

AMENDED IN SENATE JUNE 29, 2000  
AMENDED IN ASSEMBLY JUNE 1, 1999  
AMENDED IN ASSEMBLY APRIL 26, 1999

CALIFORNIA LEGISLATURE—1999–2000 REGULAR SESSION

**ASSEMBLY BILL**

**No. 511**

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**Introduced by Assembly ~~Member Wayne~~ Members Alquist, Correa, Cunneen, Florez, Honda, Lempert, Leonard, Machado, Nakano, Scott, and Torlakson**  
(Coauthors: Senators Alarcon, Alpert, Chesbro, Costa, Figueroa, Karnette, McPherson, Murray, O'Connell, Rainey, Schiff, Sher, Solis, Soto, and Vasconcellos)

February 18, 1999

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~~An act to amend Sections 30001, 30006.5, 30214, 30224, 30231, 30240, and 30253 of, and to add Sections 30002.5, 30109.1, 30109.6, and 30120.5 to, and to add Article 4 (commencing with Section 30540) to Chapter 6 of Division 20 of, the Public Resources Code, relating to coastal resources.—An act to amend Sections 10754.2, 17052.12, 17151, 17276, 23609, and 24416 of, to add Section 10903 to, and to add and repeal Sections 6378.1 and 17053.80 of, the Revenue and Taxation Code, relating to taxation, and making an appropriation therefor, to take effect immediately, tax levy.~~

LEGISLATIVE COUNSEL'S DIGEST

AB 511, as amended, ~~Wayne Alquist. Nonpoint source pollution Taxation.~~

*The Sales and Use Tax Law provides various exemptions from that tax. Existing law authorizes cities, counties, and cities and counties to impose local sales and use taxes or transactions and use taxes, and provides that exemptions from state sales and use tax are incorporated into those local taxes.*

*This bill would, on or after January 1, 2001, and before January 1, 2006, additionally exempt tangible personal property purchased by eligible entities, as defined, that locate or expand a business in a California county with a specified unemployment rate and that qualify for receiving this Rural Investment Tax exemption by the California Infrastructure and Economic Development Bank (CIEDB) board.*

*The Vehicle License Fee (VLF) Law establishes, in lieu of any ad valorem property tax upon vehicles, an annual license fee for any vehicle subject to registration in this state in the amount of 2% of the market value of that vehicle, as specified. The VLF law permanently offsets the amount of the vehicle license fee for each subject vehicle by 25% and, for vehicle license fees with a final due date in the 2000 calendar year, offsets the fee amount for each subject vehicle by 35%. The VLF law also provides, depending upon factors that include whether forecasted General Fund revenues for certain fiscal years are within certain revenue target ranges, for a superseding offset percentage of 35%, 46.5%, 55%, or 67.5% to apply to specified future calendar years. The VLF law requires the Department of Finance, in any of certain fiscal years for which that department estimates a cumulative General Fund reduction of more than \$100,000,000 as a result of state tax law changes on or after January 1, 1999, to apply that cumulative reduction, in accordance with specified formulas, to reduce target revenue ranges and to proportionately reduce the percentage amounts of superseding vehicle license fee offsets.*

*As amended by AB 858, the Vehicle License Fee Law provides for a minimum vehicle license fee offset of 35% in 2001 and 2002, an additional offset in those same years that results in a combined offset of 67.5%, and a single vehicle license fee offset of 67.5% for 2003 and each year thereafter.*

*This bill would appropriate the sum of \$2,052,000,000 for transfer to a newly created special fund for payment by the*



*Controller, as provided, of additional vehicle license fee offsets for the 2000–01 and 2001–02 fiscal years. This bill would also authorize the Governor to direct the Controller to send a notice, as provided, with each payment of an additional vehicle license fee offset. This bill would make changes to clarify the amendments made to the Vehicle License Fee Law by AB 858, and would require the Department of Motor Vehicles to report monthly and year-to-date dollars amounts to the Controller with respect to the additional vehicle license fee offsets.*

*The Personal Income Tax Law authorizes various credits against the taxes imposed by that law.*

*This bill would, for each taxable year beginning on or after January 1, 2000, and before January 1, 2005, allow a credit in an amount equal to \$500 multiplied by the number of applicable individuals with respect to whom the taxpayer is an eligible caregiver for the taxable year.*

*The Personal Income Tax Law and the Bank and Corporation Tax Law, by reference to a specified federal statute, allow a credit against taxes imposed by those laws for increasing research expenses, as defined. In general, the amount of the credit under both laws is equal to 12% of the excess of the qualified research expenses, as defined, for the taxable or income year over the base amount and, in addition, for purposes of the Bank and Corporation Tax Law, 24% of the basic research payments, as defined. The term “base amount” means the product of the average annual gross receipts of the taxpayer for each of the specified years preceding the taxable or income year and the fixed-base percentage, as defined, but in no event less than 50% of the qualified research expenses for the taxable or income year. Existing law permits, for taxable and income years beginning on or after January 1, 1998, a taxpayer to elect an alternative incremental credit, based on a specified formula.*

*This bill would, under both laws, for each taxable or income year beginning on or after January 1, 2000, provide that the credit for increasing research expenses shall be equal to 15% of the qualified research expenses. This bill would also revise that formula by changing certain state modifications to the*



*federal formula to increase the amount of the alternative incremental credit allowed under state law, as provided.*

*The Personal Income Tax Law provides for an exclusion from the gross income of an employee with respect to the taxes imposed by that law for amounts paid or incurred by an employer for educational assistance to the employee, as specified, up to \$5,250 during a calendar year. However, educational assistance does not include any course or education taken at the graduate level beginning after June 30, 1996, of a kind normally taken by an individual pursuing a program leading to a law, business, medical, or other advanced academic or professional degree.*

*This bill would remove that exception for any course or education taken at the graduate level beginning after January 1, 2000, thereby including those courses or education within the definition of educational assistance.*

*The Personal Income Tax Law and the Bank and Corporation Tax Law authorize a net operating loss deduction against the taxes imposed by those laws that generally permits those losses to be carried forward 5 taxable or income years, as specified, but provides that 50% of the entire amount of the net operating loss for any taxable or income year is not eligible for carryover to any subsequent taxable or income year, except as specified.*

*This bill would, for each taxable or income year beginning on or after January 1, 2000, and before January 1, 2002, allow 55% of the entire amount of net operating loss to be carried forward; for each taxable or income year beginning on or after January 1, 2002, and before January 1, 2004, would allow 60% of the entire amount of net operating loss to be carried forward; and for each taxable or income year beginning on or after January 1, 2004, would allow 65% of the entire amount of the net operating loss to be carried forward. This bill would also provide that a net operating loss attributable to any taxable or income year beginning on or after January 1, 2000, shall be a net operating loss to each of the 10 taxable or income years following the taxable or income year of the loss.*

*This bill would take effect immediately as a tax levy, but the operation of certain of its provisions would depend upon the enactment of another bill.*



~~The existing California Coastal Act of 1976 provides for the protection of the state's coastal resources. The act requires that specified public access policies be implemented in a manner that takes into account the need to regulate the time, place, and manner of public access depending on the facts and circumstances in each case including, among other things, the need to provide for the management of access areas so as to protect the privacy of adjacent property owners and to protect the aesthetic values of the area by providing for the collection of litter.~~

~~This bill would define specified terms for purposes of the act relating to nonpoint source pollution, and would require that the specified access policies be implemented to also take into account the need to reduce nonpoint source pollution. The bill would revise specified coastal protection policies contained in the act to encourage various management measures to prevent nonpoint source pollution.~~

~~The act requires that specified measures be taken with respect to new development in the coastal zone, as defined, to minimize adverse environmental impacts and, where appropriate, protect special communities and neighborhoods that, because of their unique characteristics, are popular visitor destination points for recreational use.~~

~~This bill would require that new development in the coastal zone comply with a specified nonpoint source management plan prepared pursuant to federal law. The bill would require the California Coastal Commission to prepare, implement, and amend the plan known as the "Polluted Runoff Plan of the California Coastal Commission," in a manner that is fully consistent with the state's nonpoint source program and specified management measures and schedules prescribed by federal law. The bill would require the commission, not later than January 1, 2001, and by January 1 of each year thereafter, to prepare and submit to the Governor and the Legislature an annual report on the progress made in implementing the plan known as the "Polluted Runoff Plan of the California Coastal Commission."~~

