

AMENDED IN ASSEMBLY FEBRUARY 13, 1998

AMENDED IN ASSEMBLY FEBRUARY 6, 1998

AMENDED IN SENATE JANUARY 5, 1998

**SENATE BILL**

**No. 519**

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**Introduced by Senator Lockyer**

February 24, 1997

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An act to amend Sections 17039, *17053.47*, 17062, 17276.2, 18510, 19023, 19024, 19025, 19136.3, 19147, 19149, 19184, 19280, 23036, 23456, 23622.8, 23802, 24416.2, and 24918 of, to add Sections 17088.5, 17088.6, 17132.6, 17201.5, 17559, 17760.5, 18036.5, 18037.3, 18038.5, 18155.5, ~~19109, 24347.6~~, 18572, *19109*, *24347.4*, 24652.5, 24661.5, 24871.5, 24872.4, 24872.5, 24872.7, 24875.5, and 24949.1 to, to repeal Sections 17731.5, 19365, 23813, and ~~25954~~ *24954* of, and to repeal and amend Section 23800.5 of, the Revenue and Taxation Code, to amend Sections 110 and 112 of Chapter 605 of the Statutes of 1997, to amend Section 30 of Chapter 611 of the Statutes of 1997, and to add Section 19 to Chapter 609 of the Statutes of 1997, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

SB 519, as amended, Lockyer. Income and bank and corporation taxes: federal conformity and cleanup legislation.

The Personal Income Tax Law and the Bank and Corporation Tax Law allow a taxpayer to claim certain tax incentives for activities conducted within a targeted tax area, as defined, including a targeted tax area sales or use tax credit and a targeted tax area hiring credit.

This bill would, under both laws, allow both of those credits to reduce the tax below the tentative minimum tax, and allow a specified net operating loss deduction with respect to a taxpayer engaged in the conduct of a qualified business, as defined, within a targeted tax area.

The Personal Income Tax Law imposes, in specified conformity to federal income tax laws, a tax equal to the excess of the tentative minimum tax, as defined, over the regular tax.

This bill would change specified dollar exemption amounts, clarify certain terms pertaining to a qualified taxpayer, and provide that federal income tax provisions relating to the treatment of incentive stock options be modified, as provided.

The Personal Income Tax Law incorporates by reference various provisions of federal income tax laws, with specified exceptions and modifications.

This bill would provide additional conformity, with exceptions and modifications, to recently enacted federal income tax laws relating to, among other things, repeal of the mutual fund 30% rule, FASIT corrections, alternative minimum tax with respect to certain installment sales, appraisal for certain disaster losses, abatement of interest in presidentially declared disaster areas, rollover of gain on sale of qualified stock, termination of suspense accounts for family farm corporations, repeal of short-short rule for mutual funds and real estate investment trusts, taxation of earnings on funeral trusts, and survivor benefits for slain public safety officers.

Existing law pertaining to the administration of the Personal Income Tax Law and the Bank and Corporation Tax Law imposes specified filing requirements and penalties.

This bill would clarify that taxpayers whose only income for 1997 is from the excludable gain on the sale of a personal residence are subject to specified filing requirements. This bill would reinstate for 1997 the penalty for failure to file medical savings account reports. This bill would also make technical and clarifying changes to those administrative provisions.

This bill would, under the Personal Income Tax Law or the Bank and Corporation Tax Law, or both, delete duplicate sections, clarify certain operative dates, and make other technical and clarifying changes, as provided.



This bill would take effect immediately as a tax levy, *but specified provisions would become operative as provided.*

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

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

1 SECTION 1. Section 17039 of the Revenue and  
2 Taxation Code is amended to read:  
3 17039. (a) Notwithstanding any provision in this part  
4 to the contrary, for the purposes of computing tax credits,  
5 the term “net tax” means the tax imposed under either  
6 Section 17041 or 17048 plus the tax imposed under Section  
7 17504 (relating to lump-sum distributions) less the credits  
8 allowed by Section 17054 (relating to personal exemption  
9 credits) and any amount imposed under paragraph (1) of  
10 subdivision (d) and paragraph (1) of subdivision (e) of  
11 Section 17560. Notwithstanding the preceding sentence,  
12 the “net tax” shall not be less than the tax imposed under  
13 Section 17504 (relating to the separate tax on lump-sum  
14 distributions), if any. Credits shall be allowed against “net  
15 tax” in the following order:  
16 (1) Credits that do not contain carryover or  
17 refundable provisions, except those described in  
18 paragraphs (4) and (5).  
19 (2) Credits that contain carryover provisions but do  
20 not contain refundable provisions.  
21 (3) Credits that contain both carryover and  
22 refundable provisions.  
23 (4) The minimum tax credit allowed by Section 17063  
24 (relating to the alternative minimum tax).  
25 (5) Credits for taxes paid to other states allowed by  
26 Chapter 12 (commencing with Section 18001).  
27 (6) Credits that contain refundable provisions but do  
28 not contain carryover provisions.  
29 The order within each paragraph shall be determined  
30 by the Franchise Tax Board.  
31 (b) Notwithstanding the provisions of Sections 17053.5  
32 (relating to the renter’s credit), 17061 (relating to  
33 refunds pursuant to the Unemployment Insurance



1 Code), and 19002 (relating to tax withholding), the  
2 credits provided in those sections shall be allowed in the  
3 order provided in paragraph (6) of subdivision (a).

4 (c) (1) Notwithstanding any other provision of this  
5 part, no tax credit shall reduce the tax imposed under  
6 Section 17041 or 17048 plus the tax imposed under Section  
7 17504 (relating to the separate tax on lump-sum  
8 distributions) below the tentative minimum tax, as  
9 defined by Section 17062, except the following credits,  
10 but only after allowance of the credit allowed by Section  
11 17063:

12 (A) The credit allowed by former Section 17052.4  
13 (relating to solar energy).

14 (B) The credit allowed by former Section 17052.5  
15 (relating to solar energy).

16 (C) The credit allowed by Section 17052.5 (relating to  
17 solar energy).

18 (D) The credit allowed by Section 17052.12 (relating  
19 to research expenses).

20 (E) The credit allowed by former Section 17052.13  
21 (relating to sales and use tax credit).

22 (F) The credit allowed by Section 17052.15 (relating to  
23 Los Angeles Revitalization Zone sales tax credit).

24 (G) The credit allowed by Section 17053.5 (relating to  
25 the renter's credit).

26 (H) The credit allowed by former Section 17053.8  
27 (relating to enterprise zone hiring credit).

28 (I) The credit allowed by Section 17053.10 (relating to  
29 Los Angeles Revitalization Zone hiring credit).

30 (J) The credit allowed by former Section 17053.11  
31 (relating to program area hiring credit).

32 (K) For each taxable year beginning on or after  
33 January 1, 1994, the credit allowed by Section 17053.17  
34 (relating to Los Angeles Revitalization Zone hiring  
35 credit).

36 (L) The credit allowed by Section 17053.33 (relating to  
37 targeted tax area sales or use tax credit).

38 (M) The credit allowed by Section 17053.34 (relating  
39 to targeted tax area hiring credit).



1 (N) The credit allowed by Section 17053.49 (relating  
2 to qualified property).

3 (O) The credit allowed by Section 17053.70 (relating  
4 to enterprise zone sales or use tax credit).

5 (P) The credit allowed by Section 17053.74 (relating to  
6 enterprise zone hiring credit).

7 (Q) The credit allowed by Section 17057 (relating to  
8 clinical testing expenses).

9 (R) The credit allowed by Section 17058 (relating to  
10 low-income housing).

11 (S) The credit allowed by Section 17061 (relating to  
12 refunds pursuant to the Unemployment Insurance  
13 Code).

14 (T) Credits for taxes paid to other states allowed by  
15 Chapter 12 (commencing with Section 18001).

16 (U) The credit allowed by Section 19002 (relating to  
17 tax withholding).

18 (2) Any credit that is partially or totally denied under  
19 paragraph (1) shall be allowed to be carried over and  
20 applied to the net tax in succeeding taxable years, if the  
21 provisions relating to that credit include a provision to  
22 allow a carryover when that credit exceeds the net tax.

23 (d) Unless otherwise provided, any remaining  
24 carryover of a credit allowed by a section that has been  
25 repealed or made inoperative shall continue to be  
26 allowed to be carried over under the provisions of that  
27 section as it read immediately prior to being repealed or  
28 becoming inoperative.

29 (e) (1) Unless otherwise provided, if two or more  
30 taxpayers (other than husband and wife) share in costs  
31 that would be eligible for a tax credit allowed under this  
32 part, each taxpayer shall be eligible to receive the tax  
33 credit in proportion to his or her respective share of the  
34 costs paid or incurred.

35 (2) In the case of a partnership, the credit shall be  
36 allocated among the partners pursuant to a written  
37 partnership agreement in accordance with Section 704 of  
38 the Internal Revenue Code, relating to partner's  
39 distributive share.



1 (3) In the case of a husband and wife who file separate  
2 returns, the credit may be taken by either or equally  
3 divided between them.

4 (f) Unless otherwise provided, in the case of a  
5 partnership, any credit allowed by this part shall be  
6 computed at the partnership level, and any limitation on  
7 the expenses qualifying for the credit or limitation upon  
8 the amount of the credit shall be applied to the  
9 partnership and to each partner.

10 (g) (1) With respect to any taxpayer that directly or  
11 indirectly owns an interest in a business entity that is  
12 disregarded for tax purposes pursuant to Section 23038  
13 and any regulations thereunder, the amount of any credit  
14 or credit carryforward allowable for any taxable year  
15 attributable to the disregarded business entity shall be  
16 limited in accordance with paragraphs (2) and (3).

17 (2) The amount of any credit otherwise allowed under  
18 this part, including any credit carryover from prior years,  
19 that may be applied to reduce the taxpayer's "net tax," as  
20 defined in subdivision (a), for the taxable year shall be  
21 limited to an amount equal to the excess of the taxpayer's  
22 regular tax (as defined in Section 17062), determined by  
23 including income attributable to the disregarded business  
24 entity that generated the credit or credit carryover, over  
25 the taxpayer's regular tax (as defined in Section 17062),  
26 determined by excluding the income attributable to that  
27 disregarded business entity. No credit shall be allowed if  
28 the taxpayer's regular tax (as defined in Section 17062),  
29 determined by including the income attributable to the  
30 disregarded business entity, is less than the taxpayer's  
31 regular tax (as defined in Section 17062), determined by  
32 excluding the income attributable to the disregarded  
33 business entity.

34 (3) If the amount of a credit allowed pursuant to the  
35 section establishing the credit exceeds the amount  
36 allowable under this subdivision in any taxable year, the  
37 excess amount may be carried over to subsequent taxable  
38 years pursuant to subdivisions (c) and (d).

39 *SEC. 1.5. Section 17053.47 of the Revenue and*  
40 *Taxation Code is amended to read:*



1 17053.47. (a) For each taxable year beginning on or  
2 after January 1, 1998, there shall be allowed a credit  
3 against the “net tax” (as defined in Section 17039) to a  
4 qualified taxpayer for hiring a qualified disadvantaged  
5 individual during the taxable year for employment in the  
6 Manufacturing Enhancement Area. The credit shall be  
7 equal to the sum of each of the following:

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

10 (2) Forty percent of the qualified wages in the second  
11 year of employment.

12 (3) Thirty percent of the qualified wages in the third  
13 year of employment.

14 (4) Twenty percent of the qualified wages in the  
15 fourth year of employment.

16 (5) Ten percent of the qualified wages in the fifth year  
17 of employment.

18 (b) For purposes of this section:

19 (1) “Qualified wages” means:

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

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

28 (C) Wages received during the 60-month period  
29 beginning with the day the qualified disadvantaged  
30 individual commences employment with the qualified  
31 taxpayer.

32 (D) Qualified wages do not include any wages paid or  
33 incurred by the qualified taxpayer on or after the  
34 Manufacturing Enhancement Area expiration date.  
35 However, wages paid or incurred with respect to  
36 qualified employees who are employed by the qualified  
37 taxpayer within the Manufacturing Enhancement Area  
38 within the 60-month period prior to the Manufacturing  
39 Enhancement Area expiration date shall continue to  
40 qualify for the credit under this section after the



1 Manufacturing Enhancement Area expiration date, in  
2 accordance with all provisions of this section applied as if  
3 the Manufacturing Enhancement Area designation were  
4 still in existence and binding.

5 (2) “Minimum wage” means the wage established by  
6 the Industrial Welfare Commission as provided for in  
7 Chapter 1 (commencing with Section 1171) of Part 4 of  
8 Division 2 of the Labor Code.

9 (3) “Manufacturing Enhancement Area” means an  
10 area designated pursuant to Section 7073.8 of the  
11 Government Code according to the procedures of  
12 Chapter 12.8 (commencing with Section 7070) of  
13 Division 7 of Title 1 of the Government Code.

14 (4) “Manufacturing Enhancement Area expiration  
15 date” means the date the Manufacturing Enhancement  
16 Area designation expires, is no longer binding, or  
17 becomes inoperative.

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

20 (A) (i) At least 90 percent of whose services for the  
21 qualified taxpayer during the taxable year are directly  
22 related to the conduct of the qualified taxpayer’s trade or  
23 business located in a Manufacturing Enhancement Area.

24 (ii) Who performs at least 50 percent of his or her  
25 services for the qualified taxpayer during the taxable year  
26 in the Manufacturing Enhancement Area.

27 (B) Who is hired by the qualified taxpayer after the  
28 designation of the area as a Manufacturing Enhancement  
29 Area in which the individual’s services were primarily  
30 performed.

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

34 (i) An individual who has been determined eligible for  
35 services under the federal Job Training Partnership Act  
36 (29 U.S.C. Sec. 1501 et seq.).

37 (ii) Any voluntary or mandatory registrant under the  
38 Greater Avenues for Independence Act of 1985 as  
39 provided pursuant to Article 3.2 (commencing with



1 Section 11320) of Chapter 2 of Part 3 of Division 9 of the  
2 Welfare and Institutions Code.

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

7 (6) “Qualified taxpayer” means any taxpayer engaged  
8 in a trade or business within a Manufacturing  
9 Enhancement Area designated pursuant to Section  
10 7073.8 of the Government Code and who meets both of  
11 the following requirements:

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

16 (B) At least 50 percent of the qualified taxpayer’s work  
17 force hired after the designation of the Manufacturing  
18 Enhancement Area is composed of individuals who, at the  
19 time of hire, are residents of the county in which the  
20 Manufacturing Enhancement Area is located.

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

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

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

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

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

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



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

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

23 (2) (A) Paragraph (1) does not apply to any of the  
24 following:

25 (i) A termination of employment of a qualified  
26 disadvantaged individual who voluntarily leaves the  
27 employment of the qualified taxpayer.

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

35 (iii) A termination of employment of a qualified  
36 disadvantaged individual, if it is determined under the  
37 applicable employment compensation laws that the  
38 termination was due to the misconduct of that individual.



1 (iv) A termination of employment of a qualified  
2 disadvantaged individual due to a substantial reduction in  
3 the trade or business operations of the qualified taxpayer.

4 (v) A termination of employment of a qualified  
5 disadvantaged individual, if that individual is replaced by  
6 other qualified disadvantaged individuals so as to create  
7 a net increase in both the number of employees and the  
8 hours of employment.

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

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

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

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

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

32 (f) The credit shall be reduced by the credit allowed  
33 under Section 17053.7. The credit shall also be reduced by  
34 the federal credit allowed under Section 51 of the Internal  
35 Revenue Code.

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



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

7 (h) (1) The amount of credit otherwise allowed  
8 under this section, including prior year credit carryovers,  
9 that may reduce the “net tax” for the taxable year shall  
10 not exceed the amount of tax that would be imposed on  
11 the qualified taxpayer’s business income attributed to a  
12 Manufacturing Enhancement Area determined as if that  
13 attributed income represented all of the net income of  
14 the qualified taxpayer subject to tax under this part.

15 (2) The amount of attributed income described in  
16 paragraph (1) shall be determined in accordance with  
17 the provisions of Chapter 17 (commencing with Section  
18 25101) of Part 11, modified for purposes of this section as  
19 follows:

20 (A) Income shall be apportioned to a Manufacturing  
21 Enhancement Area by multiplying total business income  
22 by a fraction, the numerator of which is the property  
23 factor plus the payroll factor, and the denominator of  
24 which is two.

25 (B) “The Manufacturing Enhancement Area” shall be  
26 substituted for “this state.”

27 (3) The portion of any credit remaining, if any, after  
28 application of this subdivision, shall be carried over to  
29 succeeding taxable years, as if it were an amount  
30 exceeding the “net tax” for the taxable year, as provided  
31 in subdivision (g).

32 (i) ~~(1) In the case where “qualified wages” qualify for~~  
33 ~~a credit under more than one section in this part, the~~  
34 ~~qualified taxpayer shall make an election as to which~~  
35 ~~section applies to those qualified wages.~~

36 ~~(2) Any election made under this section, and any~~  
37 ~~specification contained in that election, may not be~~  
38 ~~revoked except with the consent of the Franchise Tax~~  
39 ~~Board. If the taxpayer is allowed a credit pursuant to this~~  
40 ~~section for qualified wages paid or incurred, only one~~



1 *credit shall be allowed to the taxpayer under this part*  
2 *with respect to any wage consisting in whole or in part of*  
3 *those qualified wages.*

4 SEC. 2. Section 17062 of the Revenue and Taxation  
5 Code is amended to read:

6 17062. (a) In addition to the other taxes imposed by  
7 this part, there is hereby imposed for each taxable year,  
8 a tax equal to the excess, if any, of—

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

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

12 (b) For purposes of this chapter, each of the following  
13 shall apply:

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

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

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

30 (i) For any taxable year beginning on or after January  
31 1, 1991, and before January 1, 1996, 8.5 percent.

