06-0026

Sheet Metal Workers' International Association

Local Union No. 105

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March 20, 2006

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INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

Ms. Patricia Galvan, Initiative Coordinator
Office of the Attorney General
1300 "I" Street, Suite 125
Post Office Box 944255
Sacramento, California 94244-2550

Dear Ms. Galvan:

Please accept this letter as a request for a title and summary for the enclosed proposed Constitutional Amendment/Statutory Initiative.

We have enclosed the required signed proponents' affidavits, pursuant to California Elections Code, Section 9608, including their residential addresses. Also included is our estimate of the fiscal impact of the measure.

Please direct all correspondence and communications regarding the initiative to the following address:

Paul McCauley, CPA
1640 5th Street, #214
Santa Monica, California 90401-3309
Telephone: (310) 230-5418 Fax: (310) 458-1026
E-mail: pmcca28169@aol.com

(Hearing impaired, I prefer all communications via e-mail)

For your information, Brad Rooker can be reached at his office which is reflected on this letterhead. Additionally, we have enclosed a check in the amount of $200.00.

Thank you for your time and effort regarding this matter.

Yours very truly,

Roy A. Ringwood, Proponent
2120 Auto Centre Drive
Glendora, CA 91740

Bradley Rooker, Proponent
2120 Auto Centre Drive
Glendora, CA 91740

Paul McCauley, Proponent
1640 5th Street, #214
Santa Monica, CA 90401

enclosures

BJR:imb/McCauley.Galvan.1
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INITIATIVE MEASURE TO BE SUBMITTED DIRECTLY TO THE VOTERS

The Attorney General of California has prepared the following title and summary of the chief purpose and points of the proposed measure:

(Here set forth the title and summary prepared by the Attorney General. This title and summary must also be printed across the top of each page of the petition whereon signatures are to appear.)

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TO THE HONORABLE SECRETARY OF STATE OF CALIFORNIA

We, the undersigned, registered, qualified voters of California, residents of ____ County (or City and County), hereby propose amendments to the Constitution of California and the Revenue and Taxation Code, relating to taxation, and petition the Secretary of State to submit the same to the voters of California for their adoption or rejection at the next succeeding general election or at any special statewide election held prior to that general election or otherwise provided by law. The proposed full title and text of measure read as follows:

SECTION 1. This measure shall be known and may be cited as "The McCauley-Rooker Tax Equity and Fiscal Responsibility Act."

SEC. 2. The people of the State of California find and declare all of the following:

(a) The concentration of private wealth in the hands of the few is inconsistent with the tenets of a democratic society.

(b) Staggering sums of wealth have come to be concentrated in the hands of a tiny percentage of the population coinciding with growing poverty for tens of millions of Americans, declining living standards and worsening economic insecurity for tens of millions more, coupled with an intensified assault on social services and an ongoing decline in the basic infrastructure of the economy.

(c) There has been, since the end of World War II especially, a massive shift in wealth and income from the poor and the middle class in America to the rich and wealthy and Californians have not escaped this phenomenon.

(d) Elected public officials in America are wholly beholden to the wealthy and financial elites and do their bidding at the expense of the well-being of the body politic, and Californians have not escaped this phenomenon.

(e) California's public officials have been deaf to the need for universal access to health care, have driven the cost of public higher education beyond affordability for many, and have made the personal income tax increasingly regressive.

(f) California public officials have, notwithstanding a massive increase in population, neglected to provide funds to meet necessary and essential infrastructure development, repairs, and improvements, including, but not limited to, remedying a dysfunctional transportation system.

(g) This act serves to level the great disparities in wealth between Californians, to restore a progressive personal income tax structure, to provide funds for bullet trains, environmental clean up and restoration, and meeting the health insurance requirements of all Californians, to substantially reduce the cost of attending California's public institutions of higher learning, and to serve other essential public needs and purposes.

SEC. 3. Section 8 is added to Article XIII A of the California Constitution, to read:

SEC. 8. (a) The tax imposed under Section 13302 of the Revenue and Taxation Code is not an ad valorem property tax for purposes of subdivision (a) of Section 1 and Section 3.

(b) Revenues derived from the tax imposed under Section 13302 of the Revenue and Taxation Code are not "proceeds of taxes" or "General Fund revenues" subject to Sections 8 and 8.5 of Article XVI.

SEC. 4. Part 8 (commencing with Section 13301) of Division 2 of the Revenue and Taxation Code is repealed.

SEC. 5. Part 8 (commencing with Section 13301) is added to Division 2 of the Revenue and Taxation Code, to read:

PART 8. WEALTH TAX

13301. For purposes of this part, the following terms have the following meanings:

(a) "Board" means the Franchise Tax Board.

(b) "Fund" means the Capital Improvements Fund established by Section 13304.

13302. (a) Chapter 11 and Chapter 14 of Subtitle B of the Internal Revenue Code, relating to the estate tax, as amended on December 1, 2004, shall apply, except as otherwise provided in this part.

(b) Chapter 11 and Chapter 14 of Subtitle B of the Internal Revenue Code are modified as follows:

(1) The term "taxpayer" shall be substituted for the terms "executor," "decedent," or any combination of those terms in each place they appear.

(2) The term "January 1, 2006" shall be substituted for the terms "time of death," "date of death," or any similar terms in each place they appear.

(3) Subdivision (a) of Section 2001 is modified by substituting the phrase "the taxable estate of each individual" for the phrase "transfer of the taxable estate of every decedent who is a citizen or resident of the United States." For purposes of this paragraph, both of the following apply:

(A) For an individual who is a resident of the state on the operative date of this section, "taxable estate" means the individual's taxable estate on January 1, 2006, as determined under the Internal Revenue Code and as modified by this part, ^AS if that individual was a decedent on January 1, 2006.

(B) For an individual who is a nonresident on the operative date of this section, "taxable estate" means the individual's taxable estate on the operative date of this section, as determined under the Internal Revenue Code and as modified by this part,

if that individual was a decedent on the operative date of this section. For purposes of this subparagraph, "taxable estate" does not include any property that may not constitutionally be included in the taxpayer's taxable estate.

(4) Subdivision (c) of Section 2010 does not apply and the applicable credit amount against the tax imposed under this part is twenty million dollars ($20,000,000).

(5) Section 2033 is modified by adding the following sentence thereto: "Neither minority interest discounts nor lack of marketability discounts shall diminish the value of any item included in the gross estate."

(6) Sections 2055, 2056, 2057, and 2058 do not apply.

(7) Sections 2201 to 2210, inclusive, do not apply.

13303. (a) On or before July 1, 2007, the board shall develop a return for payment of the tax imposed under this part.

(b) A taxpayer shall file a return for the tax imposed under this part on or before September 30, 2007, and the tax due shall be paid according to the following schedule:

(1) A taxpayer shall pay at least one-third of the amount due on or before September 30, 2007.

(2) A taxpayer shall pay the balance of the amount due on or before September 30, 2008.

(c) A taxpayer may, on or before September 30, 2007, apply to the board to request an extension of not more than six months to file the return required by subdivision (a) if that taxpayer remits, at the time of applying for the extension, an

amount equal to one-third of the estimated tax that will be due from that taxpayer under Section 13302. The board shall grant the extension if the taxpayer demonstrates reasonable cause for the extension.

(d) For purposes of this section, the Legislature may authorize a taxpayer that demonstrates reasonable cause as described in subdivision (c) to do either of the following:

(1) Pay all or part of the amount of tax due under this part with property other than money that is of equivalent value as described in statute that includes, but is not limited to, tangible and intangible property, or any other means, as described in statute, that is in the public interest.

(2) Pay the tax due under this part in installments other than those installments described in subdivision (b).

13304. (a) The Capital Improvements Fund is hereby created in the State Treasury to receive all revenues, net of refunds, derived from the tax imposed under this part.

(b) Moneys in the fund shall be used only for the following purposes, in the manner provided by law:

(1) Capital improvements.

(2) Retiring state debt.

13305. Notwithstanding any other provision of law, the penalties set forth in Part 10 (commencing with Section 17001), including any amendments thereto, apply to this part as follows:

(a) Penalties for failing to file a timely return also apply for failing to file a timely return as required by Section 13303.

(b) Penalties for failing to timely pay the tax also apply for failing to timely pay the tax imposed under Section 13302.

(c) Penalties for filing a false or misleading return apply to filing a false or misleading return under Section 13303.

13306. The board may promulgate regulations to implement this part.

SEC. 6. Section 17039.1 of the Revenue and Taxation Code is repealed.

~~17039.1. Notwithstanding Section 17039 or any other provision in this part to the contrary, the credit allowed by Section 17053.30 (relating to natural heritage) may reduce the tax imposed under Section 17041 or 17048 plus the tax imposed under Section 17504 (relating to the separate tax lump-sum distributions) below the tentative minimum tax, as defined by Section 17062, but only after allowance of the credit allowed by Section 17063.~~

SEC. 7. Section 17041 of the Revenue and Taxation Code is amended to read:

17041. (a) There shall be imposed for each taxable year upon the entire taxable income of every resident of this state who is not a part-year resident, except the head of a household as defined in Section 17042, taxes in the following amounts and at the following rates upon the amount of taxable income computed for the taxable year as if the resident were a resident of this state for the entire taxable year and for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions:

If the taxable income is:	The tax is:
Not over $3,650.....	1% of the taxable income

Over $3,650 but not over $8,650	$36.50 plus 2% of the excess over $3,650
Over $8,650 but not over $13,650	$136.50 plus 4% of the excess over $8,650
Over $13,650 but not over $18,950	$336.50 plus 6% of the excess over $13,650
Over $18,950 but not over $23,950	$654.50 plus 8% of the excess over $18,950
Over $23,950	$1,054.50 plus 9.3% of the excess over $23,950

(b) (1) There shall be imposed for each taxable year upon the taxable income of every nonresident or part-year resident, except the head of a household as defined in Section 17042, a tax as calculated in paragraph (2).

(2) The tax imposed under paragraph (1) shall be calculated by multiplying the "taxable income of a nonresident or part-year resident," as defined in subdivision (i), by a rate (expressed as a percentage) equal to the tax computed under subdivision (a) on the entire taxable income of the nonresident or part-year resident as if the nonresident or part-year resident were a resident of this state for the taxable year and as if the nonresident or part-year resident were a resident of this state for all prior taxable years for any carryover items, deferred income, suspended losses, or suspended deductions, divided by the amount of that income.

(c) There shall be imposed for each taxable year upon the entire taxable income of every resident of this state who is not a part-year resident for that taxable year, when the resident is the head of a household, as defined in Section 17042, taxes in the following amounts and at the following rates upon the amount of taxable income

computed for the taxable year as if the resident were a resident of the state for the entire taxable year and for all prior taxable years for carryover items, deferred income, suspended losses, or suspended deductions:

If the taxable income is:	The tax is:
Not over $7,300	1% of the taxable income
Over $7,300 but not over $17,300	$73 plus 2% of the excess over $7,300
Over $17,300 but not over $22,300	$273 plus 4% of the excess over $17,300
Over $22,300 but not over $27,600	$473 plus 6% of the excess over $22,300
Over $27,600 but not over $32,600	$791 plus 8% of the excess over $27,600
Over $32,600	$1,191 plus 9.3% of the excess over $32,600

(d) (1) There shall be imposed for each taxable year upon the taxable income of every nonresident or part-year resident when the nonresident or part-year resident is the head of a household, as defined in Section 17042, a tax as calculated in paragraph (2).

(2) The tax imposed under paragraph (1) shall be calculated by multiplying the "taxable income of a nonresident or part-year resident," as defined in subdivision (i), by a rate (expressed as a percentage) equal to the tax computed under subdivision (c) on the entire taxable income of the nonresident or part-year resident as if the nonresident or part-year resident were a resident of this state for the taxable year and as if the nonresident or part-year resident were a resident of this state for all prior

taxable years for any carryover items, deferred income, suspended losses, or suspended deductions, divided by the amount of that income.

(e) There shall be imposed for each taxable year upon the taxable income of every estate, trust, or common trust fund taxes equal to the amount computed under subdivision (a) for an individual having the same amount of taxable income.

(f) ~~The~~ A tax imposed by this part is not a surtax.

(g) (1) Section 1(g) of the Internal Revenue Code, relating to certain unearned income of minor children taxed as if the parent's income, shall apply, except as otherwise provided.

(2) Section 1(g)(7)(B)(ii)(II) of the Internal Revenue Code, relating to income included on parent's return, is modified, for purposes of this part, by substituting "1 percent" for "15 percent."

(h) For each taxable year beginning on or after January 1, 1988, and before January 1, 2007, the Franchise Tax Board shall recompute the income tax brackets prescribed in subdivisions (a) and (c). That computation shall be made as follows:

(1) The California Department of Industrial Relations shall transmit annually to the Franchise Tax Board the percentage change in the California Consumer Price Index for all items from June of the prior calendar year to June of the current calendar year, no later than August 1 of the current calendar year.

(2) The Franchise Tax Board shall do both of the following:

(A) Compute an inflation adjustment factor by adding 100 percent to the percentage change figure that is furnished pursuant to paragraph (1) and dividing the result by 100.

(B) Multiply the preceding taxable year income tax brackets by the inflation adjustment factor determined in subparagraph (A) and round off the resulting products to the nearest one dollar ($1).

(i) (1) For purposes of this part, the term "taxable income of a nonresident or part-year resident" includes each of the following:

(A) For any part of the taxable year during which the taxpayer was a resident of this state (as defined by Section 17014), all items of gross income and all deductions, regardless of source.

(B) For any part of the taxable year during which the taxpayer was not a resident of this state, gross income and deductions derived from sources within this state, determined in accordance with Article 9 of Chapter 3 (commencing with Section 17301) and Chapter 11 (commencing with Section 17951).

(2) For purposes of computing "taxable income of a nonresident or part-year resident" under paragraph (1), the amount of any net operating loss sustained in any taxable year during any part of which the taxpayer was not a resident of this state shall be limited to the sum of the following:

(A) The amount of the loss attributable to the part of the taxable year in which the taxpayer was a resident.

(B) The amount of the loss which, during the part of the taxable year the taxpayer is not a resident, is attributable to California source income and deductions allowable in arriving at taxable income of a nonresident or part-year resident.

(3) For purposes of computing "taxable income of a nonresident or part-year resident" under paragraph (1), any carryover items, deferred income, suspended

losses, or suspended deductions shall only be includable or allowable to the extent that the carryover item, deferred income, suspended loss, or suspended deduction was derived from sources within this state, calculated as if the nonresident or part-year resident, for the portion of the year he or she was a nonresident, had been a nonresident for all prior years.

(j) For each taxable year beginning on and after January 1, 2007, there shall be imposed on every taxpayer who is a resident of this state for any portion of the taxable year, in addition to all other taxes provided for in this section, a tax in the amount of 15 percent of the taxpayer's taxable income for taxpayers whose adjusted gross income exceeds two hundred fifty thousand dollars ($250,000) in the case of married taxpayers filing joint tax returns, or two hundred thousand dollars ($200,000) in the case of single taxpayers and taxpayers filing as head of household. Married taxpayers filing separate tax returns will each be liable for the additional tax imposed under this subdivision if the combined adjusted gross income of both spouses exceeds two hundred fifty thousand dollars ($250,000).

SEC. 8. Section 17048 of the Revenue and Taxation Code is repealed.

~~17048. (a) In lieu of the tax imposed under Section 17041, individuals with taxable income of such amounts as prescribed by the Franchise Tax Board, shall compute their taxes under tax tables prescribed by the Franchise Tax Board. The tax tables shall reflect the tax imposed under Section 17041 in income progressions of not less than one hundred dollars ($100), giving effect to the marital or other status of the individual. For purposes of this part, the tax imposed by this section shall be treated as tax imposed by Section 17041.~~

~~(b) Subdivision (a) shall not apply to any of the following:~~

~~(1) An individual to whom subdivision (b) of Section 17504 (relating to the tax on lump-sum distributions) applies for the taxable year.~~

~~(2) An individual making a return under Section 443(a)(1) of the Internal Revenue Code for a period of less than 12 months on account of a change in annual accounting period.~~

~~(3) An estate or trust.~~

SEC. 9. Section 17052.2 of the Revenue and Taxation Code is repealed.

~~17052.2. (a) For each taxable year beginning on or after January 1, 2000, and before January 1, 2002, for each taxable year beginning on or after January 1, 2003, and before January 1, 2004, and for each taxable year beginning on and after January 1, 2006, there shall be allowed as a credit against the "net tax" (as defined by Section 17039) to a credentialed teacher an amount equal to the amount determined in subdivision (b).~~

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

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

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

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

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

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

~~(E) For purposes of determining years of service, years of service performed as a teacher in a qualifying educational institution, which otherwise meets the criteria specified in paragraph (2) of subdivision (c) except that the qualifying educational institution is not located in this state, in another state shall qualify for each year the teacher was credentialed by the public education agency in that state.~~

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

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

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

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

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

~~(2) "Qualifying educational institution" means any elementary, secondary, or vocational-technical school located in this state providing education for kindergarten, grades 1 to 12, inclusive, or any part thereof. "Qualifying educational institution" includes an agency or instrumentality of the federal government providing education for kindergarten, grades 1 to 12, inclusive, or any part thereof, at any location within this state, including an Indian reservation or a military installation located within the geographical borders of this state, where a credentialed teacher is employed by the federal government or an agency or instrumentality thereof. "Qualifying educational institution" includes any elementary, secondary, or vocational-technical school located in California, that files an affidavit pursuant to Sections 33190 and 33191 of the Education Code, and provides education for kindergarten and grades 1 to 12, inclusive, or any part thereof.~~

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

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

~~(A) The credit allowed under this section.~~

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

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

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

SEC. 10. Section 17052.10 of the Revenue and Taxation Code is repealed.