~~Vote: majority  $\frac{2}{3}$ . 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 30001 of the Public Resources~~  
2     SECTION 1. Section 6378.1 is added to the Revenue  
3 and Taxation Code, to read:  
4     6378.1. (a) On and after January 1, 2001, and before  
5 January 1, 2006, there are exempted from the taxes  
6 imposed by this part, the gross receipts from the sale in  
7 this state of, and the storage, use, or other consumption  
8 in this state of, tangible personal property purchased by  
9 eligible entities, as defined in subdivision (f).  
10    (b) The exemption provided under this part shall be  
11 termed the Rural Investment Tax exemption.  
12    (c) The California Infrastructure and Economic  
13 Development Bank (CIEDB) board shall develop a  
14 program that determines who is eligible to receive this  
15 exemption, monitor entities for compliance with the  
16 requirements of this section, and notify the State Board  
17 of Equalization, as provided in this section. The CIEDB  
18 shall determine the amount of the exemption available to  
19 each entity.  
20    (d) Entities wishing to qualify for this exemption shall  
21 apply to the CIEDB board in a manner prescribed by the  
22 CIEDB board. The CIEDB board shall provide all  
23 applicants written notification stating the eligibility of the  
24 applicant to receive an exemption under this section.  
25    (e) The annual amount of exemptions that may be  
26 granted pursuant to this section shall not exceed five  
27 million dollars (\$5,000,000) per year. The CIEDB board  
28 shall not authorize any exemption that would cause the  
29 total amount of exemptions authorized with respect to  
30 any calendar year under this section to exceed five  
31 million dollars (\$5,000,000).  
32    (f) For purposes of this section:  
33    (1) "Eligible entity" means an entity that complies  
34 with all of the following:  
35    (A) The entity shall locate or expand a business in a  
36 California county with an average annual unemployment  
37 rate of five percentage points or more above the  
38 statewide average for the most recent calendar year as



1 *determined by the State of California, Employment*  
2 *Development Department.*

3 (B) *The entity shall make a new investment of at least*  
4 *one hundred fifty million dollars (\$150,000,000) in the*  
5 *county in which the entity locates its business and shall*  
6 *maintain this level of investment for a period of at least*  
7 *24 months after the CIEDB board certifies that the entity*  
8 *has become an eligible entity.*

9 (C) *The entity shall employ at least 500 new full-time*  
10 *equivalent employees in the county, including employees*  
11 *who are employed directly by the entity and employees*  
12 *who are hired by supporting industries. Employees shall*  
13 *be employed for at least 24 months after the CIEDB*  
14 *certifies that the entity has become eligible. At least 175*  
15 *of the new full-time equivalent employees shall be*  
16 *directly employed by the entity.*

17 (2) *“New full-time equivalent employees” means*  
18 *employees hired by the entity seeking the exemption*  
19 *allowed under this part and not employees moved,*  
20 *transferred, or displaced from other places of business of*  
21 *the entity within this state.*

22 (3) *“Tangible personal property” means machinery*  
23 *and equipment, including component parts.*

24 (4) *“Tangible personal property” does not include any*  
25 *of the following:*

26 (A) *Tangible personal property that is used primarily*  
27 *in administration, general management, or marketing.*

28 (B) *Furniture, inventory, or equipment used to store*  
29 *products.*

30 (C) *Any property for which a credit is claimed under*  
31 *either Section 17053.49 or 23649 of the Revenue and*  
32 *Taxation Code.*

33 (g) *Prior to claiming an exemption under this section,*  
34 *the eligible entity shall apply to the State Board of*  
35 *Equalization for an exemption certificate and shall*  
36 *include a copy of the written notification from the*  
37 *CIEDB board stating that the entity applying for the*  
38 *exemption certificate is eligible to receive an exemption*  
39 *under this section. No exemption shall be allowed under*  
40 *this section unless the eligible entity furnishes the retailer*



1 with an exemption certificate, completed in accordance  
2 with any instruction or regulations as the State Board of  
3 Equalization may prescribe, and the retailer  
4 subsequently furnishes the board with a copy of the  
5 exemption certificate. The exemption certificate shall  
6 contain the sales price of the machinery and equipment  
7 that is exempt pursuant to subdivision (a).

8 (h) (1) Notwithstanding any provision of the  
9 Bradley-Burns Uniform Local Sales and Use Tax Law  
10 (Part 1.5 (commencing with Section 7200)) or the  
11 Transactions and Use Tax Law (Part 1.6 (commencing  
12 with Section 7251)), the exemption established by this  
13 section shall not apply with respect to any tax levied by  
14 a county, city, or district pursuant to, or in accordance  
15 with, either of these laws.

16 (2) The exemption established by this section shall not  
17 apply with respect to any tax levied pursuant to Sections  
18 6051.2 and 6201.2, or pursuant to Section 35 of Article XIII  
19 of the California Constitution.

20 (3) The exemption established by this section shall not  
21 apply to any sale or use of property that, within one year  
22 from the date of purchase, is either removed from a  
23 California county as described in subparagraph (A) of  
24 paragraph (1) of subdivision (f), or converted from an  
25 exempt use under subdivision (a) to some other use not  
26 qualifying for the exemption.

27 (i) (1) If a purchaser certifies in writing to the seller  
28 that the property purchased without payment of the tax  
29 will be used in a manner entitling the seller to regard the  
30 gross receipts from the sale as exempt from the sales tax,  
31 and within one year from the date of purchase, the  
32 purchaser (1) removes that property outside a California  
33 county as described in subparagraph (A) of paragraph  
34 (1) of subdivision (f), or (2) converts that property for  
35 use in a manner not qualifying for the exemption, the  
36 purchaser shall be liable for payment of sales tax, with  
37 applicable interest, as if the purchaser were a retailer  
38 making a retail sale of the property at the time the  
39 property is so removed, converted, or used, and the sales



1 price of the property to the purchaser shall be deemed  
2 the gross receipts from that retail sale.

3 (2) The purchaser shall be liable for payment of sales  
4 tax, with applicable interest, as if the purchaser were a  
5 retailer making a retail sale of the property if the  
6 purchaser does not achieve the level and duration of  
7 employment and investment pursuant to subdivision (f)  
8 within three years from the date the entity first uses an  
9 exemption under this section. The CIEDB board may  
10 extend this time period by a maximum of 12 months for  
11 reasonable cause.

12 (j) (1) The CIEDB board shall determine if entities  
13 have fulfilled the requirements necessary in order to  
14 keep this exemption and shall report to the State Board  
15 of Equalization on entities that have not fulfilled these  
16 requirements.

17 (2) Notwithstanding Section 6902, the State Board of  
18 Equalization shall, within one year after being notified by  
19 the CIEDB board that an entity has not fulfilled the  
20 requirements of this section, examine the books and  
21 records of the entity, and issue a determination of any  
22 liabilities due.

23 (k) The CIEDB board shall provide a report to the  
24 Legislature, the Department of Finance, and the State  
25 Board of Equalization no later than January 15 following  
26 each fiscal year the program is in operation. The report  
27 shall include, at a minimum, all of the following:

28 (1) The entities that have been provided the  
29 exemption established by this section and the amount of  
30 the exemption authorized by the CIEDB board to each  
31 entity.

32 (2) The number of new persons employed by each  
33 entity.

34 (3) The amount of investment made by each entity.

35 (4) A description of the economic development  
36 provided by each entity receiving the exemption.

37 (5) A description of each entity that has fulfilled the  
38 requirements of paragraph (1) of subdivision (f).

39 (6) A description of each entity that has not fulfilled  
40 the requirements of paragraph (1) of subdivision (f).