32 (ii) For any taxable year beginning on or after January  
33 1, 1996, 7 percent.

34 (B) In the case of a nonresident or part-year resident,  
35 the tentative minimum tax shall be computed as if the  
36 nonresident or part-year resident were a resident for the  
37 entire year multiplied by the ratio of California adjusted  
38 gross income (as modified for purposes of this chapter) to  
39 total adjusted gross income from all sources (as modified  
40 for purposes of this chapter). For purposes of computing



1 the tax under subparagraph (A) and gross income from  
2 all sources, the net operating loss deduction provided in  
3 Section 56(d) of the Internal Revenue Code shall be  
4 computed as if the taxpayer were a resident for all prior  
5 years.

6 (C) For purposes of this section, the term “California  
7 adjusted gross income” includes each of the following:

8 (i) For any period during which the taxpayer was a  
9 resident of this state (as defined by Section 17014), all  
10 items of adjusted gross income (as modified for purposes  
11 of this chapter), regardless of source.

12 (ii) For any period during which the taxpayer was not  
13 a resident of this state, only those items of adjusted gross  
14 income (as modified for purposes of this chapter) which  
15 were derived from sources within this state, determined  
16 in accordance with Chapter 11 (commencing with  
17 Section 17951).

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

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

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

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

35 (B) For purposes of this paragraph, “aggregate gross  
36 receipts, less returns and allowances” means the sum of  
37 the gross receipts of the trades or businesses which the  
38 taxpayer owns and the proportionate interest of the gross  
39 receipts of the trades or businesses which the taxpayer



1 owns and of passthrough entities in which the taxpayer  
2 holds an interest.

3 (C) For purposes of this paragraph, “gross receipts,  
4 less returns and allowances” means the sum of the gross  
5 receipts from the production of business income, as  
6 defined in subdivision (a) of Section 25120, and the gross  
7 receipts from the production of nonbusiness income, as  
8 defined in subdivision (d) of Section 25120.

9 (D) For purposes of this paragraph, “proportionate  
10 interest” means:

11 (i) In the case of a passthrough entity which reports a  
12 profit for the taxable or income year, the taxpayer’s profit  
13 interest in the entity at the end of the taxpayer’s taxable  
14 year.

15 (ii) In the case of a passthrough entity which reports  
16 a loss for the taxable or income year, the taxpayer’s loss  
17 interest in the entity at the end of the taxpayer’s taxable  
18 year.

19 (iii) In the case of a passthrough entity which is sold or  
20 liquidates during the taxable or income year, the  
21 taxpayer’s capital account interest in the entity at the  
22 time of the sale or liquidation.

23 (E) (i) For purposes of this paragraph,  
24 “proportionate interest” includes an interest in a  
25 passthrough entity.

26 (ii) For purposes of this paragraph, “passthrough  
27 entity” means any of the following:

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

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

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

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

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

37 (5) For taxable years beginning on or after January 1,  
38 1998, Section 55(d)(1) of the Internal Revenue Code,  
39 relating to exemption amount for taxpayers other than  
40 corporations is modified, for purposes of this part, to



1 provide the following exemption amounts in lieu of those  
2 contained therein:

3 (A) Fifty-seven thousand two hundred sixty dollars  
4 (\$57,260) in the case of either of the following:

5 (i) A joint return.

6 (ii) A surviving spouse.

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

10 (i) Not a married individual.

11 (ii) Not a surviving spouse.

12 (C) Twenty-eight thousand six hundred thirty dollars  
13 (\$28,630) in the case of either of the following:

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

15 (ii) An estate or trust.

16 (6) For taxable years beginning on or after January 1,  
17 1998, Section 55(d)(3) of the Internal Revenue Code,  
18 relating to the phaseout of exemption amount for  
19 taxpayers other than corporations is modified, for  
20 purposes of this part, to provide the following phaseout of  
21 exemption amounts in lieu of those contained therein:

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

25 (B) One hundred sixty-one thousand forty-four dollars  
26 (\$161,044) in the case of a taxpayer described in  
27 subparagraph (B) of paragraph (5).

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

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

37 (A) The California Department of Industrial Relations  
38 shall transmit annually to the Franchise Tax Board the  
39 percentage change in the California Consumer Price  
40 Index for all items from June of the prior calendar year to



1 June of the current calendar year, no later than August 1  
2 of the current calendar year.

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

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

9 (ii) Multiply the preceding taxable year exemption  
10 amounts and the phaseout of exemption amounts by the  
11 inflation adjustment factor determined in clause (i) and  
12 round off the resulting products to the nearest one dollar  
13 (\$1).

14 (c) (1) Section 56(a)(6) of the Internal Revenue  
15 Code, relating to installment sales of certain property,  
16 shall not apply to dispositions in taxable years beginning  
17 on or after January 1, 1997.

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

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

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

30 (B) Section 422(c)(2) of the Internal Revenue Code  
31 shall apply in any case where the disposition and inclusion  
32 of a California qualified stock option for purposes of this  
33 chapter are within the same taxable year and that section  
34 shall not apply in any other case.

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



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

4 (e) (1) Section 57(a) of the Internal Revenue Code,  
5 relating to items of tax preference, is modified to include  
6 as an item of tax preference the amount by which the  
7 deduction allowable under Section 170 of the Internal  
8 Revenue Code, relating to charitable contributions or  
9 gifts, or Section 642(c) of the Internal Revenue Code,  
10 relating to deduction for amounts paid or permanently  
11 set aside for a charitable purpose, would be reduced if all  
12 capital gain property were taken into account at its  
13 adjusted basis.

14 (2) For purposes of paragraph (1), the term “capital  
15 gain property” has the meaning given to that term by  
16 Section 170(b)(1)(C)(iv) of the Internal Revenue Code.  
17 That term shall not include any property to which an  
18 election under Section 170(b)(1)(C)(iii) of the Internal  
19 Revenue Code applies.

20 (f) Section 57(a) of the Internal Revenue Code,  
21 relating to items of tax preference, is modified to include  
22 as an item of tax preference an amount equal to one-half  
23 of the amount excluded from gross income for the taxable  
24 year under Section 18152.5.

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

28 SEC. 3. Section 17088.5 is added to the Revenue and  
29 Taxation Code, to read:

30 17088.5. (a) Section 851(b)(3) of the Internal  
31 Revenue Code shall not apply.

32 (b) This section shall apply in determining whether an  
33 entity qualifies as a regulated investment company for  
34 income years of that entity beginning after August 5, 1997.

35 SEC. 4. Section 17088.6 is added to the Revenue and  
36 Taxation Code, to read:

37 17088.6. (a) Section 856(c)(4) of the Internal  
38 Revenue Code shall not apply.



1 (b) (1) Section 856(c)(6)(G) of the Internal  
2 Revenue Code shall not apply and in lieu thereof  
3 paragraph (2) shall apply.

4 (2) Except to the extent provided by regulations of the  
5 Secretary of the Treasury under Section 856(c)(5)(G) of  
6 the Internal Revenue Code (as redesignated and  
7 amended by Section 1258 of Public Law 105-34), both of  
8 the following shall be treated as income qualifying under  
9 Section 856(c)(2) of the Internal Revenue Code:

10 (A) Any payment to a real estate investment trust  
11 under an interest rate swap or cap agreement, option,  
12 futures contract, forward rate agreement, or any similar  
13 financial instrument, entered into by the trust in a  
14 transaction to reduce the interest rate risks with respect  
15 to any indebtedness incurred or to be incurred by the  
16 trust to acquire or carry real estate assets.

17 (B) Any gain from the sale or other disposition of any  
18 such investment.

19 (c) This section shall apply in determining whether an  
20 entity qualifies as a real estate investment trust for  
21 income years of that entity beginning after August 5, 1997.

22 SEC. 5. Section 17132.6 is added to the Revenue and  
23 Taxation Code, to read:

24 17132.6. (a) (1) Section 101 of the Internal Revenue  
25 Code, relating to certain death benefits, is modified to  
26 additionally provide that gross income shall not include  
27 any amount paid as a survivor annuity on account of the  
28 death of a public safety officer (as that term is defined in  
29 Section 1204 of the Omnibus Crime Control and Safe  
30 Streets Act of 1968) killed in the line of duty—

31 (A) If that annuity is provided, under a governmental  
32 plan which meets the requirements of Section 401(a) of  
33 the Internal Revenue Code, to the spouse (or former  
34 spouse) of the public safety officer or to a child of that  
35 officer.

36 (B) To the extent that annuity is attributable to the  
37 officer's service as a public safety officer.

38 (2) Paragraph (1) shall not apply with respect to the  
39 death of any public safety officer if, as determined in



1 accordance with the Omnibus Crime Control and Safe  
2 Streets Act of 1968—

3 (A) The death was caused by the intentional  
4 misconduct of the officer or by the officer's intention to  
5 bring about the officer's death.

6 (B) The officer was voluntarily intoxicated (as defined  
7 in Section 1204 of the Omnibus Crime Control and Safe  
8 Streets Act of 1968) at the time of death.

9 (C) The officer was performing that officer's duties in  
10 a grossly negligent manner at the time of death.

11 (D) The payment is to an individual whose actions  
12 were a substantial contributing factor to the death of the  
13 officer.

14 (b) This section shall apply to amounts received in  
15 taxable years beginning after December 31, 1996, with  
16 respect to individuals dying after December 31, 1996.

17 SEC. 6. Section 17201.5 is added to the Revenue and  
18 Taxation Code, to read:

19 17201.5. The provisions of Section 912 of Public Law  
20 105-34, relating to use of certain appraisals to establish  
21 amount of disaster loss, shall apply.

22 SEC. 7. Section 17276.2 of the Revenue and Taxation  
23 Code is amended to read:

24 17276.2. The term "qualified taxpayer" as used in  
25 Section 17276.1 means any of the following:

26 (a) A person or entity engaged in the conduct of a  
27 trade or business within an enterprise zone designated  
28 pursuant to Chapter 12.8 (commencing with Section  
29 7070) of Division 7 of Title 1 of the Government Code.

30 (1) A net operating loss shall not be a net operating loss  
31 carryback to any taxable year and a net operating loss for  
32 any taxable year beginning on or after the date that the  
33 area in which the taxpayer conducts a trade or business  
34 is designated as an enterprise zone shall be a net  
35 operating loss carryover to each of the 15 taxable years  
36 following the taxable year of loss.

37 (2) For purposes of this subdivision:

38 (A) "Net operating loss" means the loss determined  
39 under Section 172 of the Internal Revenue Code, as  
40 modified by Section 17276.1, attributable to the taxpayer's



1 business activities within the enterprise zone (as defined  
2 in Chapter 12.8 (commencing with Section 7070) of  
3 Division 7 of Title 1 of the Government Code) prior to the  
4 enterprise zone expiration date. That attributable loss  
5 shall be determined in accordance with Chapter 17  
6 (commencing with Section 25101) of Part 11, modified for  
7 purposes of this section by substituting “enterprise zone”  
8 for “this state.”

9 (B) A net operating loss carryover shall be a deduction  
10 only with respect to the taxpayer’s business income  
11 attributable to the enterprise zone (as defined in Chapter  
12 12.8 (commencing with Section 7070) of Division 7 of  
13 Title 1 of the Government Code) determined in  
14 accordance with Chapter 17 (commencing with Section  
15 25101) of Part 11, modified for purposes of this section by  
16 substituting “enterprise zone” for “this state.”

17 (C) If a loss carryover is allowable pursuant to this  
18 section for any taxable year after the enterprise zone  
19 designation has expired, the enterprise zone shall be  
20 deemed to remain in existence for purposes of computing  
21 the limitation set forth in subparagraph (B) and allowing  
22 a net operating loss deduction.

23 (D) “Enterprise zone expiration date” means the date  
24 the enterprise zone designation expires, is no longer  
25 binding, or becomes inoperative.

26 (b) A person or entity engaged in the conduct of a  
27 trade or business within the Los Angeles Revitalization  
28 Zone designated pursuant to Section 7102 of the  
29 Government Code.

30 (1) A net operating loss shall not be a net operating loss  
31 carryback for any taxable year, and a net operating loss  
32 for any taxable year beginning on or after the date the  
33 area in which the taxpayer conducts a trade or business  
34 is designated the Los Angeles Revitalization Zone shall be  
35 a net operating loss carryover to each following taxable  
36 year that ends before the Los Angeles Revitalization  
37 Zone expiration date or to each of the 15 taxable years  
38 following the taxable year of loss, if longer.

39 (2) For the purposes of this subdivision:



1 (A) “Net operating loss” means the loss determined  
2 under Section 172 of the Internal Revenue Code, as  
3 modified by Section 17276.1, attributable to the taxpayer’s  
4 business activities within the Los Angeles Revitalization  
5 Zone (as defined in Section 7102 of the Government  
6 Code) prior to the Los Angeles Revitalization Zone  
7 expiration date. The attributable loss shall be determined  
8 in accordance with Chapter 17 (commencing with  
9 Section 25101) of Part 11, modified as follows:

10 (i) Loss shall be apportioned to the Los Angeles  
11 Revitalization Zone by multiplying total loss from the  
12 business by a fraction, the numerator of which is the  
13 property factor plus the payroll factor, and the  
14 denominator of which is two.

15 (ii) “The Los Angeles Revitalization Zone” shall be  
16 substituted for “this state.”

17 (B) A net operating loss carryover shall be a deduction  
18 only with respect to the taxpayer’s business income  
19 attributable to the Los Angeles Revitalization Zone (as  
20 defined in Section 7102 of the Government Code)  
21 determined in accordance with paragraph (3).

22 (C) If a loss carryover is allowable pursuant to this  
23 section for any taxable year after the Los Angeles  
24 Revitalization Zone designation has expired, the Los  
25 Angeles Revitalization Zone shall be deemed to remain  
26 in existence for purposes of computing the limitation set  
27 forth in subparagraph (B) and allowing a net operating  
28 loss deduction.

29 (3) Attributable income shall be that portion of the  
30 taxpayer’s California source business income which is  
31 apportioned to the Los Angeles Revitalization Zone. For  
32 that purpose, the taxpayer’s business income attributable  
33 to sources in this state first shall be determined in  
34 accordance with Chapter 17 (commencing with Section  
35 25101) of Part 11. That business income shall be further  
36 apportioned to the Los Angeles Revitalization Zone in  
37 accordance with Article 2 (commencing with Section  
38 25120) of Chapter 17 of Part 11, modified as follows:

39 (A) Business income shall be apportioned to the Los  
40 Angeles Revitalization Zone by multiplying total



1 California business income of the taxpayer by a fraction,  
2 the numerator of which is the property factor plus the  
3 payroll factor, and the denominator of which is two.

4 (B) The property factor is a fraction, the numerator of  
5 which is the average value of the taxpayer's real and  
6 tangible personal property owned or rented and used in  
7 the Los Angeles Revitalization Zone during the taxable  
8 year and the denominator of which is the average value  
9 of all the taxpayer's real and tangible personal property  
10 owned or rented and used in this state during the taxable  
11 year.

12 (C) The payroll factor is a fraction, the numerator of  
13 which is the total amount paid by the taxpayer in the Los  
14 Angeles Revitalization Zone during the taxable year for  
15 compensation, and the denominator of which is the total  
16 compensation paid by the taxpayer in this state during the  
17 taxable year.

18 (4) "Los Angeles Revitalization Zone expiration date"  
19 means the date the Los Angeles Revitalization Zone  
20 designation expires, is repealed, or becomes inoperative  
21 pursuant to Section 7102, 7103, or 7104 of the Government  
22 Code.

23 (5) This subdivision shall be inoperative on the first  
24 day of the taxable year beginning on or after the  
25 determination date, and each taxable year thereafter,  
26 with respect to the taxpayer's business activities within a  
27 geographic area that is excluded from the map pursuant  
28 to Section 7102 of the Government Code, or an excluded  
29 area determined pursuant to Section 7104 of the  
30 Government Code. The determination date is the earlier  
31 of the first effective date of a determination under  
32 subdivision (c) of Section 7102 of the Government Code  
33 occurring after December 1, 1994, or the first effective  
34 date of an exclusion of an area from the amended Los  
35 Angeles Revitalization Zone under Section 7104 of the  
36 Government Code. However, if the taxpayer has any  
37 unused loss amount as of the date this section becomes  
38 inoperative, that unused loss amount may continue to be  
39 carried forward as provided in this subdivision.



1 (6) This subdivision shall cease to be operative on  
2 January 1, 1998. However, any unused net operating loss  
3 may continue to be carried over to following years as  
4 provided in this subdivision.

5 (c) For each taxable year beginning on or after  
6 January 1, 1995, and before January 1, 2003, a taxpayer  
7 engaged in the conduct of a trade or business within a  
8 LAMBRA.