~~17052.10. (a) For each taxable year beginning on or after January 1, 1997, and before January 1, 2008, there shall be allowed as a credit against the amount of "net tax," as defined in Section 17039, an amount equal to fifteen dollars ($15) for each ton of rice straw, as defined in Section 18944.33 of the Health and Safety Code, that is grown within California and purchased during the taxable year by the taxpayer.~~

~~(b) The aggregate amount of tax credits granted to all taxpayers pursuant to this section and Section 23610 shall not exceed four hundred thousand dollars ($400,000) for each calendar year.~~

~~(c) In the case where the credit allowed by this section exceeds the "net tax," the excess may be carried over to reduce the "net tax" for the next 10 taxable years, or until the credit has been exhausted, whichever occurs first.~~

~~(d) No deduction shall be claimed for the purchase of rice straw for which a tax credit has been claimed pursuant to this section.~~

~~(e) No credit shall be claimed for the purchase of rice straw for which a tax credit has otherwise already been claimed pursuant to this part.~~

~~(f) The Department of Food and Agriculture shall do all of the following:~~

~~(1) Certify that the taxpayer has purchased the rice straw as specified in subdivision (a).~~

~~(2) Issue certificates in an aggregate amount that shall not exceed the limit specified in subdivision (b). The certificates shall be issued on a "first come, first~~

~~served" basis to reflect the chronological order that the taxpayer submitted a valid request to the Department of Food and Agriculture.~~

~~(3) Provide an annual listing to the Franchise Tax Board (preferably on computer readable form, and in a form or manner agreed upon by the Franchise Tax Board and the Department of Food and Agriculture) of the qualified taxpayers who were issued certificates and the amount of rice straw purchased by each taxpayer.~~

~~(4) Provide the taxpayer with a copy of the certification to retain for his or her records.~~

~~(5) Obtain the taxpayer's identification number, and in the case of a partnership, the taxpayer identification numbers of all partners.~~

~~(6) On or before each June 1 immediately following each year for which the credit under this section is available, provide to the Legislature an informational report with respect to that year that includes all of the following:~~

~~(A) The number of tax credit certificates requested and issued.~~

~~(B) The type of businesses receiving the tax credit certificates.~~

~~(C) A general list of the methods used to process the rice straw.~~

~~(D) Recommendations on how the credits can be issued in a manner which will maximize the long-term use of the California grown rice straw.~~

~~(g) To be eligible for the credit under this section the taxpayer shall do all of the following:~~

~~(1) As part of the taxpayer's allocation request for tax credits, provide the Department of Food and Agriculture with documents, as deemed necessary by the~~

~~department, verifying the purchase of rice straw and that it meets the requirements specified in this section.~~

~~(2) Retain for his or her records a copy of the certificate issued by the Department of Food and Agriculture as specified in subdivision (f).~~

~~(3) Provide a copy of the certification specified in subdivision (f) to the Franchise Tax Board upon request. If the taxpayer fails to comply with the requirements of this subdivision, no credit shall be allowed to that taxpayer under this section for any taxable year unless the taxpayer subsequently complies.~~

~~(4) Provide the Department of Food and Agriculture with his or her taxpayer identification number, and in the case of a partnership, the taxpayer identification numbers of all partners.~~

~~(h) (1) For purposes of this section, a credit shall be allowed only if the taxpayer is the "end user" of the rice straw. For purposes of this section, "end user" shall mean anyone who uses the rice straw for processing, generation of energy, manufacturing, export, prevention of erosion, or for any other purpose, exclusive of open burning, that consumes the rice straw.~~

~~(2) The credit shall not be allowed if the taxpayer is related, within the meaning of Section 267 or 318 of the Internal Revenue Code, to any person who grew the rice straw within California.~~

~~(i) This section shall remain in effect only until December 1, 2008, and as of that date is repealed.~~

SEC. 11. Section 17053.5 of the Revenue and Taxation Code is amended to read:

17053.5. (a) (1) For a qualified renter, there shall be allowed a credit against his or her "net tax"(as defined in Section 17039). The amount of the credit ~~shall be as follows:~~

~~(A) For married couples filing joint returns, heads of household and surviving spouses (as defined in Section 17046) the credit~~ shall be equal to ~~one hundred twenty dollars ($120)~~ one thousand dollars ($1,000) if adjusted gross income is fifty thousand dollars ($50,000) or less.

~~(B) For other individuals, the credit shall be equal to sixty dollars ($60) if adjusted gross income is twenty-five thousand dollars ($25,000) or less.~~

(2) Except as provided in subdivision (b), a husband and wife shall receive but one credit under this section. If the husband and wife file separate returns, the credit may be taken by either or equally divided between them, except as follows:

(A) If one spouse was a resident for the entire taxable year and the other spouse was a nonresident for part or all of the taxable year, the resident spouse shall be allowed one-half the credit allowed to married persons and the nonresident spouse shall be permitted one-half the credit allowed to married persons, prorated as provided in subdivision (e).

(B) If both spouses were nonresidents for part of the taxable year, the credit allowed to married persons shall be divided equally between them subject to the proration provided in subdivision (e).

(b) For a husband and wife, if each spouse maintained a separate place of residence and resided in this state during the entire taxable year, each spouse will be

allowed one-half the full credit allowed to married persons provided in subdivision (a).

(c) For purposes of this section, a "qualified renter" means an individual who:

(1) Was a resident of this state, as defined in Section 17014, and

(2) Rented and occupied premises in this state which constituted his or her principal place of residence during at least 50 percent of the taxable year.

(d) The term "qualified renter" does not include any of the following:

(1) An individual who for more than 50 percent of the taxable year rented and occupied premises that were exempt from property taxes, except that an individual, otherwise qualified, is deemed a qualified renter if he or she or his or her landlord pays possessory interest taxes, or the owner of those premises makes payments in lieu of property taxes that are substantially equivalent to property taxes paid on properties of comparable market value.

(2) An individual whose principal place of residence for more than 50 percent of the taxable year is with any other person who claimed such individual as a dependent for income tax purposes.

(3) An individual who has been granted or whose spouse has been granted the homeowners' property tax exemption during the taxable year. This paragraph does not apply to an individual whose spouse has been granted the homeowners' property tax exemption if each spouse maintained a separate residence for the entire taxable year.

(e) Any otherwise qualified renter who is a nonresident for any portion of the taxable year shall claim the credits set forth in subdivision (a) at the rate of

one-twelfth of those credits for each full month that individual resided within this state during the taxable year.

(f) Every person claiming the credit provided in this section shall, as part of that claim, and under penalty of perjury, furnish that information as the Franchise Tax Board prescribes on a form supplied by the board.

(g) The credit provided in this section shall be claimed on returns in the form as the Franchise Tax Board may from time to time prescribe.

(h) For the purposes of this section, the term "premises" means a house or a dwelling unit used to provide living accommodations in a building or structure and the land incidental thereto, but does not include land only, unless the dwelling unit is a mobilehome. The credit is not allowed for any taxable year for the rental of land upon which a mobilehome is located if the mobilehome has been granted a homeowners' exemption under Section 218 in that year.

(i) This section shall become operative on January 1, 1998, and applies to any taxable year beginning on or after January 1, 1998.

~~(j) For each taxable year beginning on or after January 1, 1999, the Franchise Tax Board shall recompute the adjusted gross income amounts set forth in subdivision (a). That computation shall be made as follows:~~

~~(1) The California Department of Industrial Relations shall transmit annually to the Franchise Tax Board the percentage change in the California Consumer Price Index for all items from June of the prior calendar year to June of the current year, no later than August 1 of the current calendar year.~~

~~(2) The Franchise Tax Board shall compute an inflation adjustment factor by adding 100 percent to that portion of the percentage change figure which is furnished pursuant to paragraph (1) and dividing the result by 100.~~

~~(3) The Franchise Tax Board shall multiply the amount in subparagraph (B) of paragraph (1) of subdivision (d) for the preceding taxable year by the inflation adjustment factor determined in paragraph (2), and round off the resulting products to the nearest one dollar ($1).~~

~~(4) In computing the amounts pursuant to this subdivision, the amounts provided in subparagraph (A) of paragraph (1) of subdivision (a) shall be twice the amount provided in subparagraph (B) of paragraph (1) of subdivision (a).~~

SEC. 12. Section 17053.6 of the Revenue and Taxation Code is repealed.

~~17053.6. (a) There shall be allowed as a credit against the "net tax" (as defined by Section 17039) an amount equal to 10 percent of the amount of wages paid or incurred during the taxable year to each prisoner who is employed in a joint venture program established pursuant to Article 1.5 of Chapter 5 of Title 1 of Part 3 of the Penal Code, through agreement with the Director of Corrections.~~

~~(b) The Department of Corrections shall forward annually to the Franchise Tax Board a list of all employers certified by the Department of Corrections as active participants in a joint venture program pursuant to Article 1.5 (commencing with Section 2717.1) of Chapter 5 of Title 1 of Part 3 of the Penal Code. The list shall include the certified participant's federal employer identification number.~~

SEC. 13. Section 17053.7 of the Revenue and Taxation Code is repealed.

~~17053.7. (a) There shall be allowed as a credit against the "net tax" (as defined by Section 17039) an amount equal to 10 percent of the amount of wages paid to each employee who is certified by the Employment Development Department to meet the requirements of Section 328 of the Unemployment Insurance Code.~~

~~The credit under this section shall not apply to an individual unless, on or before the day on which that individual begins work for the employer, the employer:~~

~~(1) Has received a certification from the Employment Development Department, or~~

~~(2) Has requested in writing that certification from the Employment Development Department.~~

~~For the purposes of this subdivision, if on or before the day on which the individual begins work for the employer, the individual has received from the Employment Development Department a written preliminary determination that he or she is a member of a targeted group, then the requirement of paragraph (1) or (2) shall be applicable on or before the fifth day on which the individual begins work for the employer.~~

~~(b) The credit under this section shall not apply to wages paid in excess of three thousand dollars ($3,000) during a taxable year by a taxpayer to the same individual. With respect to each qualified employee, the aggregate credit under this section shall not exceed six hundred dollars ($600).~~

~~(c) The credit under this section shall not apply to wages paid to an individual:~~

~~(1) Who bears any of the relationships described in paragraphs (1) to (8), inclusive, of Section 152(a) of the Internal Revenue Code to the taxpayer; or~~

~~(2) Who, if the taxpayer is an estate or trust, is a grantor, beneficiary, or fiduciary of the estate or trust, or is an individual who bears any of the relationships described in paragraphs (1) to (8), inclusive, of Section 152(a) of the Internal Revenue Code to a grantor, beneficiary, or fiduciary of the estate or trust; or~~

~~(3) Who is a dependent (as described in Section 152(a)(9) of the Internal Revenue Code) of the taxpayer, or, if the taxpayer is an estate or trust, of a grantor, beneficiary, or a fiduciary of the estate or trust.~~

~~(d) The credit under this section shall not apply to wages paid to an individual if, prior to the hiring date of that individual, that individual has been employed by the employer at any time during which he or she was not certified by the Employment Development Department to meet the requirements of Section 328 of the Unemployment Insurance Code.~~

~~(e) If the certification of an employment has been revoked pursuant to subdivision (c) of Section 328 of the Unemployment Insurance Code, the credit under this section shall not apply to wages paid by the employer after the date on which notice of revocation is received by the employer.~~

~~(f) The credit under this section shall be in addition to any deduction under this part to which the taxpayer may be entitled, if any.~~

~~(g) The credit provided by this section shall be applied to wages paid to each qualifying employee during the 24-month period beginning on the date the employee begins working for the taxpayer.~~

~~(h) (1) A taxpayer may elect to have this section not apply for any taxable year.~~

~~(2) An election under paragraph (1) for any taxable year may be made (or revoked) at any time before the expiration of the four-year period beginning on the last date prescribed by law for filing the return for that taxable year (determined without regard to extensions).~~

~~(3) An election under paragraph (1) (or revocation thereof) shall be made in any manner which the Franchise Tax Board may prescribe.~~

~~(i) (1) In the case of a successor employer referred to in Section 3306(b)(1) of the Internal Revenue Code, the determination of the amount of the credit under this section with respect to wages paid by that successor employer shall be made in the same manner as if those wages were paid by the predecessor employer referred to in that section.~~

~~(2) No credit shall be determined under this section with respect to remuneration paid by an employer to an employee for services performed by that employee for another person, unless the amount reasonably expected to be received by the employer for those services from that other person exceeds the remuneration paid by the employer to that employee for those services.~~

~~(j) The term "wages" shall not include either of the following:~~

~~(1) Payments defined in Section 51(c)(3) of the Internal Revenue Code, relating to payments for services during labor disputes.~~

~~(2) Any amounts paid or incurred to an individual who begins work for the employer after December 31, 1993.~~

SEC. 14. Section 17053.12 of the Revenue and Taxation Code is repealed.

~~17053.12. (a) In the case of a taxpayer who transports any agricultural product donated in accordance with Chapter 5 (commencing with Section 58501) of Part 1 of Division 21 of the Food and Agricultural Code, for taxable years beginning on or after January 1, 1996, there shall be allowed as a credit against the "net tax" (as defined by Section 17039), an amount equal to 50 percent of the transportation costs paid or incurred by the taxpayer in connection with the transportation of that donated agricultural product.~~

~~(b) If any credit allowed by this section is claimed by the taxpayer, any deduction otherwise allowed under this part for that amount of the cost paid or incurred by the taxpayer which is eligible for the credit that is claimed shall be reduced by the amount of the credit allowed.~~

~~(c) Upon delivery of the donated agricultural product by a taxpayer authorized to claim a credit pursuant to subdivision (a), the nonprofit charitable organization shall provide a certificate to the taxpayer who transported the agricultural product. The certificate shall contain a statement signed and dated by a person authorized by that organization that the product is donated under Chapter 5 (commencing with Section 58501) of Part 1 of Division 21 of the Food and Agricultural Code. The certificate shall also contain the following information: the type and quantity of product donated, the distance transported, the name of the transporter, the name of the taxpayer donor, and the name and address of the donee. Upon the request of the Franchise Tax Board, the taxpayer shall provide a copy of the certification to the Franchise Tax Board.~~

~~(d) In the case where any credit allowed by this section exceeds the "net tax," the excess may be carried over to reduce the "net tax" in the following year, and succeeding years if necessary, until the credit has been exhausted.~~

SEC. 15. Section 17053.14 of the Revenue and Taxation Code is repealed.

~~17053.14. (a) For taxable years beginning on or after January 1, 1997, there shall be allowed as a credit against the "net tax," as defined in Section 17039, an amount, subject to Section 42(h)(1) of the Internal Revenue Code, that is otherwise equal to the lesser of 50 percent of the eligible costs, as determined under subdivision (b), or the amount allocated under paragraph (2) of subdivision (c).~~

~~(b) (1) For purposes of this section, the "eligible costs" shall be equal to the total finance costs, construction costs, excavation costs, installation costs, and permit costs paid or incurred to construct or rehabilitate farmworker housing. "Eligible costs" include, but are not limited to, improvements to ensure compliance with laws governing access for persons with disabilities and costs related to reducing utility expenses. Noneligible costs include land and those costs financed by grants and below-market financing.~~

~~(2) For purposes of paragraph (1), construction or rehabilitation of the farmworker housing shall have commenced on or after January 1, 1997.~~

~~(3) Notwithstanding any other provision of this part, eligible costs shall not include any costs paid or incurred prior to January 1, 1997.~~

~~(c) Notwithstanding any other provision of this part, no credit shall be allowed under this section unless the taxpayer first obtains a certification from the committee that the amounts described in subdivision (b) qualify for the credit under this section~~

~~and the total amount of the credit allocated to the taxpayer pursuant to the Farmworker Housing Assistance Program.~~

~~(d) The taxpayer shall do all of the following:~~

~~(1) Apply to the committee for the credit certification.~~

~~(2) Retain a copy of the certification.~~

~~(3) Make the certification available to the Franchise Tax Board upon request.~~

~~(e) The committee shall do all of the following:~~

~~(1) Provide forms and instructions for applications for credit certification, as specified pursuant to the Farmworker Housing Assistance Program.~~

~~(2) Accept applications and issue a certificate to the taxpayer that includes a certification as to the eligible costs described in subdivision (b) that qualify for the credit and the total amount of the credit to which the taxpayer is entitled for the taxable year. Credit in excess of the amount necessary to make the project feasible shall not be allocated. Credits shall be allocated through a minimum of one competitive funding round per year.~~

~~(3) Obtain the taxpayer's taxpayer identification number, and each partner's taxpayer identification number in the case of a partnership, for tax administration purposes.~~

~~(4) Provide an annual listing to the Franchise Tax Board, in the form and manner agreed upon by the Franchise Tax Board and the committee, containing the names, taxpayer identification numbers pursuant to paragraph (3), eligible costs, and total amount of credit certified to each taxpayer.~~

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

~~(1) "Compliance period" means, with respect to any farmworker housing, the period of 30 consecutive taxable years, beginning with the taxable year in which the credit is allowable.~~

~~(2) "Construct or rehabilitate" includes reconstruction, but does not include any costs related to acquisition or refinancing of property or structures thereon.~~

~~(3) "Farmworker Housing Assistance Program" means Chapter 3.7 (commencing with Section 50199.50) of Part 1 of Division 31 of the Health and Safety Code.~~

~~(4) "Qualified farmworker housing" means housing located within this state which satisfies the requirements of the Farmworker Housing Assistance Program. The housing may be vacant or occupied.~~

~~(5) "Committee" means the California Tax Credit Allocation Committee as defined in Section 50199.7 of the Health and Safety Code.~~

~~(6) "Qualified accountant" means an accountant licensed or certified in this state who is neither an employee of the taxpayer nor related to the taxpayer, within the meaning of Section 267 of the Internal Revenue Code.~~

~~(g) No deduction or other credit shall be allowed under this part or Part 11 (commencing with Section 23001) to the extent of any eligible costs, as defined in subdivision (b), that are taken into account in computing the credit allowed under this section.~~

~~(h) The farmworker housing tax credit shall not be allowed unless the taxpayer:~~

~~(1) Constructs or rehabilitates the property subject to the covenants, conditions, and restrictions imposed by this section and pursuant to the Farmworker Housing~~

~~Assistance Program, which shall include, but not necessarily be limited to, a requirement that the taxpayer obtain, for approval by the committee, a construction cost audit and certification of eligible costs from a qualified accountant.~~

~~(2) Subsequent to construction or rehabilitation of the farmworker housing, owns or operates the farmworker housing pursuant to the requirements of this section, or ensures the ownership and operation of the farmworker housing pursuant to the requirements of this section.~~

~~(i) The requirements of this section shall be set forth in a written agreement between the committee and the taxpayer. The agreement shall include, but not necessarily be limited to, the requirements set forth in the Farmworker Housing Assistance Program.~~

~~(j) In the case where the credit allowed by this section exceeds the "net tax," the excess may be carried over to reduce the "net tax" in the following year, and succeeding years if necessary, until the credit has been exhausted.~~

~~(k) (1) In the case of any disqualifying event, as defined in paragraph (2), there shall be added to the "net tax," as defined in Section 17039, for the taxable year in which the disqualifying event occurs, the recapture amount computed under paragraph (3) and the interest amount computed under paragraph (4).~~

~~(2) For purposes of this subdivision, "disqualifying event" shall mean:~~

~~(A) The committee determines that the certification provided under subdivision (c) was obtained by fraud or misrepresentation.~~

~~(B) The taxpayer fails to comply with the requirements of the Farmworker Housing Assistance Program, or any other requirement imposed under this section.~~

~~(3) For purposes of this subdivision, "recapture amount" means:~~

~~(A) In the case of any disqualifying event described in subparagraph (A) of paragraph (2), the entire amount of any credit previously allowed under this section.~~

~~(B) In the case of any disqualifying event described in subparagraph (B) of paragraph (2), an amount determined by multiplying the entire amount of the credit previously allowed under this section by a fraction, the numerator of which is the number of years remaining in the compliance period and the denominator of which is 30.~~

~~(4) For purposes of this subdivision, "interest amount" means:~~

~~(A) In the case of any disqualifying event described in subparagraph (A) of paragraph (2), the amount of interest computed using the adjusted annual rate established in Section 19521 from the due date of the return for each taxable year in which the credit was claimed to the date of the payment of the additional tax resulting from the application of this subdivision.~~

~~(B) In the case of any disqualifying event described in subparagraph (B) of paragraph (2), zero.~~

~~*(f)* The annual amount of credit granted pursuant to this section and Sections 23608.2 and 23608.3 shall not exceed five hundred thousand dollars ($500,000), provided that the aggregate amount of the credit granted pursuant to this section and Sections 23608.2 and 23608.3 for the 1998 calendar year and thereafter may exceed five hundred thousand dollars ($500,000) per calendar year by an amount equal to any unallocated credits under this section and Sections 23608.2 and 23608.3 for the preceding calendar year or years.~~

SEC. 16. Section 17053.30 of the Revenue and Taxation Code is repealed.