1 (1) (1) *This section shall become operative on the first*  
2 *day of the first calendar quarter commencing more than*  
3 *90 days after the effective date of this act.*

4 (2) *This section shall remain in effect only until*  
5 *January 1, 2006, and as of that date is repealed.*

6 SEC. 2. *Section 10754.2 of the Revenue and Taxation*  
7 *Code, as added by AB 858 of the 1999–2000 Regular*  
8 *Session, is amended to read:*

9 10754.2. *Notwithstanding any other provision of law*  
10 *to the contrary, all of the following apply to vehicle*  
11 *license fees with a final due date on or after January 1,*  
12 *2001:*

13 (a) (1) *For each vehicle license fee for the initial or*  
14 *original registration of any vehicle, never before*  
15 *registered in this state, or for any renewal of registration,*  
16 *with a final due date in 2001 or 2002, for which the vehicle*  
17 *license fee offset required by Section 10754 is less than 67*  
18 *1/2 percent, the Department of Motor Vehicles shall*  
19 *concurrently calculate an offset, in addition to the offset*  
20 *required by Section 10754, that is equal to the difference*  
21 *between the following:*

22 (A) *A vehicle license fee offset of 67 1/2 percent.*

23 (B) *A vehicle license fee offset of the greater of 35*  
24 *percent or that percentage required by Section 10754.*

25 (2) *The Department of Motor Vehicles shall, for each*  
26 *calendar month, report to the Department of Finance*  
27 *and the Controller the amount of each offset calculated*  
28 *pursuant to paragraph (1) for that calendar month and*  
29 *the name and address of the taxpayer to whom that*  
30 *additional offset applies. The Controller shall, within 30*  
31 *days after receiving a monthly report from the*  
32 *Department of Motor Vehicles, make payment of the*  
33 *reported additional offsets to the identified taxpayers.*  
34 *The Governor may direct the Controller to include, with*  
35 *each payment pursuant to this paragraph of an additional*  
36 *vehicle license fee offset, a notice stating that the*  
37 *additional vehicle license fee offsets required by this*  
38 *paragraph constitute a Prosperity Dividend approved by*  
39 *the Legislature and signed by Governor Davis.*



1 (3) (A) For each vehicle license fee, for the initial or  
2 original registration of any vehicle, never before  
3 registered in this state, or for any renewal of registration,  
4 with a final due date in 2001 or 2002, ~~there shall be a the~~  
5 vehicle license fee offset ~~of~~ *implemented pursuant to*  
6 *Section 10754 shall be not less than 35 percent.*

7 (B) For each vehicle license fee, for the initial or  
8 original registration of any vehicle, never before  
9 registered in this state, or for any renewal of registration  
10 with a final due date in 2003 or any calendar year  
11 thereafter, there shall be a 67<sup>1</sup>/<sub>2</sub> percent offset ~~that is~~  
12 ~~administered as provided as described in paragraph (5)~~  
13 *of subdivision (a) of Section 10754, as that section read on*  
14 *January 1, 2000. In no event may the 67<sup>1</sup>/<sub>2</sub> percent offset*  
15 *established by this subparagraph be reduced pursuant to*  
16 *paragraph (4) of subdivision (c) of Section 10754, or any*  
17 *successor to that paragraph.*

18 (b) (1) *The additional vehicle license fee offsets*  
19 *established by subdivision (a) shall be funded from those*  
20 *amounts to be appropriated by statute.*

21 (2) Revenue losses to cities, counties, and cities and  
22 counties resulting from this section shall be reimbursed  
23 by the Controller from the General Fund in the same  
24 manner as provided in Section 11000. The amounts of  
25 General Fund transfers required by this subdivision are  
26 deemed to be vehicle license fee proceeds and vehicle  
27 license fee revenues for those same purposes as set forth  
28 in subdivision (d) of Section 11000, *and* are subject to the  
29 same pledges, liens, encumbrances, and priorities as  
30 described in that subdivision.

31 *SEC. 3. Section 10903 is added to the Revenue and*  
32 *Taxation Code, to read:*

33 *10903. (a) Notwithstanding Section 13340 of the*  
34 *Government Code, there is hereby appropriated from*  
35 *the General Fund the sum of two billion fifty-two million*  
36 *dollars (\$2,052,000,000) for transfer by the Controller,*  
37 *upon notification by the Director of Finance during the*  
38 *2000–01 fiscal year, to the Special Reserve Fund for*  
39 *Vehicle License Fee Tax Relief, which is hereby created*  
40 *as a special fund. The amounts appropriated by this*



1 subdivision for transfer to the Special Reserve Fund for  
2 Vehicle License Fee Tax Relief shall be expended  
3 exclusively for the payment of additional vehicle license  
4 fee offsets calculated under Section 10754.2, and are  
5 allocated for that purpose as follows:

6 (1) Eight hundred and eighty-seven million dollars  
7 (\$887,000,000) for the payment of additional vehicle  
8 license fee offsets for the 2000–01 fiscal year.

9 (2) One billion one hundred sixty five million dollars  
10 (\$1,165,000,000) for the payment of additional vehicle  
11 license fee offsets for the 2001–02 fiscal year.

12 (b) The Department of Motor Vehicles shall provide  
13 both of the following notices to the Controller in  
14 connection with each monthly report pursuant to Section  
15 10754.2 of additional vehicle license fee offsets calculated  
16 by that department pursuant to that section:

17 (1) A notice for each month of the total dollar amount  
18 of the additional vehicle license fee offsets calculated by  
19 the department during that month pursuant to Section  
20 10754.2.

21 (2) A notice of the total dollar amount of the additional  
22 vehicle license fee offsets calculated by the department  
23 pursuant to Section 10754.2 for the calendar year to the  
24 date of each monthly report provided pursuant to Section  
25 10754.2.

26 SEC. 4. Section 17052.12 of the Revenue and Taxation  
27 Code is amended to read:

28 17052.12. For each taxable year beginning on or after  
29 January 1, 1987, there shall be allowed as a credit against  
30 the “net tax” (as defined by Section 17039) for the taxable  
31 year an amount determined in accordance with Section  
32 41 of the Internal Revenue Code, except as follows:

33 (a) For each taxable year beginning before January 1,  
34 1997, the reference to “20 percent” in Section 41(a)(1) of  
35 the Internal Revenue Code is modified to read “8  
36 percent.”

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



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

5 (3) *For each taxable year beginning on or after*  
6 *January 1, 2000, the reference to “20 percent” in Section*  
7 *41(a)(1) of the Internal Revenue Code is modified to*  
8 *read “15 percent.”*

9 (c) Section 41(a)(2) of the Internal Revenue Code,  
10 relating to basic research payments, shall not apply.

11 (d) “Qualified research” shall include only research  
12 conducted in California.

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

18 (f) (1) With respect to any expense paid or incurred  
19 after the operative date of Section 6378, Section 41(b)(1)  
20 of the Internal Revenue Code is modified to exclude from  
21 the definition of “qualified research expense” any  
22 amount paid or incurred for tangible personal property  
23 that is eligible for the exemption from sales or use tax  
24 provided by Section 6378.

25 (2) For each taxable year beginning on or after  
26 January 1, 1998, the reference to “Section 501(a)” in  
27 Section 41(b)(3)(C) of the Internal Revenue Code,  
28 relating to contract research expenses, is modified to read  
29 “this part or Part 11 (commencing with Section 23001).”

30 (g) (1) For each taxable year beginning on or after  
31 January 1, 1998, *and before January 1, 2000*:

32 (A) The reference to “1.65 percent” in Section  
33 41(c)(4)(A)(i) of the Internal Revenue Code is modified  
34 to read “one and thirty-two hundredths of one percent.”

35 (B) The reference to “2.2 percent” in Section  
36 41(c)(4)(A)(ii) of the Internal Revenue Code is  
37 modified to read “one and seventy-six hundredths of one  
38 percent.”



1 (C) The reference to “2.75 percent” in Section  
2 41(c)(4)(A)(iii) of the Internal Revenue Code is  
3 modified to read “two and two-tenths of one percent.”

4 (2) *For each taxable year beginning on or after*  
5 *January 1, 2000:*

6 (A) *The reference to “1.65 percent” in Section*  
7 *41(c)(4)(A)(i) of the Internal Revenue Code is modified*  
8 *to read “one and forty-nine hundredths of one percent.”*

9 (B) *The reference to “2.2 percent” in Section*  
10 *41(c)(4)(A)(ii) of the Internal Revenue Code is*  
11 *modified to read “one and ninety-eight hundredths of*  
12 *one percent.”*

13 (C) *The reference to “2.75 percent” in Section*  
14 *41(c)(4)(A)(iii) of the Internal Revenue Code is*  
15 *modified to read “two and forty-eight hundredths of one*  
16 *percent.”*

17 (3) Section 41(c)(4)(B) shall not apply and in lieu  
18 thereof an election under Section 41(c)(4)(A) of the  
19 Internal Revenue Code may be made for any taxable year  
20 of the taxpayer beginning on or after January 1, 1998. That  
21 election shall apply to the taxable year for which made  
22 and all succeeding taxable years unless revoked with the  
23 consent of the Franchise Tax Board.

24 ~~(3)–~~

25 (4) Section 41(c)(6) of the Internal Revenue Code,  
26 relating to gross receipts, is modified to take into account  
27 only those gross receipts from the sale of property held  
28 primarily for sale to customers in the ordinary course of  
29 the taxpayer’s trade or business that is delivered or  
30 shipped to a purchaser within this state, regardless of  
31 f.o.b. point or any other condition of the sale.

32 (h) Section 41(h) of the Internal Revenue Code,  
33 relating to termination, shall not apply.

34 (i) Section 41(g) of the Internal Revenue Code,  
35 relating to special rule for passthrough of credit, is  
36 modified by each of the following:

37 (1) The last sentence shall not apply.

