036) to a qualified taxpayer for hiring a  
20 qualified disadvantaged individual or a qualified displaced  
21 employee during the taxable year for employment in the LAMBRA.  
22 The credit shall be equal to the sum of each of the following:

23 (1) Fifty percent of the qualified wages in the first year of  
24 employment.

25 (2) Forty percent of the qualified wages in the second year of  
26 employment.

27 (3) Thirty percent of the qualified wages in the third year of  
28 employment.

29 (4) Twenty percent of the qualified wages in the fourth year of  
30 employment.

31 (5) Ten percent of the qualified wages in the fifth year of  
32 employment.

33 (b) For purposes of this section:

34 (1) "Qualified wages" means:

35 (A) That portion of wages paid or incurred by the employer  
36 during the taxable year to qualified disadvantaged individuals or  
37 qualified displaced employees that does not exceed 150 percent  
38 of the minimum wage.

39 (B) The total amount of qualified wages which may be taken  
40 into account for purposes of claiming the credit allowed under this

1 section shall not exceed two million dollars (\$2,000,000) per  
2 taxable year.

3 (C) Wages received during the 60-month period beginning with  
4 the first day the individual commences employment with the  
5 taxpayer. Reemployment in connection with any increase, including  
6 a regularly occurring seasonal increase, in the trade or business  
7 operation of the qualified taxpayer does not constitute  
8 commencement of employment for purposes of this section.

9 (D) Qualified wages do not include any wages paid or incurred  
10 by the qualified taxpayer on or after the LAMBRA expiration date.  
11 However, wages paid or incurred with respect to qualified  
12 disadvantaged individuals or qualified displaced employees who  
13 are employed by the qualified taxpayer within the LAMBRA within  
14 the 60-month period prior to the LAMBRA expiration date shall  
15 continue to qualify for the credit under this section after the  
16 LAMBRA expiration date, in accordance with all provisions of  
17 this section applied as if the LAMBRA designation were still in  
18 existence and binding.

19 (2) “Minimum wage” means the wage established by the  
20 Industrial Welfare Commission as provided for in Chapter 1  
21 (commencing with Section 1171) of Part 4 of Division 2 of the  
22 Labor Code.

23 (3) “LAMBRA” means a local agency military base recovery  
24 area designated in accordance with the provisions of Section 7114  
25 of the Government Code.

26 (4) “Qualified disadvantaged individual” means an individual  
27 who satisfies all of the following requirements:

28 (A) (i) At least 90 percent of whose services for the taxpayer  
29 during the taxable year are directly related to the conduct of the  
30 taxpayer’s trade or business located in a LAMBRA.

31 (ii) Who performs at least 50 percent of his or her services for  
32 the taxpayer during the taxable year in the LAMBRA.

33 (B) Who is hired by the employer after the designation of the  
34 area as a LAMBRA in which the individual’s services were  
35 primarily performed.

36 (C) Who is any of the following immediately preceding the  
37 individual’s commencement of employment with the taxpayer:

38 (i) An individual who has been determined eligible for services  
39 under the federal Job Training Partnership Act (29 U.S.C. Sec.  
40 1501 et seq.), or its successor.

1 (ii) Any voluntary or mandatory registrant under the Greater  
2 Avenues for Independence Act of 1985 provided for pursuant to  
3 Article 3.2 (commencing with Section 11320) of Chapter 2 of Part  
4 3 of Division 9 of the Welfare and Institutions Code.

5 (iii) An economically disadvantaged individual 16 years of age  
6 or older.

7 (iv) A dislocated worker who meets any of the following  
8 conditions:

9 (I) Has been terminated or laid off or who has received a notice  
10 of termination or layoff from employment, is eligible for or has  
11 exhausted entitlement to unemployment insurance benefits, and  
12 is unlikely to return to his or her previous industry or occupation.

13 (II) Has been terminated or has received a notice of termination  
14 of employment as a result of any permanent closure or any  
15 substantial layoff at a plant, facility, or enterprise, including an  
16 individual who has not received written notification but whose  
17 employer has made a public announcement of the closure or layoff.

18 (III) Is long-term unemployed and has limited opportunities for  
19 employment or reemployment in the same or a similar occupation  
20 in the area in which the individual resides, including an individual  
21 55 years of age or older who may have substantial barriers to  
22 employment by reason of age.

23 (IV) Was self-employed (including farmers and ranchers) and  
24 is unemployed as a result of general economic conditions in the  
25 community in which he or she resides or because of natural  
26 disasters.

27 (V) Was a civilian employee of the Department of Defense  
28 employed at a military installation being closed or realigned under  
29 the Defense Base Closure and Realignment Act of 1990.

30 (VI) Was an active member of the Armed Forces or National  
31 Guard as of September 30, 1990, and was either involuntarily  
32 separated or separated pursuant to a special benefits program.

33 (VII) Experiences chronic seasonal unemployment and  
34 underemployment in the agriculture industry, aggravated by  
35 continual advancements in technology and mechanization.

36 (VIII) Has been terminated or laid off or has received a notice  
37 of termination or layoff as a consequence of compliance with the  
38 Clean Air Act.

39 (v) An individual who is enrolled in or has completed a state  
40 rehabilitation plan or is a service-connected disabled veteran,

- 1 veteran of the Vietnam era, or veteran who is recently separated  
2 from military service.
- 3 (vi) An ex-offender. An individual shall be treated as convicted  
4 if he or she was placed on probation by a state court without a  
5 finding of guilty.
- 6 (vii) A recipient of:
- 7 (I) Federal Supplemental Security Income benefits.  
8 (II) Aid to Families with Dependent Children.  
9 (III) CalFresh benefits.  
10 (IV) State and local general assistance.
- 11 (viii) Is a member of a federally recognized Indian tribe, band,  
12 or other group of Native American descent.
- 13 (5) “Qualified taxpayer” means a corporation that conducts a  
14 trade or business within a LAMBRA and, for the first two taxable  
15 years, has a net increase in jobs (defined as 2,000 paid hours per  
16 employee per year) of one or more employees as determined below  
17 in the LAMBRA.
- 18 (A) The net increase in the number of jobs shall be determined  
19 by subtracting the total number of full-time employees (defined  
20 as 2,000 paid hours per employee per year) the taxpayer employed  
21 in this state in the taxable year prior to commencing business  
22 operations in the LAMBRA from the total number of full-time  
23 employees the taxpayer employed in this state during the second  
24 taxable year after commencing business operations in the  
25 LAMBRA. For taxpayers who commence doing business in this  
26 state with their LAMBRA business operation, the number of  
27 employees for the taxable year prior to commencing business  
28 operations in the LAMBRA shall be zero. If the taxpayer has a net  
29 increase in jobs in the state, the credit shall be allowed only if one  
30 or more full-time employees is employed within the LAMBRA.
- 31 (B) The total number of employees employed in the LAMBRA  
32 shall equal the sum of both of the following:
- 33 (i) The total number of hours worked in the LAMBRA for the  
34 taxpayer by employees (not to exceed 2,000 hours per employee)  
35 who are paid an hourly wage divided by 2,000.
- 36 (ii) The total number of months worked in the LAMBRA for  
37 the taxpayer by employees who are salaried employees divided  
38 by 12.
- 39 (C) In the case of a qualified taxpayer that first commences  
40 doing business in the LAMBRA during the taxable year, for

1 purposes of clauses (i) and (ii), respectively, of subparagraph (B)  
2 the divisors “2,000” and “12” shall be multiplied by a fraction, the  
3 numerator of which is the number of months of the taxable year  
4 that the taxpayer was doing business in the LAMBRA and the  
5 denominator of which is 12.

6 (6) “Qualified displaced employee” means an individual who  
7 satisfies all of the following requirements:

8 (A) Any civilian or military employee of a base or former base  
9 that has been displaced as a result of a federal base closure act.

10 (B) (i) At least 90 percent of whose services for the taxpayer  
11 during the taxable year are directly related to the conduct of the  
12 taxpayer’s trade or business located in a LAMBRA.

13 (ii) Who performs at least 50 percent of his or her services for  
14 the taxpayer during the taxable year in a LAMBRA.

15 (C) Who is hired by the employer after the designation of the  
16 area in which services were performed as a LAMBRA.