~~17053.30. (a) There shall be allowed as a credit against the "net tax," as defined in Section 17039, an amount equal to 55 percent of the fair market value of any qualified contribution made on or after January 1, 2000, and not later than June 30, 2008, by the taxpayer during the taxable year to the state, any local government, or any designated nonprofit organization, pursuant to Division 28 (commencing with Section 37000) of the Public Resources Code.~~

~~(b) For purposes of this section, "qualified contribution" means a contribution of property, as defined in Section 37002 of the Public Resources Code, that has been approved for acceptance by the Wildlife Conservation Board pursuant to Division 28 (commencing with Section 37000) of the Public Resources Code.~~

~~(c) In the case of any passthrough entity, the fair market value of any qualified contribution approved for acceptance under Division 28 (commencing with Section 37000) of the Public Resources Code shall be passed through to the partners or shareholders of the passthrough entity in accordance with their interest in the passthrough entity as of the date of the qualified contribution. For purposes of this subdivision, the term "passthrough entity" means any partnership, "S" corporation, or limited liability company treated as a partnership.~~

~~(d) If the credit allowed by this section exceeds the "net tax," the excess may be carried over to reduce the "net tax" in the following year, and the succeeding seven years if necessary, until the credit is exhausted.~~

~~(c) This credit shall be in lieu of any other credit or deduction which the taxpayer may otherwise claim pursuant to this part with respect to the property or any interest therein that is contributed.~~

SEC. 17. Section 17053.33 of the Revenue and Taxation Code is repealed.

~~17053.33. (a) For each taxable year beginning on or after January 1, 1998, there shall be allowed as a credit against the "net tax" (as defined in Section 17039) for the taxable year an amount equal to the sales or use tax paid or incurred during the taxable year by the qualified taxpayer in connection with the qualified taxpayer's purchase of qualified property.~~

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

~~(1) "Qualified property" means property that meets all of the following requirements:~~

~~(A) Is any of the following:~~

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

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

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

~~(I) Air pollution control mechanisms.~~

~~(II) Water pollution control mechanisms.~~

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

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

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

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

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

~~(2) (A) "Qualified taxpayer" means a person or entity that meets both of the following:~~

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

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

~~(B) In the case of any pass-through entity, the determination of whether a taxpayer is a qualified taxpayer under this section shall be made at the entity level and any credit under this section or Section 23633 shall be allowed to the pass-through~~

~~entity and passed through to the partners or shareholders in accordance with applicable provisions of this part or Part 11 (commencing with Section 23001). For purposes of this subparagraph, the term "pass-through entity" means any partnership or S corporation.~~

~~(3) "Targeted tax area" means the area designated pursuant to Chapter 12.93 (commencing with Section 7097) of Division 7 of Title 1 of the Government Code.~~

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

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

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

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

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

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

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

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

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

~~(4) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding taxable years, as if it were an amount exceeding the "net tax" for the taxable year, as provided in subdivision (c).~~

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

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

SEC. 18. Section 17053.34 of the Revenue and Taxation Code is repealed.

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

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

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

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

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

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

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

~~(1) "Qualified wages" means:~~

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

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

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

~~(2) "Minimum wage" means the wage established by the Industrial Welfare Commission as provided for in Chapter 1 (commencing with Section 1171) of Part 4 of Division 2 of the Labor Code.~~

~~(3) "Targeted tax area expiration date" means the date the targeted tax area designation expires, is revoked, is no longer binding, or becomes inoperative.~~

~~(4) (A) "Qualified employee" means an individual who meets all of the following requirements:~~

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

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

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

~~(iv) Is any of the following:~~

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

~~(II) Immediately preceding the qualified employee's commencement of employment with the qualified taxpayer, was a person eligible to be a voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985 (GAIN) provided for pursuant to Article 3.2 (commencing with Section 11320) of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions Code, or its successor.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

~~(aa) Federal Supplemental Security Income benefits.~~

~~(bb) Aid to Families with Dependent Children.~~

~~(cc) Food stamps.~~

~~(dd) State and local general assistance.~~

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

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

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

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

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

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

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

~~(B) In the case of any pass-through entity, the determination of whether a taxpayer is a qualified taxpayer under this section shall be made at the entity level and any credit under this section or Section 23634 shall be allowed to the pass-through entity and passed through to the partners or shareholders in accordance with applicable provisions of this part or Part 11 (commencing with Section 23001). For purposes of this subdivision, the term "pass-through entity" means any partnership or S corporation.~~

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

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

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

~~(1) Obtain from either the Employment Development Department, as permitted by federal law, or the local county or city Job Training Partnership Act administrative entity or the local county GAIN office or social services agency, as appropriate, a certification that provides that a qualified employee meets the eligibility requirements specified in clause (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The Employment Development Department may provide preliminary screening and~~

~~referral to a certifying agency. The Employment Development Department shall develop a form for this purpose.~~

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

~~(c) (1) For purposes of this section:~~

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

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

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

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

~~(f) (1) (A) If the employment, other than seasonal employment, of any qualified employee, with respect to whom qualified wages are taken into account under subdivision (a) is terminated by the qualified taxpayer at any time during the first 270~~

~~days of that employment (whether or not consecutive) or before the close of the 270th calendar day after the day in which that employee completes 90 days of employment with the qualified taxpayer, the tax imposed by this part for the taxable year in which that employment is terminated shall be increased by an amount equal to the credit allowed under subdivision (a) for that taxable year and all prior taxable years attributable to qualified wages paid or incurred with respect to that employee.~~

~~(B) If the seasonal employment of any qualified employee, with respect to whom qualified wages are taken into account under subdivision (a) is not continued by the qualified taxpayer for a period of 270 days of employment during the 60-month period beginning with the day the qualified employee commences seasonal employment with the qualified taxpayer, the tax imposed by this part, for the taxable year that includes the 60th month following the month in which the qualified employee commences seasonal employment with the qualified taxpayer, shall be increased by an amount equal to the credit allowed under subdivision (a) for that taxable year and all prior taxable years attributable to qualified wages paid or incurred with respect to that qualified employee.~~

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

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

~~(ii) A termination of employment of a qualified employee who, before the close of the period referred to in subparagraph (A) of paragraph (1), becomes disabled and unable to perform the services of that employment, unless that disability is removed~~

~~before the close of that period and the qualified taxpayer fails to offer reemployment to that employee.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~(i) In the case where the credit otherwise allowed under this section exceeds the "net tax" for the taxable year, that portion of the credit that exceeds the "net tax" may be carried over and added to the credit, if any, in succeeding taxable years, until the credit is exhausted. The credit shall be applied first to the earliest taxable years possible.~~

~~(j) (1) The amount of the credit otherwise allowed under this section and Section 17053.33, including any credit carryover from prior years, that may reduce the "net tax" for the taxable year shall not exceed the amount of tax that would be imposed on the qualified taxpayer's business income attributable to the targeted tax area determined as if that attributable income represented all of the income of the qualified taxpayer subject to tax under this part.~~

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

~~(3) Business income shall be apportioned to the targeted tax area by multiplying the total California business income of the taxpayer by a fraction, the~~

~~numerator of which is the property factor plus the payroll factor, and the denominator of which is two. For purposes of this paragraph:~~

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

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

~~(4) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding taxable years, as if it were an amount exceeding the "net tax" for the taxable year, as provided in subdivision (h).~~

~~(5) In the event that a credit carryover is allowable under subdivision (h) for any taxable year after the targeted tax area expiration date, the targeted tax area shall be deemed to remain in existence for purposes of computing the limitation specified in this subdivision.~~

SEC. 19. Section 17053.36 of the Revenue and Taxation Code is repealed.

~~17053.36. (a) For each taxable year beginning on or after January 1, 2001, and before January 1, 2006, a qualified taxpayer shall be allowed as a credit against the "net tax," as defined in Section 17039, an amount equal to the following:~~

~~(1) Fifty percent of qualified wages paid or incurred during any taxable year beginning on or after January 1, 2001, and before January 1, 2002.~~

~~(2) Forty percent of qualified wages paid or incurred during any taxable year beginning on or after January 1, 2002, and before January 1, 2003.~~

~~(3) Thirty percent of the qualified wages paid or incurred during any taxable year beginning on or after January 1, 2003, and before January 1, 2004.~~

~~(4) Twenty percent of the qualified wages paid or incurred during any taxable year beginning on or after January 1, 2004, and before January 1, 2005.~~

~~(5) Ten percent of the qualified wages paid or incurred during any taxable year beginning on or after January 1, 2005, and before January 1, 2006.~~

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

~~(1) (A) "Qualified taxpayer" means any taxpayer under an initial contract or subcontract to manufacture property for ultimate use in a Joint Strike Fighter.~~

~~(B) In the case of any pass-through entity, the determination of whether a taxpayer is a qualified taxpayer under this section shall be made at the entity level and any credit under this section or Section 23636 shall be allowed to the pass-through entity and passed through to the partners or shareholders in accordance with applicable provisions of this part or Part 11 (commencing with Section 23001). For purposes of this paragraph, "pass-through entity" means any partnership or S corporation.~~

~~(2) "Qualified wages" means that portion of wages paid or incurred by the qualified taxpayer during the taxable year with respect to qualified employees that are direct costs as defined in Section 263A of the Internal Revenue Code allocable to~~

~~property manufactured in this state by the qualified taxpayer for ultimate use in a Joint Strike Fighter.~~

~~(3) "Qualified employee" means an individual whose services for the qualified taxpayer are performed in this state and are at least 90 percent directly related to the qualified taxpayer's contract or subcontract to manufacture property for ultimate use in a Joint Strike Fighter.~~

~~(4) "Joint Strike Fighter" means the next generation air combat strike aircraft developed and produced under the Joint Strike Fighter program.~~

~~(5) "Joint Strike Fighter program" means the multiservice, multinational project conducted by the United States government to develop and produce the next generation of air combat strike aircraft.~~

~~(c) The credit allowed by this section shall not exceed ten thousand dollars ($10,000) per year, per qualified employee. For employees that are qualified employees for part of a taxable year, the credit shall not exceed ten thousand dollars ($10,000) multiplied by a fraction, the numerator of which is the number of months of the taxable year that the employee is a qualified employee and the denominator of which is 12.~~

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

~~(e) No credit shall be allowed unless the credit is reflected within the bid upon which the qualified taxpayer's contract or subcontract to manufacture property for~~

~~ultimate use in a Joint Strike Fighter is based by reducing the amount of the bid by the amount of the credit allowable.~~

~~(f) All references to the credit and ultimate cost reductions incorporated into any successful bid that was awarded a contract or subcontract and for which a qualified taxpayer is making a claim shall be made available to the Franchise Tax Board upon request.~~

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

SEC. 20. Section 17053.37 of the Revenue and Taxation Code is repealed.

~~17053.37. (a) For each taxable year beginning on or after January 1, 2001, and before January 1, 2006, a qualified taxpayer shall be allowed as a credit against the "net tax," as defined in Section 17039, an amount equal to 10 percent of the qualified cost of qualified property that is placed in service in this state.~~

~~(b) (1) For purposes of this section, "qualified cost" means any costs that satisfy each of the following conditions:~~

~~(A) Except as otherwise provided in this subparagraph, is a cost paid or incurred by the qualified taxpayer for the construction, reconstruction, or acquisition of qualified property on or after January 1, 2001, and before January 1, 2006. In the case of any qualified property constructed, reconstructed, or acquired by the qualified taxpayer (or any person related to the qualified taxpayer within the meaning of Section 267 or 707 of the Internal Revenue Code) pursuant to a binding contract in existence on or before January 1, 2001, costs paid pursuant to that contract shall be subject to allocation as follows. Contract costs shall be allocated to qualified property~~

~~based on a ratio of costs actually paid prior to January 1, 2001, and total contract costs actually paid. "Cost paid" shall include, without limitation, contractual deposits and option payments. To the extent of costs allocated, whether or not currently deductible or depreciable for tax purposes, to a period prior to January 1, 2001, the cost shall be deemed allocated to property acquired before January 1, 2001, and is thus not a "qualified cost."~~

~~(B) Except for capitalized labor costs as described in subparagraph (B) of paragraph (1) of subdivision (d), is an amount upon which the qualified taxpayer has paid, directly or indirectly, as a separately stated contract amount or as determined from the records of the qualified taxpayer, sales or use tax under Part 1 (commencing with Section 6001).~~

~~(C) Is an amount properly chargeable to the capital account of the qualified taxpayer.~~

~~(2) (A) For purposes of this subdivision, any contract entered into on or after January 1, 2001, that is a successor or replacement contract to a contract that was binding before January 1, 2001, shall be treated as a binding contract in existence before January 1, 2001.~~

~~(B) If a successor or replacement contract is entered into on or after January 1, 2001, and the subject of the successor or replacement contract relates both to amounts for the construction, reconstruction, or acquisition of qualified property described in the original binding contract and to costs for the construction, reconstruction, or acquisition of qualified property not described in the original binding contract, then the portion of those amounts described in the successor or replacement contract that~~

~~were not described in the original binding contract shall not be treated as costs paid or incurred pursuant to a binding contract in existence on or prior to January 1, 2001, under subparagraph (A) of paragraph (1).~~

~~(3) (A) For purposes of this section, an option contract in existence before January 1, 2001, under which a qualified taxpayer (or any other person related to the qualified taxpayer within the meaning of Section 267 or 707 of the Internal Revenue Code) had an option to acquire qualified property, shall be treated as a binding contract under the rules in paragraph (2). For purposes of this subparagraph, an option contract shall not include an option under which the optionholder will forfeit an amount less than 10 percent of the fixed option price in the event the option is not exercised.~~

~~(B) For purposes of this section, a contract shall be treated as binding even if the contract is subject to a condition.~~

~~(c) (1) For purposes of this section, "qualified taxpayer" means any taxpayer under an initial contract or subcontract to manufacture property for ultimate use in a Joint Strike Fighter.~~

~~(2) In the case of any passthrough entity, the determination of whether a taxpayer is a qualified taxpayer under this section shall be made at the entity level and any credit under this section or Section 23637 shall be allowed to the passthrough entity and passed through to the partners or shareholders in accordance with applicable provisions of Part 10 (commencing with Section 17001) or Part 11 (commencing with Section 23001). For purposes of this paragraph, the term "passthrough entity" means any partnership or S corporation.~~

~~(3) The Franchise Tax Board may prescribe regulations to carry out the purposes of this section, including any regulations necessary to prevent the avoidance of the effect of this section through splitups, shell corporations, partnerships, tiered ownership structures, sale-leaseback transactions, or otherwise.~~

~~(d) (1) For purposes of this section, "qualified property" means property that is described as either of the following:~~

~~(A) Tangible personal property that is defined in Section 1245(a)(3)(A) of the Internal Revenue Code for use by a qualified taxpayer primarily in qualified activities to manufacture a product for ultimate use in a Joint Strike Fighter.~~

~~(B) The value of any capitalized labor costs that are direct costs as defined in Section 263A of the Internal Revenue Code allocable to the construction or modification of property described in subparagraph (A).~~

~~(2) Qualified property does not include any of the following:~~

~~(A) Furniture.~~

~~(B) Inventory.~~

~~(C) Equipment used to store finished products that have completed the manufacturing process.~~

~~(D) Any tangible personal property that is used in administration, general management, or marketing.~~

~~(e) For purposes of this section:~~

~~(1) "Fabricating" means to make, build, create, produce, or assemble components or property to work in a new or different manner.~~

~~(2) "Joint Strike Fighter" means the next generation air combat strike aircraft developed and produced under the Joint Strike Fighter program.~~

~~(3) "Joint Strike Fighter program" means the multiservice, multinational project conducted by the United States government to develop and produce the next generation of air combat strike aircraft.~~

~~(4) "Manufacturing" means the activity of converting or conditioning property by changing the form, composition, quality, or character of the property for ultimate use in a Joint Strike Fighter. Manufacturing includes any improvements to tangible personal property that result in a greater service life or greater functionality than that of the original property.~~

~~(5) "Primarily" means tangible personal property used 50 percent or more of the time in an activity described in subparagraph (A) of paragraph (1) of subdivision (d).~~

~~(6) "Process" means the period beginning at the point at which any raw materials are received by the qualified taxpayer and introduced into the manufacturing, processing, or fabricating activity of the qualified taxpayer and ending at the point at which the manufacturing, processing, or fabricating activity of the qualified taxpayer has altered tangible personal property to its completed form, including packaging, if required. Raw materials shall be considered to have been introduced into the process when the raw materials are stored on the same premises where the qualified taxpayer's manufacturing, processing, or fabricating activity is conducted. Raw materials that are stored on premises other than where the qualified taxpayer's manufacturing, processing, or fabricating activity is conducted, shall not~~

~~be considered to have been introduced into the manufacturing, processing, or fabricating process.~~

~~(7) "Processing" means the physical application of the materials and labor necessary to modify or change the characteristics of property.~~

~~(8) "Qualified activities" means manufacturing, processing, or fabricating of property, beginning at the point at which any raw materials are received by the qualified taxpayer and introduced into the process and ending at the point at which the manufacturing, processing, or fabricating has altered tangible personal property to its completed form, including packaging, if required.~~

~~(f) The credit allowed under subdivision (a) shall apply to qualified property that is acquired by or subject to lease by a qualified taxpayer, subject to the following special rules:~~

~~(1) A lessor of qualified property, irrespective of whether the lessor is a qualified taxpayer, shall not be allowed the credit provided under subdivision (a) with respect to any qualified property leased to another qualified taxpayer.~~

~~(2) For purposes of paragraphs (2) and (3) of subdivision (b), "binding contract" includes any lease agreement with respect to the qualified property.~~

~~(3) (A) For purposes of determining the qualified cost paid or incurred by a lessee in any leasing transaction that is not treated as a sale under Part 1 (commencing with Section 6001), the following rules shall apply:~~

~~(i) Except as provided by subparagraph (C) of this paragraph, subparagraphs (A) and (C) of paragraph (1) of subdivision (b) shall not apply.~~

~~(ii) Except as provided in subparagraph (B) and clause (iii), the "qualified cost" upon which the lessee shall compute the credit provided under this section shall be equal to the original cost to the lessor (within the meaning of Section 18031) of the qualified property that is the subject of the lease.~~