38 (2) If the amount determined under Section 41(a) of  
39 the Internal Revenue Code for any taxable year exceeds  
40 the limitation of Section 41(g) of the Internal Revenue



1 Code, that amount may be carried over to other taxable  
2 years under the rules of subdivision (e); except that the  
3 limitation of Section 41(g) of the Internal Revenue Code  
4 shall be taken into account in each subsequent taxable  
5 year.

6 *SEC. 5. Section 17053.80 is added to the Revenue and*  
7 *Taxation Code, to read:*

8 *17053.80. (a) For each taxable year beginning on or*  
9 *after January 1, 2000, and before January 1, 2005, there*  
10 *shall be allowed as a credit against the "net tax," as*  
11 *defined in Section 17039, an amount equal to five*  
12 *hundred dollars (\$500) multiplied by the number of*  
13 *applicable individuals with respect to whom the taxpayer*  
14 *is an eligible caregiver for the taxable year.*

15 *(b) (I) (A) "Applicable individual" means, with*  
16 *respect to any taxable year, any individual who has been*  
17 *certified, before the due date for filing the return of tax*  
18 *for the taxable year (without extensions), by a physician*  
19 *(as defined in Section 1861(r)(1) of the Social Security*  
20 *Act) as being an individual with long-term care needs*  
21 *described in subparagraph (B) for a period--*

22 *(i) which is at least 180 consecutive days, and*

23 *(ii) a portion of which occurs within the taxable year.*

24 *That term shall not include any individual otherwise*  
25 *meeting the requirements of the preceding sentence*  
26 *unless within the 39½ month period ending on that due*  
27 *date (or such other period as the Franchise Tax Board*  
28 *prescribes) a physician (as so defined) has certified that*  
29 *that individual meets those requirements.*

30 *(B) An individual is described in this subparagraph if*  
31 *the individual meets any of the following requirements:*

32 *(i) The individual is at least six years of age and--*

33 *(I) is unable to perform (without substantial assistance*  
34 *from another individual) at least three activities of daily*  
35 *living, as defined in Section 7702B(c)(2)(B) of the*  
36 *Internal Revenue Code, due to a loss of functional*  
37 *capacity, or*

38 *(II) requires substantial supervision to protect that*  
39 *individual from threats to health and safety due to severe*  
40 *cognitive impairment and is unable to perform at least*



1 one activity of daily living, as defined in Section  
2 7702B(c)(2)(B) of the Internal Revenue Code, or to the  
3 extent provided by the Franchise Tax Board (in  
4 consultation with the Secretary of Health and Welfare  
5 Agency), is unable to engage in age appropriate  
6 activities.

7 (ii) The individual is at least two years of age but less  
8 than six years of age and is unable due to a loss of  
9 functional capacity to perform (without substantial  
10 assistance from another individual) at least two of the  
11 following activities: eating, transferring, or mobility.

12 (iii) The individual is under two years of age and  
13 requires specific durable medical equipment by reason of  
14 a severe health condition or requires a skilled practitioner  
15 trained to address the individual's condition to be  
16 available if the individual's parents or guardians are  
17 absent.

18 (2) (A) A taxpayer shall be treated as an "eligible  
19 caregiver" for any taxable year with respect to the  
20 following individuals:

21 (i) The taxpayer.

22 (ii) The taxpayer's spouse.

23 (iii) An individual with respect to whom the taxpayer  
24 is allowed a credit under subdivision (d) of Section 17054  
25 for the taxable year.

26 (iv) An individual who would be described in clause  
27 (iii) for the taxable year if Section 151(c)(1)(A) of the  
28 Internal Revenue Code, relating to gross income  
29 limitation, were applied by substituting for the federal  
30 exemption amount specified in that section, an amount  
31 equal to the sum of the federal exemption amount  
32 specified in that section, the federal standard deduction  
33 under Section 63(c)(2)(C) of the Internal Revenue  
34 Code, and any additional federal standard deduction  
35 under Section 63(c)(3) of the Internal Revenue Code  
36 which would be applicable to the individual if clause (iii)  
37 applied.

38 (v) An individual who would be described in clause  
39 (iii) for the taxable year if--



1 (I) the requirements of clause (iv) are met with  
2 respect to the individual, and

3 (II) the requirements of subparagraph (B) are met  
4 with respect to the individual in lieu of the support test  
5 of Section 152(a) of the Internal Revenue Code.

6 (B) The requirements of this subparagraph are met if  
7 an individual has as his or her principal place of abode the  
8 home of the taxpayer, and

9 (i) in the case of an individual who is an ancestor or  
10 descendant of the taxpayer or the taxpayer's spouse, is a  
11 member of the taxpayer's household for over half the  
12 taxable year, or

13 (ii) in the case of any other individual, is a member of  
14 the taxpayer's household for the entire taxable year.

15 (C) (i) If more than one individual is an eligible  
16 caregiver with respect to the same applicable individual  
17 for taxable years ending with or within the same calendar  
18 year, a taxpayer shall be treated as the eligible caregiver  
19 if each of those individuals (other than the taxpayer) files  
20 a written declaration (in the form and manner as the  
21 Franchise Tax Board may prescribe) that that individual  
22 will not claim that applicable individual for the credit  
23 under this section.

24 (ii) If each individual required under clause (i) to file  
25 a written declaration under clause (i) does not do so, the  
26 individual with the highest federal modified adjusted  
27 gross income (as defined in Section 32(c)(5) of the  
28 Internal Revenue Code for federal purposes) shall be  
29 treated as the eligible caregiver.

30 (iii) In the case of married individuals filing separate  
31 returns, the determination under this subparagraph as to  
32 whether the husband or wife is the eligible caregiver shall  
33 be made under the rules of clause (ii) (whether or not  
34 one of them has filed a written declaration under clause  
35 (i)).

36 (c) (1) No credit shall be allowed under this section  
37 to a taxpayer with respect to any applicable individual  
38 unless the taxpayer includes the name and taxpayer  
39 identification number of that individual, and the



1 *identification number of the physician certifying that*  
2 *individual, on the return of tax for the taxable year.*

3 *(2) The denial of any credit under paragraph (1) may*  
4 *be made pursuant to Section 19051.*

5 *(d) The taxpayer shall retain the physician*  
6 *certification required by subdivision (b) and shall make*  
7 *that certification available to the Franchise Tax Board*  
8 *upon request.*

9 *(e) No credit shall be allowed under this section for*  
10 *any eligible caregiver whose adjusted gross income for*  
11 *the taxable year is equal to or greater than one hundred*  
12 *thousand dollars (\$100,000).*

13 *(f) This section shall remain in effect only until*  
14 *December 1, 2005, and as of that date is repealed.*

15 *SEC. 6. Section 17151 of the Revenue and Taxation*  
16 *Code is amended to read:*

17 17151. (a) Gross income of an employee does not  
18 include any amounts, not exceeding an aggregate amount  
19 of five thousand two hundred fifty dollars (\$5,250) per  
20 calendar year, that is paid or incurred by the employer for  
21 educational assistance to the employee pursuant to an  
22 educational assistance program.

23 (b) For purposes of this section, the following  
24 definitions shall apply:

25 (1) "Educational assistance" means the payment by an  
26 employer of expenses incurred by or on behalf of an  
27 employee for the employee's education, and includes, but  
28 is not limited to, payments for books, supplies,  
29 equipment, tuition, and fees, and similar payments.  
30 "Educational assistance" includes the provision by an  
31 employer of courses of instruction for an employee,  
32 including the provision of books, supplies, and  
33 equipment. "Educational assistance" does not include  
34 any payment for, or the provision of, any of the following:

35 (A) Any tools or supplies that may be retained by the  
36 employee after completion of a course of instruction.

37 (B) Any meals, lodging, or transportation.

38 (C) Any course or education involving sports, games,  
39 or hobbies.



1 ~~(D) Any course or education taken at the graduate~~  
2 ~~level beginning after June 30, 1996, of a kind normally~~  
3 ~~taken by an individual pursuing a program leading to a~~  
4 ~~law, business, medical, or other advanced academic or~~  
5 ~~professional degree.~~

6 *(D) Any course or education taken at the graduate*  
7 *level of a kind normally taken by an individual pursuing*  
8 *a program leading to a law, business, medical, or other*  
9 *advanced academic or professional degree. This*  
10 *subparagraph applies only to any course or education*  
11 *taken at the graduate level beginning after June 30, 1996,*  
12 *and before January 1, 2000.*

13 (2) “Educational assistance program” means a  
14 separate written plan of an employer for the exclusive  
15 benefit of his or her employees to provide those  
16 employees with educational assistance. The program  
17 shall meet the following requirements:

18 (A) The program benefits employees who qualify  
19 under a classification established by the employer and  
20 found by the Franchise Tax Board not to be  
21 discriminatory in favor of employees who are highly  
22 compensated employees (within the meaning of Section  
23 414(q) of the Internal Revenue Code) or their  
24 dependents. For purposes of this subparagraph, there  
25 shall be excluded from consideration employees who are  
26 not included in the program and who are included in a  
27 unit of employees covered by an agreement that the  
28 Franchise Tax Board finds to be a collective bargaining  
29 agreement between employee representatives and one  
30 or more employers, if there is evidence that educational  
31 assistance benefits were the subject of good faith  
32 bargaining between the employee representatives and  
33 the employer or employers.