9 (1) A net operating loss shall not be a net operating loss  
10 carryback for any taxable year, and a net operating loss  
11 for any taxable year beginning on or after the date the  
12 area in which the taxpayer conducts a trade or business  
13 is designated a LAMBRA shall be a net operating loss  
14 carryover to each following taxable year that ends before  
15 the LAMBRA expiration date or to each of the 15 taxable  
16 years following the taxable year of loss, if longer.

17 (2) For the purposes of this subdivision:

18 (A) "LAMBRA" means a local agency military base  
19 recovery area designated in accordance with Section 7114  
20 of the Government Code.

21 (B) "Taxpayer" means a person or entity that  
22 conducts a trade or business within a LAMBRA and, for  
23 the first two taxable years, has a net increase in jobs  
24 (defined as 2,000 paid hours per employee per year) of  
25 one or more employees in the LAMBRA and this state.

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



1 or more full-time employees is employed within the  
2 LAMBRA.

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

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

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

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

20 (C) “Net operating loss” means the loss determined  
21 under Section 172 of the Internal Revenue Code, as  
22 modified by Section 17276.1, attributable to the taxpayer’s  
23 business activities within a LAMBRA prior to the  
24 LAMBRA expiration date. The attributable loss shall be  
25 determined in accordance with Chapter 17  
26 (commencing with Section 25101) of Part 11, modified as  
27 follows:

28 (i) Loss shall be apportioned to a LAMBRA by  
29 multiplying total loss from the business by a fraction, the  
30 numerator of which is the property factor plus the payroll  
31 factor, and the denominator of which is two.

32 (ii) “The LAMBRA” shall be substituted for “this  
33 state.”

34 (D) A net operating loss carryover shall be a deduction  
35 only with respect to the taxpayer’s business income  
36 attributable to a LAMBRA determined in accordance  
37 with the provisions of Chapter 17 (commencing with  
38 Section 25101) of Part 11, modified as follows:

39 (i) Business income shall be apportioned to a  
40 LAMBRA by multiplying total business income by a



1 fraction, the numerator of which is the property factor  
2 plus the payroll factor, and the denominator of which is  
3 two.

4 (ii) “The LAMBRA” shall be substituted for “this  
5 state.”

6 (iii) If a loss carryover is allowable pursuant to this  
7 section for any taxable year after the LAMBRA  
8 designation has expired, the LAMBRA shall be deemed  
9 to remain in existence for purposes of computing this  
10 limitation.

11 (E) “LAMBRA expiration date” means the date the  
12 LAMBRA designation expires, is no longer binding, or  
13 becomes inoperative pursuant to Section 7110 of the  
14 Government Code.

15 (d) (1) For each taxable year beginning on or after  
16 January 1, 1998, a person or entity that meets both of the  
17 following:

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

22 (B) Is engaged in those lines of business described in  
23 Codes 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200  
24 to 4299, inclusive; 4500 to 4599, inclusive; and 4700 to 5199,  
25 inclusive, of the Standard Industrial Classification (SIC)  
26 Manual published by the United States Office of  
27 Management and Budget, 1987 edition. In the case of any  
28 passthrough entity, the determination of whether a  
29 taxpayer is a qualified taxpayer under this section shall be  
30 made at the entity level.

31 (2) A net operating loss shall not be a net operating loss  
32 carryback to any taxable year and a net operating loss for  
33 any taxable year beginning on or after the date that the  
34 area in which the qualified taxpayer conducts a trade or  
35 business is designated as a targeted tax area shall be a net  
36 operating loss carryover to each of the 15 taxable years  
37 following the taxable year of loss.

38 (3) For purposes of this subdivision:

39 (A) “Net operating loss” means the loss determined  
40 under Section 172 of the Internal Revenue Code, as



1 modified by Section 17276.1, attributable to the qualified  
2 taxpayer's business activities within the targeted tax area  
3 (as defined in Chapter 12.93 (commencing with Section  
4 7097) of Division 7 of Title 1 of the Government Code)  
5 prior to the targeted tax area expiration date. That  
6 attributable loss shall be determined in accordance with  
7 Chapter 17 (commencing with Section 25101) of Part 11,  
8 modified for purposes of this subdivision as follows:

9 (i) Loss shall be apportioned to the targeted tax area  
10 by multiplying total loss from the business by a fraction,  
11 the numerator of which is the property factor plus the  
12 payroll factor, and the denominator of which is two.

13 (ii) "The targeted tax area" shall be substituted for  
14 "this state."

15 (B) A net operating loss carryover shall be a deduction  
16 only with respect to the qualified taxpayer's business  
17 income attributable to the targeted tax area (as defined  
18 in Chapter 12.93 (commencing with Section 7097) of  
19 Division 7 of Title 1 of the Government Code)  
20 determined in accordance with Chapter 17  
21 (commencing with Section 25101) of Part 11, modified for  
22 purposes of this subdivision as follows:

23 (i) Business income shall be apportioned to the  
24 targeted tax area by multiplying the total business income  
25 by a fraction, the numerator of which is the property  
26 factor plus the payroll factor, and the denominator of  
27 which is two.

28 (ii) "The targeted tax area" shall be substituted for  
29 "this state."

30 (C) If a loss carryover is allowable pursuant to this  
31 subdivision for any taxable year after the targeted tax area  
32 expiration date, the targeted tax area designation shall be  
33 deemed to remain in existence for purposes of computing  
34 the limitation specified in this subparagraph.

35 (D) "Targeted tax area expiration date" means the  
36 date the targeted tax area designation expires, is revoked,  
37 is no longer binding, or becomes inoperative.

38 (e) A taxpayer who qualifies as a "qualified taxpayer"  
39 shall, for the taxable year of the net operating loss and any  
40 taxable year to which that net operating loss may be



1 carried, designate on the original return filed for each  
2 year the subdivision of this section which applies to that  
3 taxpayer with respect to that net operating loss. If the  
4 taxpayer is eligible to qualify under more than one  
5 subdivision of this section, the designation is to be made  
6 after taking into account subdivision (f).

7 (f) If a taxpayer is eligible to qualify under more than  
8 one subdivision of this section as a “qualified taxpayer,”  
9 with respect to a net operating loss in a taxable year, the  
10 taxpayer shall designate which subdivision of this section  
11 is to apply to the taxpayer.

12 (g) Notwithstanding Section 17276, the amount of the  
13 loss determined under this section shall be the only net  
14 operating loss allowed to be carried over from that  
15 taxable year and the designation under subdivision (e)  
16 shall be included in the election under Section 17276.1.

17 SEC. 8. Section 17559 is added to the Revenue and  
18 Taxation Code, to read:

19 17559. (a) Section 451(e) of the Internal Revenue  
20 Code, relating to special rule for proceeds from livestock  
21 sold on account of drought, is modified by substituting the  
22 phrase “drought, flood, or other weather-related  
23 conditions, and that those conditions” in lieu of the phrase  
24 “drought conditions, and that these drought conditions”  
25 contained therein.

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

28 SEC. 9. Section 17731.5 of the Revenue and Taxation  
29 Code, as added by Section 3 of Chapter 610 of the Statutes  
30 of 1997, is repealed.

31 SEC. 10. Section 17760.5 is added to the Revenue and  
32 Taxation Code, to read:

33 17760.5. (a) In the case of a qualified funeral trust—

34 (1) Subparts B, C, D, and E of Subchapter J of Chapter  
35 1 of Subtitle A of the Internal Revenue Code shall not  
36 apply.

37 (2) No credit for personal exemption shall be allowed  
38 under Section 17054 or Section 17733.



1 (b) For purposes of this section, the term “qualified  
2 funeral trust” means any trust (other than a foreign trust)  
3 if—

4 (1) The trust arises as a result of a contract with a  
5 person engaged in the trade or business of providing  
6 funeral or burial services or property necessary to  
7 provide those services.

8 (2) The sole purpose of the trust is to hold, invest, and  
9 reinvest funds in the trust and to use the funds solely to  
10 make payments for those services or property for the  
11 benefit of the beneficiaries of the trust.

12 (3) The only beneficiaries of the trust are individuals  
13 with respect to whom those services or property are to be  
14 provided at their death under contracts described in  
15 paragraph (1).

16 (4) The only contributions to the trust are  
17 contributions by or for the benefit of the beneficiaries.

18 (5) The trustee elects the application of this section.

19 (6) The trust would (but for the election described in  
20 paragraph (5)) be treated as owned under Subpart E of  
21 Subchapter J of Chapter 1 of Subtitle A of the Internal  
22 Revenue Code by the purchasers of the contracts  
23 described in paragraph (1).

24 (c) (1) The term “qualified funeral trust” shall not  
25 include any trust which accepts aggregate contributions  
26 by or for the benefit of an individual in excess of seven  
27 thousand dollars (\$7,000).

28 (2) For purposes of paragraph (1), all trusts having  
29 trustees that are related persons shall be treated as one  
30 trust. For purposes of the preceding sentence, persons are  
31 related ~~if—~~ *if any of the following are applicable:*

32 (A) The relationship between those persons is  
33 described in Section 267 or 707(b) of the Internal  
34 Revenue Code.

35 (B) Those persons are treated as a single employer  
36 under Section 52(a) or (b) of the Internal Revenue Code  
37 for federal purposes.

38 (C) ~~Either of the following applies:~~

39 ~~(i)~~ The Secretary of the Treasury determines that  
40 treating those persons as related is necessary to prevent



1 avoidance of the purposes of Section 685 of the Internal  
2 Revenue Code (as added by Public Law 105-34).

3 ~~(ii)~~

4 (D) The Franchise Tax Board determines that  
5 treating those persons as related is necessary to prevent  
6 avoidance of the purposes of this section.

7 (3) In the case of any contract referred to in paragraph  
8 (1) of subdivision (b) which is entered into during any  
9 calendar year after 1998, the dollar amount referred to in  
10 paragraph (1) shall be increased by an amount equal to—  
11 to:

12 (A) That dollar amount, multiplied by

13 (B) The cost-of-living adjustment determined under  
14 Section 1(f)(3) of the Internal Revenue Code for that  
15 calendar year, by substituting “calendar year 1997” for  
16 “calendar year 1992” in subparagraph (B) thereof.

17 If any dollar amount after being increased under the  
18 preceding sentence is not a multiple of one hundred  
19 dollars (\$100), that dollar amount shall be rounded to the  
20 nearest multiple of one hundred dollars (\$100).

21 (d) Subdivision (e) of Section 17041 shall be applied to  
22 each qualified funeral trust by treating each beneficiary’s  
23 interest in each qualified funeral trust as a separate trust.

24 (e) No gain or loss shall be recognized to a purchaser  
25 of a contract described in paragraph (1) of subdivision  
26 (b) by reason of any payment from the trust to that  
27 purchaser by reason of cancellation of that contract. If any  
28 payment referred to in the preceding sentence consists  
29 of property other than money, the basis of the property  
30 in the hands of that purchaser shall be the same as the  
31 trust’s basis in the property immediately before the  
32 payment.

33 (f) The Franchise Tax Board may, by forms and  
34 instructions, provide rules for simplified reporting of all  
35 trusts having a single trustee consistent with the rules  
36 prescribed by the Secretary of the Treasury under  
37 Section 685 of the Internal Revenue Code (as added by  
38 Public Law 105-34).

39 (g) This section shall apply to taxable years ending  
40 after August 5, 1997.



1 SEC. 11. Section 18036.5 is added to the Revenue and  
2 Taxation Code, to read:

3 18036.5. (a) In addition to the adjustments to basis  
4 provided by Section 1016(a) of the Internal Revenue  
5 Code, a proper adjustment shall also be made in the case  
6 of property the acquisition of which resulted under  
7 Section 18038.5 in the nonrecognition of any part of the  
8 gain realized on the sale of other property, to the extent  
9 provided in paragraph (4) of subdivision (b) of Section  
10 18038.5.

11 (b) This section shall apply to sales made after August  
12 5, 1997.

13 SEC. 12. Section 18037.3 is added to the Revenue and  
14 Taxation Code, to read:

15 18037.3. (a) Section 1033(e) of the Internal Revenue  
16 Code, relating to livestock sold on account of drought, is  
17 modified by substituting the phrase “on account of  
18 drought, flood, or other weather-related conditions” in  
19 lieu of the phrase “on account of drought” contained  
20 therein.

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

23 SEC. 13. Section 18038.5 is added to the Revenue and  
24 Taxation Code, to read:

25 18038.5. (a) In the case of any sale of qualified small  
26 business stock held by an individual for more than six  
27 months and with respect to which that individual elects  
28 the application of this section, gain from that sale shall be  
29 recognized only to the extent that the amount realized on  
30 that sale ~~exceeds~~— *exceeds*:

31 (1) The cost of any qualified small business stock  
32 purchased by the taxpayer during the 60-day period  
33 beginning on the date of that sale, reduced by

34 (2) Any portion of the cost previously taken into  
35 account under this section.

36 This section shall not apply to any gain which is treated  
37 as ordinary income for purposes of this part.

38 (b) For purposes of this section:



1 (1) The term “qualified small business stock” has the  
2 meaning given that term by subdivision (c) of Section  
3 18152.5.

4 (2) A taxpayer shall be treated as having purchased  
5 any property if, but for paragraph (3), the unadjusted  
6 basis of that property in the hands of the taxpayer would  
7 be its cost (within the meaning of Section 1012 of the  
8 Internal Revenue Code).

9 (3) If gain from any sale is not recognized by reason of  
10 subdivision (a), that gain shall be applied to reduce (in  
11 the order acquired) the basis for determining gain or loss  
12 of any qualified small business stock which is purchased  
13 by the taxpayer during the 60-day period described in  
14 subdivision (a).

15 (4) For purposes of determining whether the  
16 nonrecognition of gain under subdivision (a) applies to  
17 stock which is sold, both of the following shall apply:

18 (A) The taxpayer’s holding period for that stock and  
19 the stock referred to in paragraph (1) of subdivision (a)  
20 shall be determined without regard to section 1223 of the  
21 Internal Revenue Code.

22 (B) Only the first six months of the taxpayer’s holding  
23 period for the stock referred to in paragraph (1) of  
24 subdivision (a) shall be taken into account for purposes  
25 of applying paragraph (2) of subdivision (c) of Section  
26 18152.5.

27 (c) This section shall apply to sales made after August  
28 5, 1997.

29 SEC. 14. Section 18155.5 is added to the Revenue and  
30 Taxation Code, to read:

31 18155.5. (a) Section 1223 of the Internal Revenue  
32 Code, relating to holding period of property, is modified  
33 to additionally provide that in determining the period for  
34 which the taxpayer has held property the acquisition of  
35 which resulted under Section 18038.5 in the  
36 nonrecognition of any part of the gain realized on the sale  
37 of other property, there shall be included the period for  
38 which that other property has been held as of the date of  
39 the sale.



1 (b) This section shall apply to sales made after August  
2 5, 1997.

3 SEC. 15. Section 18510 of the Revenue and Taxation  
4 Code is amended to read:

5 18510. For taxable years beginning on or after January  
6 1, 1997, for purposes of Sections 18501, 18505, and 18521,  
7 gross income shall be computed without regard to the  
8 exclusion provided for in Section 17152.

9 *SEC. 15.5. Section 18572 is added to the Revenue and*  
10 *Taxation Code, to read:*

11 *18572. (a) In the case of a taxpayer determined by*  
12 *the Secretary of the Treasury or the Franchise Tax Board*  
13 *to be affected by a Presidentially declared disaster (as*  
14 *defined by Section 1033(h)(3) of the Internal Revenue*  
15 *Code), under regulations prescribed by the Secretary of*  
16 *the Treasury, unless the Franchise Tax Board prescribes*  
17 *differently, a period of up to 90 days may be disregarded*  
18 *in determining, in respect of any tax liability (including*  
19 *any penalty, additional amount, or addition to the tax) of*  
20 *the taxpayer:*

21 *(1) Whether any of the acts described in paragraph*  
22 *(1) of Section 7508(a)(1) of the Internal Revenue Code*  
23 *were performed within the time prescribed therefor.*

24 *(2) The amount of any credit or refund.*

25 *(b) Subdivision (a) shall not apply for the purposes of*  
26 *determining interest on any overpayment or*  
27 *underpayment.*

28 *(c) This section shall apply with respect to any period*  
29 *for performing an act that has not expired before August*  
30 *5, 1997.*

31 SEC. 16. Section 19023 of the Revenue and Taxation  
32 Code is amended to read:

33 19023. For purposes of this article, in the case of a  
34 corporation, other than a bank or financial corporation,  
35 the term “estimated tax” means the amount which the  
36 corporation estimates as the amount of the tax imposed  
37 by Part 11 (commencing with Section 23001) and the  
38 amount of its liability for the tax of each wholly owned  
39 subsidiary under Section 23800.5; but in no event shall the  
40 estimated tax of a corporation subject to the tax imposed



1 by Article 2 (commencing with Section 23151) of Chapter  
2 2 of Part 11 be less than the minimum tax prescribed in  
3 Section 23153.

4 SEC. 17. Section 19024 of the Revenue and Taxation  
5 Code is amended to read:

6 19024. (a) In the case of banks and financial  
7 corporations, “estimated tax” means the amount which  
8 the bank or financial corporation estimates as the amount  
9 of the tax imposed by Part 11 (commencing with Section  
10 23001) at the rate determined by the Franchise Tax Board  
11 for the preceding year pursuant to Section 23186.1 and  
12 the amount of its liability for the tax of each wholly owned  
13 subsidiary under Section 23800.5, but in no event shall the  
14 estimated tax of a bank or financial corporation be less  
15 than the minimum tax prescribed in Section 23153.