~~(iii) The requirement of subparagraph (B) of paragraph (1) of subdivision (b) shall be treated as satisfied only if the lessor has made a timely election under either Section 6094.1 or subdivision (d) of Section 6244 and has paid sales tax reimbursement or use tax measured by the purchase price of the qualified property (within the meaning of paragraph (5) of subdivision (g) of Section 6006). For purposes of this subdivision, the amount of original cost to the lessor which may be taken into account under clause (ii) shall not exceed the purchase price upon which sales tax reimbursement or use tax has been paid under the preceding sentence.~~

~~(B) For purposes of applying subparagraph (A) only, the following special rules shall apply:~~

~~(i) The original cost to the lessor of the qualified property shall be reduced by the amount of any original cost of that property that was taken into account by a predecessor lessee in computing the credit allowable under this section.~~

~~(ii) Clause (i) shall not apply in any case where the predecessor lessee was required to recapture the credit provided under this section pursuant to the provisions of subdivision (g).~~

~~(iii) For purposes of this section only, in any case where a successor lessor has acquired qualified property from a predecessor lessor in a transaction not treated as a sale under Part 1 (commencing with Section 6001), the original cost to the successor~~

~~lessor of the qualified property shall be reduced by the amount of the original cost of the qualified property that was taken into account by any lessee of the predecessor lessor in computing the credit allowable under this section.~~

~~(C) In determining the original cost of any qualified property under this paragraph, only amounts paid or incurred by the lessor on or after January 1, 2001, and before January 1, 2006, shall be taken into account. In the case of any qualified property constructed, reconstructed, or acquired by a lessor pursuant to a binding contract in existence on or prior to January 1, 2001, the allocation rule specified in subparagraph (A) of paragraph (1) of subdivision (b) shall apply in determining the original cost to the lessor of qualified property.~~

~~(D) Notwithstanding subparagraph (A), in the case of any leasing transaction for which the lessee is allowed the credit under this section and thereafter the lessee (or any party related to the lessee within the meaning of Section 267 or 318 of the Internal Revenue Code) acquires the qualified property from the lessor (or any successor lessor) within one year from the date the qualified property is first used by the lessee under the terms of the lease, the lessee's (or related party's) acquisition of the qualified property from the lessor (or successor lessor) shall be treated as a disposition by the lessee of the qualified property that was subject to the lease under subdivision (g).~~

~~(4) For purposes of determining the qualified cost paid or incurred by a lessee in any leasing transaction that is treated as a sale under Part 1 (commencing with Section 6001), the following rules shall apply:~~

~~(A) Subparagraph (A) of paragraph (1) of subdivision (b) shall be applied by substituting the term "purchase" for the term "construction, reconstruction, or acquisition."~~

~~(B) Subparagraph (C) of paragraph (1) of subdivision (b) shall apply.~~

~~(C) The requirement of subparagraph (B) of paragraph (1) of subdivision (b) shall be treated as satisfied at the time that either the lessor or the qualified taxpayer pays sales or use tax under Part 1 (commencing with Section 6001).~~

~~(5) (A) In the case of any leasing transaction described in paragraph (3), the lessor shall provide a statement to the lessee specifying the amount of the lessor's original cost of the qualified property and the amount of that cost upon which a sales or use tax was paid within 45 days after the close of the lessee's taxable year in which the credit is allowable to the lessee under this section.~~

~~(B) The statement required under subparagraph (A) shall be made available to the Franchise Tax Board upon request.~~

~~(g) No credit shall be allowed if the qualified property is removed from the state, is disposed of to an unrelated party, or is used for any purpose not qualifying for the credit provided in this section in the same taxable year in which the taxpayer first places the qualified property in service in this state. If any qualified property for which a credit is allowed pursuant to this section is thereafter removed from this state, disposed of to an unrelated party, or used for any purpose not qualifying for the credit provided in this section within one year from the date the taxpayer first places the qualified property in service in this state, the amount of the credit allowed by this section for that qualified property shall be recaptured by adding that credit amount to~~

~~the net tax of the qualified taxpayer for the taxable year in which the qualified property is disposed of, removed, or put to an ineligible use.~~

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

~~(i) (1) No credit shall be allowed under this section if a credit is claimed under Section 17053.49 in connection with the same property.~~

~~(2) No credit shall be allowed unless the credit is reflected within the bid upon which the qualified taxpayer's contract or subcontract to manufacture property for ultimate use in a Joint Strike Fighter is based by reducing the amount of the bid by the amount of the credit allowable.~~

~~(j) All references to the credit and ultimate cost reductions incorporated into any successful bid that was awarded a contract or subcontract and for which a qualified taxpayer is making a claim shall be made available to the Franchise Tax Board upon request.~~

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

SEC. 21. Section 17053.42 of the Revenue and Taxation Code is repealed.

~~17053.42. (a) For each taxable year beginning on or after January 1, 1996, there shall be allowed as a credit against the "net tax," as defined in Section 17039, the amount paid or incurred for eligible access expenditures. The credit shall be allowed in accordance with Section 44 of the Internal Revenue Code, relating to expenditures to provide access to disabled individuals, except that the credit amount~~

~~specified in subdivision (b) shall be substituted for the credit amount specified in Section 44(a) of the Internal Revenue Code.~~

~~(b) The credit amount allowed under this section shall be 50 percent of so much of the eligible access expenditures for the taxable year as do not exceed two hundred fifty dollars ($250).~~

~~(c) In the case where the credit allowed by this section exceeds the "net tax," the excess may be carried over to reduce the "net tax" in the following year, and succeeding years if necessary, until the credit is exhausted.~~

SEC. 22. Section 17053.45 of the Revenue and Taxation Code is repealed.

~~17053.45. (a) For each taxable year beginning on or after January 1, 1995, there shall be allowed as a credit against the "net tax" (as defined by Section 17039) an amount equal to the sales or use tax paid or incurred by the taxpayer in connection with the purchase of qualified property to the extent that the qualified property does not exceed a value of one million dollars ($1,000,000).~~

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

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

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

~~(A) The net increase in the number of jobs shall be determined by subtracting the total number of full-time employees (defined as 2,000 paid hours per employee per year) the taxpayer employed in this state in the taxable year prior to commencing~~

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

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

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

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

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

~~(3) "Qualified property" means property that is each of the following:~~

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

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

~~(C) Any of the following:~~

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

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

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

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

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

~~(d) In the case where the credit otherwise allowed under this section exceeds the "net tax" for the taxable year, that portion of the credit which exceeds the "net tax" may be carried over and added to the credit, if any, in succeeding years, until the credit is exhausted. The credit shall be applied first to the earliest taxable years possible.~~

~~(e) Any taxpayer who elects to be subject to this section shall not be entitled to increase the basis of the property as otherwise required by Section 164(a) of the~~

~~Internal Revenue Code with respect to sales or use tax paid or incurred in connection with the purchase of qualified property.~~

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

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

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

~~(A) The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in the LAMBRA during the taxable year, and the denominator of which is the average~~

~~value of all the taxpayer's real and tangible personal property owned or rented and used in this state during the taxable year.~~

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

~~(4) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding taxable years, as if it were an amount exceeding the "net tax" for the taxable year, as provided in subdivision (d).~~

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

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

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

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

SEC. 23. Section 17053.46 of the Revenue and Taxation Code is repealed.

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

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

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

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

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

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

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

~~(1) "Qualified wages" means:~~

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

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

~~(C) Wages received during the 60-month period beginning with the first day the individual commences employment with the taxpayer. Reemployment in connection with any increase, including a regularly occurring seasonal increase, in the~~

~~trade or business operations of the qualified taxpayer does not constitute commencement of employment for purposes of this section.~~

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

~~(2) "Minimum wage" means the wage established by the Industrial Welfare Commission as provided for in Chapter 1 (commencing with Section 1171) of Part 4 of Division 2 of the Labor Code.~~

~~(3) "LAMBRA" means a local agency military base recovery area designated in accordance with Section 7114 of the Government Code.~~

~~(4) "Qualified disadvantaged individual" means an individual who satisfies all of the following requirements:~~

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

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

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

~~(C) Who is any of the following immediately preceding the individual's commencement of employment with the taxpayer:~~

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

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

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

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

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

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

~~(III) Is long-term unemployed and has limited opportunities for employment or reemployment in the same or a similar occupation in the area in which the individual~~

~~resides, including an individual 55 years of age or older who may have substantial barriers to employment by reason of age.~~

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

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

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

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

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

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

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

~~(vii) A recipient of:~~

~~(I) Federal Supplemental Security Income benefits.~~

~~(II) Aid to Families with Dependent Children.~~

~~(III) Food stamps.~~

~~(IV) State and local general assistance.~~

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

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

~~(A) The net increase in the number of jobs shall be determined by subtracting the total number of full-time employees (defined as 2,000 paid hours per employee per year) the taxpayer employed in this state in the taxable year prior to commencing business operations in the LAMBRA from the total number of full-time employees the taxpayer employed in this state during the second taxable year after commencing business operations in the LAMBRA. For taxpayers who commence doing business in this state with their LAMBRA business operation, the number of employees for the taxable year prior to commencing business operations in the LAMBRA shall be zero. If the taxpayer has a net increase in jobs in the state, the credit shall be allowed only if one or more full-time employees is employed within the LAMBRA.~~

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

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

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

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

~~(6) "Qualified displaced employee" means an individual who satisfies all of the following requirements:~~

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

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

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

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

~~(7) "Seasonal employment" means employment by a qualified taxpayer that has regular and predictable substantial reductions in trade or business operations.~~

~~(8) "LAMBRA expiration date" means the date the LAMBRA designation expires, is no longer binding, or becomes inoperative.~~

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

~~(1) Obtain from either the Employment Development Department, as permitted by federal law, the local county or city Job Training Partnership Act administrative entity, the local county GAIN office, or social services agency, as appropriate, a certification that provides that a qualified disadvantaged individual or qualified displaced employee meets the eligibility requirements specified in subparagraph (C) of paragraph (4) of subdivision (b) or subparagraph (A) of paragraph (6) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. The Employment Development Department shall develop a form for this purpose.~~

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

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

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

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

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

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

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

~~(B) If the seasonal employment of any qualified disadvantaged individual, with respect to whom qualified wages are taken into account under subdivision (a) is not continued by the qualified taxpayer for a period of 270 days of employment during~~

~~the 60-month period beginning with the day the qualified disadvantaged individual commences seasonal employment with the qualified taxpayer, the tax imposed by this part, for the taxable year that includes the 60th month following the month in which the qualified disadvantaged individual commences seasonal employment with the qualified taxpayer, shall be increased by an amount equal to the credit allowed under subdivision (a) for that taxable year and all prior taxable years attributable to qualified wages paid or incurred with respect to that qualified disadvantaged individual.~~

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

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

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

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

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

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

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

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

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

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

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

~~(v) A failure to continue the seasonal employment of a qualified disadvantaged individual, if that individual is replaced by other qualified displaced employees so as~~

~~to create a net increase in both the number of seasonal employees and the hours of seasonal employment.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~(4) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding taxable years, as if it were an amount exceeding the "net tax" for the taxable year, as provided in subdivision (h).~~

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

SEC. 24. Section 17053.47 of the Revenue and Taxation Code is repealed.

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

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

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

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

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

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

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

~~(1) "Qualified wages" means:~~

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

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

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

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

~~(2) "Minimum wage" means the wage established by the Industrial Welfare Commission as provided for in Chapter 1 (commencing with Section 1171) of Part 4 of Division 2 of the Labor Code.~~

~~(3) "Manufacturing Enhancement Area" means an area designated pursuant to Section 7073.8 of the Government Code according to the procedures of Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code.~~

~~(4) "Manufacturing Enhancement Area expiration date" means the date the Manufacturing Enhancement Area designation expires, is no longer binding, or becomes inoperative.~~

~~(5) "Qualified disadvantaged individual" means an individual who satisfies all of the following requirements:~~

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

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

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

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

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

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

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

~~(6) "Qualified taxpayer" means any taxpayer engaged in a trade or business within a Manufacturing Enhancement Area designated pursuant to Section 7073.8 of the Government Code and who meets both of the following requirements:~~

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

~~(B) At least 50 percent of the qualified taxpayer's workforce hired after the designation of the Manufacturing Enhancement Area is composed of individuals who, at the time of hire, are residents of the county in which the Manufacturing Enhancement Area is located.~~

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

~~(7) "Seasonal employment" means employment by a qualified taxpayer that has regular and predictable substantial reductions in trade or business operations.~~

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

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

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

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

~~(2) If a qualified taxpayer acquires the major portion of a trade or business of another employer (hereinafter in this paragraph referred to as the "predecessor") or the major portion of a separate unit of a trade or business of a predecessor, then, for purposes of applying this section (other than subdivision (d)) for any calendar year ending after that acquisition, the employment relationship between a qualified disadvantaged individual and a qualified taxpayer shall not be treated as terminated if~~

~~the qualified disadvantaged individual continues to be employed in that trade or business.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~(C) For purposes of paragraph (1), the employment relationship between the qualified taxpayer and a qualified disadvantaged individual shall not be treated as terminated by reason of a mere change in the form of conducting the trade or business of the qualified taxpayer, if the qualified disadvantaged individual continues to be~~

~~employed in that trade or business and the qualified taxpayer retains a substantial interest in that trade or business.~~

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

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

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

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

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

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

~~(g) In the case where the credit otherwise allowed under this section exceeds the "net tax" for the taxable year, that portion of the credit that exceeds the "net tax" may be carried over and added to the credit, if any, in succeeding years, until the~~

~~credit is exhausted. The credit shall be applied first to the earliest taxable years possible.~~

~~(h) (1) The amount of credit otherwise allowed under this section, including prior year credit carryovers, that may reduce the "net tax" for the taxable year shall not exceed the amount of tax that would be imposed on the qualified taxpayer's business income attributed to a Manufacturing Enhancement Area determined as if that attributed income represented all of the net income of the qualified taxpayer subject to tax under this part.~~

~~(2) Attributable income shall be that portion of the taxpayer's California source business income that is apportioned to the Manufacturing Enhancement Area. For that purpose, the taxpayer's business income that is attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11. That business income shall be further apportioned to the Manufacturing Enhancement Area in accordance with Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified for purposes of this section in accordance with paragraph (3).~~

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

~~(A) The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in the Manufacturing Enhancement Area during the taxable year, and the~~

~~denominator of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used in this state during the taxable year.~~

~~(B) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the Manufacturing Enhancement Area during the taxable year for compensation, and the denominator of which is the total compensation paid by the taxpayer in this state during the taxable year.~~

~~(4) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding taxable years, as if it were an amount exceeding the "net tax" for the taxable year, as provided in subdivision (g).~~

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

SEC. 25. Section 17053.57 of the Revenue and Taxation Code is repealed.

~~17053.57. (a) For each taxable year beginning on or after January 1, 1997, and before January 1, 2007, there shall be allowed as a credit against the amount of "net tax," as defined in Section 17039, an amount equal to 20 percent of the amount of each qualified investment made by a taxpayer during the taxable year into a community development financial institution.~~

~~(b) Notwithstanding any other provision of this part, no credit shall be allowed under this section unless the California Organized Investment Network, or its successor within the Department of Insurance, certifies that the investment described in subdivision (a) qualifies for the credit under this section and certifies the total amount of the credit allocated to the taxpayer pursuant to this section. The aggregate~~

~~amount of qualified investments made by all taxpayers pursuant to this section, Section 12209, and Section 23657 shall not exceed ten million dollars ($10,000,000) for each calendar year. However, if the aggregate amount of qualified investments made in any calendar year is less than ten million dollars ($10,000,000), the difference may be carried over to the next year, and any succeeding year during which this section remains in effect, and added to the aggregate amount authorized for those years.~~

~~(c) The Community Development Financial Institution shall do all of the following:~~

~~(1) Apply to the Department of Insurance, California Organized Investment Network, or its successor, for certification of its status as a Community Development Financial Institution.~~

~~(2) Apply to the Department of Insurance, California Organized Investment Network, or its successor, on behalf of the taxpayer for certification of the amount of the investment and the credit amount allocated to the taxpayer, obtain the certification, and retain a copy of the certification.~~

~~(3) Obtain the taxpayer's identification number, or in the case of a partnership, the taxpayer identification numbers of all the partners for tax administration purposes and provide this information to the Department of Insurance, California Organized Investment Network, or its successor, with the application required in paragraph (2).~~

~~(4) Provide an annual listing to the Franchise Tax Board, in the form and manner agreed upon by the Franchise Tax Board and the Department of Insurance, California Organized Investment Network, or its successor, of the names and~~

~~taxpayer identification numbers of any taxpayer who makes any withdrawal or partial withdrawal of a qualified investment before the expiration of 60 months from the date of the qualified investment.~~

~~(d) The Department of Insurance, California Organized Investment Network, or any successor thereof, shall do all of the following:~~

~~(1) Accept applications for certification from financial institutions and issue certificates that the applicant is a Community Development Financial Institution qualified to receive qualified investments.~~

~~(2) Accept applications for certification from any Community Development Financial Institution on behalf of the taxpayer and issue certificates to taxpayers in an aggregate amount that shall not exceed the limit specified in subdivision (b). The certificate shall include the amount eligible to be made as an investment that qualifies for the credit and the total amount of the credit to which the taxpayer is entitled for the taxable year. Certificates shall be issued in the order in which the applications are received.~~

~~(3) Provide an annual listing to the Franchise Tax Board, in a form or manner agreed upon by the Franchise Tax Board and the Department of Insurance, California Organized Investment Network, or its successor, of the taxpayers who were issued certificates, their respective tax identification numbers, the amount of the qualified investment made by each taxpayer, and the total amount of all qualified investments.~~

~~(e) For purposes of this section:~~

~~(1) "Qualified investment" means a deposit or loan that does not earn interest, or an equity investment, or an equity-like debt instrument that conforms to the~~

~~specifications for these instruments as prescribed by the United States Department of the Treasury, Community Development Financial Institutions Fund, or its successor. All qualified investments must be equal to or greater than fifty thousand dollars ($50,000) and made for a minimum duration of 60 months.~~

~~(2) "Community development financial institution" means a private financial institution located in this state that is certified by the Department of Insurance, California Organized Investment Network, or its successor, that has community development as its primary mission, and that lends in urban, rural, or reservation-based communities in this state. A community development financial institution may include a community development bank, a community development loan fund, a community development credit union, a microenterprise fund, a community development corporation-based lender, and a community development venture fund.~~

~~(f) (1) If a qualified investment is withdrawn before the end of the 60th month and not reinvested in another Community Development Financial Institution within 60 days, there shall be added to the "net tax," as defined in Section 17039, for the taxable year in which the withdrawal occurs, the entire amount of any credit previously allowed under this section.~~

~~(2) If a qualified investment is reduced before the end of the 60th month, but not below fifty thousand dollars ($50,000), there shall be added to the "net tax," as defined in Section 17039, for the taxable year in which the reduction occurs, an amount equal to 20 percent of the total reduction for the taxable year.~~

~~(g) In the case where the credit allowed by this section exceeds the "net tax," the excess may be carried over to reduce the "net tax" for the next four taxable years, or until the credit has been exhausted, whichever occurs first.~~

~~(h) The Franchise Tax Board shall, as requested by the Department of Insurance, California Organized Investment Network, or its successor, advise and assist in the administration of this section.~~

~~(i) This section shall remain in effect only until December 1, 2007, and as of that date is repealed.~~

SEC. 26. Section 17053.62 of the Revenue and Taxation Code is repealed.