34 (B) Not more than 5 percent of the amounts paid or  
35 incurred by the employer for educational assistance  
36 during the year may be provided for the class of  
37 individuals who are owners (or their spouses or  
38 dependents), each of whom, on any day of the year, owns  
39 more than 5 percent of the capital or profits interest in the  
40 employer.



1 (C) The program does not provide eligible employees  
2 with a choice between educational assistance and other  
3 remuneration includable in gross income. For purposes of  
4 this section, the business practices of the employer, as  
5 well as the written program, shall be taken into account.

6 (D) The program need not be funded.

7 (E) Reasonable notification of the availability and  
8 terms of the program is provided to eligible employees.

9 (3) "Employee" includes self-employed individuals  
10 within the meaning of Section 401(c)(1) of the Internal  
11 Revenue Code.

12 (c) For purposes of this section:

13 (1) Any individual who owns the entire interest in an  
14 unincorporated trade or business shall be treated as his or  
15 her own employee.

16 (2) A partnership shall be treated as the employer of  
17 each partner who is an employee within the meaning of  
18 paragraph (3) of subdivision (b).

19 (3) (A) An educational assistance program shall not  
20 be considered to fail to meet any of the requirements of  
21 paragraph (2) of subdivision (b) on the sole basis of either  
22 of the following:

23 (i) Different utilization rates for the different types of  
24 educational assistance made available under the  
25 program.

26 (ii) Successful completion or attainment of a  
27 particular course grade is required for or considered in  
28 determining reimbursement under the program.

29 (B) This section shall not be construed to affect the  
30 deduction or inclusion in income of amounts that are paid  
31 or incurred or received as reimbursement for educational  
32 expenses under Section 117, 162, or 212 of the Internal  
33 Revenue Code.

34 (d) No deduction or credit shall be allowed to the  
35 employee with respect to any amount that the employee  
36 excludes from income pursuant to this section.

37 (e) Section 127 of the Internal Revenue Code shall not  
38 apply.

39 (f) This section shall apply with respect to expenses  
40 relating to courses beginning after June 30, 1996.



1 SEC. 7. Section 17276 of the Revenue and Taxation  
2 Code is amended to read:

3 17276. Except as provided in Sections 17276.1, 17276.2,  
4 17276.4, 17276.5, and 17276.6, the deduction provided by  
5 Section 172 of the Internal Revenue Code, relating to a  
6 net operating loss deduction, shall be modified as follows:

7 (a) (1) Net operating losses attributable to taxable  
8 years beginning before January 1, 1987, shall not be  
9 allowed.

10 (2) A net operating loss shall not be carried forward to  
11 any taxable year beginning before January 1, 1987.

12 (b) (1) Except as provided in paragraphs (2) and (3),  
13 the provisions of Section 172(b)(2) of the Internal  
14 Revenue Code, relating to the amount of carryovers, shall  
15 be modified so that ~~50 percent~~ *the applicable percentage*  
16 of the entire amount of the net operating loss for any  
17 taxable year shall ~~not~~ be eligible for carryover to any  
18 subsequent taxable year. *For purposes of this subdivision,*  
19 *the applicable percentage shall be:*

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

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

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

26 (D) *Sixty-five percent for any taxable year beginning*  
27 *on or after January 1, 2004.*

28 (2) In the case of a taxpayer who has a net operating  
29 loss in a *any* taxable year beginning on or after January 1,  
30 1994, and who operates a new business during that taxable  
31 year, each of the following shall apply to each loss  
32 incurred during the first three taxable years of operating  
33 the new business:

34 (A) If the net operating loss is equal to or less than the  
35 net loss from the new business, 100 percent of the net  
36 operating loss shall be carried forward as provided in  
37 ~~paragraph (2) of~~ subdivision (d).

38 (B) If the net operating loss is greater than the net loss  
39 from the new business, the net operating loss shall be  
40 carried over as follows:



1 (i) With respect to an amount equal to the net loss  
2 from the new business, 100 percent of that amount shall  
3 be carried forward as provided in ~~paragraph (2)~~ of  
4 subdivision (d).

5 (ii) With respect to the portion of the net operating  
6 loss which exceeds the net loss from the new business, ~~50~~  
7 ~~percent~~ *the applicable percentage* of that amount shall be  
8 ~~a net operating loss carryover to each of the five taxable~~  
9 ~~years following the taxable year of the loss carried~~  
10 ~~forward as provided in subdivision (d).~~

11 (C) For purposes of Section 172(b)(2) of the Internal  
12 Revenue Code, the amount described in clause (ii) of  
13 subparagraph (B) shall be absorbed before the amount  
14 described in clause (i) of subparagraph (B).

15 (3) In the case of a taxpayer who has a net operating  
16 loss in ~~a~~ *any* taxable year beginning on or after January 1,  
17 1994, and who operates an eligible small business during  
18 that taxable year, each of the following shall apply:

19 (A) If the net operating loss is equal to or less than the  
20 net loss from the eligible small business, 100 percent of the  
21 net operating loss shall be carried forward to the taxable  
22 years specified in ~~paragraph (1)~~ of subdivision (d).

23 (B) If the net operating loss is greater than the net loss  
24 from the eligible small business, the net operating loss  
25 shall be carried over as follows:

26 (i) With respect to an amount equal to the net loss  
27 from the eligible small business, 100 percent of that  
28 amount shall be carried forward ~~to each of the five taxable~~  
29 ~~years following the taxable year of the loss as provided in~~  
30 ~~subdivision (d).~~

31 (ii) With respect to ~~the~~ *that* portion of the net  
32 operating loss that exceeds the net loss from the eligible  
33 small business, ~~50 percent~~ *the applicable percentage* of  
34 that amount shall be ~~a net operating loss carryover to each~~  
35 ~~of the five taxable years following the taxable year of the~~  
36 ~~loss carried forward as provided in subdivision (d).~~

37 (C) For purposes of Section 172(b)(2) of the Internal  
38 Revenue Code, the amount described in clause (ii) of  
39 subparagraph (B) shall be absorbed before the amount  
40 described in clause (i) of subparagraph (B).



1 (4) In the case of a taxpayer who has a net operating  
2 loss in a taxable year beginning on or after January 1, 1994,  
3 and who operates a business that qualifies as both a new  
4 business and an eligible small business under this section,  
5 that business shall be treated as a new business for the first  
6 three taxable years of the new business.

7 (5) In the case of a taxpayer who has a net operating  
8 loss in a taxable year beginning on or after January 1, 1994,  
9 and who operates more than one business, and more than  
10 one of those businesses qualifies as either a new business  
11 or an eligible small business under this section, paragraph  
12 (2) shall be applied first, except that if there is any  
13 remaining portion of the net operating loss after  
14 application of clause (i) of subparagraph (B) of that  
15 paragraph, paragraph (3) shall be applied to the  
16 remaining portion of the net operating loss as though that  
17 remaining portion of the net operating loss constituted  
18 the entire net operating loss.

19 (6) For purposes of this section, the term “net loss”  
20 means the amount of net loss after application of Sections  
21 465 and 469 of the Internal Revenue Code.

22 (c) Net operating loss carrybacks shall not be allowed.

23 (d) (1) ~~Except as provided in paragraphs (2) and (3),~~  
24 ~~for each~~ (A) *For a net operating loss for any taxable year*  
25 *beginning on or after January 1, 1987, and before January*  
26 *1, 2000, Section 172(b)(1)(A)(ii) of the Internal Revenue*  
27 *Code, relating to years to which net operating losses may*  
28 *be carried, is modified to substitute “five taxable years”*  
29 *in lieu of “20 taxable years.” years” except as otherwise*  
30 *provided in paragraphs (2) and (3).*

31 (B) *For a net operating loss for any taxable year*  
32 *beginning on or after January 1, 2000, Section*  
33 *172(b)(1)(A)(ii) of the Internal Revenue Code, relating*  
34 *to years to which net operating losses may be carried, is*  
35 *modified to substitute “10 taxable years” in lieu of “20*  
36 *taxable years.”*

37 (2) ~~In~~ *For any taxable year beginning before January*  
38 *1, 2000, in the case of a “new business,” the “five taxable*  
39 *years” in paragraph (1) shall be modified to read as*  
40 *follows:*



1 (A) “Eight taxable years” for a net operating loss  
2 attributable to the first taxable year of that new business.