17 (7) “Seasonal employment” means employment by a qualified  
18 taxpayer that has regular and predictable substantial reductions in  
19 trade or business operations.

20 (8) “LAMBRA expiration date” means the date the LAMBRA  
21 designation expires, is no longer binding, *becomes inoperative*, or  
22 ~~becomes inoperative~~; *is repealed*.

23 (c) For qualified disadvantaged individuals or qualified displaced  
24 employees hired on or after January 1, 2001, the taxpayer shall do  
25 both of the following:

26 (1) Obtain from the Employment Development Department, as  
27 permitted by federal law, the administrative entity of the local  
28 county or city for the federal Job Training Partnership Act, or its  
29 successor, the local county GAIN office or social services agency,  
30 or the local government administering the LAMBRA, a  
31 certification that provides that a qualified disadvantaged individual  
32 or qualified displaced employee meets the eligibility requirements  
33 specified in subparagraph (C) of paragraph (4) of subdivision (b)  
34 or subparagraph (A) of paragraph (6) of subdivision (b). The  
35 Employment Development Department may provide preliminary  
36 screening and referral to a certifying agency. The Department of  
37 Housing and Community Development shall develop regulations  
38 governing the issuance of certificates pursuant to Section 7114.2  
39 of the Government Code and shall develop forms for this purpose.

1 (2) Retain a copy of the certification and provide it upon request  
 2 to the Franchise Tax Board.

3 (d) (1) For purposes of this section, both of the following apply:  
 4 (A) All employees of all corporations that are members of the  
 5 same controlled group of corporations shall be treated as employed  
 6 by a single employer.

7 (B) The credit (if any) allowable by this section to each member  
 8 shall be determined by reference to its proportionate share of the  
 9 qualified wages giving rise to the credit.

10 (2) For purposes of this subdivision, “controlled group of  
 11 corporations” has the meaning given to that term by Section  
 12 1563(a) of the Internal Revenue Code, except that both of the  
 13 following apply:  
 14 (A) “More than 50 percent” shall be substituted for “at least 80  
 15 percent” each place it appears in Section 1563(a)(1) of the Internal  
 16 Revenue Code.

17 (B) The determination shall be made without regard to Section  
 18 1563(a)(4) and Section 1563(e)(3)(C) of the Internal Revenue  
 19 Code.

20 (3) If an employer acquires the major portion of a trade or  
 21 business of another employer (hereinafter in this paragraph referred  
 22 to as the “predecessor”) or the major portion of a separate unit of  
 23 a trade or business of a predecessor, then, for purposes of applying  
 24 this section (other than subdivision (e)) for any calendar year  
 25 ending after that acquisition, the employment relationship between  
 26 an employee and an employer shall not be treated as terminated if  
 27 the employee continues to be employed in that trade or business.

28 (e) (1) (A) If the employment of any employee, other than  
 29 seasonal employment, with respect to whom qualified wages are  
 30 taken into account under subdivision (a) is terminated by the  
 31 taxpayer at any time during the first 270 days of that employment  
 32 (whether or not consecutive) or before the close of the 270th  
 33 calendar day after the day in which that employee completes 90  
 34 days of employment with the taxpayer, the tax imposed by this  
 35 part for the taxable year in which that employment is terminated  
 36 shall be increased by an amount equal to the credit allowed under  
 37 subdivision (a) for that taxable year and all prior income years  
 38 attributable to qualified wages paid or incurred with respect to that  
 39 employee.

1 (B) If the seasonal employment of any qualified disadvantaged  
2 individual, with respect to whom qualified wages are taken into  
3 account under subdivision (a) is not continued by the qualified  
4 taxpayer for a period of 270 days of employment during the  
5 60-month period beginning with the day the qualified  
6 disadvantaged individual commences seasonal employment with  
7 the qualified taxpayer, the tax imposed by this part, for the taxable  
8 year that includes the 60th month following the month in which  
9 the qualified disadvantaged individual commences seasonal  
10 employment with the qualified taxpayer, shall be increased by an  
11 amount equal to the credit allowed under subdivision (a) for that  
12 taxable year and all prior taxable years attributable to qualified  
13 wages paid or incurred with respect to that qualified disadvantaged  
14 individual.

15 (2) (A) Subparagraph (A) of paragraph (1) shall not apply to  
16 any of the following:

17 (i) A termination of employment of an employee who voluntarily  
18 leaves the employment of the taxpayer.

19 (ii) A termination of employment of an individual who, before  
20 the close of the period referred to in paragraph (1), becomes  
21 disabled to perform the services of that employment, unless that  
22 disability is removed before the close of that period and the  
23 taxpayer fails to offer reemployment to that individual.

24 (iii) A termination of employment of an individual, if it is  
25 determined that the termination was due to the misconduct (as  
26 defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of  
27 the California Code of Regulations) of that individual.

28 (iv) A termination of employment of an individual due to a  
29 substantial reduction in the trade or business operations of the  
30 taxpayer.

31 (v) A termination of employment of an individual, if that  
32 individual is replaced by other qualified employees so as to create  
33 a net increase in both the number of employees and the hours of  
34 employment.

35 (B) Subparagraph (B) of paragraph (1) shall not apply to any  
36 of the following:

37 (i) A failure to continue the seasonal employment of a qualified  
38 disadvantaged individual who voluntarily fails to return to the  
39 seasonal employment of the qualified taxpayer.

1 (ii) A failure to continue the seasonal employment of a qualified  
2 disadvantaged individual who, before the close of the period  
3 referred to in subparagraph (B) of paragraph (1), becomes disabled  
4 and unable to perform the services of that seasonal employment,  
5 unless that disability is removed before the close of that period  
6 and the qualified taxpayer fails to offer seasonal employment to  
7 that qualified disadvantaged individual.

8 (iii) A failure to continue the seasonal employment of a qualified  
9 disadvantaged individual, if it is determined that the failure to  
10 continue the seasonal employment was due to the misconduct (as  
11 defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of  
12 the California Code of Regulations) of that individual.

13 (iv) A failure to continue seasonal employment of a qualified  
14 disadvantaged individual due to a substantial reduction in the  
15 regular seasonal trade or business operations of the qualified  
16 taxpayer.

17 (v) A failure to continue the seasonal employment of a qualified  
18 disadvantaged individual, if that individual is replaced by other  
19 qualified disadvantaged individuals so as to create a net increase  
20 in both the number of seasonal employees and the hours of seasonal  
21 employment.

22 (C) For purposes of paragraph (1), the employment relationship  
23 between the taxpayer and an employee shall not be treated as  
24 terminated by either of the following:

25 (i) A transaction to which Section 381(a) of the Internal Revenue  
26 Code applies, if the employee continues to be employed by the  
27 acquiring corporation.

28 (ii) A mere change in the form of conducting the trade or  
29 business of the taxpayer, if the employee continues to be employed  
30 in that trade or business and the taxpayer retains a substantial  
31 interest in that trade or business.

32 (3) Any increase in tax under paragraph (1) shall not be treated  
33 as tax imposed by this part for purposes of determining the amount  
34 of any credit allowable under this part.

35 (4) At the close of the second taxable year, if the taxpayer has  
36 not increased the number of its employees as determined by  
37 paragraph (5) of subdivision (b), then the amount of the credit  
38 previously claimed shall be added to the taxpayer's tax for the  
39 taxpayer's second taxable year.

1 (f) In the case of an organization to which Section 593 of the  
2 Internal Revenue Code applies, and a regulated investment  
3 company or a real estate investment trust subject to taxation under  
4 this part, rules similar to the rules provided in Section 46(e) and  
5 Section 46(h) of the Internal Revenue Code shall apply.

6 (g) The credit shall be reduced by the credit allowed under  
7 Section 23621. The credit shall also be reduced by the federal  
8 credit allowed under Section 51 of the Internal Revenue Code.

9 In addition, any deduction otherwise allowed under this part for  
10 the wages or salaries paid or incurred by the taxpayer upon which  
11 the credit is based shall be reduced by the amount of the credit,  
12 prior to any reduction required by subdivision (h) or (i).