~~17053.62. (a) For each taxable year beginning on or after July 1, 2005, and before January 1, 2018, there shall be allowed as an environmental tax credit against the "net tax," as defined by Section 17039, an amount equal to five cents ($0.05) for each gallon of ultra low sulfur diesel fuel produced during the taxable year by a small refiner at any facility located in this state.~~

~~(b) The aggregate credit determined under subdivision (a) for any taxable year with respect to any facility shall not exceed 25 percent of the qualified capital costs incurred by the small refiner with respect to that facility, reduced by the aggregate credits determined under this section for all prior taxable years with respect to that facility.~~

~~(c) For purposes of this section:~~

~~(1) "Small refiner" means any refiner who owns or operates a refinery in California that:~~

~~(A) Has and at all times had since January 1, 1978, a crude oil capacity of not more than 55,000 barrels per stream day.~~

~~(B) Has not been at any time since September 1, 1988, owned or controlled by any refiner that at the same time owned or controlled refineries in California with a total combined crude oil capacity of more than 55,000 barrels per stream day.~~

~~(C) Has not been at any time since September 1, 1988, owned or controlled by any refiner that at the same time owned or controlled refineries in the United States with a total combined crude oil capacity of more than 137,500 barrels per stream day.~~

~~(2) (A) "Qualified capital costs" means, with respect to any facility, those costs paid or incurred during the applicable period for items certified by the California Air Resources Board (CARB) under subparagraph (B) for compliance with the applicable EPA or CARB regulations with respect to that facility, including, but not limited to, expenditures for the construction of new process operation units or the dismantling and reconstruction of existing process units to be used in the production of ultra low sulfur diesel fuel, associated adjacent or offsite equipment (including tankage, catalyst, and power supply), engineering, construction period interest, site work, and permitting.~~

~~(B) (i) Before claiming a credit under this section, a small refiner shall request from the California Air Resources Board a certification that both of the following are true:~~

~~(I) That the items for which qualified capital costs were paid or incurred are for compliance with the applicable EPA or CARB regulations described in subparagraph (A).~~

~~(II) That the items for which qualified capital costs were paid or incurred have been placed in service by the small refiner.~~

~~(ii) The request described in clause (i) shall be in a form and contain sufficient information to allow the California Air Resources Board to determine that the items that are requested to be certified were placed in service for compliance with applicable EPA and CARB regulations, which information shall include the date on which the items were placed in service.~~

~~(C) The California Air Resources Board shall make a determination regarding a request described in subparagraph (B) on or before 60 days after the request is submitted. If the board does not make a determination within this time period, the certification will be deemed to be granted.~~

~~(D) If certification from the Secretary of the Treasury of the United States, after consultation with the Administrator of the Environmental Protection Agency, that the taxpayer's qualified capital costs with respect to a facility are, or will result, in compliance with applicable EPA regulations, has been received, then the taxpayer shall be allowed the credit without obtaining certification from the CARB, unless CARB demonstrates that the fuel produced does not meet CARB regulations.~~

~~(3) "Facility" means a small refiner's petroleum refinery located in the State of California that has incurred qualified capital costs to produce ultra low sulfur diesel fuel.~~

~~(4) "Applicable EPA regulations" means the Highway Diesel Fuel Sulfur Control Requirements of the Environmental Protection Agency.~~

~~(5) "Applicable CARB regulations" means the Vehicular Diesel Fuel Sulfur Control Requirements of the California Air Resources Board (CARB) under Section 2281 of Article 2 of Chapter 5 of Division 3 of Title 13 of the California Code of Regulations.~~

~~(6) "Applicable period" means, with respect to any facility, the period beginning on January 1, 2004, and ending on May 31, 2007.~~

~~(7) "Ultra low sulfur diesel fuel" means both of the following:~~

~~(A) Diesel fuel with a sulfur content of 15 parts per million or less.~~

~~(B) (i) Subject to clause (ii), either of the following:~~

~~(I) Vehicular diesel fuel produced and sold by a small refiner on or after June 1, 2006.~~

~~(II) Vehicular diesel fuel produced and sold by the small refiner before June 1, 2006, that the small refiner specifically identifies and supports through internal test reports as meeting applicable CARB regulations.~~

~~(ii) For purposes of this section, it is rebuttably presumed that the fuel described in clause (i) is ultra low sulfur diesel fuel. The California Air Resources Board may rebut this presumption by demonstrating that the fuel does not comply with applicable CARB regulations.~~

~~(8) "Barrels per stream day" means the maximum number of barrels of input that a distillation facility can process within a 24-hour period when running at full capacity under optimal crude and product slate conditions with no allowance for downtime.~~

~~(d) For purposes of this section, if a credit is determined under this section for any expenditure with respect to any property, the increase in basis of that property that would (but for this subdivision) result from that expenditure shall be reduced by the amount of the credit so determined.~~

~~(e) No deduction shall be allowed for that portion of the expenses otherwise allowable as a deduction for the taxable year that is equal to the amount of the credit determined for the taxable year under this section.~~

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

~~(g) If a small refiner that claims a credit under this section sells, transfers, or otherwise disposes of, either directly or indirectly, a facility within five years of the taxable year during which it first claimed the credit, there shall be added to the "net tax" of the small refiner during the taxable year of sale, transfer, or disposition an amount equal to the total credit claimed multiplied by a fraction, the numerator of which is the remaining term of five years and the denominator of which is 5.~~

~~(h) This section is repealed on January 1, 2018.~~

SEC. 27. Section 17053.70 of the Revenue and Taxation Code is repealed.

~~17053.70. (a) There shall be allowed as a credit against the "net tax" (as defined in Section 17039) for the taxable year an amount equal to the sales or use tax paid or incurred during the taxable year by the taxpayer in connection with the taxpayer's purchase of qualified property.~~

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

~~(1) "Taxpayer" means a person or entity engaged in a trade or business within an enterprise zone.~~

~~(2) "Qualified property" means:~~

~~(A) Any of the following:~~

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

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

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

~~(I) Air pollution control mechanisms.~~

~~(II) Water pollution control mechanisms.~~

~~(iv) Data processing and communications equipment, including, but not limited, to computers, computer-automated drafting systems, copy machines, telephone systems, and faxes.~~

~~(v) Motion picture manufacturing equipment central to production and postproduction, including, but not limited to, cameras, audio recorders, and digital image and sound processing equipment.~~

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

~~(C) The qualified property is used by the taxpayer exclusively in an enterprise zone.~~

~~(D) The qualified property is purchased and placed in service before the date the enterprise zone designation expires, is no longer binding, or becomes inoperative.~~

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

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

~~(d) In the case where the credit otherwise allowed under this section exceeds the "net tax" for the taxable year, that portion of the credit that exceeds the "net tax" may be carried over and added to the credit, if any, in succeeding taxable years, until the credit is exhausted. The credit shall be applied first to the earliest taxable years possible.~~

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

~~(f) (1) The amount of the credit otherwise allowed under this section and Section 17053.74, including any credit carryover from prior years, that may reduce the "net tax" for the taxable year shall not exceed the amount of tax that would be imposed on the taxpayer's business income attributable to the enterprise zone~~

~~determined as if that attributable income represented all of the income of the taxpayer subject to tax under this part.~~

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

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

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

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

~~(4) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding taxable years, as if it were an amount exceeding the "net tax" for the taxable year, as provided in subdivision (d).~~

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

SEC. 28. Section 17053.74 of the Revenue and Taxation Code is repealed.

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

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

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

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

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

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

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

~~(1) "Qualified wages" means:~~

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

~~(ii) For up to 1,350 qualified employees who are employed by the taxpayer in the Long Beach Enterprise Zone in aircraft manufacturing activities described in Codes 3721 to 3728, inclusive, and Code 3812 of the Standard Industrial~~

~~Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, "qualified wages" means that portion of hourly wages that does not exceed 202 percent of the minimum wage.~~

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

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

~~(2) "Minimum wage" means the wage established by the Industrial Welfare Commission as provided for in Chapter 1 (commencing with Section 1171) of Part 4 of Division 2 of the Labor Code.~~

~~(3) "Zone expiration date" means the date the enterprise zone designation expires, is no longer binding, or becomes inoperative.~~

~~(4) (A) "Qualified employee" means an individual who meets all of the following requirements:~~

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

~~(ii) Performs at least 50 percent of his or her services for the taxpayer during the taxable year in an enterprise zone.~~

~~(iii) Is hired by the taxpayer after the date of original designation of the area in which services were performed as an enterprise zone.~~

~~(iv) Is any of the following:~~

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

~~(II) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a person eligible to be a voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985 (GAIN) provided for pursuant to Article 3.2 (commencing with Section 11320) of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions Code, or its successor.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

~~(aa) Federal Supplemental Security Income benefits.~~

~~(bb) Aid to Families with Dependent Children.~~

~~(cc) Food stamps.~~

~~(dd) State and local general assistance.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~(2) If an employer acquires the major portion of a trade or business of another employer (hereinafter in this paragraph referred to as the "predecessor") or the major portion of a separate unit of a trade or business of a predecessor, then, for purposes of applying this section (other than subdivision (c)) for any calendar year ending after that acquisition, the employment relationship between a qualified employee and an employer shall not be treated as terminated if the employee continues to be employed in that trade or business.~~

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

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

~~credit allowed under subdivision (a) for that taxable year and all prior taxable years attributable to qualified wages paid or incurred with respect to that qualified employee.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~(i) In the case where the credit otherwise allowed under this section exceeds the "net tax" for the taxable year, that portion of the credit that exceeds the "net tax" may~~

~~be carried over and added to the credit, if any, in succeeding taxable years, until the credit is exhausted. The credit shall be applied first to the earliest taxable years possible.~~

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

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

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

~~(A) The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in the enterprise zone during the taxable year, and the denominator of which is the~~

~~average value of all the taxpayer's real and tangible personal property owned or rented and used in this state during the taxable year.~~

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

~~(4) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding taxable years, as if it were an amount exceeding the "net tax" for the taxable year, as provided in subdivision (i).~~

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

SEC. 29. Section 17053.75 of the Revenue and Taxation Code is repealed.

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

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

~~(1) "Qualified employee" means a taxpayer who meets both of the following:~~

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

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

~~(2) (A) "Qualified wages" means "wages," as defined in subsection (b) of Section 3306 of the Internal Revenue Code, attributable to services performed for an~~

~~employer with respect to whom the taxpayer is a qualified employee in an amount that does not exceed one and one-half times the dollar limitation specified in that subsection.~~

~~(B) "Qualified wages" does not include any compensation received from the federal government or this state or any political subdivision of this state.~~

~~(C) "Qualified wages" does not include any wages received on or after the date the enterprise zone designation expires, is no longer binding, or becomes inoperative.~~

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

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

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

SEC. 30. Section 17053.84 of the Revenue and Taxation Code is repealed.

~~17053.84. (a) For each taxable year beginning on or after January 1, 2001, and before January 1, 2004, there shall be allowed as a credit against the "net tax," as defined in Section 17039, an amount equal to the lesser of 15 percent of the cost that is paid or incurred by a taxpayer, after deducting the value of any other municipal, state, or federal sponsored financial incentives, during the taxable year for the purchase and installation of any solar or wind energy system installed on property in~~

~~this state, or the applicable dollar amount per rated watt of that solar or wind energy system, as determined by the Franchise Tax Board in consultation with the State Energy Resources Conservation and Development Commission.~~

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

~~(c) For purposes of this section:~~

~~(1) "Applicable dollar amount" means four dollars and fifty cents ($4.50) for any taxable year beginning on or after January 1, 2001, and before January 1, 2006.~~

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

~~(3) "Wind energy system" means a wind energy conversion system consisting of a wind turbine, a tower, and associated control or conversion electronics, with a peak generating capacity of up to, but not exceeding, 200 kilowatts, use for the~~

~~individual function of generating electricity, that is certified by the State Energy Resources Conservation and Development Commission and installed with a five-year warranty against breakdown or undue degradation.~~

~~(4) A credit may be allowed under this section with respect to only one solar or wind energy system per each separate legal parcel of property or per each address of the taxpayer in the state.~~

~~(5) No credit may be allowed under this section unless the solar or wind energy system is actually used for purposes of producing electricity and primarily used to meet the taxpayer's own energy needs.~~

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

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

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

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

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

SEC. 31. Section 17054 of the Revenue and Taxation Code is repealed.

~~17054. In the case of individuals, the following credits for personal exemption may be deducted from the tax imposed under Section 17041 or 17048, less any increases imposed under paragraph (1) of subdivision (d) or paragraph (1) of subdivision (e), or both, of Section 17560.~~

~~(a) In the case of a single individual, a head of household, or a married individual making a separate return, a credit of fifty-two dollars ($52).~~

~~(b) In the case of a surviving spouse (as defined in Section 17046), or a husband and wife making a joint return, a credit of one hundred four dollars ($104). If one spouse was a resident for the entire taxable year and the other spouse was a nonresident for all or any portion of the taxable year, the personal exemption shall be divided equally.~~

~~(c) In addition to any other credit provided in this section, in the case of an individual who is 65 years of age or over by the end of the taxable year, a credit of fifty-two dollars ($52).~~

~~(d) (1) A credit of two hundred twenty-seven dollars ($227) for each dependent (as defined in Section 17056) for whom an exemption is allowable under Section 151(c) of the Internal Revenue Code, relating to additional exemption for dependents.~~

~~The credit allowed under this subdivision for taxable years beginning on or after January 1, 1999, shall not be adjusted pursuant to subdivision (i) for any taxable year beginning before January 1, 2000.~~

~~(2) The credit allowed under paragraph (1) may not be denied on the basis that the identification number of the dependent, as defined in Section 17056, for whom an exemption is allowable under Section 151(c) of the Internal Revenue Code, relating to additional exemption for dependents, is not included on the return claiming the credit.~~

~~(e) A credit for personal exemption of fifty-two dollars ($52) for the taxpayer if he or she is blind at the end of his or her taxable year.~~

~~(f) A credit for personal exemption of fifty-two dollars ($52) for the spouse of the taxpayer if a separate return is made by the taxpayer, and if the spouse is blind and, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer.~~

~~(g) For the purposes of this section, an individual is blind only if either (1) his or her central visual acuity does not exceed 20/200 in the better eye with correcting lenses, or (2) his or her visual acuity is greater than 20/200 but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than 20 degrees.~~

~~(h) In the case of an individual with respect to whom a credit under this section is allowable to another taxpayer for a taxable year beginning in the calendar year in which the individual's taxable year begins, the credit amount applicable to that individual for that individual's taxable year is zero.~~

~~(i) For each taxable year beginning on or after January 1, 1989, the Franchise Tax Board shall compute the credits prescribed in this section. That computation shall be made as follows:~~

~~(1) The California Department of Industrial Relations shall transmit annually to the Franchise Tax Board the percentage change in the California Consumer Price Index as modified for rental equivalent home ownership for all items from June of the prior calendar year to June of the current calendar year, no later than August 1 of the current calendar year.~~

~~(2) The Franchise Tax Board shall add 100 percent to the percentage change figure which is furnished to them pursuant to paragraph (1), and divide the result by 100.~~

~~(3) The Franchise Tax Board shall multiply the immediately preceding taxable year credits by the inflation adjustment factor determined in paragraph (2), and round off the resulting products to the nearest one dollar ($1).~~

~~(4) In computing the credits pursuant to this subdivision, the credit provided in subdivision (b) shall be twice the credit provided in subdivision (a).~~

SEC. 32. Section 17054.1 of the Revenue and Taxation Code is repealed.

~~17054.1. (a) (1) In the case of any taxpayer whose federal adjusted gross income for the taxable year exceeds the threshold amount, each credit to which this section applies shall be reduced by six dollars ($6) for each two thousand five hundred dollars ($2,500), or fraction thereof, by which the taxpayer's federal adjusted gross income exceeds the threshold amount.~~

~~(2) In the case of credit allowed by subdivision (b) of Section 17054 (relating to joint returns and surviving spouses), the "six dollars ($6)" referred to in paragraph (1) shall be applied by substituting "twelve dollars ($12)."~~

~~(3) In the case of a married individual filing a separate return, the "two thousand five hundred dollars ($2,500)" referred to in paragraph (1) shall be applied by substituting "one thousand two hundred fifty dollars ($1,250)."~~

~~(4) Under no circumstances shall any credit reduced by paragraph (1) be reduced below zero.~~

~~(b) For purposes of this section, "threshold amount" means the following:~~

~~(1) Two hundred thousand dollars ($200,000) in the case of a joint return or a surviving spouse, as defined by Section 17046.~~

~~(2) One hundred fifty thousand dollars ($150,000) in the case of a head of a household, as defined by Section 17042.~~

~~(3) One hundred thousand dollars ($100,000) in the case of an individual who is not married and who is not a surviving spouse or head of a household.~~

~~(4) One hundred thousand dollars ($100,000) in the case of a married individual filing a separate return.~~

~~(c) This section shall apply to the following credits:~~

~~(1) Each of the credits allowed by Section 17054.~~

~~(2) The credit allowed by Section 17054.6.~~

~~(d) In the case of a taxpayer filing a nonresident or part-year resident return, the reduction of exemption credits, as provided by this section, shall be applicable prior to proration of those credits as provided by Section 17055.~~

~~(c) For purposes of this section, marital status shall be determined under Section 17021.5.~~

~~(f) For taxable years beginning on or after January 1, 1992, the threshold amounts specified in subdivision (b) shall be recomputed annually in the same manner as the recomputation of income tax brackets under subdivision (h) of Section 17041.~~

~~(g) This section shall apply to taxable years beginning on or after January 1, 1991.~~

SEC. 33. Section 17054.5 of the Revenue and Taxation Code is repealed.