16 (b) In case of an increase or decrease in the rate of tax  
17 imposed under Section 23151 (tax on general  
18 corporations), a bank or financial corporation shall be  
19 required to increase or decrease the rate determined by  
20 the Franchise Tax Board for the preceding year by the  
21 same amount as the change in the rate imposed under  
22 Section 23151 determined in accordance with Section  
23 24251 (relating to computation of tax when law changed).

24 SEC. 18. Section 19025 of the Revenue and Taxation  
25 Code is amended to read:

26 19025. (a) If the amount of estimated tax does not  
27 exceed the minimum tax specified by Section 23153, the  
28 entire amount of the estimated tax shall be due and  
29 payable on or before the 15th day of the fourth month of  
30 the income year.

31 (b) Except as provided in subdivision (c), if the  
32 amount of estimated tax exceeds the minimum tax  
33 specified by Section 23153, the amount payable shall be  
34 paid in installments as follows:

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The following percentages of the estimated tax shall be paid on the 15th day of the—

If the requirements of this subdivision are first met—

	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the income year . . . . .	25 (but not less than the minimum tax provided in Section 23153 and any tax under Section 23800.5)	25	25	25
After the last day of the 3rd month and before the 1st day of the 6th month of the income year . . . . .	—	33 <sup>1</sup> / <sub>3</sub>	33 <sup>1</sup> / <sub>3</sub>	33 <sup>1</sup> / <sub>3</sub>



1 After the last day of  
2 the 5th month  
3 and before the  
4 1st day  
5 of the 9th month  
6 of the income  
7 year . . . . . — — 50 50

8 After the last day of  
9 the 8th month  
10 and before the  
11 1st day  
12 of the 12th  
13 month of the in-  
14 come year . . . . . — — — 100

15  
16 (c) If a wholly owned subsidiary is first subject to tax  
17 under Section 23800.5 after the last day of the third month  
18 of the income year of owner, the amount of the next  
19 installment of estimated tax under subdivision (b) after  
20 the wholly owned subsidiary is subject to tax under  
21 Section 23800.5 shall not be less than the amount of the tax  
22 of the wholly owned subsidiary under Section 23800.5 and  
23 an amount equal to that amount shall be due and payable  
24 on the date the installment is required to be paid. For  
25 purposes of determining which installment is the next  
26 installment of estimated tax under subdivision (b),  
27 subdivision (b) shall be modified by substituting  
28 “includes the tax of a wholly owned subsidiary under  
29 Section 23800.5” for “exceeds the minimum tax specified  
30 by Section 23153.”

31 SEC. 19. Section 19109 is added to the Revenue and  
32 Taxation Code, to read:

33 ~~19109. The provisions of Section 915 of Public Law~~  
34 ~~105-34, relating to requirement to abate interest by~~  
35 ~~reason of presidentially declared disaster, shall apply.~~

36 *19019. (a) If the Franchise Tax Board extends for any*  
37 *period the time for filing a return under subdivision (a)*  
38 *of Section 18567 and the time for paying the tax under*  
39 *subdivision (c) of Section 18567 (and waives any penalties*  
40 *relating to the failure to so file or so pay) for any*



1 individual located in a presidentially declared disaster  
2 area, the Franchise Tax Board shall abate for that period  
3 the assessment of any interest prescribed under this  
4 article on that tax.

5 (b) For purposes of subdivision (a), the term  
6 “Presidentially declared disaster area” means, with  
7 respect to any individual, any area which the President  
8 has determined during 1997 warrants assistance by the  
9 federal government under the Robert T. Stafford  
10 Disaster Relief and Emergency Assistance Act.

11 (c) For purposes of this section, the term “individual”  
12 shall not include any estate or trust.

13 (d) This section shall apply to disasters declared after  
14 December 31, 1996.

15 SEC. 20. Section 19136.3 of the Revenue and Taxation  
16 Code is amended to read:

17 19136.3. (a) No addition to tax shall be made under  
18 Section 19136 for any period before April 16, 1998, with  
19 respect to any underpayment of an installment for the  
20 1997 or 1998 taxable year, to the extent that the  
21 underpayment was created or increased by any provision  
22 of the act adding or amending this section.

23 (b) No addition to tax shall be made under Section  
24 19142 for any period before April 16, 1998, with respect to  
25 any underpayment of an installment for the 1997 or 1998  
26 income year, to the extent that the underpayment was  
27 created or increased by any provision of the act adding or  
28 amending this section.

29 (c) The Franchise Tax Board shall adopt procedures,  
30 forms, and instructions necessary to implement this  
31 section in a reasonable manner.

32 SEC. 21. Section 19147 of the Revenue and Taxation  
33 Code is amended to read:

34 19147. (a) Notwithstanding Sections 19142 to 19145,  
35 inclusive, the addition to the tax with respect to any  
36 underpayment of any installment shall not be imposed if  
37 the total amount of all payments of estimated tax paid on  
38 or before the last date prescribed for the payment of the  
39 installment equals or exceeds the amount which would  
40 have been required to be paid on or before that date if the



1 estimated tax were whichever of the following is the  
2 lesser:

3 (1) (A) The tax shown on the return of the taxpayer  
4 for the preceding income year if a return showing a  
5 liability for tax was filed by the taxpayer for the preceding  
6 year and that preceding year was a year of 12 months. The  
7 tax shown on the return, in the case of the tax imposed by  
8 Article 3 (commencing with Section 23181) of Chapter 2  
9 of Part 11, means the amount of tax shown on the return  
10 for the income year as prescribed in Section 19021.

11 (B) In the case of a large corporation, subparagraph  
12 (A) shall not apply, except as provided in clauses (i) and  
13 (ii).

14 (i) Subparagraph (A) shall apply for purposes of  
15 determining the amount of the first required installment  
16 for any income year.

17 (ii) Any reduction in the first required installment by  
18 reason of clause (i) shall be recaptured by increasing the  
19 amount of the next required installment by the amount  
20 of that reduction.

21 (2) (A) An amount equal to the applicable  
22 percentage specified in Section 19144 of the tax for the  
23 income year computed by placing on an annualized basis  
24 the taxable income:

25 (i) For the first three months of the income year, in the  
26 case of the installment required to be paid in the fourth  
27 month.

28 (ii) For the first three months of the income year, in  
29 the case of the installment required to be paid in the sixth  
30 month.

31 (iii) For the first six months of the income year in the  
32 case of the installment required to be paid in the ninth  
33 month.

34 (iv) For the first nine months of the income year, in  
35 the case of the installment required to be paid in the 12th  
36 month of the taxable year.

37 (B) (i) If the taxpayer makes an election under this  
38 clause, each of the following shall apply:

39 (I) Clause (i) of subparagraph (A) shall be applied by  
40 substituting “two months” for “three months.”



1 (II) Clause (ii) of subparagraph (A) shall be applied  
2 by substituting “four months” for “three months.”

3 (III) Clause (iii) of subparagraph (A) shall be applied  
4 by substituting “seven months” for “six months.”

5 (IV) Clause (iv) of subparagraph (A) shall be applied  
6 by substituting “ten months” for “nine months.”

7 (ii) If the taxpayer makes an election under this clause,  
8 each of the following shall apply:

9 (I) Clause (ii) of subparagraph (A) shall be applied by  
10 substituting “five months” for “three months.”

11 (II) Clause (iii) of subparagraph (A) shall be applied  
12 by substituting “eight months” for “six months.”

13 (III) Clause (iv) of subparagraph (A) shall be applied  
14 by substituting “eleven months” for the “nine months.”

15 (iii) An election under clause (i) or (ii) shall apply to  
16 the income year for which the election is made and shall  
17 be effective only if the election is made on or before the  
18 date required for the payment of the first required  
19 installment for that income year.

20 (iv) This subparagraph shall apply to income years  
21 beginning on or after January 1, 1997.

22 (C) For purposes of this paragraph, the taxable  
23 income shall be placed on an annualized basis in the  
24 following manner:

25 (i) Multiply by 12 the taxable income referred to in  
26 subparagraph (A).

27 (ii) Divide the resulting amount by the number of  
28 months in the income year referred to in subparagraph  
29 (A).

30 “Taxable income” as used in this paragraph means “net  
31 income” includable in the measure of tax or “alternative  
32 minimum taxable income” (as defined by Section 23455).

33 (D) In the case of any corporation which is subject to  
34 the tax imposed under Section 23731, any reference to  
35 taxable income shall be treated as including a reference  
36 to unrelated business taxable income and, except in the  
37 case of an election under subparagraph (B), each of the  
38 following shall apply:

39 (i) Clause (i) of subparagraph (A) shall be applied by  
40 substituting “two months” for “three months.”



1 (ii) Clause (ii) of subparagraph (A) shall be applied by  
2 substituting “four months” for “three months.”

3 (iii) Clause (iii) of subparagraph (A) shall be applied  
4 by substituting “seven months” for “six months.”

5 (iv) Clause (iv) of subparagraph (A) shall be applied  
6 by substituting “ten months” for “nine months.”

7 (3) The applicable percentage specified in Section  
8 19144 or more of the tax for the income year was paid by  
9 withholding of tax pursuant to Section 18662.

10 (4) The applicable percentage specified in Section  
11 19144 or more of the net income for the income year  
12 consists of items from which an amount was withheld  
13 pursuant to Section 18662, the amount of the first  
14 installment under Section 19025 equals at least the  
15 minimum franchise tax specified in Section 23153, and the  
16 amount of any installment under Section 19025 includes  
17 an amount equal to the applicable tax under Section  
18 23800.5.

19 (b) (1) For purposes of this section, “large  
20 corporation” means any corporation if that corporation  
21 (or any predecessor corporation) had taxable income  
22 (computed without regard to net operating loss  
23 deductions) of one million dollars (\$1,000,000) or more  
24 for any income year during the testing period.

25 (2) For purposes of this subdivision, “testing period”  
26 means the three income years immediately preceding  
27 the income year involved.

28 SEC. 22. Section 19149 of the Revenue and Taxation  
29 Code is amended to read:

30 19149. (a) Notwithstanding any other provision of  
31 Sections 19142 to 19151, inclusive, if the amount of  
32 estimated tax due and payable under Section 19025 is only  
33 the minimum franchise tax imposed by Section 23153 and,  
34 if applicable, the tax of a wholly owned subsidiary under  
35 Section 23800.5, then the addition to the tax with respect  
36 to any underpayment of any installment imposed by  
37 Section 19142 shall be calculated only on the basis of the  
38 amount of the minimum franchise tax and the amount of  
39 the tax of each wholly owned subsidiary.



1 (b) This section shall not apply to a large corporation  
2 as defined in subdivision (b) of Section 19147.

3 SEC. 23. Section 19184 of the Revenue and Taxation  
4 Code is amended to read:

5 19184. (a) A penalty of fifty dollars (\$50) shall be  
6 imposed for each failure, unless it is shown that the failure  
7 is due to reasonable cause, by any person required to file  
8 who fails to file a report at the time and in the manner  
9 required by any of the following provisions:

10 (1) Subdivision (c) of Section 17507, relating to  
11 individual retirement accounts.

12 (2) Section 220(h) of the Internal Revenue Code,  
13 relating to medical savings accounts for taxable years  
14 beginning on or after January 1, 1997.

15 (3) Subdivision (h) of Section 23712, relating to  
16 education individual retirement accounts.

17 (b) (1) Any individual who:

18 (A) Is required to furnish information under Section  
19 17508 as to the amount designated nondeductible  
20 contributions made for any taxable year, and

21 (B) Overstates the amount of those contributions  
22 made for that taxable year, shall pay a penalty of one  
23 hundred dollars (\$100) for each overstatement unless it  
24 is shown that the overstatement is due to reasonable  
25 cause.

26 (2) Any individual who fails to file a form required to  
27 be filed by the Franchise Tax Board under Section 17508  
28 shall pay a penalty of fifty dollars (\$50) for each failure  
29 unless it is shown that the failure is due to reasonable  
30 cause.

31 (c) Article 3 (commencing with Section 19031) of this  
32 chapter (relating to deficiency assessments) shall not  
33 apply in respect of the assessment or collection of any  
34 penalty imposed under this section.

35 SEC. 24. Section 19280 of the Revenue and Taxation  
36 Code is amended to read:

37 19280. (a) (1) Fines, state or local penalties,  
38 forfeitures, restitution fines, restitution orders, or any  
39 other amounts imposed by a superior, municipal, or  
40 justice court of the State of California upon a person or



1 any other entity that is due and payable in an amount  
2 totaling no less than two hundred fifty dollars (\$250), in  
3 the aggregate, for criminal offenses, including all offenses  
4 involving a violation of the Vehicle Code except offenses  
5 relating to parking or registration or offenses by  
6 pedestrians or bicyclists, may, no sooner than 90 days after  
7 payment of that amount becomes delinquent, be referred  
8 by the county or the state to the Franchise Tax Board for  
9 collection under guidelines prescribed by the Franchise  
10 Tax Board.

11 (2) For purposes of this subdivision:

12 (A) The amounts referred by the county or state  
13 under this section may include any amounts that a  
14 government entity may add to the court-imposed  
15 obligation as a result of the underlying offense, trial, or  
16 conviction. For purposes of this article, those amounts  
17 shall be deemed to be imposed by the court.

18 (B) Restitution orders may be referred to the  
19 Franchise Tax Board only by a government entity, as  
20 agreed upon by the Franchise Tax Board, provided that  
21 all of the following apply:

22 (i) The government entity has the authority to collect  
23 on behalf of the state or the victim.

24 (ii) The government entity shall be responsible for  
25 distributing the restitution order collections, as  
26 appropriate.

27 (iii) The government entity shall ensure, in making  
28 the referrals and distributions, that it coordinates with  
29 any other related collection activities that may occur by  
30 counties or other state agencies.

31 (iv) The government entity shall ensure compliance  
32 with laws relating to the reimbursement of the State  
33 Restitution Fund.

34 (C) The Franchise Tax Board shall establish criteria  
35 for referral, which shall include setting forth a minimum  
36 dollar amount subject to referral and collection.

37 (b) For the period January 1, 1995, to December 31,  
38 1997, inclusive, for purposes of a manageable  
39 implementation and evaluation of the program



1 authorized by this article, the Franchise Tax Board may  
2 limit referrals to nine counties.

3 (c) Upon written notice to the obligor from the  
4 Franchise Tax Board, any amount referred to the  
5 Franchise Tax Board under subdivision (a) and any  
6 interest thereon, including any interest on the amount  
7 referred under subdivision (a) that accrued prior to the  
8 date of referral, shall be treated as final and due and  
9 payable to the State of California, and shall be collected  
10 from the obligor by the Franchise Tax Board in any  
11 manner authorized under the law for collection of a  
12 delinquent personal income tax liability, including, but  
13 not limited to, issuance of an order and levy under Article  
14 4 (commencing with Section 706.070) of Chapter 5 of  
15 Division 2 of Title 9 of Part 2 of the Code of Civil  
16 Procedure in the manner provided for earnings  
17 withholding orders for taxes.

18 (d) (1) Part 10 (commencing with Section 17001),  
19 this part, Part 10.7 (commencing with Section 21001), and  
20 Part 11 (commencing with Section 23001) shall apply to  
21 amounts referred under this article in the same manner  
22 and with the same force and effect and to the full extent  
23 as if the language of those laws had been incorporated in  
24 full into this article, except to the extent that any  
25 provision is either inconsistent with this article or is not  
26 relevant to this article.

27 (2) Any information, information sources, or  
28 enforcement remedies and capabilities available to the  
29 court or the state referring the amount due described in  
30 subdivision (a), shall be available to the Franchise Tax  
31 Board to be used in conjunction with, or independent of,  
32 the information, information sources, or remedies and  
33 capabilities available to the Franchise Tax Board for  
34 purposes of administering Part 10 (commencing with  
35 Section 17001), this part, Part 10.7 (commencing with  
36 Section 21001), or Part 11 (commencing with Section  
37 23001).

38 (e) The activities required to implement and  
39 administer this part shall not interfere with the primary  
40 mission of the Franchise Tax Board to administer Part 10



1 (commencing with Section 17001) and Part 11  
2 (commencing with Section 23001).

3 (f) For amounts referred for collection under  
4 subdivision (a), interest shall accrue at the greater of the  
5 rate applicable to the amount due being collected or the  
6 rate provided under Section 19521. When notice of the  
7 amount due includes interest and is mailed to the obligor  
8 and the amount is paid within 15 days after the date of  
9 notice, interest shall not be imposed for the period after  
10 the date of notice.

11 (g) In no event shall a collection under this article be  
12 construed as a payment of income taxes imposed under  
13 Part 10 (commencing with Section 17001) or Part 11  
14 (commencing with Section 23001).

15 SEC. 25. Section 19365 of the Revenue and Taxation  
16 Code, as added by Section 9 of Chapter 610 of the Statutes  
17 of 1997, is repealed.

18 SEC. 26. Section 23036 of the Revenue and Taxation  
19 Code is amended to read:

20 23036. (a) (1) The term “tax” includes any of the  
21 following:

22 (A) The tax imposed under Chapter 2 (commencing  
23 with Section 23101).