13 (h) In the case where the credit otherwise allowed under this  
14 section exceeds the “tax” for the taxable year, that portion of the  
15 credit that exceeds the “tax” may be carried over and added to the  
16 credit, if any, in *the succeeding five taxable years, if necessary*,  
17 until the credit is exhausted. The credit shall be applied first to the  
18 earliest taxable years possible.

19 (i) (1) The amount of credit otherwise allowed under this section  
20 and Section 23645, including any prior year carryovers, that may  
21 reduce the “tax” for the taxable year shall not exceed the amount  
22 of tax that would be imposed on the taxpayer’s business income  
23 attributed to a LAMBRA determined as if that attributed income  
24 represented all of the income of the taxpayer subject to tax under  
25 this part.

26 (2) Attributable income shall be that portion of the taxpayer’s  
27 California source business income that is apportioned to the  
28 LAMBRA. For that purpose, the taxpayer’s business income that  
29 is attributable to sources in this state first shall be determined in  
30 accordance with Chapter 17 (commencing with Section 25101).  
31 That business income shall be further apportioned to the LAMBRA  
32 in accordance with Article 2 (commencing with Section 25120)  
33 of Chapter 17, modified for purposes of this section in accordance  
34 with paragraph (3).

35 (3) Income shall be apportioned to a LAMBRA by multiplying  
36 the total California business income of the taxpayer by a fraction,  
37 the numerator of which is the property factor plus the payroll factor,  
38 and the denominator of which is two. For purposes of this  
39 paragraph:

1 (A) The property factor is a fraction, the numerator of which is  
 2 the average value of the taxpayer’s real and tangible personal  
 3 property owned or rented and used in the LAMBRA during the  
 4 taxable year, and the denominator of which is the average value  
 5 of all the taxpayer’s real and tangible personal property owned or  
 6 rented and used in this state during the taxable year.

7 (B) The payroll factor is a fraction, the numerator of which is  
 8 the total amount paid by the taxpayer in the LAMBRA during the  
 9 taxable year for compensation, and the denominator of which is  
 10 the total compensation paid by the taxpayer in this state during the  
 11 taxable year.

12 (4) The portion of any credit remaining, if any, after application  
 13 of this subdivision, shall be carried over to succeeding taxable  
 14 years, *if necessary, until the credit is exhausted*, as if it were an  
 15 amount exceeding the “tax” for the taxable year, as provided in  
 16 subdivision (h). *However, the portion of any credit remaining for*  
 17 *carryover to taxable years beginning on or after January 1, 2014,*  
 18 *if any, after application of this subdivision, shall be carried over*  
 19 *only to the succeeding five taxable years, if necessary, until the*  
 20 *credit is exhausted, as if it were an amount exceeding the “tax”*  
 21 *for the taxable year, as provided in subdivision (h).*

22 (j) If the taxpayer is allowed a credit pursuant to this section for  
 23 qualified wages paid or incurred, only one credit shall be allowed  
 24 to the taxpayer under this part with respect to any wage consisting  
 25 in whole or in part of those qualified wages.

26 (k) (1) *Except as provided in paragraph (2), this section shall*  
 27 *cease to be operative for taxable years beginning on or after*  
 28 *January 1, 2014, and shall be repealed on December 1, 2019.*

29 (2) *The section shall continue to apply with respect to qualified*  
 30 *employees who are employed by the qualified taxpayer within the*  
 31 *LAMBRA within the 60-month period immediately preceding*  
 32 *January 1, 2014, and qualified wages paid or incurred with respect*  
 33 *to those qualified employees shall continue to qualify for the credit*  
 34 *under this section for taxable years beginning on or after January*  
 35 *1, 2014, in accordance with this section, as amended by the act*  
 36 *adding this subdivision.*

37 SEC. 37. *Section 23689 is added to the Revenue and Taxation*  
 38 *Code, to read:*

39 23689. (a) (1) *For each taxable year beginning on and after*  
 40 *January 1, 2014, and before January 1, 2025, there shall be*

1 allowed as a credit against the “tax,” as defined in Section 23036,  
2 an amount as determined by the committee pursuant to paragraph  
3 (2) and approved pursuant to Section 18410.2.

4 (2) The amount of credit allocated to a taxpayer for a taxable  
5 year pursuant to this section shall be as set forth in a written  
6 agreement between GO-Biz and the taxpayer and shall be based  
7 on, but not limited to, the following factors:

8 (A) The number of jobs the taxpayer will create or retain in this  
9 state.

10 (B) The compensation paid or proposed to be paid by the  
11 taxpayer to its employees, including wages and fringe benefits.

12 (C) The amount of investment in this state by the taxpayer.

13 (D) The extent of unemployment in the area in which the  
14 taxpayer’s project or business is proposed or located.

15 (E) The incentives available to the taxpayer in the state,  
16 including incentives from the state, local government and other  
17 entities.

18 (F) The incentives available to the taxpayer in other states.

19 (G) The duration of the proposed project and the duration the  
20 taxpayer commits to remain in this state.

21 (H) The overall economic impact in this state of the taxpayer’s  
22 project or business.

23 (I) The strategic importance of the taxpayer’s project or business  
24 to the state, region, or locality.

25 (J) The opportunity for future growth and expansion in this state  
26 by the taxpayer’s business.

27 (K) The extent to which the anticipated benefit to the state  
28 exceeds the projected benefit to the taxpayer from the tax credit.

29 (3) The written agreement entered into pursuant to paragraph  
30 (2) shall include:

31 (A) Terms and conditions that include a minimum compensation  
32 level and a minimum job retention period.

33 (B) Provisions indicating whether the credit is to be allocated  
34 in full upon approval or in increments based on mutually agreed  
35 upon milestones when satisfactorily met by the taxpayer.

36 (C) Provisions that allow the committee to recapture the credit,  
37 in whole or in part, if the taxpayer fails to fulfill the terms and  
38 conditions of the written agreement.

39 (b) For purposes of this section:

1 (1) “Committee” means the California Competes Tax Credit  
2 Committee established pursuant to Section 18410.2.

3 (2) “GO-Biz” means the Governor’s Office of Business and  
4 Economic Development.

5 (c) For purposes of this section, GO-Biz shall do the following:

6 (1) Give priority to a taxpayer whose project or business is  
7 located or proposed to be located in an area of high unemployment  
8 or poverty.

9 (2) Negotiate with a taxpayer the terms and conditions of  
10 proposed written agreements that provide the credit allowed  
11 pursuant to this section to a taxpayer.

12 (3) Provide the negotiated written agreement to the committee  
13 for its approval pursuant to Section 18410.2.

14 (4) Inform the Franchise Tax Board of the terms and conditions  
15 of the written agreement upon approval of the written agreement  
16 by the committee.

17 (5) Inform the Franchise Tax Board of any recapture, in whole  
18 or in part, of a previously allocated credit upon approval of the  
19 recapture by the committee.

20 (6) Post on its Internet Web site all of the following:

21 (A) The name of each taxpayer allocated a credit pursuant to  
22 this section.

23 (B) The estimated amount of the investment by each taxpayer.

24 (C) The estimated number of jobs created or retained.

25 (D) The amount of the credit allocated to the taxpayer.

26 (E) The amount of the credit recaptured from the taxpayer, if  
27 applicable.

28 (d) For purposes of this section, the Franchise Tax Board shall  
29 do all of the following:

30 (1) (A) Except as provided in subparagraph (B), review the  
31 books and records of all taxpayers allocated a credit pursuant to  
32 this section to ensure compliance with the terms and conditions  
33 of the written agreement between the taxpayer and GO-Biz.

34 (B) In the case of a taxpayer that is a “small business,” as  
35 defined in Section 23626, review the books and records of the  
36 taxpayer allocated a credit pursuant to this section to ensure  
37 compliance with the terms and conditions of the written agreement  
38 between the taxpayers and GO-Biz when, in the sole discretion of  
39 the Franchise Tax Board, a review of those books and records is  
40 appropriate or necessary in the best interests of the state.