~~17054.5. (a) (1) There shall be allowed as a credit against the "net tax" (as defined in Section 17039) of a qualified individual an amount equal to 30 percent of the net tax.~~

~~(2) For taxable years beginning on or after January 1, 1987, and before January 1, 1988, a qualified individual means a qualified joint custody head of household as defined in subdivision (c).~~

~~(3) For taxable years beginning on or after January 1, 1988, a qualified individual means either of the following:~~

~~(A) A "qualified joint custody head of household" as defined in subdivision (c).~~

~~(B) A "qualified taxpayer" as defined in subdivision (c).~~

~~(4) The amount of the credit under this section shall not exceed two hundred dollars ($200) for any taxable year.~~

~~(b) For each taxable year beginning on or after January 1, 1988, the Franchise Tax Board shall recompute the maximum credit prescribed in subdivision (a). That computation shall be made as follows:~~

~~(1) The California Department of Industrial Relations shall transmit annually to the Franchise Tax Board the percentage change in the California Consumer Price Index as modified for rental equivalent homeownership for all items from June of the prior calendar year to June of the current calendar year, no later than August 1 of the current calendar year.~~

~~(2) The Franchise Tax Board shall add 100 percent to the percentage change figure which is furnished to them pursuant to paragraph (1) and divide the result by 100.~~

~~(3) The Franchise Tax Board shall multiply the immediately preceding taxable year credit by the inflation adjustment factor determined in paragraph (2), and round off the resulting product to the nearest one dollar ($1).~~

~~(c) "Qualified joint custody head of household" means an individual who meets all of the following:~~

~~(1) Is not married at the close of the taxable year, or files a separate return and does not have his or her spouse as a member of his or her household during the entire taxable year.~~

~~(2) Maintains as his or her home a household which constitutes for the taxable year the principal place of abode for a qualifying child, as defined in subdivision (d), for no less than 146 days of the taxable year but no more than 219 days of the taxable year, under a decree of dissolution or separate maintenance, or under a written~~

~~agreement between the parents prior to the issuance of a decree of dissolution or separate maintenance where the proceedings have been initiated.~~

~~(3) Furnishes over one-half the cost of maintaining the household during the taxable year.~~

~~(4) Does not qualify as a head of household under Section 17042 or as a surviving spouse under Section 17046.~~

~~(d) For purposes of this section, a "qualifying child" means a son, stepson, daughter, or stepdaughter of the taxpayer or a descendant of a son or daughter of the taxpayer, but if that son, stepson, daughter, stepdaughter, or descendant is married at the close of the taxpayer's taxable year, only if the taxpayer is entitled to a credit for the taxable year for that person under Section 17054.~~

~~(e) "Qualified taxpayer" means an individual who meets all of the following:~~

~~(1) Is married and files a separate return.~~

~~(2) During the last six months of the taxable year the taxpayer's spouse was not a member of the taxpayer's household.~~

~~(3) Maintains a household, whether or not the taxpayer's home, which constitutes the principal place of abode of a dependent mother or father of the taxpayer for the taxable year.~~

~~(4) Furnishes over one-half of the cost of maintaining the household during the taxable year.~~

~~(5) Does not qualify as a head of household under Section 17042 or as a surviving spouse under Section 17046.~~

SEC. 34. Section 17054.7 of the Revenue and Taxation Code is repealed.

~~17054.7. (a) There shall be allowed as a credit against the "net tax" (as defined in Section 17039) for a "qualified senior head of household" (as defined in subdivision (c)) an amount equal to 2 percent of the taxable income.~~

~~(b) For each taxable year beginning on or after January 1, 1991, the Franchise Tax Board shall recompute the adjusted gross income specified in paragraph (3) of subdivision (c). Those computations shall be made as follows:~~

~~(1) The California Department of Industrial Relations shall transmit annually to the Franchise Tax Board the percentage change in the California Consumer Price Index as modified for rental equivalent home ownership for all items from June of the prior calendar year to June of the current calendar year, no later than August 1 of the current calendar year.~~

~~(2) The Franchise Tax Board shall add 100 percent to the percentage change figure which is furnished pursuant to paragraph (1) and divide the result by 100.~~

~~(3) The Franchise Tax Board shall multiply the amount for the immediately preceding taxable year for the adjusted gross income limitation specified in paragraph (3) of subdivision (c) by the inflation adjustment factor determined in paragraph (2), and round off the resulting product to the nearest one dollar ($1).~~

~~(c) "Qualified senior head of household" means an individual who meets all of the following:~~

~~(1) Attained the age of 65 before the close of the taxable year.~~

~~(2) Qualified as the head of household in accordance with Section 17042 for either of the two taxable years immediately preceding the taxable year by providing a~~

~~household for a qualifying individual who died during either of the two taxable years immediately preceding the taxable year.~~

~~(3) Whose adjusted gross income for the taxable year does not exceed thirty-seven thousand five hundred dollars ($37,500).~~

SEC. 35. Section 17057.5 of the Revenue and Taxation Code is repealed.

~~17057.5. It is the intent of the Legislature that the amount of the state low-income housing tax credit allocated to a project pursuant to Section 17058 shall not exceed an amount in addition to the federal tax credit that is necessary for the financial feasibility of the project and its viability throughout the extended use period.~~

SEC. 36. Section 17058 of the Revenue and Taxation Code is repealed.

~~17058. (a) (1) There shall be allowed as a credit against the amount of net tax (as defined in Section 17039) a state low-income housing credit in an amount equal to the amount determined in subdivision (c), computed in accordance with the provisions of Section 42 of the Internal Revenue Code, except as otherwise provided in this section.~~

~~(2) "Taxpayer" for purposes of this section means the sole owner in the case of an individual, the partners in the case of a partnership, and the shareholders in the case of an "S" corporation.~~

~~(3) "Housing sponsor" for purposes of this section means the sole owner in the case of an individual, the partnership in the case of a partnership, and the "S" corporation in the case of an "S" corporation.~~

~~(b) (1) The amount of the credit allocated to any housing sponsor shall be authorized by the California Tax Credit Allocation Committee, or any successor~~

~~thereof, based on a project's need for the credit for economic feasibility in accordance with the requirements of this section.~~

~~(A) The low-income housing project shall be located in California and shall meet either of the following requirements:~~

~~(i) The project's housing sponsor shall have been allocated by the California Tax Credit Allocation Committee a credit for federal income tax purposes under Section 42 of the Internal Revenue Code.~~

~~(ii) It shall qualify for a credit under Section 42(h)(4)(B) of the Internal Revenue Code.~~

~~(B) The California Tax Credit Allocation Committee shall not require fees for the credit under this section in addition to those fees required for applications for the tax credit pursuant to Section 42 of the Internal Revenue Code. The committee may require a fee if the application for the credit under this section is submitted in a calendar year after the year the application is submitted for the federal tax credit.~~

~~(2) (A) The California Tax Credit Allocation Committee shall certify to the housing sponsor the amount of tax credit under this section allocated to the housing sponsor for each credit period.~~

~~(B) In the case of a partnership or an "S" corporation, the housing sponsor shall provide a copy of the California Tax Credit Allocation Committee certification to the taxpayer.~~

~~(C) The taxpayer shall, upon request, provide a copy of the certification to the Franchise Tax Board.~~

~~(D) All elections made by the taxpayer pursuant to Section 42 of the Internal Revenue Code shall apply to this section.~~

~~(E) For buildings located in designated difficult development areas or qualified census tracts as defined in Section 42(d)(5)(C) of the Internal Revenue Code, credits may be allocated under this section in the amounts prescribed in subdivision (c), provided that the amount of credit allocated under Section 42 of the Internal Revenue Code is computed on 100 percent of the qualified basis of the building.~~

~~(c) Section 42(b) of the Internal Revenue Code shall be modified as follows:~~

~~(1) In the case of any qualified low-income building placed in service by the housing sponsor during 1987, the term "applicable percentage" means 9 percent for each of the first three years and 3 percent for the fourth year for new buildings (whether or not the building is federally subsidized) and for existing buildings.~~

~~(2) In the case of any qualified low-income building that receives an allocation after 1989 and is a new building not federally subsidized, the term "applicable percentage" means the following:~~

~~(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are not federally subsidized for the taxable year, determined in accordance with the requirements of Section 42(b)(2) of the Internal Revenue Code, in lieu of the percentage prescribed in Section 42(b)(1)(A) of the Internal Revenue Code.~~

~~(B) For the fourth year, the difference between 30 percent and the sum of the applicable percentages for the first three years.~~

~~(3) In the case of any qualified low-income building that receives an allocation after 1989 and that is a new building that is federally subsidized or that is an existing building that is "at risk of conversion," the term "applicable percentage" means the following:~~

~~(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are federally subsidized for the taxable year.~~

~~(B) For the fourth year, the difference between 13 percent and the sum of the applicable percentages for the first three years.~~

~~(4) For purposes of this section, the term "at risk of conversion," with respect to an existing property means a property that satisfies all of the following criteria:~~

~~(A) The property is a multifamily rental housing development in which at least 50 percent of the units receive governmental assistance pursuant to any of the following:~~

~~(i) New construction, substantial rehabilitation, moderate rehabilitation, property disposition, and loan management set-aside programs, or any other program providing project-based assistance pursuant to Section 8 of the United States Housing Act of 1937, Section 1437f of Title 42 of the United States Code, as amended.~~

~~(ii) The Below-Market-Interest-Rate Program pursuant to Section 221(d)(3) of the National Housing Act, Sections 1715l(d)(3) and (5) of Title 12 of the United States Code.~~

~~(iii) Section 236 of the National Housing Act, Section 1715z-1 of Title 12 of the United States Code.~~

~~(iv) Programs for rent supplement assistance pursuant to Section 101 of the Housing and Urban Development Act of 1965, Section 1701s of Title 12 of the United States Code, as amended.~~

~~(v) Programs pursuant to Section 515 of the Housing Act of 1949, Section 1485 of Title 42 of the United States Code, as amended.~~

~~(vi) The low-income housing credit program set forth in Section 42 of the Internal Revenue Code, provided that the property is not eligible to receive an allocation of tax exempt private activity mortgage revenue bonds from the California Debt Limit Allocation Committee.~~

~~(B) The restrictions on rent and income levels will terminate or the federal insured mortgage on the property is eligible for prepayment anytime in the five calendar years after the year of application to the California Tax Credit Allocation Committee.~~

~~(C) The entity acquiring the property enters into a regulatory agreement that requires the property to be operated in accordance with the requirements of this section for a period equal to the greater of 55 years or the life of the property.~~

~~(D) The property satisfies the requirements of Section 42(e) of the Internal Revenue Code regarding rehabilitation expenditures, except that the provisions of Section 42(e)(3)(A)(ii)(I) shall not apply.~~

~~(d) The term "qualified low-income housing project" as defined in Section 42(c)(2) of the Internal Revenue Code is modified by adding the following requirements:~~

~~(1) The taxpayer shall be entitled to receive a cash distribution from the operations of the project, after funding required reserves, that, at the election of the taxpayer, is equal to:~~

~~(A) An amount not to exceed 8 percent of the lesser of:~~

~~(i) The owner equity that shall include the amount of the capital contributions actually paid to the housing sponsor and shall not include any amounts until they are paid on an investor note.~~

~~(ii) Twenty percent of the adjusted basis of the building as of the close of the first taxable year of the credit period.~~

~~(B) The amount of the cashflow from those units in the building that are not low-income units. For purposes of computing cashflow under this subparagraph, operating costs shall be allocated to the low-income units using the "floor space fraction," as defined in Section 42 of the Internal Revenue Code.~~

~~(C) Any amount allowed to be distributed under subparagraph (A) that is not available for distribution during the first five years of the compliance period may be accumulated and distributed any time during the first 15 years of the compliance period but not thereafter.~~

~~(2) The limitation on return shall apply in the aggregate to the partners if the housing sponsor is a partnership and in the aggregate to the shareholders if the housing sponsor is an "S" corporation.~~

~~(3) The housing sponsor shall apply any cash available for distribution in excess of the amount eligible to be distributed under paragraph (1) to reduce the rent~~

~~on rent-restricted units or to increase the number of rent-restricted units subject to the tests of Section 42(g)(1) of the Internal Revenue Code.~~

~~(e) The provisions of Section 42(f) of the Internal Revenue Code shall be modified as follows:~~

~~(1) The term "credit period" as defined in Section 42(f)(1) of the Internal Revenue Code is modified by substituting "four taxable years" for "10 taxable years."~~

~~(2) The special rule for the first taxable year of the credit period under Section 42(f)(2) of the Internal Revenue Code shall not apply to the tax credit under this section.~~

~~(3) Section 42(f)(3) of the Internal Revenue Code is modified to read:~~

~~If, as of the close of any taxable year in the compliance period, after the first year of the credit period, the qualified basis of any building exceeds the qualified basis of that building as of the close of the first year of the credit period, the housing sponsor, to the extent of its tax credit allocation, shall be eligible for a credit on the excess in an amount equal to the applicable percentage determined pursuant to subdivision (c) for the four-year period beginning with the taxable year in which the increase in qualified basis occurs.~~

~~(f) The provisions of Section 42(h) of the Internal Revenue Code shall be modified as follows:~~

~~(1) Section 42(h)(2) of the Internal Revenue Code shall not be applicable and instead the following provisions shall be applicable:~~

~~The total amount for the four-year period of the housing credit dollars allocated in a calendar year to any building shall reduce the aggregate housing credit dollar~~

~~amount of the California Tax Credit Allocation Committee for the calendar year in which the allocation is made.~~

~~(2) Paragraphs (3), (4), (5), (6)(E)(i)(II), (6)(F), (6)(G), (6)(I), (7), and (8) of Section 42(h) of the Internal Revenue Code shall not be applicable to this section.~~

~~(g) The aggregate housing credit dollar amount which may be allocated annually by the California Tax Credit Allocation Committee pursuant to this section, Section 12206, and Section 23610.5 shall be an amount equal to the sum of all the following:~~

~~(1) Seventy million dollars ($70,000,000) for the 2001 calendar year, and, for the 2002 calendar year and each calendar year thereafter, seventy million dollars ($70,000,000) increased by the percentage, if any, by which the Consumer Price Index for the preceding calendar year exceeds the Consumer Price Index for the 2001 calendar year. For the purposes of this paragraph, the term "Consumer Price Index" means the last Consumer Price Index for all urban consumers published by the federal Department of Labor.~~

~~(2) The unused housing credit ceiling, if any, for the preceding calendar years.~~

~~(3) The amount of housing credit ceiling returned in the calendar year. For purposes of this paragraph, the amount of housing credit dollar amount returned in the calendar year equals the housing credit dollar amount previously allocated to any project that does not become a qualified low-income housing project within the period required by this section or to any project with respect to which an allocation is canceled by mutual consent of the California Tax Credit Allocation Committee and the allocation recipient.~~

~~(h) The term "compliance period" as defined in Section 42(i)(1) of the Internal Revenue Code is modified to mean, with respect to any building, the period of 30 consecutive taxable years beginning with the first taxable year of the credit period with respect thereto.~~

~~(i) Section 42(j) of the Internal Revenue Code shall not be applicable and the following requirements of this section shall be set forth in a regulatory agreement between the California Tax Credit Allocation Committee and the housing sponsor, which agreement shall be subordinated, when required, to any lien or encumbrance of any banks or other institutional lenders to the project. The regulatory agreement entered into pursuant to subdivision (f) of Section 50199.14 of the Health and Safety Code shall apply, providing the agreement includes all of the following provisions:~~

~~(1) A term not less than the compliance period.~~

~~(2) A requirement that the agreement be filed in the official records of the county in which the qualified low-income housing project is located.~~

~~(3) A provision stating which state and local agencies can enforce the regulatory agreement in the event the housing sponsor fails to satisfy any of the requirements of this section.~~

~~(4) A provision that the regulatory agreement shall be deemed a contract enforceable by tenants as third-party beneficiaries thereto and which allows individuals, whether prospective, present, or former occupants of the building, who meet the income limitation applicable to the building, the right to enforce the regulatory agreement in any state court.~~

~~(5) A provision incorporating the requirements of Section 42 of the Internal Revenue Code as modified by this section.~~

~~(6) A requirement that the housing sponsor notify the California Tax Credit Allocation Committee or its designee if there is a determination by the Internal Revenue Service that the project is not in compliance with Section 42(g) of the Internal Revenue Code.~~

~~(7) A requirement that the housing sponsor, as security for the performance of the housing sponsor's obligations under the regulatory agreement, assign the housing sponsor's interest in rents that it receives from the project, provided that until there is a default under the regulatory agreement, the housing sponsor is entitled to collect and retain the rents.~~

~~(8) The remedies available in the event of a default under the regulatory agreement that is not cured within a reasonable cure period, include, but are not limited to, allowing any of the parties designated to enforce the regulatory agreement to collect all rents with respect to the project; taking possession of the project and operating the project in accordance with the regulatory agreement until the enforcer determines the housing sponsor is in a position to operate the project in accordance with the regulatory agreement; applying to any court for specific performance; securing the appointment of a receiver to operate the project; or any other relief as may be appropriate.~~

~~(j) (1) The committee shall allocate the housing credit on a regular basis consisting of two or more periods in each calendar year during which applications may be filed and considered. The committee shall establish application filing~~

~~deadlines, the maximum percentage of federal and state low-income housing tax credit ceiling that may be allocated by the committee in that period, and the approximate date on which allocations shall be made. If the enactment of federal or state law, the adoption of rules or regulations or other similar events prevent the use of two allocation periods, the committee may reduce the number of periods and adjust the filing deadlines, maximum percentage of credit allocated, and the allocation dates.~~

~~(2) The committee shall adopt a qualified allocation plan, as provided in Section 42(m)(1) of the Internal Revenue Code. In adopting this plan, the committee shall comply with the provisions of Sections 42(m)(1)(B) and 42(m)(1)(C) of the Internal Revenue Code.~~

~~(3) Notwithstanding Section 42(m) of the Internal Revenue Code, the California Tax Credit Allocation Committee shall allocate housing credits in accordance with the qualified allocation plan and regulations, which shall include the following provisions:~~

~~(A) All housing sponsors, as defined by paragraph (3) of subdivision (a), shall demonstrate at the time the application is filed with the committee that the project meets the following threshold requirements:~~

~~(i) The housing sponsor shall demonstrate there is a need and demand for low-income housing in the community or region for which it is proposed.~~

~~(ii) The project's proposed financing, including tax credit proceeds, shall be sufficient to complete the project and that the proposed operating income shall be adequate to operate the project for the extended use period.~~

~~(iii) The project shall have enforceable financing commitments, either construction or permanent financing, for at least 50 percent of the total estimated financing of the project.~~

~~(iv) The housing sponsor shall have and maintain control of the site for the project.~~

~~(v) The housing sponsor shall demonstrate that the project complies with all applicable local land use and zoning ordinances.~~

~~(vi) The housing sponsor shall demonstrate that the project development team has the experience and the financial capacity to ensure project completion and operation for the extended use period.~~

~~(vii) The housing sponsor shall demonstrate the amount of tax credit that is necessary for the financial feasibility of the project and its viability as a qualified low-income housing project throughout the extended use period, taking into account operating expenses, a supportable debt service, reserves, funds set aside for rental subsidies, and required equity, and a development fee that does not exceed a specified percentage of the eligible basis of the project prior to inclusion of the development fee in the eligible basis, as determined by the committee.~~

~~(B) The committee shall give a preference to those projects satisfying all of the threshold requirements of subparagraph (A) if both of the following apply:~~

~~(i) The project serves the lowest income tenants at rents affordable to those tenants.~~

~~(ii) The project is obligated to serve qualified tenants for the longest period.~~

~~(C) In addition to the provisions of subparagraphs (A) and (B), the committee shall use the following criteria in allocating housing credits:~~

~~(i) Projects serving large families in which a substantial number, as defined by the committee of all residential units is comprised of low-income units with three and more bedrooms.~~

~~(ii) Projects providing single room occupancy units serving very low income tenants.~~

~~(iii) Existing projects that are "at risk of conversion," as defined by paragraph (4) of subdivision (c).~~

~~(iv) Projects for which a public agency provides direct or indirect long-term financial support for at least 15 percent of the total project development costs or projects for which the owner's equity constitutes at least 30 percent of the total project development costs.~~

~~(v) Projects that provide tenant amenities not generally available to residents of low-income housing projects.~~

~~(4) For purposes of allocating credits pursuant to this section, the committee shall not give preference to any project by virtue of the date of submission of its application.~~

~~(k) Section 42(*l*) of the Internal Revenue Code shall be modified as follows:~~

~~The term "secretary" shall be replaced by the term "California Franchise Tax Board."~~

~~(*l*) In the case where the credit allowed under this section exceeds the net tax, the excess credit may be carried over to reduce the net tax in the following year, and succeeding taxable years, if necessary, until the credit has been exhausted.~~

~~(m) A project that received an allocation of a 1989 federal housing credit dollar amount shall be eligible to receive an allocation of a 1990 state housing credit dollar amount, subject to all of the following conditions:~~

~~(1) The project was not placed in service prior to 1990.~~

~~(2) To the extent the amendments made to this section by the Statutes of 1990 conflict with any provisions existing in this section prior to those amendments, the prior provisions of law shall prevail.~~

~~(3) Notwithstanding paragraph (2), a project applying for an allocation under this subdivision shall be subject to the requirements of paragraph (3) of subdivision (j).~~

~~(n) The credit period with respect to an allocation of credit in 1989 by the California Tax Credit Allocation Committee of which any amount is attributable to unallocated credit from 1987 or 1988 shall not begin until after December 31, 1989.~~

~~(o) The provisions of Section 11407(a) of Public Law 101-508, relating to the effective date of the extension of the low-income housing credit, shall apply to calendar years after 1989.~~

~~(p) The provisions of Section 11407(c) of Public Law 101-508, relating to election to accelerate credit, shall not apply.~~

~~(q) Any unused credit may continue to be carried forward, as provided in subdivision (*l*), until the credit has been exhausted.~~

~~This section shall remain in effect on and after December 1, 1990, for as long as Section 42 of the Internal Revenue Code, relating to low-income housing credits, remains in effect.~~

~~(r) The amendments to this section by the act adding this subdivision shall apply only to taxable years beginning on or after January 1, 1994.~~

SEC. 37. Chapter 2.1 (commencing with Section 17062) of Part 10 of Division 2 of the Revenue and Taxation Code is repealed.

