

**ASSEMBLY BILL**

**No. 2497**

---

---

**Introduced by Assembly Member Wagner**

February 19, 2016

---

---

An act to amend Section 23701 of the Revenue and Taxation Code, relating to taxation.

LEGISLATIVE COUNSEL'S DIGEST

AB 2497, as introduced, Wagner. Corporation Tax Law.

The Corporation Tax Law exempts various types of organizations from taxes imposed by that law. Existing law establishes a method by which an organization that has obtained a ruling or determination from the Internal Revenue Service that it is exempt from federal income taxes as an organization described in Section 501(c)(3), (c)(4), (c)(5), (c)(6), or (c)(7) of the Internal Revenue Code may obtain exemption from state taxes, as provided.

This bill would make nonsubstantive changes to that provision.

Vote: majority. Appropriation: no. Fiscal committee: no.  
State-mandated local program: no.

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

1 SECTION 1. Section 23701 of the Revenue and Taxation Code  
2 is amended to read:  
3 23701. (a) Organizations—~~which~~ *that* are organized and  
4 operated for nonprofit purposes within the provisions of a specific  
5 section of this article, or are defined in Section 23701h (~~relating,~~  
6 *relating* to certain title-holding ~~companies~~) *companies*, or Section  
7 ~~23701x~~ (~~relating~~ *23701x, relating* to certain title-holding

1 ~~companies~~), *companies*, are exempt from taxes imposed under this  
2 part, except as provided in this article or in Article 2 (commencing  
3 with Section 23731) of this chapter, ~~if~~ *if all of the following occur*:

4 (a)

5 (1) An application for exemption is submitted in the form  
6 prescribed by the Franchise Tax ~~Board~~, and *Board*.

7 (b)

8 (2) A filing fee of twenty-five dollars (\$25) is paid with each  
9 application for exemption filed with the Franchise Tax Board after  
10 December 31, ~~1969~~, and *1969*.

11 (c)

12 (3) The Franchise Tax Board issues a determination exempting  
13 the organization from tax.

14 (d)

15 (b) (1) Notwithstanding ~~subdivisions (a), (b), and (c)~~ *subdivision*  
16 *(a)*, an organization organized and operated for nonprofit purposes  
17 in accordance with Section 23701a, 23701d, 23701e, 23701f, or  
18 23701g shall be exempt from taxes imposed by this part, except  
19 as provided in this article or in Article 2 (commencing with Section  
20 23731), upon its submission to the Franchise Tax Board of one of  
21 the following:

22 (A) A copy of the determination letter or ruling issued by the  
23 Internal Revenue Service recognizing the organization's exemption  
24 from federal income tax under Section 501(a) of the Internal  
25 Revenue Code, as an organization described in Section 501(c)(3),  
26 (c)(4), (c)(5), (c)(6), or (c)(7) of the Internal Revenue Code.

27 (B) A copy of the group exemption letter issued by the Internal  
28 Revenue Service that states that both the central organization and  
29 all of its subordinates are tax-exempt under Section 501(c)(3),  
30 (c)(4), (c)(5), (c)(6), or (c)(7) of the Internal Revenue Code and  
31 substantiation that the organization is included in the federal group  
32 exemption letter as a subordinate organization.

33 (2) (A) Upon receipt of the documents required in subparagraph  
34 (A) or (B) of paragraph (1), the Franchise Tax Board shall issue  
35 an acknowledgment that the organization is exempt from taxes  
36 imposed by this part, except as provided in this article or in Article  
37 2 (commencing with Section 23731). The acknowledgment may  
38 refer to the organization's recognition by the Internal Revenue  
39 Service of exemption from federal income tax as an organization  
40 described in Section 501(c)(3), (c)(4), (c)(5), (c)(6), or (c)(7) of

1 the Internal Revenue Code and, if applicable, the organization’s  
2 subordinate organization status under a federal group exemption  
3 letter. The effective date of an organization’s exemption from state  
4 income tax pursuant to this subdivision shall be no later than the  
5 effective date of the organization’s recognition of exemption from  
6 federal income tax as an organization described in Section  
7 501(c)(3), (c)(4), (c)(5), (c)(6), or (c)(7) of the Internal Revenue  
8 Code, or its status as a subordinate organization under a federal  
9 group exemption letter, as applicable.

10 (B) Notwithstanding any other provision of this subdivision, an  
11 organization formed as a California corporation or qualified to do  
12 business in California that, as of the date of receipt by the Franchise  
13 Tax Board of the documents required under paragraph (1), is listed  
14 by the Secretary of the State or Franchise Tax Board as  
15 “suspended” or “forfeited” may not establish its exemption under  
16 paragraph (1) and shall not receive an acknowledgment referred  
17 to under subparagraph (A) from the Franchise Tax Board until that  
18 corporation is listed by the Secretary of State and the Franchise  
19 Tax Board as an “active” corporation.

20 (3) If, for federal income tax purposes, an organization’s  
21 exemption from tax as an organization described in Section  
22 501(c)(3), (c)(4), (c)(5), (c)(6), or (c)(7) of the Internal Revenue  
23 Code is suspended or revoked, the organization shall notify the  
24 Franchise Tax Board of the suspension or revocation, in the form  
25 and manner prescribed by the Franchise Tax Board. Upon  
26 notification, the board shall suspend or revoke, whichever is  
27 applicable, for state income tax purposes, the organization’s  
28 exemption under paragraph (1).

29 (4) This subdivision shall not be construed to prevent the  
30 Franchise Tax Board from revoking the exemption of an  
31 organization that is not organized or operated in accordance with  
32 California law, this chapter, or Section 501(c)(3), (c)(4), (c)(5),  
33 (c)(6), or (c)(7) of the Internal Revenue Code.

34 (5) If the Franchise Tax Board suspends or revokes the  
35 exemption of an organization pursuant to paragraph (3) or (4), the  
36 exemption shall be reinstated only upon compliance with this  
37 section, regardless of whether the organization can establish  
38 exemption under paragraph (1).

39 (e)

1 (c) This section shall not prevent a determination from having  
2 retroactive effect and does not prevent the issuance of a  
3 determination with respect to a domestic organization which was  
4 in existence prior to January 1, 1970, and exempt under prior law  
5 without the submission of a formal application or payment of a  
6 filing fee. For the purpose of this section, the term “domestic”  
7 means created or organized under the laws of this state.  
8 (f)  
9 (d) The Franchise Tax Board may prescribe rules and regulations  
10 to implement the provisions of this article.

O