1 (2) *Notwithstanding Section 19542:*

2 (A) *Notify GO-Biz of a possible breach of the written agreement*  
3 *by a taxpayer and provide detailed information regarding the basis*  
4 *for that determination.*

5 (B) *Provide information to GO-Biz with respect to whether a*  
6 *taxpayer is a “small business,” as defined in Section 23626.*

7 (e) *In the case where the credit allowed under this section*  
8 *exceeds the “tax,” as defined in Section 23036, for a taxable year,*  
9 *the excess credit may be carried over to reduce the “tax” in the*  
10 *following taxable year, and succeeding five taxable years, if*  
11 *necessary, until the credit has been exhausted.*

12 (f) *Any recapture, in whole or in part, of a credit approved by*  
13 *the committee pursuant to Section 18410.2 shall be treated as a*  
14 *mathematical error appearing on the return. Any amount of tax*  
15 *resulting from that recapture shall be assessed by the Franchise*  
16 *Tax Board in the same manner as provided by Section 19051. The*  
17 *amount of tax resulting from the recapture shall be added to the*  
18 *tax otherwise due by the taxpayer for the taxable year in which*  
19 *the committee’s recapture determination occurred.*

20 (g) (1) *The aggregate amount of credit that may be allocated*  
21 *in any fiscal year pursuant to this section and Section 17059.2*  
22 *shall be an amount equal to the sum of subparagraphs (A), (B),*  
23 *(C), and (D):*

24 (A) *Thirty million dollars (\$30,000,000) for the 2013–14 fiscal*  
25 *year, one hundred fifty million dollars (\$150,000,000) for the*  
26 *2014–15 fiscal year, and two hundred million dollars*  
27 *(\$200,000,000) for each fiscal year from 2015–16 to 2018–19,*  
28 *inclusive.*

29 (B) *The unallocated credit amount, if any, from the preceding*  
30 *fiscal year.*

31 (C) *The amount of any previously allocated credits that have*  
32 *been recaptured.*

33 (D) *The amount by which the exemptions claimed in the prior*  
34 *year pursuant to Section 6377.1 plus the amounts claimed in the*  
35 *prior year pursuant to this section and Sections 17053.73, 17059.2,*  
36 *and 23626, exceed seven hundred fifty million dollars*  
37 *(\$750,000,000).*

38 (2) *Each fiscal year, 25 percent of the aggregate amount of the*  
39 *credit that may be allocated pursuant to this section and Section*

1 17059.2 shall be reserved for “small business,” as defined in  
2 Section 17053.73 or 23626.

3 (3) Each fiscal year, no more than 20 percent of the aggregate  
4 amount of the credit that shall be allocated pursuant to this section  
5 may be allocated to any one taxpayer.

6 (h) GO-Biz may prescribe rules and regulations as necessary  
7 to carry out the purposes of this section. Any rule or regulation  
8 prescribed pursuant to this section may be by adoption of an  
9 emergency regulation in accordance with Chapter 3.5  
10 (commencing with Section 11340) of Part 1 of Division 3 of Title  
11 2 of the Government Code.

12 (i) (1) A written agreement between GO-Biz and a taxpayer  
13 with respect to the credit authorized by this section shall not  
14 restrict, broaden, or otherwise alter the ability of the taxpayer to  
15 assign that credit or any portion thereof in accordance with Section  
16 23663.

17 (2) A written agreement between GO-Biz and a taxpayer with  
18 respect to the credit authorized by this section must comply with  
19 existing law on the date the agreement is executed.

20 (j) This section is repealed on December 1, 2025.

21 SEC. 38. Section 24356.6 of the Revenue and Taxation Code  
22 is amended to read:

23 24356.6. (a) For each taxable year beginning on or after  
24 January 1, 1998, a qualified taxpayer may elect to treat 40 percent  
25 of the cost of any Section 24356.6 property as an expense that is  
26 not chargeable to a capital account. Any cost so treated shall be  
27 allowed as a deduction for the taxable year in which the qualified  
28 taxpayer places the Section 24356.6 property in service.

29 (b) (1) An election under this section for any taxable year shall  
30 do both of the following:

31 (A) Specify the items of Section 24356.6 property to which the  
32 election applies and the percentage of the cost of each of those  
33 items that are to be taken into account under subdivision (a).

34 (B) Be made on the qualified taxpayer’s original return of the  
35 tax imposed by this part for the taxable year.

36 (2) Any election made under this section, and any specification  
37 contained in that election, may not be revoked except with the  
38 consent of the Franchise Tax Board.

39 (c) (1) For purposes of this section, “Section 24356.6 property”  
40 means any recovery property that is:

1 (A) Section 1245 property (as defined in Section 1245 (a)(3) of  
2 the Internal Revenue Code).

3 (B) Purchased and placed in service by the qualified taxpayer  
4 for exclusive use in a trade or business conducted within a targeted  
5 tax area designated pursuant to Chapter 12.93 (commencing with  
6 Section 7097) of Division 7 of Title 1 of the Government Code.

7 (C) Purchased and placed in service before the date the targeted  
8 tax area designation expires, is revoked, is no longer binding, or  
9 becomes inoperative.

10 (2) For purposes of paragraph (1), “purchase” means any  
11 acquisition of property, but only if all of the following apply:

12 (A) The property is not acquired from a person whose  
13 relationship to the person acquiring it would result in the  
14 disallowance of losses under Section 267 or 707(b) of the Internal  
15 Revenue Code. However, in applying Sections 267(b) and 267(c)  
16 for purposes of this section, Section 267(c)(4) shall be treated as  
17 providing that the family of an individual shall include only the  
18 individual’s spouse, ancestors, and lineal descendants.

19 (B) The property is not acquired by one member of an affiliated  
20 group from another member of the same affiliated group.

21 (C) The basis of the property in the hands of the person acquiring  
22 it is not determined in whole or in part by reference to the adjusted  
23 basis of that property in the hands of the person from who it is  
24 acquired.

25 (3) For purposes of this section, the cost of property does not  
26 include that portion of the basis of that property that is determined  
27 by reference to the basis of other property held at any time by the  
28 person acquiring that property.

29 (4) This section shall not apply to any property for which the  
30 qualified taxpayer may not make an election under Section 179 of  
31 the Internal Revenue Code because of the application of the  
32 provisions of Section 179(d) of the Internal Revenue Code.

33 (5) For purposes of subdivision (b), both of the following apply:

34 (A) All members of an affiliated group shall be treated as one  
35 qualified taxpayer.

36 (B) The qualified taxpayer shall apportion the dollar limitation  
37 contained in subdivision (f) among the members of the affiliated  
38 group in whatever manner the board shall prescribe.

39 (6) For purposes of paragraphs (2) and (5), “affiliated group”  
40 means “affiliated group” as defined in Section 1504 of the Internal

1 Revenue Code, except that, for these purposes, the phrase “more  
2 than 50 percent” shall be substituted for the phrase “at least 80  
3 percent” each place it appears in Section 1504(a) of the Internal  
4 Revenue Code.

5 (d) (1) For purposes of this section, “qualified taxpayer” means  
6 a corporation that meets both of the following:

7 (A) Is engaged in conducting a trade or business within a  
8 targeted tax area designated pursuant to Chapter 12.93  
9 (commencing with Section 7097) of Division 7 of Title 1 of the  
10 Government Code.

11 (B) Is engaged in those lines of business described in Codes  
12 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299,  
13 inclusive; 4500 to 4599, inclusive, and 4700 to 5199, inclusive,  
14 of the Standard Industrial Classification (SIC) Manual published  
15 by the United States Office of Management and Budget, 1987  
16 edition.

17 (2) In the case of any pass-through entity, the determination of  
18 whether a taxpayer is a qualified taxpayer under this section shall  
19 be made at the entity level and any deduction under this section  
20 or Section 17267.6 shall be allowed to the pass-through entity and  
21 passed through to the partners or shareholders in accordance with  
22 applicable provisions of this part or Part 10 (commencing with  
23 Section 17001). For purposes of this subparagraph, the term  
24 “pass-through entity” means any partnership or S corporation.

25 (e) Any qualified taxpayer who elects to be subject to this  
26 section shall not be entitled to claim additional depreciation  
27 pursuant to Section 24356 with respect to any property that  
28 constitutes Section 24356.6 property. However, the qualified  
29 taxpayer may claim depreciation by any method permitted by  
30 Section 24349 commencing with the taxable year following the  
31 taxable year in which Section 24356.6 property is placed in service.