SEC. 38. Section 17065 is added to the Revenue and Taxation Code, to read:

17065. (a) For each taxable year beginning on or after January 1, 2007, there shall be allowed as a credit against the "net tax," as defined in Section 17039, due on the final return filed for a qualified person of the lesser of the following two amounts:

(1) Five million five hundred five thousand eight hundred dollars ($5,505,800).

(2) The tax that would have been payable by the estate of a qualified person under Chapter 11 of Subtitle B of the Internal Revenue Code, relating to the estate tax, as amended on December 1, 2004, if the credit allowed under Section 2010 of the Internal Revenue Code was five million five hundred five thousand eight hundred dollars ($5,505,800).

(b) For purposes of this section, "qualified person" means a deceased person whose estate is required to pay a tax under Chapter 11 of Subtitle B of the Internal Revenue Code, relating to the estate tax, or any successor to that chapter.

(c) In the case of a qualified person whose credit under this section exceeds the qualified person's tax liability computed under this part, the excess shall be credited

against other amounts due, if any, from the qualified person and the balance, if any, shall be refunded to the qualified person's estate.

(d) Notwithstanding Section 13340 of the Government Code, moneys in the General Fund are hereby appropriated, without regard to fiscal years, to the Controller to make the refund payments required by subdivision (c).

SEC. 39. Section 17065.1 is added to the Revenue and Taxation Code, to read:

17065.1. (a) (1) For each taxable year beginning on or after January 1, 2007, if federal law imposes a tax on the credit amount provided under Section 17065, there shall be allowed as a credit against the "net tax," as defined in Section 17039, due on the final return filed for a qualified person an amount equal to the additional tax paid by the qualified person or his or her estate under federal law.

(2) Notwithstanding any other provision of law, the sum total amount of the credit provided under this section and Section 17065 shall not exceed the total amount of the tax payable by the qualified person and his or her estate under a federal law described in paragraph (1) and Chapter 11 of Subtitle B of the Internal Revenue Code, relating to the estate tax, or any successor to that chapter.

(b) For purposes of this section, "qualified person" has the same meaning as specified in Section 17065.

(c) In the case of a qualified person whose credit provided under this section exceeds the qualified person's tax liability computed under this part, the excess shall be credited against other amounts due, if any, from the qualified person and the balance, if any, shall be refunded to the qualified person's estate.

(d) Notwithstanding Section 13340 of the Government Code, moneys in the General Fund are hereby appropriated, without regard to fiscal years, to the Controller to make the refund payments required by subdivision (c).

SEC. 40. Section 17065.2 is added to the Revenue and Taxation Code, to read:

17065.2. (a) For each taxable year beginning on or after January 1, 2007, there shall be allowed as a credit against the "net tax," as defined in Section 17039, an amount equal to the qualified loss incurred by the taxpayer during the taxable year from a qualified rental property.

(b) For purposes of this section, the following terms have the following meanings:

(1) "Qualified loss" means the difference between the following two amounts:

(A) The average fair market value of a one year lease for the qualified rental property during the taxable year.

(B) The actual amount of rent that was required to be paid by the tenant to the owner of the qualified rental property during the taxable year.

(2) "Qualified rental property" means a parcel of real property that is offered for rent in the state and that meets both of the following conditions:

(A) The parcel was occupied by a tenant during the entire taxable year.

(B) A law restricts the amount of rent that the owner of the parcel may charge for the parcel.

(c) In the case of a taxpayer whose credit under this section exceeds the taxpayer's tax liability computed under this part, the excess shall be credited against

other amounts due, if any, from the taxpayer and the balance, if any, shall be refunded to the taxpayer.

(d) Notwithstanding Section 13340 of the Government Code, moneys in the General Fund are hereby appropriated, without regard to fiscal years, to the Controller to make the refund payments required by subdivision (c).

(e) Notwithstanding subdivision (a), a taxpayer that claims a qualified loss credit under this section that exceeds by 20 percent or more the actual amount of the qualified loss finally determined by the taxing authorities or by any reviewing body of competent jurisdiction, or the qualified loss agreed upon by the taxpayer and these taxing authorities or a reviewing body, shall not receive the credit under this section for that taxable year.

SEC. 41. Section 17065.3 is added to the Revenue and Taxation Code, to read:

17065.3. (a) For each taxable year beginning on or after January 1, 2007, there shall be allowed as a credit against the "net tax," as defined in Section 17039, for a qualified person an amount equal to the teacher credit amount.

(b) For purposes of this section, the following terms have the following meanings:

(1) "Qualified person" means a person who teaches in a public or private postsecondary institution in the state or a public or private kindergarten, elementary, secondary, or vocational-technical school in the state.

(2) "Teacher credit amount" means an amount equal to 30 percent of the total remuneration received by the qualified person during the taxable year for providing

teaching services, not to exceed 30 percent of the wages subject to tax under the Federal Insurance Contributions Act (26 U.S.C. Sec. 3101 and following).

(c) In the case of a qualified person whose credit under this section exceeds the person's tax liability computed under this part, the excess shall be credited against other amounts due, if any, from the person and the balance, if any, shall be refunded to the person.

(d) Notwithstanding Section 13340 of the Government Code, moneys in the General Fund are hereby appropriated, without regard to fiscal years, to the Controller to make the refund payments required by subdivision (c).

(e) This section shall be broadly construed to accomplish its purpose of providing a substantial supplement to the annual compensation of those engaged full or part-time in the honorable profession of teaching. Its further purpose is to elevate the compensation levels of teaching professionals who have heretofore not been compensated as professionals.

SEC. 42. Section 17065.4 is added to the Revenue and Taxation Code, to read:

17065.4. (a) For each taxable year beginning on or after January 1, 2007, there shall be allowed as a credit against the "net tax," as defined in Section 17039, an amount equal to the higher education costs credit amount.

(b) For purposes of this section, the following terms have the following meanings:

(1) "Higher education costs credit amount" means an amount equal to 85 percent of the applicable costs paid or incurred by the taxpayer during the taxable year.

(2) (A) "Applicable costs" means the tuition and fees paid or incurred by the taxpayer during the taxable year for any person, including the taxpayer and any other person regardless of the person's relationship to the taxpayer, at a California campus of the University of California, a community college, or other public university or public college.

(B) Notwithstanding subparagraph (A), "applicable costs" do not include any of the following:

(i) Tuition or fees for which the taxpayer received reimbursement by a grant, scholarship, fellowship, gift, or a similar form of reimbursement.

(ii) Tuition and fees paid or incurred during the taxable year that exceed the following amounts:

(I) For undergraduate studies at a campus of the University of California, eight thousand dollars ($8,000).

(II) For studies at graduate and professional schools at a campus of the University of California, eighteen thousand dollars ($18,000).

(III) For studies at a community college, one thousand dollars ($1,000).

(IV) For studies at a public university or public college not described in subclauses (I) to (III), inclusive, four thousand dollars ($4,000).

(c) In the case of a taxpayer whose credit under this section exceeds the taxpayer's tax liability computed under this part, the excess shall be credited against

other amounts due, if any, from the taxpayer and the balance, if any, shall be refunded to the taxpayer.

(d) Notwithstanding Section 13340 of the Government Code, moneys in the General Fund are hereby appropriated, without regard to fiscal years, to the Controller to make the refund payments required by subdivision (c).

SEC. 43. Section 17065.5 is added to the Revenue and Taxation Code, to read:

17065.5. (a) Except as otherwise provided in paragraph (2) of subdivision (c), for each taxable year beginning on or after January 1, 2007, there shall be allowed as a credit against the "net tax," as defined in Section 17039, due on the final return filed for a deceased person who donated a body part that was accepted for transplantation purposes in an amount determined under subdivision (b), not to exceed five thousand dollars ($5,000).

(b) The amount of the credit under subdivision (a) shall be equal to the following applicable amounts:

(1) If the deceased person donated a heart, kidney, liver, lung, pancreas, or other vital body organ that was accepted for transplant, five thousand dollars ($5,000).

(2) If the deceased person donated a body part that is not described in paragraph (1) and that body part was accepted for transplant, five hundred dollars ($500).

(c) (1) Except as provided otherwise in paragraph (2), in the case of a taxpayer whose credit under this section exceeds the taxpayer's tax liability computed under

this part, the excess shall be credited against other amounts due, if any, from the taxpayer and the balance, if any, shall be refunded to the taxpayer.

(2) A surviving family member of a deceased person who donated a heart, kidney, liver, lung, pancreas, or other vital body organ that was accepted for transplant may, in lieu of the credit allowed to that deceased person under subdivision (a), apply to the Controller for the immediate payment of five thousand dollars ($5,000). The Controller shall, no more than 72 hours after receiving the application, pay that surviving family member that amount if he or she demonstrates that the funds are needed for the donor's funeral or medical expenses.

(d) Notwithstanding Section 13340 of the Government Code, moneys in the General Fund are hereby appropriated, without regard to fiscal years, to the Controller to make the refund and other payments required by subdivision (c).

(e) The people find and declare that the intent of this section is to encourage donations of hearts, kidneys, pancreases, livers, and other vital organs and reusable body parts.

SEC. 44. Section 17065.6 is added to the Revenue and Taxation Code, to read:

17065.6. (a) For each taxable year beginning on or after January 1, 2007, there shall be allowed as a credit against the "net tax," as defined in Section 17039, an amount equal to the health care costs credit amount to a taxpayer that is a resident of the state.

(b) For purposes of this section, the following terms have the following meanings:

(1) "Health care costs credit amount" means an amount equal to the 85 percent of the amount paid or incurred by the taxpayer during the taxable year for health insurance or a health care service plan for members of the taxpayer's household and the taxpayer's dependents. The amount described in this paragraph shall not exceed eight thousand dollars ($8,000).

(2) "Health insurance" and "health care service plan" do not include Medicare, Medi-Cal, or Medicaid.

(c) Only one taxpayer per household is allowed the credit authorized by this section.

(d) In the case of a taxpayer whose credit under this section exceeds the taxpayer's tax liability computed under this part, the excess shall be credited against other amounts due, if any, from the taxpayer and the balance, if any, shall be refunded to the taxpayer.

(e) Notwithstanding Section 13340 of the Government Code, moneys in the General Fund are hereby appropriated, without regard to fiscal years, to the Controller to make the refund payments required by subdivision (d).

(f) Notwithstanding any other law, in lieu of the tax credit authorized by this section, the Legislature may enact a statute to establish a policy or policies of health insurance or a health care service plan that provides a minimal or specified package of benefits and require eligible taxpayers to accept a voucher with which to purchase the policy or policies.

SEC. 45. Section 17065.7 is added to the Revenue and Taxation Code, to read:

17065.7. (a) For each taxable year beginning on or after January 1, 2007, there shall be allowed as a credit against the "net tax," as defined in Section 17039, an amount equal to the Medicare costs credit amount to a taxpayer that is a resident of the state.

(b) For purposes of this section, "Medicare costs credit amount" means the sum of the following applicable amounts:

(1) An amount equal to the 85 percent of the amount paid or incurred by the taxpayer during the taxable year for premiums under Medicare Parts A, B, and D.

(2) An amount equal to 50 percent of the amount paid or incurred by the taxpayer during the taxable year for a medigap policy. The amount described in this paragraph shall not exceed two thousand five hundred dollars ($2,500).

(c) In the case of a taxpayer whose credit under this section exceeds the taxpayer's tax liability computed under this part, the excess shall be credited against other amounts due, if any, from the taxpayer and the balance, if any, shall be refunded to the taxpayer.

(d) Notwithstanding Section 13340 of the Government Code, moneys in the General Fund are hereby appropriated, without regard to fiscal years, to the Controller to make the refund payments required by subdivision (c).

(e) Notwithstanding any other law, in lieu of the tax credit authorized by this section, the Legislature may enact a statute to establish a policy or policies of health insurance or a health care service plan that provides a minimal or specified package of benefits and require eligible taxpayers to accept a voucher with which to purchase the policy or policies.

SEC. 46. Section 17065.8 is added to the Revenue and Taxation Code, to read:

17065.8. (a) For each taxable year beginning on or after January 1, 2007, there shall be allowed as a credit against the "net tax," as defined in Section 17039, an amount equal to the property tax credit amount to a taxpayer that is a resident of the state.

(b) For purposes of this section, all of the following apply:

(1) "Ad valorem property taxes" means the taxes described in Section 1 of Article XIII A of the California Constitution.

(2) "Property tax credit amount" means the amount by which the ad valorem property taxes paid by the taxpayer on his or her principal residence during the taxable year exceed 1 percent of the taxpayer's adjusted gross income. The amount described in this paragraph shall not exceed five thousand dollars ($5,000).

(3) "Resident" does not include a part-year resident.

(4) Notwithstanding any other law, married taxpayers shall be allowed the credit authorized by this section only if the couple files a joint tax return for the taxable year for which the credit is claimed.

(c) In the case of a taxpayer whose credit under this section exceeds the taxpayer's tax liability computed under this part, the excess shall be credited against other amounts due, if any, from the taxpayer and the balance, if any, shall be refunded to the taxpayer.

(d) Notwithstanding Section 13340 of the Government Code, moneys in the General Fund are hereby appropriated, without regard to fiscal years, to the Controller to make the refund payments required by subdivision (c).

SEC. 47. Section 17073.5 of the Revenue and Taxation Code is repealed.

~~17073.5. (a) A taxpayer may elect to take a standard deduction as follows:~~

~~(1) In the case of a taxpayer, other than a head of a household or a surviving spouse (as defined in Section 17046) or a married couple filing a joint return, the standard deduction shall be one thousand eight hundred eighty dollars ($1,880).~~

~~(2) In the case of a head of household or a surviving spouse (as defined in Section 17046) or a married couple filing a joint return, the standard deduction shall be three thousand seven hundred sixty dollars ($3,760).~~

~~(b) The standard deduction provided for in subdivision (a) shall be in lieu of all deductions other than those which are to be subtracted from gross income in computing adjusted gross income under Section 17072.~~

~~(c) (1) The provisions of this section shall be applied in lieu of the provisions of Sections 63(c) and 63(f) of the Internal Revenue Code, relating to standard deductions.~~

~~(2) Notwithstanding paragraph (1), Section 63(c)(5) of the Internal Revenue Code, relating to limitations on the standard deduction of certain dependents, and Section 63(c)(6)of the Internal Revenue Code, relating to certain individuals not eligible for the standard deduction, shall apply, except as otherwise provided. For purposes of this paragraph, the amount specified in Section 63(c)(5) of the Internal~~

~~Revenue Code shall be adjusted for inflation in accordance with the provisions of Section 63(c)(4) of the Internal Revenue Code.~~

~~(d) For each taxable year beginning on or after January 1, 1988, the Franchise Tax Board shall recompute the standard deduction amounts prescribed in subdivision (a). That computation shall be made as follows:~~

~~(1) The California Department of Industrial Relations shall transmit annually to the Franchise Tax Board the percentage change in the California Consumer Price Index for all items from June of the prior calendar year to June of the current calendar year, no later than August 1 of the current calendar year.~~

~~(2) The Franchise Tax Board shall compute an inflation adjustment factor by adding 100 percent to that portion of the percentage change figure which is furnished pursuant to paragraph (1) and dividing the result by 100.~~

~~(3) The Franchise Tax Board shall multiply the standard deduction amounts in the preceding taxable year by the inflation adjustment factor determined in paragraph (2), and round off the resulting products to the nearest one dollar ($1).~~

~~(4) In computing the standard deduction amounts pursuant to this subdivision, the amount provided in paragraph (2) of subdivision (a) shall be twice the amount provided in paragraph (1) of subdivision (a).~~

SEC. 48. Section 17083 of the Revenue and Taxation Code is repealed.

~~17083. Section 85 of the Internal Revenue Code, relating to unemployment compensation, shall not apply.~~

SEC. 49. Section 17131.3 is added to the Revenue and Taxation Code, to read:

17131.3. Gross income does not include payments received by an estate under subdivision (d) of Section 17065 and subdivision (d) of Section 17065.1.

SEC. 50. Section 17299.95 is added to the Revenue and Taxation Code, to read:

17299.95. (a) For each taxable year beginning on and after January 1, 2007, Sections 167, 168, 169, 1245, and 1250 of the Internal Revenue Code apply to qualified property.

(b) For purposes of this section, "qualified property" means both of the following that are first placed in service on or after January 1, 2007:

(1) Property used in a trade or business.

(2) Property used for the production of income.

(c) The Franchise Tax Board shall identify the statutory changes necessary to implement this section and shall, on or before March 15, 2007, report these changes to each house of the Legislature.