24 (B) The tax imposed under Chapter 3 (commencing  
25 with Section 23501).

26 (C) The tax on unrelated business taxable income,  
27 imposed under Section 23731.

28 (D) The tax on S corporations imposed under Section  
29 23802.

30 (2) The term “tax” does not include any amount  
31 imposed under paragraph (1) of subdivision (e) of  
32 Section 24667 or paragraph (2) of subdivision (f) of  
33 Section 24667.

34 (b) For purposes of Article 5 (commencing with  
35 Section 18661) of Chapter 2, Article 3 (commencing with  
36 Section 19031) of Chapter 4, Article 6 (commencing with  
37 Section 19101) of Chapter 4, and Chapter 7 (commencing  
38 with Section 19501) of Part 10.2, and for purposes of  
39 Sections 18601, 19001, and 19005, the term “tax” shall also  
40 include all of the following:



1 (1) The tax on limited partnerships, imposed under  
2 Section 17935 or Section 23081, the tax on limited liability  
3 companies, imposed under Section 17941 or Section  
4 23091, and the tax on registered limited liability  
5 partnerships and foreign limited liability partnerships  
6 imposed under Section 17948 or Section 23097.

7 (2) The alternative minimum tax imposed under  
8 Chapter 2.5 (commencing with Section 23400).

9 (3) The tax on built-in gains of S corporations, imposed  
10 under Section 23809.

11 (4) The tax on excess passive investment income of S  
12 corporations, imposed under Section 23811.

13 (c) Notwithstanding any other provision of this part,  
14 credits shall be allowed against the “tax” in the following  
15 order:

16 (1) Credits that do not contain carryover provisions.

17 (2) Credits that, when the credit exceeds the “tax,”  
18 allow the excess to be carried over to offset the “tax” in  
19 succeeding taxable years. The order of credits within this  
20 paragraph shall be determined by the Franchise Tax  
21 Board.

22 (3) The minimum tax credit allowed by Section 23453.

23 (4) Credits for taxes withheld under Section 18662.

24 (d) Notwithstanding any other provision of this part,  
25 each of the following shall be applicable:

26 (1) No credit shall reduce the “tax” below the  
27 tentative minimum tax (as defined by paragraph (1) of  
28 subdivision (a) of Section 23455), except the following  
29 credits, but only after allowance of the credit allowed by  
30 Section 23453:

31 (A) The credit allowed by former Section 23601  
32 (relating to solar energy).

33 (B) The credit allowed by former Section 23601.4  
34 (relating to solar energy).

35 (C) The credit allowed by Section 23601.5 (relating to  
36 solar energy).

37 (D) The credit allowed by Section 23609 (relating to  
38 research expenditures).

39 (E) The credit allowed by Section 23609.5 (relating to  
40 clinical testing expenses).



1 (F) The credit allowed by Section 23610.5 (relating to  
2 low-income housing).

3 (G) The credit allowed by former Section 23612  
4 (relating to sales and use tax credit).

5 (H) The credit allowed by Section 23612.2 (relating to  
6 enterprise zone sales or use tax credit).

7 (I) The credit allowed by Section 23612.6 (relating to  
8 Los Angeles Revitalization Zone sales tax credit).

9 (J) The credit allowed by former Section 23622  
10 (relating to enterprise zone hiring credit).

11 (K) The credit allowed by Section 23622.7 (relating to  
12 enterprise zone hiring credit).

13 (L) The credit allowed by former Section 23623  
14 (relating to program area hiring credit).

15 (M) For each income year beginning on or after  
16 January 1, 1994, the credit allowed by Section 23623.5  
17 (relating to Los Angeles Revitalization Zone hiring  
18 credit).

19 (N) The credit allowed by Section 23625 (relating to  
20 Los Angeles Revitalization Zone hiring credit).

21 (O) The credit allowed by Section 23633 (relating to  
22 targeted tax area sales or use tax credit).

23 (P) The credit allowed by Section 23634 (relating to  
24 targeted tax area hiring credit).

25 (Q) The credit allowed by Section 23649 (relating to  
26 qualified property).

27 (2) No credit against the tax shall reduce the minimum  
28 franchise tax imposed under Chapter 2 (commencing  
29 with Section 23101).

30 (e) Any credit which is partially or totally denied  
31 under subdivision (d) shall be allowed to be carried over  
32 to reduce the "tax" in the following year, and succeeding  
33 years if necessary, if the provisions relating to that credit  
34 include a provision to allow a carryover of the unused  
35 portion of that credit.

36 (f) Unless otherwise provided, any remaining  
37 carryover from a credit that has been repealed or made  
38 inoperative shall continue to be allowed to be carried  
39 over under the provisions of that section as it read



1 immediately prior to being repealed or becoming  
2 inoperative.

3 (g) Unless otherwise provided, if two or more  
4 taxpayers share in costs that would be eligible for a tax  
5 credit allowed under this part, each taxpayer shall be  
6 eligible to receive the tax credit in proportion to its  
7 respective share of the costs paid or incurred.

8 (h) Unless otherwise provided, in the case of an S  
9 corporation, any credit allowed by this part shall be  
10 computed at the S corporation level, and any limitation  
11 on the expenses qualifying for the credit or limitation  
12 upon the amount of the credit shall be applied to the S  
13 corporation and to each shareholder.

14 (i) (1) With respect to any taxpayer that directly or  
15 indirectly owns an interest in a business entity that is  
16 disregarded for tax purposes pursuant to Section 23038  
17 and any regulations thereunder, the amount of any credit  
18 or credit carryforward allowable for any income year  
19 attributable to the disregarded business entity shall be  
20 limited in accordance with paragraphs (2) and (3).

21 (2) The amount of any credit otherwise allowed under  
22 this part, including any credit carryover from prior years,  
23 that may be applied to reduce the taxpayer's "tax," as  
24 defined in subdivision (a), for the income year shall be  
25 limited to an amount equal to the excess of the taxpayer's  
26 regular tax (as defined in Section 23455), determined by  
27 including income attributable to the disregarded business  
28 entity that generated the credit or credit carryover, over  
29 the taxpayer's regular tax (as defined in Section 23455),  
30 determined by excluding the income attributable to that  
31 disregarded business entity. No credit shall be allowed if  
32 the taxpayer's regular tax (as defined in Section 23455),  
33 determined by including the income attributable to the  
34 disregarded business entity is less than the taxpayer's  
35 regular tax (as defined in Section 23455), determined by  
36 excluding the income attributable to the disregarded  
37 business entity.

38 (3) If the amount of a credit allowed pursuant to the  
39 section establishing the credit exceeds the amount  
40 allowable under this subdivision in any income year, the



1 excess amount may be carried over to subsequent income  
2 years pursuant to subdivisions (d), (e), and (f).

3 SEC. 27. Section 23456 of the Revenue and Taxation  
4 Code is amended to read:

5 23456. For purposes of this part, Section 56 of the  
6 Internal Revenue Code is modified as follows:

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

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

14 (3) Section 56(a)(6) of the Internal Revenue Code,  
15 relating to installment sales of certain property, shall not  
16 ~~apply to dispositions in income years beginning on or~~  
17 ~~after January 1, 1997.~~ *apply to payments received in*  
18 *income years beginning on or after January 1, 1997, with*  
19 *respect to dispositions occurring in income years*  
20 *beginning after December 31, 1987.*

21 (b) For purposes of applying Section 56(d) of the  
22 Internal Revenue Code, all references to “December 31,  
23 1986,” are modified to read “December 31, 1987,” and all  
24 references to “January 1, 1987,” are modified to read  
25 “January 1, 1988.”

26 (c) Section 56(d)(1) of the Internal Revenue Code,  
27 relating to the alternative tax net operating loss  
28 deduction, is modified to include the provisions of Section  
29 25108.

30 (d) For each income year beginning on or after  
31 January 1, 1988, and before January 1, 1990, Section  
32 56(f)(2)(E) of the Internal Revenue Code, as it read  
33 during that period, is modified to refer to both of the  
34 following:

35 (1) Cooperatives under Section 24404 in lieu of the  
36 deduction allowed under Section 1382(b) of the Internal  
37 Revenue Code.

38 (2) Credit unions under Section 24405 as though the  
39 deduction allowed under Section 1382(b) of the Internal  
40 Revenue Code applied to credit unions.



1 (e) Section 56(g) of the Internal Revenue Code,  
2 relating to adjustments based on adjusted current  
3 earnings, is modified to provide that for corporations  
4 whose income is determined under Chapter 17  
5 (commencing with Section 25101), adjusted current  
6 earnings shall be allocated and apportioned in the same  
7 manner as net income is allocated and apportioned for  
8 purposes of the regular tax. In addition, each of the  
9 following shall apply:

10 (1) Sections 56(g)(1)(A) and 56(g)(3) of the Internal  
11 Revenue Code are modified to provide that the term  
12 “adjusted current earnings” means the sum of the  
13 adjusted current earnings of that corporation  
14 apportionable to this state and the adjusted current  
15 earnings allocable to this state.

16 (2) Section 56(g)(1)(B) of the Internal Revenue  
17 Code is modified to provide that the term “alternative  
18 minimum taxable income” means the sum of the  
19 alternative minimum taxable income of that corporation  
20 apportionable to this state and the alternative minimum  
21 taxable income allocable to this state.

22 (f) Section 56(g)(4)(A) of the Internal Revenue Code  
23 is modified to provide the following:

24 (1) In the case of any property placed in service on or  
25 after January 1, 1981, and prior to January 1, 1987, other  
26 than residential rental property for which an election was  
27 made under former Section 24349.5, the amount  
28 allowable as depreciation or amortization with respect to  
29 that property shall be the same amount that would have  
30 been allowable for the income year had the taxpayer  
31 depreciated the property under the straight line method  
32 for each income year of the useful life (determined  
33 without regard to Section 24354.2) for which the taxpayer  
34 has held the property.

35 (2) In the case of any property placed in service on or  
36 after January 1, 1987, and prior to January 1, 1990, other  
37 than residential rental property for which an election was  
38 made under former Section 24349.5, the amount  
39 allowable as depreciation or amortization with respect to



1 that property shall be determined by each of the  
2 following:

3 (A) Taking into account the adjusted basis of that  
4 property (as determined for purposes of computing  
5 alternative minimum taxable income) as of the close of  
6 the last income year beginning before January 1, 1990.

7 (B) Using the straight line method over the remainder  
8 of the recovery period applicable to that property under  
9 the alternative system of Section 168(g) of the Internal  
10 Revenue Code.

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

14 (4) The last sentence of Section 56(g)(4)(A)(i) of the  
15 Internal Revenue Code, shall not apply.

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

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

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

27 (B) Section 56(g)(4)(C)(ii) of the Internal Revenue  
28 Code, relating to special rule for 100-percent dividends,  
29 shall not be applicable.

30 (C) Section 56(g)(4)(C)(iii) of the Internal Revenue  
31 Code, relating to special rule for dividends from Section  
32 936 companies, shall not be applicable.

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

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



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

7 (4) Appropriate adjustments shall be made to limit  
8 deductions from adjusted current earnings for interest  
9 expense in accordance with the provisions of Sections  
10 24344 and 24425.

11 (h) Section 56(g)(4)(I) of the Internal Revenue  
12 Code, relating to treatment of charitable contributions,  
13 shall not apply.

14 *SEC. 27.5. Section 23622.8 of the Revenue and*  
15 *Taxation Code is amended to read:*

16 23622.8. (a) For each income year beginning on or  
17 after January 1, 1998, there shall be allowed a credit  
18 against the “tax” (as defined in Section 23036) to a  
19 qualified taxpayer for hiring a qualified disadvantaged  
20 individual during the income year for employment in the  
21 Manufacturing Enhancement Area. The credit shall be  
22 equal to the sum of each of the following:

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

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

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

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

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

33 (b) For purposes of this section:

34 (1) “Qualified wages” means:

35 (A) That portion of wages paid or incurred by the  
36 qualified taxpayer during the income year to qualified  
37 disadvantaged individuals that does not exceed 150  
38 percent of the minimum wage.

39 (B) The total amount of qualified wages which may be  
40 taken into account for purposes of claiming the credit



1 allowed under this section shall not exceed two million  
2 dollars (\$2,000,000) per income year.

3 (C) Wages received during the 60-month period  
4 beginning with the day the qualified disadvantaged  
5 individual commences employment with the qualified  
6 taxpayer.

7 (D) Qualified wages do not include any wages paid or  
8 incurred by the qualified taxpayer on or after the  
9 Manufacturing Enhancement Area expiration date.  
10 However, wages paid or incurred with respect to  
11 qualified employees who are employed by the qualified  
12 taxpayer within the Manufacturing Enhancement Area  
13 within the 60-month period prior to the Manufacturing  
14 Enhancement Area expiration date shall continue to  
15 qualify for the credit under this section after the  
16 Manufacturing Enhancement Area expiration date, in  
17 accordance with all provisions of this section applied as if  
18 the Manufacturing Enhancement Area designation were  
19 still in existence and binding.

20 (2) “Minimum wage” means the wage established by  
21 the Industrial Welfare Commission as provided for in  
22 Chapter 1 (commencing with Section 1171) of Part 4 of  
23 Division 2 of the Labor Code.

24 (3) “Manufacturing Enhancement Area” means an  
25 area designated pursuant to Section 7073.8 of the  
26 Government Code according to the procedures of  
27 Chapter 12.8 (commencing with Section 7070) of  
28 Division 7 of Title 1 of the Government Code.

29 (4) “Manufacturing Enhancement Area expiration  
30 date” means the date the Manufacturing Enhancement  
31 Area designation expires, is no longer binding, or  
32 becomes inoperative.

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

35 (A) (i) At least 90 percent of whose services for the  
36 qualified taxpayer during the income year are directly  
37 related to the conduct of the qualified taxpayer’s trade or  
38 business located in a Manufacturing Enhancement Area.



1 (ii) Who performs at least 50 percent of his or her  
2 services for the qualified taxpayer during the income year  
3 in the Manufacturing Enhancement Area.

4 (B) Who is hired by the qualified taxpayer after the  
5 designation of the area as a Manufacturing Enhancement  
6 Area in which the individual's services were primarily  
7 performed.

8 (C) Who is any of the following immediately  
9 preceding the individual's commencement of  
10 employment with the qualified taxpayer:

11 (i) An individual who has been determined eligible for  
12 services under the federal Job Training Partnership Act  
13 (29 U.S.C. Sec. 1501 et seq.).

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

19 (iii) Any individual who has been certified eligible by  
20 the Employment Development Department under the  
21 federal Targeted Jobs Tax Credit Program, whether or  
22 not this program is in effect.

23 (6) "Qualified taxpayer" means any corporation  
24 engaged in a trade or business within a Manufacturing  
25 Enhancement Area designated pursuant to Section  
26 7073.8 of the Government Code and that meets both of  
27 the following requirements:

28 (A) Is engaged in those lines of business described in  
29 Codes 2011 to 3999, inclusive, of the Standard Industrial  
30 Classification (SIC) Manual published by the United  
31 States Office of Management and Budget, 1987 edition.

32 (B) At least 30 percent of the corporation's work force  
33 hired after the designation of the Manufacturing  
34 Enhancement Area is composed of qualified  
35 disadvantaged individuals who, at the time of hire, are  
36 residents of the county in which the Manufacturing  
37 Enhancement Area is located.

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



1 (A) All employees of all corporations that are  
2 members of the same controlled group of corporations  
3 shall be treated as employed by a single qualified  
4 taxpayer.

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

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

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

25 (d) (1) If the employment of any qualified  
26 disadvantaged individual, with respect to whom qualified  
27 wages are taken into account under subdivision (b) is  
28 terminated by the qualified taxpayer at any time during  
29 the first 270 days of that employment (whether or not  
30 consecutive) or before the close of the 270th calendar day  
31 after the day in which that qualified disadvantaged  
32 individual completes 90 days of employment with the  
33 qualified taxpayer, the tax imposed by this part for the  
34 income year in which that employment is terminated  
35 shall be increased by an amount equal to the credit  
36 allowed under subdivision (a) for that income year and  
37 all prior income years attributable to qualified wages paid  
38 or incurred with respect to that qualified disadvantaged  
39 individual.



1 (2) (A) Paragraph (1) does not apply to any of the  
2 following:

3 (i) A termination of employment of a qualified  
4 disadvantaged individual who voluntarily leaves the  
5 employment of the qualified taxpayer.

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

13 (iii) A termination of employment of a qualified  
14 disadvantaged individual, if it is determined under the  
15 applicable employment compensation laws that the  
16 termination was due to the misconduct of that individual.

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

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

25 (B) For purposes of paragraph (1), the employment  
26 relationship between the qualified taxpayer and a  
27 qualified disadvantaged individual shall not be treated as  
28 terminated by either of the following:

29 (i) By a transaction to which Section 381(a) of the  
30 Internal Revenue code applies, if the qualified  
31 disadvantaged individual continues to be employed by  
32 the acquiring corporation.

33 (ii) By reason of a mere change in the form of  
34 conducting the trade or business of the qualified  
35 taxpayer, if the qualified disadvantaged individual  
36 continues to be employed in that trade or business and  
37 the qualified taxpayer retains a substantial interest in that  
38 trade or business.

39 (3) Any increase in tax under paragraph (1) shall not  
40 be treated as tax imposed by this part for purposes of



1 determining the amount of any credit allowable under  
2 this part.