3 (B) “Seven taxable years” for a net operating loss  
4 attributable to the second taxable year of that new  
5 business.

6 (C) “Six taxable years” for a net operating loss  
7 attributable to the third taxable year of that new business.

8 (3) For any carryover of a net operating loss for which  
9 a deduction is denied by Section 17276.3, the carryover  
10 period specified in this subdivision shall be extended as  
11 follows:

12 (A) By one year for a net operating loss attributable to  
13 taxable years beginning in 1991.

14 (B) By two years for a net operating loss attributable  
15 to taxable years beginning prior to January 1, 1991.

16 (4) The net operating loss attributable to taxable years  
17 beginning on or after January 1, 1987, and before January  
18 1, 1994, shall be a net operating loss carryover to each of  
19 the 10 taxable years following the year of the loss if it is  
20 incurred by a taxpayer that is under the jurisdiction of the  
21 court in a Title 11 or similar case at any time during the  
22 income year. The loss carryover provided in the  
23 preceding sentence shall not apply to any loss incurred  
24 after the date the taxpayer is no longer under the  
25 jurisdiction of the court in a Title 11 or similar case.

26 (e) For purposes of this section:

27 (1) “Eligible small business” means any trade or  
28 business that has gross receipts, less returns and  
29 allowances, of less than one million dollars (\$1,000,000)  
30 during the taxable year.

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

34 (3) “Title 11 or similar case” shall have the same  
35 meaning as in Section 368(a)(3) of the Internal Revenue  
36 Code.

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



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

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

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

25 (B) Any acquired assets that constituted property  
26 described in Section 1221(1) of the Internal Revenue  
27 Code in the hands of the transferor shall not be treated as  
28 assets acquired from an existing trade or business, unless  
29 those assets also constitute property described in Section  
30 1221(1) of the Internal Revenue Code in the hands of the  
31 acquiring taxpayer (or related person).

32 (2) In any case where a taxpayer (or any related  
33 person) is engaged in one or more trade or business  
34 activities in this state, or has been engaged in one or more  
35 trade or business activities in this state within the  
36 preceding 36 months (“prior trade or business activity”),  
37 and thereafter commences an additional trade or  
38 business activity in this state, the additional trade or  
39 business activity shall only be treated as a new business if  
40 the additional trade or business activity is classified under



1 a different division of the Standard Industrial  
2 Classification (SIC) Manual published by the United  
3 States Office of Management and Budget, 1987 edition,  
4 than are any of the taxpayer's (or any related person's)  
5 current or prior trade or business activities.

6 (3) In any case where a taxpayer, including all related  
7 persons, is engaged in trade or business activities wholly  
8 outside of this state and the taxpayer first commences  
9 doing business in this state (within the meaning of Section  
10 23101) after December 31, 1993 (other than by purchase  
11 or other acquisition described in paragraph (1)), the  
12 trade or business activity shall be treated as a new  
13 business under paragraph (2) of subdivision (e).

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

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

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

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

38 (B) For purposes of this paragraph:

39 (i) "Biopharmaceutical activities" means those  
40 activities which use organisms or materials derived from



1 organisms, and their cellular, subcellular, or molecular  
2 components, in order to provide pharmaceutical  
3 products for human or animal therapeutics and  
4 diagnostics. Biopharmaceutical activities make use of  
5 living organisms to make commercial products, as  
6 opposed to pharmaceutical activities which make use of  
7 chemical compounds to produce commercial products.

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

14 (g) In computing the modifications under Section  
15 172(d)(2) of the Internal Revenue Code, relating to  
16 capital gains and losses of taxpayers other than  
17 corporations, the exclusion provided by Section 18152.5  
18 shall not be allowed.

19 (h) Notwithstanding any provisions of this section, a  
20 deduction shall be allowed to a "qualified taxpayer" as  
21 provided in Sections 17276.1, 17276.2, 17276.4, 17276.5, and  
22 17276.6.

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

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

35 ~~(k) The amendments made by the act adding this~~  
36 ~~subdivision shall be operative for taxable years beginning~~  
37 ~~on or after January 1, 1997.~~

38 *(k) Except as otherwise provided, the amendments*  
39 *made by the act adding this subdivision shall apply to net*



1 *operating losses for taxable years beginning on or after*  
2 *January 1, 2000.*

3 *SEC. 8. Section 23609 of the Revenue and Taxation*  
4 *Code is amended to read:*

5 23609. For each income year beginning on or after  
6 January 1, 1987, there shall be allowed as a credit against  
7 the “tax” (as defined by Section 23036) an amount  
8 determined in accordance with Section 41 of the Internal  
9 Revenue Code, except as follows:

10 (a) For each income year beginning before January 1,  
11 1997, both of the following modifications shall apply:

12 (1) The reference to “20 percent” in Section 41(a)(1)  
13 of the Internal Revenue Code is modified to read “8  
14 percent.”

15 (2) The reference to “20 percent” in Section 41(a)(2)  
16 of the Internal Revenue Code is modified to read “12  
17 percent.”

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

21 (A) The reference to “20 percent” in Section 41(a)(1)  
22 of the Internal Revenue Code is modified to read “11  
23 percent.”

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

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

30 (A) The reference to “20 percent” in Section 41(a)(1)  
31 of the Internal Revenue Code is modified to read “12  
32 percent.”

33 (B) The reference to “20 percent” in Section 41(a)(2)  
34 of the Internal Revenue Code is modified to read “24  
35 percent.”

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

38 (A) *The reference to “20 percent” in Section 41(a)(1)*  
39 *of the Internal Revenue Code is modified to read “15*  
40 *percent.”*



1 (B) *The reference to “20 percent” in Section 41(a)(2)*  
2 *of the Internal Revenue Code is modified to read “24*  
3 *percent.”*

4 (c) (1) With respect to any expense paid or incurred  
5 after the operative date of Section 6378, Section 41(b)(1)  
6 of the Internal Revenue Code is modified to exclude from  
7 the definition of “qualified research expense” any  
8 amount paid or incurred for tangible personal property  
9 that is eligible for the exemption from sales or use tax  
10 provided by Section 6378.

11 (2) “Qualified research” and “basic research” shall  
12 include only research conducted in California.

13 (d) The provisions of Section 41(e)(7)(A) of the  
14 Internal Revenue Code, shall be modified so that “basic  
15 research,” for purposes of this section, includes any basic  
16 or applied research including scientific inquiry or original  
17 investigation for the advancement of scientific or  
18 engineering knowledge or the improved effectiveness of  
19 commercial products, except that the term does not  
20 include any of the following:

21 (1) Basic research conducted outside California.

22 (2) Basic research in the social sciences, arts, or  
23 humanities.

24 (3) Basic research for the purpose of improving a  
25 commercial product if the improvements relate to style,  
26 taste, cosmetic, or seasonal design factors.

27 (4) Any expenditure paid or incurred for the purpose  
28 of ascertaining the existence, location, extent, or quality  
29 of any deposit of ore or other mineral (including oil and  
30 gas).

31 (e) (1) In the case of a taxpayer engaged in any  
32 biopharmaceutical research activities that are described  
33 in codes 2833 to 2836, inclusive, or any research activities  
34 that are described in codes 3826, 3829, or 3841 to 3845,  
35 inclusive, of the Standard Industrial Classification (SIC)  
36 Manual published by the United States Office of  
37 Management and Budget, 1987 edition, or any other  
38 biotechnology research and development activities, the  
39 provisions of Section 41(e)(6) of the Internal Revenue  
40 Code shall be modified to include both of the following:



1 (A) A qualified organization as described in Section  
2 170(b)(1)(A)(iii) of the Internal Revenue Code and  
3 owned by an institution of higher education as described  
4 in Section 3304(f) of the Internal Revenue Code.

5 (B) A charitable research hospital owned by an  
6 organization that is described in Section 501(c)(3) of the  
7 Internal Revenue Code, is exempt from taxation under  
8 Section 501(a) of the Internal Revenue Code, is not a  
9 private foundation, is designated a “specialized  
10 laboratory cancer center,” and has received Clinical  
11 Cancer Research Center status from the National Cancer  
12 Institute.