32 (f) The aggregate cost of all Section 24356.6 property that may  
33 be taken into account under subdivision (a) for any taxable year  
34 shall not exceed the following applicable amount for the taxable  
35 year of the designation of the relevant targeted tax area and taxable  
36 years thereafter:

37		
38		The applicable
39		amount is:
40	Taxable year of designation .....	\$100,000

1	1st taxable year thereafter .....	100,000
2	2nd taxable year thereafter .....	75,000
3	3rd taxable year thereafter .....	75,000
4	Each taxable year thereafter .....	50,000

5  
6 (g) Any amounts deducted under subdivision (a) with respect  
7 to Section 24356.6 property that ceases to be used in the qualified  
8 taxpayer’s trade or business within a targeted tax area at any time  
9 before the close of the second taxable year after the property is  
10 placed in service shall be included in income in the taxable year  
11 in which the property ceases to be so used.

12 (h) *This section shall cease to be operative for taxable years*  
13 *beginning on or after January 1, 2014, and shall be repealed on*  
14 *December 1, 2014.*

15 *SEC. 39. Section 24356.7 of the Revenue and Taxation Code*  
16 *is amended to read:*

17 24356.7. (a) A taxpayer may elect to treat 40 percent of the  
18 cost of any Section 24356.7 property as an expense that is not  
19 chargeable to a capital account. Any cost so treated shall be allowed  
20 as a deduction for the taxable year in which the taxpayer places  
21 the Section 24356.7 property in service.

22 (b) (1) An election under this section for any taxable year shall  
23 do both of the following:

24 (A) Specify the items of Section 24356.7 property to which the  
25 election applies and the percentage of the cost of each of those  
26 items that are to be taken into account under subdivision (a).

27 (B) Be made on the taxpayer’s original return of the tax imposed  
28 by this part for the taxable year.

29 (2) Any election made under this section, and any specification  
30 contained in that election, may not be revoked except with the  
31 consent of the Franchise Tax Board.

32 (c) (1) For purposes of this section, “Section 24356.7 property”  
33 means any recovery property that is:

34 (A) Section 1245 property (as defined in Section 1245(a)(3) of  
35 the Internal Revenue Code).

36 (B) Purchased and placed in service by the taxpayer for  
37 exclusive use in a trade or business conducted within an enterprise  
38 zone designated pursuant to Chapter 12.8 (commencing with  
39 Section 7070) of Division 7 of Title 1 of the Government Code.

1 (C) Purchased and placed in service before the date the  
2 enterprise zone designation expires, is no longer binding, or  
3 becomes inoperative.

4 (2) For purposes of paragraph (1), “purchase” means any  
5 acquisition of property, but only if all of the following apply:

6 (A) The property is not acquired from a person whose  
7 relationship to the person acquiring it would result in the  
8 disallowance of losses under Sections 24427 through 24429.  
9 However, in applying Sections 24428 and 24429 for purposes of  
10 this section, subdivision (d) of Section 24429 shall be treated as  
11 providing that the family of an individual shall include only his or  
12 her spouse, ancestors, and lineal descendants.

13 (B) The property is not acquired by one member of an affiliated  
14 group from another member of the same affiliated group.

15 (C) The basis of the property in the hands of the person acquiring  
16 it is not determined in whole or in part by reference to the adjusted  
17 basis of that property in the hands of the person from whom it is  
18 acquired.

19 (3) For purposes of this section, the cost of property does not  
20 include that portion of the basis of that property that is determined  
21 by reference to the basis of other property held at any time by the  
22 person acquiring that property.

23 (4) This section shall not apply to any property for which the  
24 taxpayer could not make a federal election under Section 179 of  
25 the Internal Revenue Code because of the application of the  
26 provisions of Section 179(d) of the Internal Revenue Code.

27 (5) For purposes of subdivision (b) of this section, both of the  
28 following apply:

29 (A) All members of an affiliated group shall be treated as one  
30 taxpayer.

31 (B) The taxpayer shall apportion the dollar limitation contained  
32 in subdivision (f) among the members of the affiliated group in  
33 whatever manner the board shall prescribe.

34 (6) For purposes of paragraphs (2) and (5), “affiliated group”  
35 means “affiliated group” as defined in Section 1504 of the Internal  
36 Revenue Code, except that, for these purposes, the phrase “more  
37 than 50 percent” shall be substituted for the phrase “at least 80  
38 percent” each place it appears in Section 1504(a) of the Internal  
39 Revenue Code.

(d) For purposes of this section, “taxpayer” means a bank or corporation that conducts a trade or business within an enterprise zone designated pursuant to Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code.

(e) Any taxpayer who elects to be subject to this section shall not be entitled to claim additional depreciation pursuant to Section 24356 with respect to any property that constitutes Section 24356.7 property. However, the taxpayer may claim depreciation by any method permitted by Section 24349 commencing with the taxable year following the taxable year in which Section 24356.7 property is placed in service.

(f) The aggregate cost of all Section 24356.7 property that may be taken into account under subdivision (a) for any taxable years shall not exceed the following applicable amount for the taxable year of the designation of the relevant enterprise zone and taxable years thereafter:

	The applicable
	amount is:
Taxable year of designation .....	\$100,000
1st taxable year thereafter .....	100,000
2nd taxable year thereafter .....	75,000
3rd taxable year thereafter .....	75,000
Each taxable year thereafter .....	50,000

(g) Any amounts deducted under subdivision (a) with respect to Section 24356.7 property that ceases to be used in the taxpayer’s trade or business within an enterprise zone at any time before the close of the second taxable year after the property is placed in service shall be included in income in the taxable year in which the property ceases to be so used.

*(h) This section shall cease to be operative for taxable years beginning on or after January 1, 2014, and shall be repealed on December 1, 2014.*

*SEC. 40. Section 24356.8 of the Revenue and Taxation Code is amended to read:*

24356.8. (a) For each taxable year beginning on or after January 1, 1995, a taxpayer may elect to treat 40 percent of the cost of any Section 24356.8 property as an expense that is not chargeable to the capital account. Any cost so treated shall be

1 allowed as a deduction for the taxable year in which the taxpayer  
2 places the Section 24356.8 property in service.

3 (b) (1) An election under this section for any taxable year shall  
4 meet both of the following requirements:

5 (A) Specify the items of Section 24356.8 property to which the  
6 election applies and the portion of the cost of each of those items  
7 that is to be taken into account under subdivision (a).

8 (B) Be made on the taxpayer's return of the tax imposed by this  
9 part for the taxable year.

10 (2) Any election made under this section, and any specification  
11 contained in that election, may not be revoked except with the  
12 consent of the Franchise Tax Board.

13 (c) (1) For purposes of this section, "Section 24356.8 property"  
14 means any recovery property that is:

15 (A) Section 1245 property (as defined in Section 1245(a)(3) of  
16 the Internal Revenue Code).

17 (B) Purchased by the taxpayer for exclusive use in a trade or  
18 business conducted within a LAMBRA.

19 (C) Purchased before the date the LAMBRA designation expires,  
20 is no longer binding, or becomes inoperative.

21 (2) For purposes of paragraph (1), "purchase" means any  
22 acquisition of property, but only if all of the following apply:

23 (A) The property is not acquired from a person whose  
24 relationship to the person acquiring it would result in the  
25 disallowance of losses under Section 267 or 707(b) of the Internal  
26 Revenue Code (but, in applying Sections 267(b) and 267(c) of the  
27 Internal Revenue Code for purposes of this section, Section  
28 267(c)(4) of the Internal Revenue Code shall be treated as  
29 providing that the family of an individual shall include only his or  
30 her spouse, ancestors, and lineal descendants).

31 (B) The property is not acquired by one component member of  
32 an affiliated group from another component member of the same  
33 affiliated group.

34 (C) The basis of the property in the hands of the person acquiring  
35 it is not determined in whole or in part by reference to the adjusted  
36 basis of that property in the hands of the person from whom  
37 acquired.

38 (3) For purposes of this section, the cost of property does not  
39 include so much of the basis of that property as is determined by

1 reference to the basis of other property held at any time by the  
2 person acquiring that property.

3 (4) This section shall not apply to any property for which the  
4 taxpayer may not make an election for the taxable year under  
5 Section 179 of the Internal Revenue Code because of the provisions  
6 of Section 179(d) of the Internal Revenue Code.