3 (e) The credit shall be reduced by the credit allowed  
4 under Section 23621. The credit shall also be reduced by  
5 the federal credit allowed under Section 51 of the Internal  
6 Revenue Code.

7 In addition, any deduction otherwise allowed under  
8 this part for the wages or salaries paid or incurred by the  
9 qualified taxpayer upon which the credit is based shall be  
10 reduced by the amount of the credit, prior to any  
11 reduction required by subdivision (f) or (g).

12 (f) In the case where the credit otherwise allowed  
13 under this section exceeds the “tax” for the income year,  
14 that portion of the credit that exceeds the “tax” may be  
15 carried over and added to the credit, if any, in succeeding  
16 years, until the credit is exhausted. The credit shall be  
17 applied first to the earliest income years possible.

18 (g) (1) The amount of credit otherwise allowed  
19 under this section, including prior year credit carryovers,  
20 that may reduce the “tax” for the income year shall not  
21 exceed the amount of tax that would be imposed on the  
22 qualified taxpayer’s business income attributed to a  
23 Manufacturing Enhancement Area determined as if that  
24 attributed income represented all of the net income of  
25 the qualified taxpayer subject to tax under this part.

26 (2) The amount of attributed income described in  
27 paragraph (1) shall be determined in accordance with  
28 the provisions of Chapter 17 (commencing with Section  
29 25101), modified for purposes of this section as follows:

30 (A) Income shall be apportioned to a Manufacturing  
31 Enhancement Area by multiplying total business income  
32 by a fraction, the numerator of which is the property  
33 factor plus the payroll factor, and the denominator of  
34 which is two.

35 (B) “The Manufacturing Enhancement Area” shall be  
36 substituted for “this state.”

37 (3) The portion of any credit remaining, if any, after  
38 application of this subdivision, shall be carried over to  
39 succeeding income years, as if it were an amount



1 exceeding the “tax” for the income year, as provided in  
2 subdivision (g).

3 ~~(h) (1) In the case where “qualified wages” qualify~~  
4 ~~for a credit under more than one section in this part, the~~  
5 ~~qualified taxpayer shall make an election as to which~~  
6 ~~section applies to those qualified wages.~~

7 ~~(2) Any election made under this section, and any~~  
8 ~~specification contained in that election, may not be~~  
9 ~~revoked except with the consent of the Franchise Tax~~  
10 ~~Board. If the taxpayer is allowed a credit pursuant to this~~  
11 ~~section for qualified wages paid or incurred, only one~~  
12 ~~credit shall be allowed to the taxpayer under this part~~  
13 ~~with respect to any wage consisting in whole or in part of~~  
14 ~~those qualified wages.~~

15 SEC. 28. Section 23800.5 of the Revenue and Taxation  
16 Code, as added by Section 11 of Chapter 610 of the  
17 Statutes of 1997, is repealed.

18 SEC. 29. Section 23800.5 of the Revenue and Taxation  
19 Code, as added by Section 72 of Chapter 611 of the  
20 Statutes of 1997, is amended to read:

21 23800.5. (a) Section 1361(b)(2)(A) of the Internal  
22 Revenue Code, relating to ineligible corporation defined,  
23 shall not apply and in lieu thereof, for purposes of Section  
24 1361(b)(1) of the Internal Revenue Code, Part 10  
25 (commencing with Section 17001), Part 10.2  
26 (commencing with Section 18401), and this part,  
27 “ineligible corporation” shall include a savings and loan  
28 association, bank, or financial corporation which uses the  
29 reserve method of accounting for bad debts described in  
30 Section 24348.

31 (b) Section 1361(b)(3) of the Internal Revenue Code,  
32 relating to treatment of certain wholly owned  
33 subsidiaries, is modified as follows:

34 (1) For purposes of Part 10 (commencing with Section  
35 17001), Part 10.2 (commencing with Section 18401), and  
36 this part:

37 (A) Section 1361(b)(3)(A)(i) of the Internal Revenue  
38 Code shall apply, except as provided in subparagraph  
39 (B).



1 (B) There is hereby imposed a tax annually in an  
2 amount equal to the applicable amount specified in  
3 paragraph (1) of subdivision (d) of Section 23153 on a  
4 qualified Subchapter S subsidiary that is incorporated  
5 under the laws of this state, qualified to transact intrastate  
6 business in this state pursuant to Chapter 21  
7 (commencing with Section 2100) of Division 1 of Title 1  
8 of the Corporations Code, or doing business in this state.

9 (C) Every qualified Subchapter S subsidiary described  
10 in subparagraph (B) shall be subject to the tax imposed  
11 under subparagraph (B) from the earlier of the date of  
12 incorporation, qualification, or commencement of  
13 business in this state, until the effective date of dissolution  
14 or withdrawal as provided in Section 23331, or, if later, the  
15 date the corporation ceases to do business in this state.

16 (2) For purposes of Part 10 (commencing with Section  
17 17001), Part 10.2 (commencing with Section 18401), and  
18 this part:

19 (A) Section 1361(b)(3)(A)(ii) of the Internal  
20 Revenue Code shall not apply and, in lieu thereof,  
21 subparagraph (B) shall apply and all references to  
22 Section 1361(b)(3)(A)(ii) of the Internal Revenue Code  
23 shall be treated as a reference to subparagraph (B).

24 (B) All activities, assets, liabilities, including liability  
25 for the tax imposed under this subdivision, and items of  
26 income, deduction, and credit of a qualified Subchapter  
27 S subsidiary shall be treated as activities (including  
28 activities for purposes of Section 23101), assets, liabilities,  
29 and those items, as the case may be, of the “S  
30 corporation.”

31 (3) Section 1361(b)(3)(B) of the Internal Revenue  
32 Code is modified to include the following requirements  
33 in addition to the requirements contained therein:

34 (A) The “S corporation” has in effect a valid election  
35 to treat the corporation as a qualified Subchapter S  
36 subsidiary for federal purposes.

37 (B) An election made by the “S corporation” under  
38 Section 1361(b)(3)(B)(ii) of the Internal Revenue Code  
39 to treat the corporation as a qualified Subchapter S  
40 subsidiary for federal purposes shall be treated for



1 purposes of this part as an election made by the “S  
2 corporation” under this subdivision and a separate  
3 election under paragraph (3) of subdivision (e) of  
4 Section 23051.5 shall not be allowed.

5 (C) No election under this subdivision shall be allowed  
6 unless the “S corporation” has made the election under  
7 Section 1361(b)(3)(B)(ii) of the Internal Revenue Code  
8 to treat the corporation as a qualified Subchapter S  
9 subsidiary for federal purposes.

10 (c) Section 1361(c)(7) of the Internal Revenue Code,  
11 relating to certain exempt organizations permitted as  
12 shareholders, is modified by substituting a reference to  
13 Section 23701d in lieu of the reference to Section  
14 501(c)(3) of the Internal Revenue Code and by  
15 substituting a reference to Section 23701 in lieu of the  
16 reference to Section 501(a) of the Internal Revenue  
17 Code.

18 (d) Section 1361(e)(1)(B)(ii) of the Internal  
19 Revenue Code, relating to certain trusts not eligible, is  
20 modified by substituting “under Part 10 (commencing  
21 with Section 17001) or this part” in lieu of “under this  
22 subtitle.”

23 (e) Section 1361(e)(3) of the Internal Revenue Code,  
24 relating to election, is modified to include the following  
25 provisions:

26 (1) An election made by the trustee under Section  
27 1361(e) of the Internal Revenue Code to be an electing  
28 small business trust for federal purposes shall be treated  
29 for purposes of this part as an election made by the trustee  
30 under this subdivision and a separate election under  
31 paragraph (3) of subdivision (e) of Section 23051.5 shall  
32 not be allowed. Any election made shall apply to the  
33 taxable year of the trust for which made and to all  
34 subsequent taxable years of the trust, unless revoked with  
35 the consent of the Franchise Tax Board.

36 (2) No election under this subdivision shall be allowed  
37 unless the trustee has made the election under Section  
38 1361(e) of the Internal Revenue Code to be an electing  
39 small business trust for federal purposes.



1 SEC. 30. Section 23802 of the Revenue and Taxation  
2 Code is amended to read:

3 23802. (a) Section 1363(a) of the Internal Revenue  
4 Code, relating to the taxability of an “S corporation,” shall  
5 not be applicable.

6 (b) Corporations qualifying under this chapter shall  
7 continue to be subject to the taxes imposed under  
8 Chapter 2 (commencing with Section 23101) and  
9 Chapter 3 (commencing with Section 23501), except as  
10 follows:

11 (1) The tax imposed under Section 23151 or 23501 shall  
12 be imposed at a rate of 1<sup>1</sup>/<sub>2</sub> percent rather than the rate  
13 specified in those sections.

14 (2) In the case of an “S corporation” which is also a  
15 financial corporation, the rate of tax specified in  
16 paragraph (1) shall be increased by the excess of the rate  
17 imposed under Section 23183 over the rate imposed  
18 under Section 23151.

19 (c) An “S corporation” shall be subject to the  
20 minimum franchise tax imposed under Section 23153.

21 (d) (1) For purposes of subdivision (b), an “S  
22 corporation” shall be allowed a deduction under Section  
23 24416 or 24416.1 (relating to net operating loss  
24 deductions), but only with respect to losses incurred  
25 during periods in which the corporation had in effect a  
26 valid election to be treated as an “S corporation” for  
27 purposes of this part.

28 (2) Section 1371(b) of the Internal Revenue Code,  
29 relating to denial of carryovers between “C years” and “S  
30 years,” shall apply for purposes of the tax imposed under  
31 subdivision (b), except as provided in paragraph (1).

32 (3) The provisions of this subdivision shall not affect  
33 the amount of any item of income or loss computed in  
34 accordance with the provisions of Section 1366 of the  
35 Internal Revenue Code, relating to passthrough items to  
36 shareholders.

37 (4) For purposes of subdivision (b) of Section 17276,  
38 relating to limitations on loss carryovers, losses passed  
39 through to shareholders of an “S corporation,” to the  
40 extent otherwise allowable without application of that



1 subdivision, shall be fully included in the net operating  
2 loss of that shareholder and then that subdivision shall be  
3 applied to the entire net operating loss.

4 (e) For purposes of computing the taxes specified in  
5 subdivision (b), an “S corporation” shall be allowed a  
6 deduction from income for built-in gains and passive  
7 investment income for which a tax has been imposed  
8 under this part in accordance with the provisions of  
9 Section 1374 of the Internal Revenue Code, relating to tax  
10 imposed on certain built-in gains, or Section 1375 of the  
11 Internal Revenue Code, relating to tax imposed on  
12 passive investment income.

13 (f) For purposes of computing taxes imposed under  
14 this part, as provided in subdivision (b)—

15 (1) An “S corporation” shall compute its deductions  
16 for amortization and depreciation in accordance with the  
17 provisions of Part 10 (commencing with Section 17001) of  
18 Division 2.

19 (2) The provisions of Section 465 of the Internal  
20 Revenue Code, relating to limitation of deductions to the  
21 amount at risk, shall be applied in the same manner as in  
22 the case of an individual.

23 (3) (A) The provisions of Section 469 of the Internal  
24 Revenue Code, relating to limitations on passive activity  
25 losses and credits, shall be applied in the same manner as  
26 in the case of an individual. For purposes of the tax  
27 imposed under Section 23151 or 23501, as modified by this  
28 section, material participation shall be determined in  
29 accordance with Section 469(h) of the Internal Revenue  
30 Code, relating to certain closely held “C corporations”  
31 and personal service corporations.

32 (B) For purposes of this paragraph, the “adjusted gross  
33 income” of the “S corporation” shall be equal to its “net  
34 income,” as determined under Section 24341 with the  
35 modifications required by this subdivision, except that no  
36 deduction shall be allowed for contributions allowed by  
37 Section 24357.

38 (4) The exclusion provided under Section 18152.5 shall  
39 not be allowed to an “S corporation.”



1 (g) The provisions of Section 1363(d) of the Internal  
2 Revenue Code, relating to recapture of LIFO benefits,  
3 shall be modified for purposes of this part to refer to  
4 Section 19102 in lieu of Section 6601 of the Internal  
5 Revenue Code.

6 SEC. 31. Section 23813 of the Revenue and Taxation  
7 Code, as added by Section 18 of Chapter 610 of the Statutes  
8 of 1997, is repealed.

9 ~~SEC. 32. Section 24347.6 is added to the Revenue and  
10 Taxation Code, to read:~~

11 ~~24347.6. The provisions of Section 912 of Public Law  
12 105-34, relating to use of certain appraisals to establish  
13 amount of disaster loss, shall apply.~~

14 SEC. 32. Section 24347.4 is added to the Revenue and  
15 Taxation Code, to read:

16 24347.4. (a) Section 165(i) of the Internal Revenue  
17 Code, relating to disaster losses, is modified to  
18 additionally provide that an appraisal for the purpose of  
19 obtaining a loan of federal funds or a loan guarantee from  
20 the federal government as a result of a Presidentially  
21 declared disaster (as defined by Section 1033(h)(3) of the  
22 Internal Revenue Code) may be used to establish the  
23 amount of any loss described in Section 165(i)(1) or (2)  
24 of the Internal Revenue Code to the extent provided in  
25 regulations or other guidance of the Secretary of the  
26 Treasury under Section 165(i)(4) of the Internal  
27 Revenue Code (as added by Section 912 of Public Law  
28 105-34).

29 (b) This section shall apply on and after August 5, 1997.

30 SEC. 33. Section 24416.2 of the Revenue and Taxation  
31 Code is amended to read:

32 24416.2. The term “qualified taxpayer” as used in  
33 Section 24416.1 means any of the following:

34 (a) A corporation engaged in the conduct of a trade or  
35 business within an enterprise zone designated pursuant  
36 to Chapter 12.8 (commencing with Section 7070) of  
37 Division 7 of Title 1 of the Government Code.

38 (1) A net operating loss shall not be a net operating loss  
39 carryback for any income year and a net operating loss for  
40 any income year beginning on or after the date that the



1 area in which the taxpayer conducts a trade or business  
2 is designated as an enterprise zone shall be a net  
3 operating loss carryover to each of the 15 income years  
4 following the income year of loss.

5 (2) For purposes of this subdivision:

6 (A) “Net operating loss” means the loss determined  
7 under Section 172 of the Internal Revenue Code, as  
8 modified by Section 24416.1, attributable to the taxpayer’s  
9 business activities within the enterprise zone (as defined  
10 in Chapter 12.8 (commencing with Section 7070) of  
11 Division 7 of Title 1 of the Government Code) prior to the  
12 enterprise zone expiration date. That attributable loss  
13 shall be determined in accordance with Chapter 17  
14 (commencing with Section 25101), modified for purposes  
15 of this section by substituting “enterprise zone” for “this  
16 state.”

17 (B) A net operating loss carryover shall be a deduction  
18 only with respect to the taxpayer’s business income  
19 attributable to the enterprise zone (as defined in Chapter  
20 12.8 (commencing with Section 7070) of Division 7 of  
21 Title 1 of the Government Code) determined in  
22 accordance with Chapter 17 (commencing with Section  
23 25101), modified for purposes of this section by  
24 substituting “enterprise zone” for “this state.”

25 (C) If a loss carryover is allowable pursuant to this  
26 section for any income year after the enterprise zone  
27 designation has expired, the enterprise zone shall be  
28 deemed to remain in existence for purposes of computing  
29 the limitation set forth in subparagraph (B) and allowing  
30 a net operating loss deduction.

31 (D) “Enterprise zone expiration date” means the date  
32 the enterprise zone designation expires, is no longer  
33 binding, or becomes inoperative.

34 (b) A corporation engaged in the conduct of a trade or  
35 business within the Los Angeles Revitalization Zone  
36 designated pursuant to Section 7102 of the Government  
37 Code.

38 (1) (A) A net operating loss shall not be a net  
39 operating loss carryback for any income year and, except  
40 as provided in subparagraph (B), a net operating loss for



1 any income year beginning on or after the date the area  
2 in which the taxpayer conducts a trade or business is  
3 designated the Los Angeles Revitalization Zone shall be  
4 a net operating loss carryover to each following income  
5 year that ends before the Los Angeles Revitalization  
6 Zone expiration date or to each of the 15 income years  
7 following the income year of loss, if longer.

8 (B) In the case of a financial institution to which  
9 Section 585, 586, or 593 of the Internal Revenue Code  
10 applies, a net operating loss for any income year  
11 beginning on or after January 1, 1984, shall be a net  
12 operating loss carryover to each of the five years  
13 following the income year of the loss. Subdivision (b) of  
14 Section 24416.1 shall not apply.

15 (2) For the purposes of this subdivision:

16 (A) “Net operating loss” means the loss determined  
17 under Section 172 of the Internal Revenue Code, as  
18 modified by Section 24416.1, attributable to the taxpayer’s  
19 business activities within the Los Angeles Revitalization  
20 Zone (as defined in Section 7102 of the Government  
21 Code) prior to the Los Angeles Revitalization Zone  
22 expiration date. The attributable loss shall be determined  
23 in accordance with Chapter 17 (commencing with  
24 Section 25101), modified as follows:

25 (i) The loss shall be apportioned to the Los Angeles  
26 Revitalization Zone by multiplying the loss from the  
27 business by a fraction, the numerator of which is the  
28 property factor plus the payroll factor, and the  
29 denominator of which is two.