13 (2) For purposes of this subdivision:

14 (A) “Biopharmaceutical research activities” means  
15 those activities that use organisms or materials derived  
16 from organisms, and their cellular, subcellular, or  
17 molecular components, in order to provide  
18 pharmaceutical products for human or animal  
19 therapeutics and diagnostics. Biopharmaceutical  
20 activities make use of living organisms to make  
21 commercial products, as opposed to pharmaceutical  
22 activities that make use of chemical compounds to  
23 produce commercial products.

24 (B) “Other biotechnology research and development  
25 activities” means research and development activities  
26 consisting of the application of recombinant DNA  
27 technology to produce commercial products, as well as  
28 research and development activities regarding  
29 pharmaceutical delivery systems designed to provide a  
30 measure of control over the rate, duration, and site of  
31 pharmaceutical delivery.

32 (f) In the case where the credit allowed by this section  
33 exceeds the “tax,” the excess may be carried over to  
34 reduce the “tax” in the following year, and succeeding  
35 years if necessary, until the credit has been exhausted.

36 (g) For each income year beginning on or after  
37 January 1, 1998, the reference to “Section 501(a)” in  
38 Section 41(b)(3)(C) of the Internal Revenue Code,  
39 relating to contract research expenses, is modified to read  
40 “this part or Part 10 (commencing with Section 17001).”



1 (h) (1) For each income year beginning on or after  
2 January 1, 1998, *and before January 1, 2000*:

3 (A) The reference to “1.65 percent” in Section  
4 41(c)(4)(A)(i) of the Internal Revenue Code is modified  
5 to read “one and thirty-two hundredths of one percent.”

6 (B) The reference to “2.2 percent” in Section  
7 41(c)(4)(A)(ii) of the Internal Revenue Code is  
8 modified to read “one and seventy-six hundredths of one  
9 percent.”

10 (C) The reference to “2.75 percent” in Section  
11 41(c)(4)(A)(iii) of the Internal Revenue Code is  
12 modified to read “two and two-tenths of one percent.”

13 (2) *For each income year beginning on or after*  
14 *January 1, 2000*:

15 (A) *The reference to “1.65 percent” in Section*  
16 *41(c)(4)(A)(i) of the Internal Revenue Code is modified*  
17 *to read “one and forty-nine hundredths of one percent.”*

18 (B) *The reference to “2.2 percent” in Section*  
19 *41(c)(4)(A)(ii) of the Internal Revenue Code is*  
20 *modified to read “one and ninety-eight hundredths of*  
21 *one percent.”*

22 (C) *The reference to “2.75 percent” in Section*  
23 *41(c)(4)(A)(iii) of the Internal Revenue Code is*  
24 *modified to read “two and forty-eight hundredths of one*  
25 *percent.”*

26 (3) Section 41(c)(4)(B) shall not apply and in lieu  
27 thereof an election under Section 41(c)(4)(A) of the  
28 Internal Revenue Code may be made for any income year  
29 of the taxpayer beginning on or after January 1, 1998. That  
30 election shall apply to the income year for which made  
31 and all succeeding income years unless revoked with the  
32 consent of the Franchise Tax Board.

33 ~~(3)~~

34 (4) Section 41(c)(6) of the Internal Revenue Code,  
35 relating to gross receipts, is modified to take into account  
36 only those gross receipts from the sale of property held  
37 primarily for sale to customers in the ordinary course of  
38 the taxpayer’s trade or business that is delivered or  
39 shipped to a purchaser within this state, regardless of  
40 f.o.b. point or any other condition of the sale.



1 (i) Section 41(h) of the Internal Revenue Code,  
2 relating to termination, shall not apply.

3 (j) Section 41(g) of the Internal Revenue Code,  
4 relating to special rule for passthrough of credit, is  
5 modified by each of the following:

6 (1) The last sentence shall not apply.

7 (2) If the amount determined under Section 41(a) of  
8 the Internal Revenue Code for any income year exceeds  
9 the limitation of Section 41(g) of the Internal Revenue  
10 Code, that amount may be carried over to other income  
11 years under the rules of subdivision (f), except that the  
12 limitation of Section 41(g) of the Internal Revenue Code  
13 shall be taken into account in each subsequent income  
14 year.

15 *SEC. 9. Section 24416 of the Revenue and Taxation*  
16 *Code is amended to read:*

17 24416. Except as provided in Section 24416.1, 24416.2,  
18 24416.4, 24416.5, or 24416.6, a net operating loss deduction  
19 shall be allowed in computing net income under Section  
20 24341 and shall be determined in accordance with Section  
21 172 of the Internal Revenue Code, except as otherwise  
22 provided.

23 (a) (1) Net operating losses attributable to income  
24 years beginning before January 1, 1987, shall not be  
25 allowed.

26 (2) A net operating loss shall not be carried forward to  
27 any income year beginning before January 1, 1987.

28 (b) (1) Except as provided in paragraphs (2) and (3),  
29 the provisions of Section 172(b)(2) of the Internal  
30 Revenue Code, relating to the amount of carryovers, shall  
31 be modified so that ~~50 percent~~ *the applicable percentage*  
32 of the entire amount of the net operating loss for any  
33 income year shall ~~not~~ be eligible for carryover to any  
34 subsequent income year. *For purposes of this subdivision,*  
35 *the applicable percentage shall be:*

36 (A) *Fifty percent for any income year beginning*  
37 *before January 1, 2000.*

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



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

3 (D) *Sixty-five percent for any income year beginning*  
4 *on or after January 1, 2004.*

5 (2) In the case of a taxpayer who has a net operating  
6 loss in ~~an~~ *any* income year beginning on or after January  
7 1, 1994, and who operates a new business during that  
8 income year, each of the following shall apply to each loss  
9 incurred during the first three income years of operating  
10 the new business:

11 (A) If the net operating loss is equal to or less than the  
12 net loss from the new business, 100 percent of the net  
13 operating loss shall be carried forward as provided in  
14 ~~paragraph (2) of~~ subdivision (e).

15 (B) If the net operating loss is greater than the net loss  
16 from the new business, the net operating loss shall be  
17 carried over as follows:

18 (i) With respect to an amount equal to the net loss  
19 from the new business, 100 percent of that amount shall  
20 be carried forward as provided in ~~paragraph (2) of~~  
21 subdivision (e).

22 (ii) With respect to the portion of the net operating  
23 loss that exceeds the net loss from the new business, ~~50~~  
24 ~~percent~~ *the applicable percentage* of that amount shall be  
25 ~~a net operating loss carryover to each of the five taxable~~  
26 ~~years following the taxable year of the loss carried~~  
27 ~~forward as provided in subdivision (d).~~

28 (C) For purposes of Section 172(b)(2) of the Internal  
29 Revenue Code, the amount described in clause (ii) of  
30 subparagraph (B) shall be absorbed before the amount  
31 described in clause (i) of subparagraph (B).

32 (3) In the case of a taxpayer who has a net operating  
33 loss in ~~an~~ *any* income year beginning on or after January  
34 1, 1994, and who operates an eligible small business during  
35 that income year, each of the following shall apply:

36 (A) If the net operating loss is equal to or less than the  
37 net loss from the eligible small business, 100 percent of the  
38 net operating loss shall be carried forward to the income  
39 years specified in paragraph (1) of subdivision (e).



1 (B) If the net operating loss is greater than the net loss  
2 from the eligible small business, the net operating loss  
3 shall be carried over as follows:

4 (i) With respect to an amount equal to the net loss  
5 from the eligible small business, 100 percent of that  
6 amount shall be carried forward ~~to each of the five~~  
7 ~~income years following the income year of the loss as~~  
8 *provided in subdivision (e).*

9 (ii) With respect to ~~the~~ *that* portion of the net  
10 operating loss that exceeds the net loss from the eligible  
11 small business, ~~50 percent~~ *the applicable percentage* of  
12 that amount shall be ~~a net operating loss carryover to each~~  
13 ~~of the five income years following the income year of the~~  
14 ~~loss carried forward as provided in subdivision (e).~~

15 (C) For purposes of Section 172(b)(2) of the Internal  
16 Revenue Code, the amount described in clause (ii) of  
17 subparagraph (B) shall be absorbed before the amount  
18 described in clause (i) of subparagraph (B).

19 (4) In the case of a taxpayer who has a net operating  
20 loss in an income year beginning on or after January 1,  
21 1994, and who operates a business that qualifies as both a  
22 new business and an eligible small business under this  
23 section, that business shall be treated as a new business for  
24 the first three income years of the new business.