7 (5) For purposes of subdivision (b), both of the following apply:

8 (A) All members of an affiliated group shall be treated as one  
9 taxpayer.

10 (B) The taxpayer shall apportion the dollar limitation contained  
11 in subdivision (f) among the component members of the affiliated  
12 group in whatever manner the board shall by regulations prescribe.

13 (6) For purposes of paragraphs (2) and (5), “affiliated group”  
14 has the meaning assigned to it by Section 1504 of the Internal  
15 Revenue Code, except that, for these purposes, the phrase “more  
16 than 50 percent” shall be substituted for the phrase “at least 80  
17 percent” each place it appears in Section 1504(a) of the Internal  
18 Revenue Code.

19 (7) This section shall not apply to any property described in  
20 Section 168(f) of the Internal Revenue Code.

21 (8) In the case of an S corporation, the dollar limitation  
22 contained in subdivision (f) shall be applied at the entity level and  
23 at the shareholder level.

24 (d) For purposes of this section:

25 (1) “LAMBRA” means a local agency military base recovery  
26 area designated in accordance with the provisions of Section 7114  
27 of the Government Code.

28 (2) “Taxpayer” means a corporation that conducts a trade or  
29 business within a LAMBRA and, for the first two taxable years,  
30 has a net increase in jobs (defined as 2,000 paid hours per employee  
31 per year) of one or more employees in the LAMBRA.

32 (A) The net increase in the number of jobs shall be determined  
33 by subtracting the total number of full-time employees (defined  
34 as 2,000 paid hours per employee per year) the taxpayer employed  
35 in this state in the taxable year prior to commencing business  
36 operations in the LAMBRA from the total number of full-time  
37 employees the taxpayer employed in this state during the second  
38 taxable year after commencing business operations in the  
39 LAMBRA. For taxpayers who commence doing business in this  
40 state with their LAMBRA business operation, the number of

1 employees for the taxable year prior to commencing business  
2 operations in the LAMBRA shall be zero. If the taxpayer has a net  
3 increase in jobs in the state, the credit shall be allowed only if one  
4 or more full-time employees is employed within the LAMBRA.

5 (B) The total number of employees employed in the LAMBRA  
6 shall equal the sum of both of the following:

7 (i) The total number of hours worked in the LAMBRA for the  
8 taxpayer by employees (not to exceed 2,000 hours per employee)  
9 who are paid an hourly wage divided by 2,000.

10 (ii) The total number of months worked in the LAMBRA for  
11 the taxpayer by employees who are salaried employees divided  
12 by 12.

13 (C) In the case of a taxpayer that first commences doing business  
14 in the LAMBRA during the taxable year, for purposes of clauses  
15 (i) and (ii), respectively, of subparagraph (B), the divisors “2,000”  
16 and “12” shall be multiplied by a fraction, the numerator of which  
17 is the number of months of the taxable year that the taxpayer was  
18 doing business in the LAMBRA and the denominator of which is  
19 12.

20 (e) Any taxpayer who elects to be subject to this section shall  
21 not be entitled to claim additional depreciation pursuant to Section  
22 24356 with respect to any property that constitutes Section 24356.8  
23 property.

24 (f) The aggregate cost of all Section 24356.8 property that may  
25 be taken into account under subdivision (a) for any taxable year  
26 shall not exceed the following applicable amounts for the taxable  
27 year of the designation of the relevant LAMBRA and taxable years  
28 thereafter:

29		
30		The applicable
31		amount is:
32		
33	Taxable year of designation .....	\$100,000
34	1st taxable year thereafter .....	100,000
35	2nd taxable year thereafter .....	75,000
36	3rd taxable year thereafter .....	75,000
37	Each taxable year thereafter .....	50,000

38  
39 (g) This section shall apply only to property that is used  
40 exclusively in a trade or business conducted within a LAMBRA.

1 (h) (1) Any amounts deducted under subdivision (a) with respect  
2 to property that ceases to be used in the trade or business within  
3 a LAMBRA at any time before the close of the second taxable  
4 year after the property was placed in service shall be included in  
5 income for that year.

6 (2) At the close of the second taxable year, if the taxpayer has  
7 not increased the number of its employees as determined by  
8 paragraph (2) of subdivision (d), then the amount of the deduction  
9 previously claimed shall be added to the taxpayer's net income  
10 for the taxpayer's second taxable year.

11 (i) Any taxpayer who elects to be subject to this section shall  
12 not be entitled to claim for the same property the deduction under  
13 Section 179 of the Internal Revenue Code, relating to an election  
14 to expense certain depreciable business assets.

15 (j) *This section shall cease to be operative for taxable years*  
16 *beginning on or after January 1, 2014, and shall be repealed on*  
17 *December 1, 2014.*

18 *SEC. 41. Section 24384.5 of the Revenue and Taxation Code*  
19 *is amended to read:*

20 24384.5. (a) There shall be allowed as a deduction the amount  
21 of net interest received by the taxpayer *before January 1, 2014,*  
22 in payment of indebtedness of a person or entity engaged in a trade  
23 or business located in an enterprise zone.

24 (b) ~~No~~A deduction shall *not* be allowed under this section unless  
25 at the time the indebtedness is incurred each of the following  
26 requirements are met:

27 (1) The trade or business is located solely within an enterprise  
28 zone.

29 (2) The indebtedness is incurred solely in connection with  
30 activity within the enterprise zone.

31 (3) The taxpayer has no equity or other ownership interest in  
32 the debtor.

33 (c) "Enterprise zone" means an area designated as an enterprise  
34 zone pursuant to Chapter 12.8 (commencing with Section 7070)  
35 of Division 7 of Title 1 of the Government Code.

36 (d) *This section shall cease to be operative for taxable years*  
37 *beginning on or after January 1, 2014, and shall be repealed on*  
38 *December 1, 2014.*

39 *SEC. 42. Section 24416.2 of the Revenue and Taxation Code*  
40 *is amended to read:*

1 24416.2. (a) The term “qualified taxpayer” as used in Section  
2 24416.1 includes a corporation engaged in the conduct of a trade  
3 or business within an enterprise zone designated pursuant to  
4 Chapter 12.8 (commencing with Section 7070) of Division 7 of  
5 Title 1 of the Government Code. For purposes of this subdivision,  
6 all of the following shall apply:

7 (1) A net operating loss shall not be a net operating loss  
8 carryback for any taxable year and a net operating loss for any  
9 taxable year beginning on or after the date that the area in which  
10 the taxpayer conducts a trade or business is designated as an  
11 enterprise zone shall be a net operating loss carryover to each of  
12 the 15 taxable years following the taxable year of loss.

13 (2) For purposes of this subdivision:

14 (A) “Net operating loss” means the loss determined under  
15 Section 172 of the Internal Revenue Code, as modified by Section  
16 24416.1, attributable to the taxpayer’s business activities within  
17 the enterprise zone (as defined in Chapter 12.8 (commencing with  
18 Section 7070) of Division 7 of Title 1 of the Government Code)  
19 prior to the enterprise zone expiration date. That attributable loss  
20 shall be determined in accordance with Chapter 17 (commencing  
21 with Section 25101), modified for purposes of this subdivision as  
22 follows:

23 (i) Loss shall be apportioned to the enterprise zone by  
24 multiplying total loss from the business by a fraction, the numerator  
25 of which is the property factor plus the payroll factor, and the  
26 denominator of which is two.

27 (ii) “The enterprise zone” shall be substituted for “this state.”

28 (B) A net operating loss carryover shall be a deduction only  
29 with respect to the taxpayer’s business income attributable to the  
30 enterprise zone as defined in Chapter 12.8 (commencing with  
31 Section 7070) of Division 7 of Title 1 of the Government Code.