30 (ii) “The Los Angeles Revitalization Zone” shall be  
31 substituted for this state.

32 (B) A net operating loss carryover shall be a deduction  
33 only with respect to the taxpayer’s business income  
34 attributable to the Los Angeles Revitalization Zone (as  
35 defined in Section 7102 of the Government Code)  
36 determined in accordance with paragraph (3).

37 (C) If a loss carryover is allowable pursuant to this  
38 section for any income year after the Los Angeles  
39 Revitalization Zone designation has expired, the Los  
40 Angeles Revitalization Zone shall be deemed to remain



1 in existence for purposes of computing the limitation set  
2 forth in subparagraph (B) and allowing a net operating  
3 loss deduction.

4 (3) Attributable income shall be that portion of the  
5 taxpayer's California source business income which is  
6 apportioned to the Los Angeles Revitalization Zone. For  
7 that purpose, the taxpayer's business income attributable  
8 to sources in this state first shall be determined in  
9 accordance with Chapter 17 (commencing with Section  
10 25101). That business income shall be further  
11 apportioned to the Los Angeles Revitalization Zone in  
12 accordance with Article 2 (commencing with Section  
13 25120) of Chapter 17, modified as follows:

14 (A) Business income shall be apportioned to the Los  
15 Angeles Revitalization Zone by multiplying total  
16 California business income of the taxpayer by a fraction,  
17 the numerator of which is the property factor plus the  
18 payroll factor, and the denominator of which is two.

19 (B) The property factor is a fraction, the numerator of  
20 which is the average value of the taxpayer's real and  
21 tangible personal property owned or rented and used in  
22 the Los Angeles Revitalization Zone during the income  
23 year and the denominator of which is the average value  
24 of all the taxpayer's real and tangible personal property  
25 owned or rented and used in this state during the income  
26 year.

27 (C) The payroll factor is a fraction, the numerator of  
28 which is the total amount paid by the taxpayer in the Los  
29 Angeles Revitalization Zone during the income year for  
30 compensation, and the denominator of which is the total  
31 compensation paid by the taxpayer in this state during the  
32 income year.

33 (4) "Los Angeles Revitalization Zone expiration date"  
34 means the date the Los Angeles Revitalization Zone  
35 designation expires, is repealed, or becomes inoperative  
36 pursuant to Section 7102, 7103, or 7104 of the Government  
37 Code.

38 (5) This subdivision shall be inoperative on the first  
39 day of the income year beginning on or after the  
40 determination date, and each income year thereafter,



1 with respect to the taxpayer's business activities within a  
2 geographic area that is excluded from the map pursuant  
3 to Section 7102 of the Government Code, or an excluded  
4 area determined pursuant to Section 7104 of the  
5 Government Code. The determination date is the earlier  
6 of the first effective date of a determination under  
7 subdivision (c) of Section 7102 of the Government Code  
8 occurring after December 1, 1994, or the first effective  
9 date of an exclusion of an area from the amended Los  
10 Angeles Revitalization Zone under Section 7104 of the  
11 Government Code. However, if the taxpayer has any  
12 unused loss amount as of the date this section becomes  
13 inoperative, that unused loss amount may continue to be  
14 carried forward as provided in this subdivision.

15 (6) This subdivision shall cease to be operative on  
16 January 1, 1998. However, any unused net operating loss  
17 may continue to be carried over to following years as  
18 provided in this subdivision.

19 (c) For each income year beginning on or after  
20 January 1, 1995, and before January 1, 2003, a taxpayer  
21 engaged in the conduct of a trade or business within a  
22 LAMBRA.

23 (1) (A) A net operating loss shall not be a net  
24 operating loss carryback for any income year and, except  
25 as provided in subparagraph (B), a net operating loss for  
26 any income year beginning on or after the date the area  
27 in which the taxpayer conducts a trade or business is  
28 designated a LAMBRA shall be a net operating loss  
29 carryover to each following income year that ends before  
30 the LAMBRA expiration date or to each of the 15 income  
31 years following the income year of loss, if longer.

32 (B) In the case of a financial institution to which  
33 Section 585, 586, or 593 of the Internal Revenue Code  
34 applies, a net operating loss for any income year  
35 beginning on or after January 1, 1984, shall be a net  
36 operating loss carryover to each of the five years  
37 following the income year of the loss. Subdivision (b) of  
38 Section 24416.1 shall not apply.

39 (2) For the purposes of this subdivision:



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

4 (B) “Taxpayer” means a corporation that conducts a  
5 trade or business within a LAMBRA and, for the first two  
6 income years, has a net increase in jobs (defined as 2,000  
7 paid hours per employee per year) of one or more  
8 employees in the LAMBRA and this state.

9 (i) The net increase in the number of jobs shall be  
10 determined by subtracting the total number of full-time  
11 employees (defined as 2,000 paid hours per employee per  
12 year) the taxpayer employed in this state in the income  
13 year prior to commencing business operations in the  
14 LAMBRA from the total number of full-time employees  
15 the taxpayer employed in this state during the second  
16 income year after commencing business operations in the  
17 LAMBRA. For taxpayers who commence doing business  
18 in this state with their LAMBRA business operation, the  
19 number of employees for the income year prior to  
20 commencing business operations in the LAMBRA shall  
21 be zero. The deduction shall be allowed only if the  
22 taxpayer has a net increase in jobs in the state, and if one  
23 or more full-time employees is employed within the  
24 LAMBRA.

25 (ii) The total number of employees employed in the  
26 LAMBRA shall equal the sum of both of the following:

27 (I) The total number of hours worked in the LAMBRA  
28 for the taxpayer by employees (not to exceed 2,000 hours  
29 per employee) who are paid an hourly wage divided by  
30 2,000.

31 (II) The total number of months worked in the  
32 LAMBRA for the taxpayer by employees who are salaried  
33 employees divided by 12.

34 (iii) In the case of a taxpayer that first commences  
35 doing business in the LAMBRA during the income year,  
36 for purposes of subclauses (I) and (II), respectively, of  
37 clause (ii) the divisors “2,000” and “12” shall be  
38 multiplied by a fraction, the numerator of which is the  
39 number of months of the income year that the taxpayer



1 was doing business in the LAMBRA and the denominator  
2 of which is 12.

3 (C) “Net operating loss” means the loss determined  
4 under Section 172 of the Internal Revenue Code, as  
5 modified by Section 24416.1, attributable to the taxpayer’s  
6 business activities within a LAMBRA prior to the  
7 LAMBRA expiration date. The attributable loss shall be  
8 determined in accordance with Chapter 17  
9 (commencing with Section 25101), modified as follows:

10 (i) Loss shall be apportioned to a LAMBRA by  
11 multiplying the loss from the business by a fraction, the  
12 numerator of which is the property factor plus the payroll  
13 factor, and the denominator of which is two.

14 (ii) “The LAMBRA” shall be substituted for “this  
15 state.”

16 (D) A net operating loss carryover shall be a deduction  
17 only with respect to the taxpayer’s business income  
18 attributable to a LAMBRA determined in accordance  
19 with Chapter 17 (commencing with Section 25101),  
20 modified as follows:

21 (i) Business income shall be apportioned to a  
22 LAMBRA by multiplying total business income by a  
23 fraction, the numerator of which is the property factor  
24 plus the payroll factor, and the denominator of which is  
25 two.

26 (ii) “The LAMBRA” shall be substituted for “this  
27 state.”

28 (iii) If a loss carryover is allowable pursuant to this  
29 section for any income year after the LAMBRA  
30 designation has expired, the LAMBRA shall be deemed  
31 to remain in existence for purposes of computing this  
32 limitation.

33 (E) “LAMBRA expiration date” means the date the  
34 LAMBRA designation expires, is no longer binding, or  
35 becomes inoperative pursuant to Section 7110 of the  
36 Government Code.

37 (d) (1) For each income year beginning on or after  
38 January 1, 1998, a corporation that meets both of the  
39 following:



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

5 (B) Is engaged in those lines of business described in  
6 Codes 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200  
7 to 4299, inclusive; 4500 to 4599, inclusive; and 4700 to 5199,  
8 inclusive, of the Standard Industrial Classification (SIC)  
9 Manual published by the United States Office of  
10 Management and Budget, 1987 edition. In the case of any  
11 passthrough entity, the determination of whether a  
12 taxpayer is a qualified taxpayer shall be made at the entity  
13 level.

14 (2) A net operating loss shall not be a net operating loss  
15 carryback for any income year and a net operating loss for  
16 any income year beginning on or after the date that the  
17 area in which the qualified taxpayer conducts a trade or  
18 business is designated as a targeted tax area shall be a net  
19 operating loss carryover to each of the 15 income years  
20 following the income year of loss.

21 (3) For purposes of this subdivision:

22 (A) “Net operating loss” means the loss determined  
23 under Section 172 of the Internal Revenue Code, as  
24 modified by Section 24416.1, attributable to the qualified  
25 taxpayer’s business activities within the targeted tax area  
26 (as defined in Chapter 12.93 (commencing with Section  
27 7097) of Division 7 of Title 1 of the Government Code)  
28 prior to the targeted tax area expiration date. That  
29 attributable loss shall be determined in accordance with  
30 Chapter 17 (commencing with Section 25101), modified  
31 for purposes of this subdivision as follows:

32 (i) Loss shall be apportioned to the targeted tax area  
33 by multiplying total loss from the business by a fraction,  
34 the numerator of which is the property factor plus the  
35 payroll factor, and the denominator of which is two.

36 (ii) “The targeted tax area” shall be substituted for  
37 “this state.”

38 (B) A net operating loss carryover shall be a deduction  
39 only with respect to the qualified taxpayer’s business  
40 income attributable to the targeted tax area (as defined



1 in Chapter 12.93 (commencing with Section 7097) of  
2 Division 7 of Title 1 of the Government Code)  
3 determined in accordance with Chapter 17  
4 (commencing with Section 25101), modified for purposes  
5 of this subdivision as follows:

6 (i) Business income shall be apportioned to the  
7 targeted tax area by multiplying the total business income  
8 by a fraction, the numerator of which is the property  
9 factor plus the payroll factor, and the denominator of  
10 which is two.

11 (ii) “The targeted tax area” shall be substituted for  
12 “this state.”

13 (C) If a loss carryover is allowable pursuant to this  
14 subdivision for any income year after the targeted tax  
15 area expiration date, the targeted tax area designation  
16 shall be deemed to remain in existence for purposes of  
17 computing the limitation specified in this subparagraph.

18 (D) “Targeted tax area expiration date” means the  
19 date the targeted tax area designation expires, is revoked,  
20 is no longer binding, or becomes inoperative.

21 (e) A taxpayer who qualifies as a “qualified taxpayer”  
22 shall, for the income year of the net operating loss and any  
23 income year to which that net operating loss may be  
24 carried, designate on the original return filed for each  
25 year the subdivision of this section which applies to that  
26 taxpayer with respect to that net operating loss. If the  
27 taxpayer is eligible to qualify under more than one  
28 subdivision of this section, the designation is to be made  
29 after taking into account subdivision (f).

30 (f) If a taxpayer is eligible to qualify under more than  
31 one subdivision of this section as a “qualified taxpayer,”  
32 with respect to a net operating loss in an income year, the  
33 taxpayer shall designate which subdivision of this section  
34 is to apply to the taxpayer.

35 (g) Notwithstanding Section 24416, the amount of the  
36 loss determined under this section shall be the only net  
37 operating loss allowed to be carried over from that  
38 income year and the designation under subdivision (e)  
39 shall be included in the election under Section 24416.1.



1 SEC. 34. Section 24652.5 is added to the Revenue and  
2 Taxation Code, to read:

3 24652.5. (a) (1) Section 447(i)(3) of the Internal  
4 Revenue Code, relating to reduction in account if  
5 farming business contracts, shall not apply.

6 (2) Section 447(i)(4) of the Internal Revenue Code,  
7 relating to income inclusions, shall not apply.

8 (3) (A) No suspense account may be established  
9 under Section 447(i) of the Internal Revenue Code,  
10 relating to suspense account for family corporations, by  
11 any corporation required by Section 447 of the Internal  
12 Revenue Code, relating to method of accounting for  
13 corporations engaged in farming, to change its method of  
14 accounting for any income year ending after June 8, 1997.

15 (B) (i) Each suspense account under Section 447(i) of  
16 the Internal Revenue Code shall be reduced (but not  
17 below zero) for each income year beginning after June 8,  
18 1997, by an amount equal to the lesser of—~~of~~—of:

19 (I) The applicable portion of the account.

20 (II) Fifty percent of the net income of the corporation  
21 for the income year, or, if the corporation has no net  
22 income for that year, the amount of any net operating loss  
23 (as defined in Section 172 of the Internal Revenue Code  
24 and as modified for purposes of this part) for that income  
25 year.

26 For purposes of the preceding sentence, the amount of  
27 net income and net operating loss shall be determined  
28 without regard to this paragraph.

29 (ii) The amount of the applicable portion for any  
30 income year shall be reduced (but not below zero) by the  
31 amount of any reduction required for the income year  
32 under any other provision of Section 447(i) of the  
33 Internal Revenue Code.

34 (iii) Any reduction in a suspense account under this  
35 paragraph shall be included in gross income for the  
36 income year of the reduction.

37 (C) For purposes of subparagraph (B), the term  
38 “applicable portion” means, for any income year, the  
39 amount which would ratably reduce the amount in the  
40 account (after taking into account prior reductions) to



1 zero over the period consisting of that income year and  
2 the remaining income years in those first 20 income years.

3 (D) Any amount in the account as of the close of that  
4 20th year referred to in subparagraph (C) shall be treated  
5 as the applicable portion for each succeeding year  
6 thereafter to the extent not reduced under this paragraph  
7 for any prior income year after the 20th year.

8 (b) This section shall apply to income years ending on  
9 or after December 31, 1997.

10 SEC. 35. Section 24661.5 is added to the Revenue and  
11 Taxation Code, to read:

12 24661.5. (a) Section 451(e) of the Internal Revenue  
13 Code, relating to special rule for proceeds from livestock  
14 sold on account of drought, is modified by substituting the  
15 phrase “drought, flood, or other weather-related  
16 conditions, and that those conditions” in lieu of the phrase  
17 “drought conditions, and that these drought conditions”  
18 contained therein.

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

21 SEC. 36. Section 24871.5 is added to the Revenue and  
22 Taxation Code, to read:

23 24871.5. (a) Section 851(b)(3) of the Internal  
24 Revenue Code shall not apply.

25 (b) This section shall apply in determining whether an  
26 entity qualifies as a regulated investment company for  
27 income years of that entity beginning after August 5, 1997.

28 SEC. 37. Section 24872.4 is added to the Revenue and  
29 Taxation Code, to read:

30 24872.4. (a) (1) Section 856(a)(6) of the Internal  
31 Revenue Code is modified by substituting the phrase  
32 “subject to the provisions of paragraph (2), which is not”  
33 for the phrase “which is not.”

34 (2) Section 856 of the Internal Revenue Code is  
35 modified to additionally provide that a corporation, trust,  
36 or association that meets both of the following  
37 requirements, shall be treated as having met the  
38 requirement of Section 856(a)(6) of the Internal  
39 Revenue Code for the income year:



1 (A) For a ~~taxable year~~ *an income year that* meets the  
2 requirements of paragraph (2) of subdivision (a) of  
3 Section 24872.7.

4 (B) Does not know, or exercising reasonable diligence  
5 would not have known, whether the entity failed to meet  
6 the requirement of Section 856(a)(6) of the Internal  
7 Revenue Code.

8 (b) (1) Section 856(d)(2)(C) of the Internal  
9 Revenue Code shall not apply.

10 (2) Section 856(d)(2) of the Internal Revenue Code is  
11 modified to additionally provide that the term “rents  
12 from real property” does not include “impermissible  
13 tenant service income.”

14 (A) The term “impermissible tenant service income”  
15 means, with respect to any real or personal property, any  
16 amount received or accrued directly or indirectly by the  
17 real estate investment trust for either of the following:

18 (i) Services furnished or rendered by the trust to the  
19 tenants of the property.

20 (ii) Managing or operating that property.

21 (B) If the amount described in subparagraph (A) with  
22 respect to a property for any income year exceeds one  
23 percent of all amounts received or accrued during the  
24 income year directly or indirectly by the real estate  
25 investment trust with respect to that property, the  
26 impermissible tenant service income of the trust with  
27 respect to the property shall include all those amounts.

28 (C) For purposes of subparagraph (A):

29 (i) Services furnished or rendered, or management or  
30 operation provided, through an independent contractor  
31 from whom the trust itself does not derive or receive any  
32 income shall not be treated as furnished, rendered, or  
33 provided by the trust.

34 (ii) There shall not be taken into account any amount  
35 which would be excluded from unrelated business taxable  
36 income under Section 512(b)(3) of the Internal Revenue  
37 Code if received by an organization described in  
38 subdivision (b) of Section 17651 of Part 10 or Section  
39 23731.



1 (D) For purposes of subparagraph (A), the amount  
2 treated as received for any service (or management or  
3 operation) shall not be less than 150 percent of the direct  
4 cost of the trust in furnishing or rendering the service (or  
5 providing the management or operation).