25 (5) In the case of a taxpayer who has a net operating  
26 loss in an income year beginning on or after January 1,  
27 1994, and who operates more than one business, and more  
28 than one of those businesses qualifies as either a new  
29 business or an eligible small business under this section,  
30 paragraph (2) shall be applied first, except that if there  
31 is any remaining portion of the net operating loss after  
32 application of clause (i) of subparagraph (B) of  
33 paragraph (2), paragraph (3) shall be applied to the  
34 remaining portion of the net operating loss as though that  
35 remaining portion of the net operating loss constituted  
36 the entire net operating loss.

37 (6) For purposes of this section, “net loss” means the  
38 amount of net loss after application of Sections 465 and  
39 469 of the Internal Revenue Code.



1 (c) For any income year in which the taxpayer has in  
2 effect a water's-edge election under Section 25110, the  
3 deduction of a net operating loss carryover shall be  
4 denied to the extent that the net operating loss carryover  
5 was determined by taking into account the income and  
6 factors of an affiliated corporation in a combined report  
7 whose income and apportionment factors would not have  
8 been taken into account if a water's-edge election under  
9 Section 25110 had been in effect for the income year in  
10 which the loss was incurred.

11 (d) Net operating loss carrybacks shall not be allowed.

12 (e) (1) ~~Except as provided in paragraphs (2), (3), and~~  
13 ~~(4), for each~~ (A) *For a net operating loss for any income*  
14 *year beginning on or after January 1, 1987, and before*  
15 *January 1, 2000, Section 172(b)(1)(A)(ii) of the Internal*  
16 *Revenue Code, relating to years to which net operating*  
17 *losses may be carried, is modified to substitute "five*  
18 *income years" in lieu of "20-taxable-years." years" except*  
19 *as otherwise provided in paragraphs (2), (3), and (4).*

20 (B) *For a net operating loss for any income year*  
21 *beginning on or after January 1, 2000, Section*  
22 *172(b)(1)(A)(ii) of the Internal Revenue Code, relating*  
23 *to years to which net operating losses may be carried, is*  
24 *modified to substitute "10 income years" in lieu of "20*  
25 *income years."*

26 (2) ~~It~~ *For any income year beginning before January*  
27 *1, 2000, in the case of a "new business," the "five income*  
28 *years" referred to in paragraph (1) shall be modified to*  
29 *read as follows:*

30 (A) *"Eight income years" for a net operating loss*  
31 *attributable to the first income year of that new business.*

32 (B) *"Seven income years" for a net operating loss*  
33 *attributable to the second income year of that new*  
34 *business.*

35 (C) *"Six income years" for a net operating loss*  
36 *attributable to the third income year of that new business.*

37 (3) For any carryover of a net operating loss for which  
38 a deduction is denied by Section 24416.3, the carryover  
39 period specified in this subdivision shall be extended as  
40 follows:



1 (A) By one year for a net operating loss attributable to  
2 income years beginning in 1991.

3 (B) By two years for a net operating loss attributable  
4 to income years beginning prior to January 1, 1991.

5 (4) The net operating loss attributable to income years  
6 beginning on or after January 1, 1987, and before January  
7 1, 1994, shall be a net operating loss carryover to each of  
8 the 10 income years following the year of the loss if it is  
9 incurred by a corporation that was either of the following:

10 (A) Under the jurisdiction of the court in a Title 11 or  
11 similar case at any time prior to January 1, 1994. The loss  
12 carryover provided in the preceding sentence shall not  
13 apply to any loss incurred in an income year after the  
14 income year during which the corporation is no longer  
15 under the jurisdiction of the court in a Title 11 or similar  
16 case.

17 (B) In receipt of assets acquired in a transaction that  
18 qualifies as a tax-free reorganization under Section  
19 368(a)(1)(G) of the Internal Revenue Code.

20 (f) For purposes of this section:

21 (1) “Eligible small business” means any trade or  
22 business that has gross receipts, less returns and  
23 allowances, of less than one million dollars (\$1,000,000)  
24 during the income year.

25 (2) Except as provided in subdivision (g), “new  
26 business” means any trade or business activity that is first  
27 commenced in this state on or after January 1, 1994.

28 (3) “Title 11 or similar case” shall have the same  
29 meaning as in Section 368(a)(3) of the Internal Revenue  
30 Code.

31 (4) In the case of any trade or business activity  
32 conducted by a partnership or an S corporation,  
33 paragraphs (1) and (2) shall be applied to the partnership  
34 or S corporation.

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

39 (1) In any case where a taxpayer purchases or  
40 otherwise acquires all or any portion of the assets of an



1 existing trade or business (irrespective of the form of  
2 entity) that is doing business in this state (within the  
3 meaning of Section 23101), the trade or business  
4 thereafter conducted by the taxpayer (or any related  
5 person) shall not be treated as a new business if the  
6 aggregate fair market value of the acquired assets  
7 (including real, personal, tangible, and intangible  
8 property) used by the taxpayer (or any related person)  
9 in the conduct of its trade or business exceeds 20 percent  
10 of the aggregate fair market value of the total assets of the  
11 trade or business being conducted by the taxpayer (or  
12 any related person). For purposes of this paragraph only,  
13 the following rules shall apply:

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

19 (B) Any acquired assets that constituted property  
20 described in Section 1221(1) of the Internal Revenue  
21 Code in the hands of the transferor shall not be treated as  
22 assets acquired from an existing trade or business, unless  
23 those assets also constitute property described in Section  
24 1221(1) of the Internal Revenue Code in the hands of the  
25 acquiring taxpayer (or related person).

26 (2) In any case where a taxpayer (or any related  
27 person) is engaged in one or more trade or business  
28 activities in this state, or has been engaged in one or more  
29 trade or business activities in this state within the  
30 preceding 36 months (“prior trade or business activity”),  
31 and thereafter commences an additional trade or  
32 business activity in this state, the additional trade or  
33 business activity shall only be treated as a new business if  
34 the additional trade or business activity is classified under  
35 a different division of the Standard Industrial  
36 Classification (SIC) Manual published by the United  
37 States Office of Management and Budget, 1987 edition,  
38 than are any of the taxpayer’s (or any related person’s)  
39 current or prior trade or business activities.



1 (3) In any case where a taxpayer, including all related  
2 persons, is engaged in trade or business activities wholly  
3 outside of this state and the taxpayer first commences  
4 doing business in this state (within the meaning of Section  
5 23101) after December 31, 1993 (other than by purchase  
6 or other acquisition described in paragraph (1)), the  
7 trade or business activity shall be treated as a new  
8 business under paragraph (2) of subdivision (e).

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

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

20 (6) "Acquire" shall include any transfer, whether or  
21 not for consideration.

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

32 (B) For purposes of this paragraph:

33 (i) "Biopharmaceutical activities" means those  
34 activities which use organisms or materials derived from  
35 organisms, and their cellular, subcellular, or molecular  
36 components, in order to provide pharmaceutical  
37 products for human or animal therapeutics and  
38 diagnostics. Biopharmaceutical activities make use of  
39 living organisms to make commercial products, as



1 opposed to pharmaceutical activities which make use of  
2 chemical compounds to produce commercial products.

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

9 (h) For purposes of corporations whose net income is  
10 determined under Chapter 17 (commencing with  
11 Section 25101), Section 25108 shall apply to each of the  
12 following:

13 (1) The amount of net operating loss incurred in any  
14 income year which may be carried forward to another  
15 income year.

16 (2) The amount of any loss carry forward which may  
17 be deducted in any income year.

18 (i) The provisions of Section 172(b)(1)(D) of the  
19 Internal Revenue Code, relating to bad debt losses of  
20 commercial banks, shall not be applicable.

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

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

33 ~~(l) The amendments made by the act adding this~~  
34 ~~subdivision shall be operative for income years beginning~~  
35 ~~on or after January 1, 1997.~~

36 *(l) Except as otherwise provided, the amendments*  
37 *made by the act adding this subdivision shall apply to net*  
38 *operating losses for income years beginning on or after*  
39 *January 1, 2000.*



1 SEC. 10. *The amendments made by this act to Section*  
2 *10754.2 of the Revenue and Taxation Code, and the*  
3 *addition by this act of Section 10903 to the Revenue and*  
4 *Taxation Code, shall become operative only if AB 858 of*  
5 *the 1999–2000 Regular Session is enacted, in which case*  
6 *the amendments made by this act to Section 10754.2 of the*  
7 *Revenue and Taxation Code, and the addition by this act*  
8 *of Section 10903 to the Revenue and Taxation Code, shall*  
9 *become operative on the effective date of this act.*

10 SEC. 11. *This act provides for a tax levy within the*  
11 *meaning of Article IV of the Constitution and shall go into*  
12 *immediate effect.*

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**All matter omitted in this version of the  
bill appears in the bill as amended in the  
Senate June 11, 2000 (JR 11)**