32 (C) Attributable income is that portion of the taxpayer’s  
33 California source business income that is apportioned to the  
34 enterprise zone. For that purpose, the taxpayer’s business income  
35 attributable to sources in this state first shall be determined in  
36 accordance with Chapter 17 (commencing with Section 25101).  
37 That business income shall be further apportioned to the enterprise  
38 zone in accordance with Article 2 (commencing with Section  
39 25120) of Chapter 17, modified for purposes of this subdivision  
40 as follows:

1 (i) Business income shall be apportioned to the enterprise zone  
2 by multiplying the total California business income of the taxpayer  
3 by a fraction, the numerator of which is the property factor plus  
4 the payroll factor, and the denominator of which is two. For  
5 purposes of this clause:

6 (I) The property factor is a fraction, the numerator of which is  
7 the average value of the taxpayer's real and tangible personal  
8 property owned or rented and used in the enterprise zone during  
9 the taxable year, and the denominator of which is the average value  
10 of all the taxpayer's real and tangible personal property owned or  
11 rented and used in this state during the taxable year.

12 (II) The payroll factor is a fraction, the numerator of which is  
13 the total amount paid by the taxpayer in the enterprise zone during  
14 the taxable year for compensation, and the denominator of which  
15 is the total compensation paid by the taxpayer in this state during  
16 the taxable year.

17 (ii) If a loss carryover is allowable pursuant to this section for  
18 any taxable year after the enterprise zone designation has expired,  
19 the enterprise zone shall be deemed to remain in existence for  
20 purposes of computing the limitation set forth in subparagraph (B)  
21 and allowing a net operating loss deduction.

22 (D) "Enterprise zone expiration date" means the date the  
23 enterprise zone designation expires, is no longer binding, or  
24 becomes inoperative.

25 (3) The changes made to this subdivision by the act adding this  
26 paragraph shall apply to taxable years beginning on or after January  
27 1, 1998.

28 (b) A taxpayer who qualifies as a "qualified taxpayer" under  
29 one or more sections shall, for the taxable year of the net operating  
30 loss and any taxable year to which that net operating loss may be  
31 carried, designate on the original return filed for each year the  
32 section which applies to that taxpayer with respect to that net  
33 operating loss. If the taxpayer is eligible to qualify under more  
34 than one section, the designation is to be made after taking into  
35 account subdivision (c).

36 (c) If a taxpayer is eligible to qualify under this section and  
37 either Section 24416.4, 24416.5, or 24416.6 as a "qualified  
38 taxpayer," with respect to a net operating loss in a taxable year,  
39 the taxpayer shall designate which section is to apply to the  
40 taxpayer.

1 (d) Notwithstanding Section 24416, the amount of the loss  
 2 determined under this section, or Section 24416.4, 24416.5, or  
 3 24416.6 shall be the only net operating loss allowed to be carried  
 4 over from that taxable year and the designation under subdivision  
 5 (b) shall be included in the election under Section 24416.1.

6 (e) *This section shall cease to be operative for taxable years*  
 7 *beginning on or after January 1, 2014, and shall be repealed on*  
 8 *December 1, 2014.*

9 *SEC. 43. Section 24416.5 of the Revenue and Taxation Code*  
 10 *is amended to read:*

11 24416.5. (a) For each taxable year beginning on or after  
 12 January 1, 1995, the term “qualified taxpayer” as used in Section  
 13 24416.1 includes a taxpayer engaged in the conduct of a trade or  
 14 business within a LAMBRA. For purposes of this subdivision, all  
 15 of the following shall apply:

16 (1) A net operating loss shall not be a net operating loss  
 17 carryback for any taxable year and, except as provided in  
 18 subparagraph (B), a net operating loss for any taxable year  
 19 beginning on or after the date the area in which the taxpayer  
 20 conducts a trade or business is designated a LAMBRA shall be a  
 21 net operating loss carryover to each following taxable year that  
 22 ends before the LAMBRA expiration date or to each of the 15  
 23 taxable years following the taxable year of loss, if longer.

24 (2) In the case of a financial institution to which Section 585,  
 25 586, or 593 of the Internal Revenue Code applies, a net operating  
 26 loss for any taxable year beginning on or after January 1, 1984,  
 27 shall be a net operating loss carryover to each of the five years  
 28 following the taxable year of the loss. Subdivision (b) of Section  
 29 24416.1 shall not apply.

30 (3) “LAMBRA” means a local agency military base recovery  
 31 area designated in accordance with Section 7114 of the Government  
 32 Code.

33 (4) “Taxpayer” means a bank or corporation that conducts a  
 34 trade or business within a LAMBRA and, for the first two taxable  
 35 years, has a net increase in jobs (defined as 2,000 paid hours per  
 36 employee per year) of one or more employees in the LAMBRA  
 37 and this state. For purposes of this paragraph, all of the following  
 38 shall apply:

39 (A) The net increase in the number of jobs shall be determined  
 40 by subtracting the total number of full-time employees (defined

1 as 2,000 paid hours per employee per year) the taxpayer employed  
2 in this state in the taxable year prior to commencing business  
3 operations in the LAMBRA from the total number of full-time  
4 employees the taxpayer employed in this state during the second  
5 taxable year after commencing business operations in the  
6 LAMBRA. For taxpayers who commence doing business in this  
7 state with their LAMBRA business operation, the number of  
8 employees for the taxable year prior to commencing business  
9 operations in the LAMBRA shall be zero. The deduction shall be  
10 allowed only if the taxpayer has a net increase in jobs in the state,  
11 and if one or more full-time employees are employed within the  
12 LAMBRA.

13 (B) The total number of employees employed in the LAMBRA  
14 shall equal the sum of both of the following:

15 (i) The total number of hours worked in the LAMBRA for the  
16 taxpayer by employees (not to exceed 2,000 hours per employee)  
17 who are paid an hourly wage divided by 2,000.

18 (ii) The total number of months worked in the LAMBRA for  
19 the taxpayer by employees who are salaried employees divided  
20 by 12.

21 (C) In the case of a taxpayer that first commences doing business  
22 in the LAMBRA during the taxable year, for purposes of clauses  
23 (i) and (ii), respectively, of subparagraph (B) the divisors “2,000”  
24 and “12” shall be multiplied by a fraction, the numerator of which  
25 is the number of months of the taxable year that the taxpayer was  
26 doing business in the LAMBRA and the denominator of which is  
27 12.

28 (5) “Net operating loss” means the loss determined under  
29 Section 172 of the Internal Revenue Code, as modified by Section  
30 24416.1, attributable to the taxpayer’s business activities within a  
31 LAMBRA prior to the LAMBRA expiration date. The attributable  
32 loss shall be determined in accordance with Chapter 17  
33 (commencing with Section 25101), modified for purposes of this  
34 section as follows:

35 (A) Loss shall be apportioned to a LAMBRA by multiplying  
36 total loss from the business by a fraction, the numerator of which  
37 is the property factor plus the payroll factor, and the denominator  
38 of which is 2.

39 (B) “The LAMBRA” shall be substituted for “this state.”

1 (6) A net operating loss carryover shall be a deduction only with  
 2 respect to the taxpayer’s business income attributable to a  
 3 LAMBRA.

4 (7) Attributable income is that portion of the taxpayer’s  
 5 California source business income that is apportioned to the  
 6 LAMBRA. For that purpose, the taxpayer’s business income  
 7 attributable to sources in this state first shall be determined in  
 8 accordance with Chapter 17 (commencing with Section 25101).  
 9 That business income shall be further apportioned to the LAMBRA  
 10 in accordance with Article 2 (commencing with Section 25120)  
 11 of Chapter 17, modified as follows:

12 (A) Business income shall be apportioned to a LAMBRA by  
 13 multiplying total California business income of the taxpayer by a  
 14 fraction, the numerator of which is the property factor plus the  
 15 payroll factor, and the denominator of which is two. For purposes  
 16 of this clause:

17 (i) The property factor is a fraction, the numerator of which is  
 18 the average value of the taxpayer’s real and tangible personal  
 19 property owned or rented and used in the LAMBRA during the  
 20 taxable year, and the denominator of which is the average value  
 21 of all the taxpayer’s real and tangible personal property owned or  
 22 rented and used in this state during the taxable year.

23 (ii) The payroll factor is a fraction, the numerator of which is  
 24 the total amount paid by the taxpayer in the LAMBRA during the  
 25 taxable year for compensation, and the denominator of which is  
 26 the total compensation paid by the taxpayer in this state during the  
 27 taxable year.

28 (B) If a loss carryover is allowable pursuant to this section for  
 29 any taxable year after the LAMBRA designation has expired, the  
 30 LAMBRA shall be deemed to remain in existence for purposes of  
 31 computing the limitation specified in subparagraph (D) and  
 32 allowing a net operating loss deduction.