6 (E) For purposes of ~~Section~~ Sections 856(c)(2) and  
7 (3) of the Internal Revenue Code, amounts described in  
8 subparagraph (A) shall be included in the gross income  
9 of the corporation, trust, or association.

10 (c) (1) Section 856(d)(5) of the Internal Revenue  
11 Code, relating to constructive ownership of stock, is  
12 modified to additionally provide that in determining the  
13 ownership of stock under Section 318(a) of the Internal  
14 Revenue Code, Section 318(a)(3)(A) of the Internal  
15 Revenue Code shall be applied in the case of a  
16 partnership by taking into account only partners who  
17 own (directly or indirectly) 25 percent or more of the  
18 capital interest, or the profits interest, in the partnership.

19 (d) Section 856(e) of the Internal Revenue Code,  
20 relating to special rules for foreclosure property, is  
21 modified as follows:

22 (1) By substituting in Section 856(e)(2) of the Internal  
23 Revenue Code the phrase “as of the close of the third  
24 income year following the income year in which the trust  
25 acquired ~~the~~ such property” for the phrase “on the date  
26 which is two years after the date the trust acquired such  
27 property.”

28 (2) By substituting in Section 856(e)(3) of the Internal  
29 Revenue Code.

30 (A) The phrase “one extension” for the phrase “one or  
31 more extensions.”

32 (B) The phrase “beyond the close of the third income  
33 year following the last income year in the period under  
34 Section 856(e)(2) of the Internal Revenue Code” for the  
35 phrase “beyond the date which is six years after the date  
36 such trust acquired such property.”

37 (3) Section 856(e)(4) of the Internal Revenue Code is  
38 modified to additionally provide that for purposes of  
39 Section 856(e)(4)(C) of the Internal Revenue Code,  
40 property shall not be treated as used in a trade or business



1 by reason of any activities of the real estate investment  
2 trust with respect to that property to the extent that those  
3 activities would not result in amounts received or  
4 accrued, directly or indirectly, with respect to that  
5 property being treated as other than rents from real  
6 property.

7 (4) (A) The last sentence in Section 856(e)(5) of the  
8 Internal Revenue Code shall not apply.

9 (B) (i) An election under Section 856(e)(5) of the  
10 Internal Revenue Code (as amended by Section 1257 of  
11 the Public Law 105-34) for federal purposes shall be  
12 treated for purposes of this part as an election made by  
13 the real estate investment trust under this subdivision  
14 and a separate election under paragraph (3) of  
15 subdivision (e) of Section 23051.5 shall not be allowed.

16 (ii) Any revocation of an election under Section  
17 856(e)(5) of the Internal Revenue Code (as amended by  
18 Section 1257 of Public Law 105-34) for federal purposes  
19 shall be treated for purposes of this part as a revocation  
20 of the election made by the real estate investment trust  
21 under this subdivision and a separate election under  
22 paragraph (3) of subdivision (e) of Section 23051.5 shall  
23 not be allowed with respect to the property for any  
24 subsequent income year.

25 (e) Section 856(i)(2) of the Internal Revenue Code,  
26 relating to qualified REIT subsidiary, is modified by  
27 substituting the phrase “is held by the real estate  
28 investment trust” for the phrase “is held by the real estate  
29 investment trust at all times during the period such  
30 corporation was in existence.”

31 (f) (1) Section 856(j) of the Internal Revenue Code,  
32 relating to treatment of shared appreciation mortgages,  
33 is modified to additionally provide that for purposes of  
34 Section 857(b)(6)(C) of the Internal Revenue Code, if a  
35 real estate investment trust is treated as having sold  
36 secured property under Section 856(j)(3)(A) of the  
37 Internal Revenue Code, the trust shall be treated as  
38 having held the property for at least four years if all of the  
39 following apply:

1 (A) The secured property is sold or otherwise disposed  
2 of pursuant to a case under title 11 of the United States  
3 Code.

4 (B) The seller is under the jurisdiction of the court in  
5 that case.

6 (C) The disposition is required by the court or is  
7 pursuant to a plan approved by the court.

8 (2) Paragraph (1) shall not apply if either of the  
9 following applies:

10 (A) The secured property was acquired by the seller  
11 with the intent to evict or foreclose.

12 (B) The trust knew or had reason to know that default  
13 on the obligation described in Section 856(j)(4)(A) of the  
14 Internal Revenue Code would occur.

15 (g) Section 856(j)(4)(A)(ii) of the Internal Revenue  
16 Code is modified to read “which entitles the real estate  
17 investment trust to receive a specified portion of any gain  
18 realized on the sale or exchange of that real property (or  
19 of any gain which would be realized if the property were  
20 sold on a specified date) or appreciation in value as of any  
21 specified date.”

22 (h) This section shall apply to income years beginning  
23 after August 5, 1997.

24 SEC. 38. Section 24872.5 is added to the Revenue and  
25 Taxation Code, to read:

26 24872.5. (a) Section 856(c)(4) of the Internal  
27 Revenue Code shall not apply.

28 (b) (1) Section 856(c)(6)(G) of the Internal  
29 Revenue Code shall not apply and in lieu thereof  
30 paragraph (2) shall apply.

31 (2) Except to the extent provided by regulations of the  
32 Secretary of the Treasury under Section 856(c)(5)(G) of  
33 the Internal Revenue Code (as redesignated and  
34 amended by ~~Section 1258~~ of Public Law 105-34), both of  
35 the following shall be treated as income qualifying under  
36 Section 856(c)(2) of the Internal Revenue Code:

37 (A) Any payment to a real estate investment trust  
38 under an interest rate swap or cap agreement, option,  
39 futures contract, forward rate agreement, or any similar  
40 financial instrument, entered into by the trust in a



1 transaction to reduce the interest rate risks with respect  
2 to any indebtedness incurred or to be incurred by the  
3 trust to acquire or carry real estate assets.

4 (B) Any gain from the sale or other disposition of any  
5 such investment.

6 (c) This section shall apply in determining whether an  
7 entity qualifies as a real estate investment trust for  
8 income years of that entity beginning after August 5, 1997.

9 SEC. 39. Section 24872.7 is added to the Revenue and  
10 Taxation Code, to read:

11 24872.7. (a) (1) Section 857(a)(2) of the Internal  
12 Revenue Code shall not apply.

13 (2) Section 857 of the Internal Revenue Code is  
14 modified to additionally provide that each real estate  
15 investment trust shall for each income year comply with  
16 regulations prescribed by the Secretary of the Treasury  
17 under Section 857(f) of the Internal Revenue Code (as  
18 added by Section 1251 of Public Law 105-34) for the  
19 purposes of ascertaining the actual ownership of the  
20 outstanding shares, or certificates of beneficial interest, of  
21 that trust.

22 (3) (A) Whenever a penalty is imposed under Section  
23 857(f)(2)(A) or (B) of the Internal Revenue Code (as  
24 added by Public Law 105-34), whichever is applicable, it  
25 shall be deemed that the real estate investment trust has  
26 failed to comply with the requirements of paragraph (2)  
27 for that income year and a penalty equal to the penalty  
28 determined under Section 857(f)(2)(A) or (B) of the  
29 Internal Revenue Code (as added by Public Law 105-34),  
30 whichever is applicable, shall be imposed and shall be  
31 paid on notice and demand and in the same manner as  
32 tax.

33 (B) No penalty shall be imposed under this paragraph  
34 if the Secretary of the Treasury, under Section  
35 857(f)(2)(D) of the Internal Revenue Code (as added by  
36 Public Law 105-34), has determined that the failure to  
37 comply is due to reasonable cause and not to willful  
38 neglect.

39 (4) (A) Whenever a penalty is imposed under Section  
40 857(f)(2)(C) of the Internal Revenue Code (as added by



1 Public Law 105-34) it shall be deemed that the real estate  
2 investment trust has failed to comply with the  
3 requirements of paragraph (2) for that income year and  
4 an additional penalty equal to the penalty determined  
5 under Section 857(f)(2)(C) of the Internal Revenue  
6 Code (as added by Public Law 105-34) shall be imposed  
7 and shall be paid on notice and demand and in the same  
8 manner as tax.

9 (B) No penalty shall be imposed under this paragraph  
10 if the Secretary of the Treasury, under Section  
11 857(f)(2)(D) of the Internal Revenue Code (as added by  
12 Public Law 105-34), has determined that the failure to  
13 comply is due to reasonable cause and not to willful  
14 neglect.

15 (b) Section 857(b)(6)(C)(iii) of the Internal Revenue  
16 Code is modified by substituting the phrase “(other than  
17 sales of foreclosure property or sales to which Section 1033  
18 of the Internal Revenue Code applies)” *for the phrase*  
19 *“(other than foreclosure property)”* in each place in  
20 which it appears.

21 (c) Section 857(d) of the Internal Revenue Code is  
22 modified to additionally provide that any distribution  
23 which is made in order to comply with the requirements  
24 of Section 857(a)(3)(B) of the Internal Revenue Code:

25 (1) Shall be treated for purposes of Section 857(d) of  
26 the Internal Revenue Code and Section 857(a)(3)(B) of  
27 the Internal Revenue Code as made from the earliest  
28 accumulated earnings and profits (other than earnings  
29 and profits to which Section 857(a)(3)(A) of the Internal  
30 Revenue Code applies) rather than the most recently  
31 accumulated earnings and profits.

32 (2) To the extent treated under paragraph (1) as made  
33 from accumulated earnings and profits, shall not be  
34 treated as a distribution for purposes of Section  
35 857(b)(3)(B) of the Internal Revenue Code.

36 (d) (1) Section 857(e)(2)(B) of the Internal Revenue  
37 Code shall not apply.

38 (2) Section 857(e)(2) of the Internal Revenue Code is  
39 modified to additionally provide that the amount  
40 determined under that paragraph shall include the



1 amount (if any) by which the amounts ~~includable~~  
2 *includible* in gross income with respect to instruments to  
3 which Section 860E(a) or 1272 of the Internal Revenue  
4 Code applies, exceed the amount of money and the fair  
5 market value of other property received during the  
6 income year under those instruments.

7 (3) Section 857(e)(2) of the Internal Revenue Code is  
8 modified to additionally provide that the amount  
9 determined under that paragraph shall include amounts  
10 includible in income by reason of cancellation of  
11 indebtedness.

12 (e) This section shall apply to income years beginning  
13 after August 5, 1997.

14 SEC. 40. Section 24875.5 is added to the Revenue and  
15 Taxation Code, to read:

16 24875.5. (a) Section 860L(b)(1)(A) of the Internal  
17 Revenue Code is modified by substituting the phrase “on  
18 or after the startup date” for the phrase “after the startup  
19 date.”

20 (b) Section 860L(d)(2) of the Internal Revenue Code  
21 is modified by substituting a reference to Section  
22 860I(b)(2) of the Internal Revenue Code in lieu of the  
23 reference to Section 860I(c)(2) of the Internal Revenue  
24 Code.

25 (c) This section shall apply on and after September 1,  
26 1997.

27 SEC. 41. Section 24918 of the Revenue and Taxation  
28 Code is amended to read:

29 24918. (a) Section 1017 of the Internal Revenue  
30 Code, relating to discharge of indebtedness, shall apply,  
31 except as otherwise provided. References to affiliated  
32 groups which file a consolidated return under Section  
33 1501 of the Internal Revenue Code shall be treated as  
34 meaning members of the same unitary group which file  
35 a combined report under Article 1 (commencing with  
36 Section 25101) of Chapter 17.

37 (b) The amendments to Section 1017 of the Internal  
38 Revenue Code made by Section 13150 of the Revenue and  
39 Reconciliation Act of 1993 (Public Law 103-66), relating  
40 to modifications of discharge of indebtedness provisions,



1 shall apply to discharges occurring on or after January 1,  
2 1996, in income years beginning on or after January 1,  
3 1996.

4 SEC. 42. Section 24949.1 is added to the Revenue and  
5 Taxation Code, to read:

6 24949.1. (a) Section 1033(e) of the Internal Revenue  
7 Code, relating to livestock sold on account of drought, is  
8 modified by substituting the phrase “on account of  
9 drought, flood, or other weather-related conditions” in  
10 lieu of the phrase “on account of drought” contained  
11 therein.

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

14 SEC. 43. Section 24954 of the Revenue and Taxation  
15 Code, as added by Section 20 of Chapter 610 of the  
16 Statutes of 1997, is repealed.

17 SEC. 44. Section 110 of Chapter 605 of the Statutes of  
18 1997 is amended to read:

19 Sec. 110. The Legislature finds and declares all of the  
20 following:

21 (a) Except as otherwise provided in subdivision (b),  
22 Section 112 or Section 114 of this act, the amendments to  
23 Sections 18402, 18604, 18606, 18621.5, 18637, 18638, 18662,  
24 18670, 19009, 19011, 19023, 19024, 19058, 19132.5, 19141.5,  
25 19141.6, 19147, 19164, 19192, 19254, 19263, 19301, 19392,  
26 19411, 19542, 19563, 19701, 19705, 19706, 19719, 23037,  
27 23038, 23040.1, 23095, 23098, 23151, 23151.1, 23151.2, 23153,  
28 23303, 23305.2, 23334, 23455, 23501, 23610.5, 23612.6,  
29 23623.5, 23625, 23645, 23646, 23731, 24346, 24356.4, 24356.8,  
30 24357, 24358, 24359, 24402, 24407, 24408, 24409, 24411,  
31 24416, 24416.2, 24677, 24678, 24901, 24912, 24916, 24917,  
32 24942, 25105, 25110, 25111, 25112, and 25128 of the  
33 Revenue and Taxation Code are consistent with the  
34 intent of the acts enacting those sections, and as such shall  
35 apply from the original effective dates of those acts.

36 (b) The amendments to Sections 17052.15, 17053.45,  
37 17053.46, 23612.6, 23645, and 23646 of the Revenue and  
38 Taxation Code made by this act that relate to the election  
39 of the credit to be claimed are consistent with the intent  
40 of the Los Angeles Revitalization Zone Act and the Local



1 Military Base Recovery Area Act, and as such shall apply  
2 from the original effective dates of those acts.

3 (c) This act repeals Sections 23184, 23184.5, 23185,  
4 23185a, and 23185b of the Revenue and Taxation Code  
5 which have been obsolete since January 1, 1981, when the  
6 provisions of Chapter 1150 of the Statutes of 1979 took  
7 effect, providing financial corporations with the same  
8 taxation treatment as banks, thereby prohibiting the  
9 imposition of personal property taxes or business license  
10 taxes on financial corporations by local jurisdictions. The  
11 repeal made by this act shall not affect any act done or any  
12 right accruing or accrued, or any suit, appeal, or other  
13 proceeding that commenced under Section 23184,  
14 23184.5, 23185, 23185a, or 23185b of the Revenue and  
15 Taxation Code before that repeal.

16 SEC. 45. Section 112 of Chapter 605 of the Statutes of  
17 1997 is amended to read:

18 Sec. 112. For purposes of the definition of “qualifying  
19 dividends” in subdivision (a) of Section 24411 of the  
20 Revenue and Taxation Code, the term “corporation”  
21 shall include banks only for income years beginning on or  
22 after January 1, 1998.

23 SEC. 46. Section 19 is added to Chapter 609 of the  
24 Statutes of 1997, to read:

25 Sec. 19. Sections 3, 6, 8, and 10 of this act shall become  
26 operative on January 1, 1997.

27 SEC. 47. Section 30 of Chapter 611 of the Statutes of  
28 1997 is amended to read:

29 Sec. 30. Section 17267 of the Revenue and Taxation  
30 Code as enacted by Chapter 954 of the Statutes of 1996 is  
31 repealed.

32 SEC. 48. *The Legislature finds and declares that the*  
33 *amendments to Sections 17053.47 and 23622.8 of the*  
34 *Revenue and Taxation Code by this act are consistent*  
35 *with the intent of the act enacting those sections, and*  
36 *shall apply from the original effective dates of that act.*

37 SEC. 49. *Except for paragraph (1) of subdivision (c)*  
38 *of Section 17062, the amendments to Section 17062 of the*  
39 *Revenue and Taxation Code made by this act shall apply*  
40 *to taxable years beginning on or after January 1, 1998.*



1 Paragraph (1) of subdivision (c) of Section 17062 shall  
2 apply to taxable years beginning on or after January 1,  
3 1997.

4 SEC. 50. The amendments to Sections 19023, 19024,  
5 19025, 19136.3, 19147, 19149, 23456, and 23800.5, as added  
6 by Section 72 of Chapter 611 of the Statutes of 1997, of the  
7 Revenue and Taxation Code made by this act shall apply  
8 to taxable or income years beginning on or after January  
9 1, 1997.

10 SEC. 51. The repeal of Section 17731.5, as added by  
11 Section 3 of Chapter 610 of the Statutes of 1997, Section  
12 19365, as added by Section 9 of Chapter 610 of the Statutes  
13 of 1997, Section 23800.5, as added by Section 11 of Chapter  
14 610 of the Statutes of 1997, Section 23813, as added by  
15 Section 18 of Chapter 610 of the Statutes of 1997, and  
16 Section 24954, as added by Section 20 of Chapter 610 of the  
17 Statutes of 1997, of the Revenue and Taxation Code by  
18 this act shall be operative on January 1, 1997.

19 SEC. 52. This act provides for a tax levy within the  
20 meaning of Article IV of the Constitution and shall go into  
21 immediate effect.