33 (8) “LAMBRA expiration date” means the date the LAMBRA  
 34 designation expires, is no longer binding, or becomes inoperative  
 35 pursuant to Section 7110 of the Government Code.

36 (b) A taxpayer who qualifies as a “qualified taxpayer” under  
 37 one or more sections shall, for the taxable year of the net operating  
 38 loss and any taxable year to which that net operating loss may be  
 39 carried, designate on the original return filed for each year the  
 40 section that applies to that taxpayer with respect to that net

1 operating loss. If the taxpayer is eligible to qualify under more  
2 than one section, the designation is to be made after taking into  
3 account subdivision (c).

4 (c) If a taxpayer is eligible to qualify under this section and  
5 either Section 24416.2, 24416.4, or 24416.6 as a “qualified  
6 taxpayer,” with respect to a net operating loss in a taxable year,  
7 the taxpayer shall designate which section is to apply to the  
8 taxpayer.

9 (d) Notwithstanding Section 24416, the amount of the loss  
10 determined under this section or Section 24416.2, 24416.4, or  
11 24416.6 shall be the only net operating loss allowed to be carried  
12 over from that taxable year and the designation under subdivision  
13 (b) shall be included in the election under Section 24416.1.

14 (e) This section shall apply to taxable years beginning on and  
15 after January 1, 1998.

16 (f) *This section shall cease to be operative for taxable years*  
17 *beginning on or after January 1, 2014, and shall be repealed on*  
18 *December 1, 2014.*

19 *SEC. 44. Section 24416.6 of the Revenue and Taxation Code*  
20 *is amended to read:*

21 24416.6. (a) For each taxable year beginning on or after  
22 January 1, 1998, the term “qualified taxpayer” as used in Section  
23 24416.1 includes a corporation that meets both of the following:

24 (1) Is engaged in the conduct of a trade or business within a  
25 targeted tax area designated pursuant to Chapter 12.93  
26 (commencing with Section 7097) of Division 7 of Title 1 of the  
27 Government Code.

28 (2) Is engaged in those lines of business described in Codes  
29 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299,  
30 inclusive; 4500 to 4599, inclusive; and 4700 to 5199, inclusive,  
31 of the Standard Industrial Classification (SIC) Manual published  
32 by the United States Office of Management and Budget, 1987  
33 edition. In the case of any pass-through entity, the determination  
34 of whether a taxpayer is a qualified taxpayer shall be made at the  
35 entity level.

36 (b) For purposes of subdivision (a), all of the following shall  
37 apply:

38 (1) A net operating loss shall not be a net operating loss  
39 carryback for any taxable year and a net operating loss for any  
40 taxable year beginning on or after the date that the area in which

1 the qualified taxpayer conducts a trade or business is designated  
2 as a targeted tax area shall be a net operating loss carryover to each  
3 of the 15 taxable years following the taxable year of loss.

4 (2) “Net operating loss” means the loss determined under  
5 Section 172 of the Internal Revenue Code, as modified by Section  
6 24416.1, attributable to the qualified taxpayer’s business activities  
7 within the targeted tax area (as defined in Chapter 12.93  
8 (commencing with Section 7097) of Division 7 of Title 1 of the  
9 Government Code) prior to the targeted tax area expiration date.  
10 That attributable loss shall be determined in accordance with  
11 Chapter 17 (commencing with Section 25101), modified for  
12 purposes of this section as follows:

13 (A) Loss shall be apportioned to the targeted tax area by  
14 multiplying total loss from the business by a fraction, the numerator  
15 of which is the property factor plus the payroll factor, and the  
16 denominator of which is 2.

17 (B) “The targeted tax area” shall be substituted for “this state.”

18 (3) A net operating loss carryover shall be a deduction only with  
19 respect to the qualified taxpayer’s business income attributable to  
20 the targeted tax area as defined in Chapter 12.93 (commencing  
21 with Section 7097) of Division 7 of Title 1 of the Government  
22 Code.

23 (4) Attributable income is that portion of the taxpayer’s  
24 California source business income that is apportioned to the  
25 targeted tax area. For that purpose, the taxpayer’s business income  
26 attributable to sources in this state first shall be determined in  
27 accordance with Chapter 17 (commencing with Section 25101).  
28 That business income shall be further apportioned to the targeted  
29 tax area in accordance with Article 2 (commencing with Section  
30 25120) of Chapter 17, modified for purposes of this subdivision  
31 as follows:

32 (A) Business income shall be apportioned to the targeted tax  
33 area by multiplying the total California business income of the  
34 taxpayer by a fraction, the numerator of which is the property  
35 factor plus the payroll factor, and the denominator of which is two.  
36 For purposes of this clause:

37 (i) The property factor is a fraction, the numerator of which is  
38 the average value of the taxpayer’s real and tangible personal  
39 property owned or rented and used in the targeted tax area during  
40 the taxable year, and the denominator of which is the average value

1 of all the taxpayer's real and tangible personal property owned or  
2 rented and used in this state during the taxable year.

3 (ii) The payroll factor is a fraction, the numerator of which is  
4 the total amount paid by the taxpayer in the targeted tax area during  
5 the taxable year for compensation, and the denominator of which  
6 is the total compensation paid by the taxpayer in this state during  
7 the taxable year.

8 (B) If a loss carryover is allowable pursuant to this subdivision  
9 for any taxable year after the targeted tax area expiration date, the  
10 targeted tax area designation shall be deemed to remain in existence  
11 for purposes of computing the limitation specified in subparagraph  
12 (B) and allowing a net operating loss deduction.

13 (5) "Targeted tax area expiration date" means the date the  
14 targeted tax area designation expires, is revoked, is no longer  
15 binding, or becomes inoperative.

16 (c) A taxpayer who qualifies as a "qualified taxpayer" under  
17 one or more sections shall, for the taxable year of the net operating  
18 loss and any taxable year to which that net operating loss may be  
19 carried, designate on the original return filed for each year the  
20 section that applies to that taxpayer with respect to that net  
21 operating loss. If the taxpayer is eligible to qualify under more  
22 than one section, the designation is to be made after taking into  
23 account subdivision (e).

24 (d) If a taxpayer is eligible to qualify under this section and  
25 either Section 24416.2, 24416.4, or 24416.5 as a "qualified  
26 taxpayer," with respect to a net operating loss in a taxable year,  
27 the taxpayer shall designate which section is to apply to the  
28 taxpayer.

29 (e) Notwithstanding Section 24416, the amount of the loss  
30 determined under this section or Section 24416.2, 24416.4, or  
31 24416.5 shall be the only net operating loss allowed to be carried  
32 over from that taxable year and the designation under subdivision  
33 (c) shall be included in the election under Section 24416.1.

34 (f) This section shall apply to taxable years beginning on or  
35 after January 1, 1998.

36 (g) *This section shall cease to be operative for taxable years*  
37 *beginning on or after January 1, 2014, and shall be repealed on*  
38 *December 1, 2014.*

39 *SEC. 45. There is hereby appropriated up to six hundred*  
40 *thousand dollars (\$600,000) from the General Fund for allocation*

1 to the committee and departments that are required to administer  
2 this act and by the Director of Finance in furtherance of the  
3 objectives of this act. An allocation of funds approved by the  
4 Director of Finance under this item shall become effective no  
5 sooner than 30 days after the director files written notification  
6 thereof with the Chairperson of the Joint Legislative Budget  
7 Committee and the chairpersons of the fiscal committees in each  
8 house of the Legislature, or no sooner than any lesser time the  
9 chairperson of the joint committee, or his or her designee, may in  
10 each instance determine.

11 SEC. 46. This act is an urgency statute necessary for the  
12 immediate preservation of the public peace, health, or safety within  
13 the meaning of Article IV of the Constitution and shall go into  
14 immediate effect. The facts constituting the necessity are:

15 In order to ensure the public good by providing certainty  
16 regarding the incentives available for attracting and retaining  
17 jobs in economically distressed areas of the state, it is necessary  
18 that this act take effect immediately.

19 SECTION 1. ~~It is the intent of the Legislature to enact statutory~~  
20 ~~changes relating to the Budget Act of 2013.~~