SEC. 51. Section 17561 of the Revenue and Taxation Code is amended to read:

17561. (a) ~~Section 469(c)(7) of the Internal Revenue Code, relating to special rules for taxpayers in real property business, shall not apply~~ Section 502 of the Tax Reform Act of 1986 (Public Law 99-514) shall apply.

~~(b) Section 469(d)(2) of the Internal Revenue Code, relating to passive activity credits, is modified to refer to the following credits:~~

~~(1) The credit for research expenses allowed by Section 17052.12.~~

~~(2) The credit for certain wages paid (targeted jobs) allowed by Section 17053.7.~~

~~(3) The credit for clinical testing expenses allowed by Section 17057.~~

~~(4) The credit for low-income housing allowed by Section 17058.~~

~~(c) Section 469(g)(1)(A) of the Internal Revenue Code is modified to provide that if all gain or loss realized on the disposition of the taxpayer's entire interest in any passive activity (or former passive activity) is recognized, the excess of—~~

~~(1) The sum of—~~

~~(A) Any loss from that activity for that taxable year (determined after application of Section 469(b) of the Internal Revenue Code), plus~~

~~(B) Any loss realized on that disposition, over~~

~~(2) Net income or gain for the taxable year from all passive activities (determined without regard to losses described in paragraph (1)), shall be treated as a loss which is not from a passive activity.~~

~~(d) For purposes of applying the provisions of Section 469(i) of the Internal Revenue Code, relating to the twenty-five thousand dollars ($25,000) offset for rental real estate activities, the dollar limitation for the credit allowed under Section 17058 (relating to low-income housing) shall be equal to seventy-five thousand dollars ($75,000) in lieu of the amount specified in Section 469(i)(2) of the Internal Revenue Code.~~

~~(e) Section 502 of the Tax Reform Act of 1986 (Public Law 99-514) shall apply.~~

~~(f)~~

(b) For taxable years beginning on or after January 1, 1987, the provisions of Section 10212 of Public Law 100-203, relating to treatment of publicly traded partnerships under Section 469 of the Internal Revenue Code, shall be applicable.

SEC. 52. Section 23151 of the Revenue and Taxation Code is amended to read:

23151. (a) With the exception of banks and financial corporations, every corporation doing business within the limits of this state and not expressly exempted from taxation by the provisions of the Constitution of this state or by this part, shall annually pay to the state, for the privilege of exercising its corporate franchises within this state, a tax according to or measured by its net income, to be computed at the rate of 7.6 percent upon the basis of its net income for the next preceding income year, or if greater, the minimum tax specified in Section 23153.

(b) For calendar or fiscal years ending after June 30, 1973, the rate of tax shall be 9 percent instead of 7.6 percent as provided by subdivision (a).

(c) For calendar or fiscal years ending in 1980 to 1986, inclusive, the rate of tax shall be 9.6 percent.

(d) For calendar or fiscal years ending in 1987 to 1996, inclusive, and for any income year beginning before January 1, 1997, the tax rate shall be 9.3 percent.

(e) For any income year beginning on or after January 1, 1997, the tax rate shall be 8.84 percent. The change in rate provided in this subdivision shall be made without proration otherwise required by Section 24251.

(f) (1) For the first taxable year beginning on or after January 1, 2000, the tax imposed under this section shall be the sum of both of the following:

(A) A tax according to or measured by net income, to be computed at the rate of 8.84 percent upon the basis of the net income for the next preceding income year, but not less than the minimum tax specified in Section 23153.

(B) A tax according to or measured by net income, to be computed at the rate of 8.84 percent upon the basis of the net income for the first taxable year beginning on or after January 1, 2000, but not less than the minimum tax specified in Section 23153.

(2) Except as provided in paragraph (1), for taxable years beginning on or after January 1, 2000, the tax imposed under this section shall be a tax according to or measured by net income, to be computed at the rate of 8.84 percent upon the basis of the net income for that taxable year, but not less than the minimum tax specified in Section 23153.

(g) For each taxable year beginning on or after January 1, 2007, the tax imposed under this section shall be a tax according to or measured by net income, to be computed at the rate of 4 percent upon the basis of the net income for the taxable year, but not less than the minimum tax specified in Section 23153.

SEC. 53. Section 23153 of the Revenue and Taxation Code is amended to read:

23153. (a) Every corporation described in subdivision (b) shall be subject to the minimum franchise tax specified in subdivision (d) from the earlier of the date of incorporation, qualification, or commencing to do business within this state, until the effective date of dissolution or withdrawal as provided in Section 23331 or, if later, the date the corporation ceases to do business within the limits of this state.

(b) Unless expressly exempted by this part or the California Constitution, subdivision (a) shall apply to each of the following:

(1) Every corporation that is incorporated under the laws of this state.

(2) Every corporation that is qualified to transact intrastate business in this state pursuant to Chapter 21 (commencing with Section 2100) of Division 1 of Title 1 of the Corporations Code.

(3) Every corporation that is doing business in this state.

(c) The following entities are not subject to the minimum franchise tax specified in this section:

(1) Credit unions.

(2) Nonprofit cooperative associations organized pursuant to Chapter 1 (commencing with Section 54001) of Division 20 of the Food and Agricultural Code that have been issued the certificate of the board of supervisors prepared pursuant to Section 54042 of the Food and Agricultural Code. The association shall be exempt from the minimum franchise tax for five consecutive taxable years, commencing with the first taxable year for which the certificate is issued pursuant to subdivision (b) of Section 54042 of the Food and Agricultural Code. This paragraph only applies to nonprofit cooperative associations organized on or after January 1, 1994.

(d) (1) Except as provided in paragraph (2), paragraph (1) of subdivision ~~(f)~~ (g) of Section 23151, paragraph (1) of subdivision (f) of Section 23181, and paragraph (1) of subdivision (c) of Section 23183, corporations subject to the minimum franchise tax shall pay annually to the state a minimum franchise tax of ~~eight hundred dollars ($800)~~ two hundred fifty dollars ($250).

(2) The minimum franchise tax shall be twenty-five dollars ($25) for each of the following:

(A) A corporation formed under the laws of this state whose principal business when formed was gold mining, which is inactive and has not done business within the limits of the state since 1950.

(B) A corporation formed under the laws of this state whose principal business when formed was quicksilver mining, which is inactive and has not done business within the limits of the state since 1971, or has been inactive for a period of 24 consecutive months or more.

(3) For purposes of paragraph (2), a corporation shall not be considered to have done business if it engages in other than mining.

(e) Notwithstanding subdivision (a), for taxable years beginning on or after January 1, 1999, and before January 1, 2000, every "qualified new corporation" shall pay annually to the state a minimum franchise tax of five hundred dollars ($500) for the second taxable year. This subdivision shall apply to any corporation that is a qualified new corporation and is incorporated on or after January 1, 1999, and before January 1, 2000.

(1) The determination of the gross receipts of a corporation, for purposes of this subdivision, shall be made by including the gross receipts of each member of the commonly controlled group, as defined in Section 25105, of which the corporation is a member.

(2) "Gross receipts, less returns and allowances reportable to this state," means the sum of the gross receipts from the production of business income, as defined in

subdivision (a) of Section 25120, and the gross receipts from the production of nonbusiness income, as defined in subdivision (d) of Section 25120.

(3) "Qualified new corporation" means a corporation that is incorporated under the laws of this state or has qualified to transact intrastate business in this state, that begins business operations at or after the time of its incorporation and that reasonably estimates that it will have gross receipts, less returns and allowances, reportable to this state for the taxable year of one million dollars ($1,000,000) or less. "Qualified new corporation" does not include any corporation that began business operations as a sole proprietorship, a partnership, or any other form of business entity prior to its incorporation. This subdivision shall not apply to any corporation that reorganizes solely for the purpose of reducing its minimum franchise tax.

(4) This subdivision shall not apply to limited partnerships, as defined in Section 17935, limited liability companies, as defined in Section 17941, limited liability partnerships, as defined in Section 17948, charitable organizations, as described in Section 23703, regulated investment companies, as defined in Section 851 of the Internal Revenue Code, real estate investment trusts, as defined in Section 856 of the Internal Revenue Code, real estate mortgage investment conduits, as defined in Section 860D of the Internal Revenue Code, financial asset securitization investment trusts, as defined in Section 860L of the Internal Revenue Code, qualified Subchapter S subsidiaries, as defined in Section 1361(b)(3) of the Internal Revenue Code, or to the formation of any subsidiary corporation, to the extent applicable.

(5) For any taxable year beginning on or after January 1, 1999, and before January 1, 2000, if a corporation has qualified to pay five hundred dollars ($500) for

the second taxable year under this subdivision, but in its second taxable year, the corporation's gross receipts, as determined under paragraphs (1) and (2), exceed one million dollars ($1,000,000), an additional tax in the amount equal to three hundred dollars ($300) for the second taxable year shall be due and payable by the corporation on the due date of its return, without regard to extension, for that year.

(f) (1) Notwithstanding subdivision (a), every corporation that incorporates or qualifies to do business in this state on or after January 1, 2000, shall not be subject to the minimum franchise tax for its first taxable year.

(2) This subdivision shall not apply to limited partnerships, as defined in Section 17935, limited liability companies, as defined in Section 17941, limited liability partnerships, as defined in Section 17948, charitable organizations, as described in Section 23703, regulated investment companies, as defined in Section 851 of the Internal Revenue Code, real estate investment trusts, as defined in Section 856 of the Internal Revenue Code, real estate mortgage investment conduits, as defined in Section 860D of the Internal Revenue Code, financial asset securitization investment trusts, as defined in Section 860L of the Internal Revenue Code, and qualified Subchapter S subsidiaries, as defined in Section 1361(b)(3) of the Internal Revenue Code, to the extent applicable.

(3) This subdivision shall not apply to any corporation that reorganizes solely for the purpose of avoiding payment of its minimum franchise tax.

(g) Notwithstanding subdivision (a), a domestic corporation, as defined in Section 167 of the Corporations Code, that files a certificate of dissolution in the office of the Secretary of State pursuant to subdivision (c) of Section 1905 of the

Corporations Code and that does not thereafter do business shall not be subject to the minimum franchise tax for taxable years beginning on or after the date of that filing.

(h) The minimum franchise tax imposed by paragraph (1) of subdivision (d) shall not be increased by the Legislature by more than 10 percent during any calendar year.

SEC. 54. The heading of Article 9 (commencing with Section 23361) of Chapter 2 of Part 11 of Division 2 of the Revenue and Taxation Code is amended to read:

Article 9. Affiliated ~~Railroads~~ Groups

SEC. 55. Section 23361 of the Revenue and Taxation Code is amended to read:

23361. "Affiliated group" means one or more chains of corporations connected through stock ownership with a common parent corporation if during the period when the income was accrued or realized and on the 16th day of the first month after the close of the taxable year—

(a) At least 80 percent of the stock of each of the corporations, except the common parent corporation, is owned directly by one or more of the other corporations; and

(b) The common parent corporation owns directly at least 80 percent of the stock of at least one of the other corporations~~; and~~.

~~(c) Each of the corporations except the common parent corporation is either (1) a corporation whose principal business is that of a common carrier by railroad or (2) a corporation the assets of which consist principally of stock in such corporations and which does not itself operate a business other than that of a common carrier by railroad. For the purpose of determining whether the principal business of a corporation is that of a common carrier by railroad, if a common carrier by railroad has leased its railroad properties and such properties are operated as such by another common carrier by railroad, the business of receiving rents for such railroad properties shall be considered as the business of a common carrier by railroad.~~

The provisions of this section shall not preclude the application of Chapter 17 (commencing with Section 25101) of this part.

~~Except in paragraph (c), "stock"~~

"Stock" does not include nonvoting stock which is limited and preferred as to dividends.

SEC. 56. Section 23362 of the Revenue and Taxation Code is amended to read:

23362. An affiliated group, subject to the provisions of this article, shall have the privilege of making a consolidated return for the taxable year in lieu of separate returns. The making of a consolidated return shall be upon the condition that all the corporations, which have been members of the affiliated group at any time during the taxable year for which the return is made, consent to all regulations under Section 23363 prescribed prior to the making of such return and the making of a consolidated return shall be considered as such consent. In the case of a corporation, which is a

member of the affiliated group for a fractional part of the taxable year, the consolidated return shall include the income of such corporation for such part of the taxable year as it is a member of the affiliated group. ~~In the case of a common parent company which is not itself a common carrier by railroad the consolidated return shall include on a consolidated return basis only the income received from affiliates which are common carriers by railroad.~~

SEC. 57. Chapter 2.5 (commencing with Section 23400) of Part 11 of Division 2 of the Revenue and Taxation Code is repealed.

SEC. 58. Chapter 3.5 (commencing with Section 23604) of Part 11 of Division 2 of the Revenue and Taxation Code is repealed.

SEC. 59. Section 23686 is added to the Revenue and Taxation Code, to read:

23686. (a) For each taxable year beginning on or after January 1, 2007, there shall be allowed as a credit against the "tax," as defined in Section 23036, an amount equal to the qualified loss incurred by the taxpayer during the taxable year from a qualified rental property.

(b) For purposes of this section, the following terms have the following meanings:

(1) "Qualified loss" means the difference between the following two amounts:

(A) The average fair market value of a one year lease for the qualified rental property during the taxable year.

(B) The actual amount of rent that was required to be paid by the tenant to the owner of the qualified rental property during the taxable year.

(2) "Qualified rental property" means a parcel of real property that is offered for rent in the state and that meets both of the following conditions:

(A) The parcel was occupied by a tenant during the entire taxable year.

(B) A law restricts the amount of rent that the owner of the parcel may charge for the parcel.

(c) In the case of a taxpayer whose credit under this section exceeds the taxpayer's tax liability computed under this part, the excess shall be credited against other amounts due, if any, from the taxpayer and the balance, if any, shall be refunded to the taxpayer.

(d) Notwithstanding Section 13340 of the Government Code, moneys in the General Fund are hereby appropriated, without regard to fiscal years, to the Controller to make the refund payments required by subdivision (c).

(e) Notwithstanding subdivision (a), a taxpayer that claims a qualified loss credit under this section that exceeds by 20 percent or more the actual amount of the qualified loss finally determined by the taxing authorities or by any reviewing body of competent jurisdiction, or the qualified loss agreed upon by the taxpayer and these taxing authorities or a reviewing body, shall not receive the credit authorized under this section for that taxable year.

SEC. 60. Section 23701 of the Revenue and Taxation Code is amended to read:

23701. Organizations which are organized and operated for nonprofit purposes within the provisions of a specific section of this article, or are defined in Section 23701h (relating to certain title-holding companies) or Section 23701x

(relating to certain title-holding companies), are exempt from taxes imposed under this part, except as provided in this article or in Article 2 (commencing with Section 23731) of this chapter~~, if:~~.

~~(a) An application for exemption is submitted in the form prescribed by the Franchise Tax Board; and~~

~~(b) A filing fee of twenty-five dollars ($25) is paid with each application for exemption filed with the Franchise Tax Board after December 31, 1969; and~~

~~(c) The Franchise Tax Board issues a determination exempting the organization from tax.~~

~~This section shall not prevent a determination from having retroactive effect and does not prevent the issuance of a determination with respect to a domestic organization which was in existence prior to January 1, 1970, and exempt under prior law without the submission of a formal application or payment of a filing fee. For the purpose of this section, the term "domestic" means created or organized under the laws of this state.~~

The Franchise Tax Board may issue rulings and regulations as are necessary and reasonable to carry out the provisions of this ~~article~~ section.

SEC. 61. Section 23703 of the Revenue and Taxation Code is repealed.

~~23703. (a) No exemption shall be allowed under this article to any charitable corporation as defined in Sections 12582.1 and 12583 of the Government Code for any year or years for which it fails to file with the Attorney General, on or before the due date, any registration or periodic report required by Article 7 (commencing with Section 12580) of Chapter 6, Part 2, Division 3, Title 2, of the Government Code.~~

~~(b) The exemption shall be disallowed under this section only after the Attorney General has notified the Franchise Tax Board in writing that a charitable corporation subject to the provisions of subdivision (a) has failed to file any such registration or periodic report on or before the due date thereof.~~

~~(c) If an exemption is disallowed under this section, such exemption may be reinstated when the registration or periodic reports are filed; however, any such charitable corporation shall pay the minimum tax provided for by Section 23153 for any year or years for which its exemption was disallowed under this section.~~

~~(d) No exemption shall be disallowed under this section for taxable years commencing before January 1, 1962.~~

~~(e) The Franchise Tax Board may make any regulations which it deems necessary to effectuate the purposes of this section.~~

SEC. 62. Section 23779 is added to the Revenue and Taxation Code, to read:

23779. Notwithstanding any other law, for each taxable year beginning on and after January 1, 2006, an organization that qualifies as tax-exempt for purposes of the federal income tax laws shall be deemed to be tax-exempt for purposes of this part.

SEC. 63. Section 23780 is added to the Revenue and Taxation Code, to read:

23780. Notwithstanding any other law, for each taxable year beginning on and after January 1, 2006, a tax-exempt organization is not required to file an information return as described in this chapter unless it is one of the following:

(a) The Center for the Improvement of Child Caring (23-7385759), 11331 Ventura Boulevard, Suite 103, Studio City, California, 91604-3147.

(b) The Nature Network, Inc. (95-4218169), 3145 Coolidge Avenue, Los Angeles, California, 90066.

SEC. 64. Section 23781 is added to the Revenue and Taxation Code, to read:

23781. (a) For each taxable year beginning on or after January 1, 2006, and before January 1, 2021, there shall be allowed as a credit against the "tax," as defined in Section 23036, an amount described in subdivision (b) for an organization described in subdivision (b).

(b) The credit allowed under subdivision (a) shall be in the following amounts for the following organizations:

(1) For the organization described in subdivision (a) of Section 23780, twenty-five million dollars ($25,000,000).

(2) For the organization described in subdivision (b) of Section 23780, seven million five hundred thousand dollars ($7,500,000).

(c) In the case of a taxpayer whose credit under this section exceeds the taxpayer's tax liability computed under this part, the excess shall be credited against other amounts due, if any, from the taxpayer and the balance, if any, shall be refunded to the taxpayer within 90 days after the taxpayer's return is filed. For a taxable year beginning on and after January 1, 2006, and before January 1, 2007, any refund required by this subdivision shall be paid on or before August 15, 2007.

(d) Notwithstanding Section 13340 of the Government Code, moneys in the General Fund are hereby appropriated, without regard to fiscal years, to the Controller to make the refund payments required by subdivision (c).

SEC. 65. Section 24384.55 is added to the Revenue and Taxation Code, to read:

24384.55. (a) For taxable years beginning on and after January 1, 2007, Sections 167, 168, 169, 1245, and 1250 of the Internal Revenue Code apply to qualified property.

(b) For purposes of this section, "qualified property" means both of the following that are first placed in service on or after January 1, 2007:

(1) Property used in a trade or business.

(2) Property used for the production of income.

(c) The Franchise Tax Board shall identify the statutory changes necessary to implement this section and shall, on or before March 15, 2007, report these changes to each house of the Legislature.

SEC. 66. Section 24692 of the Revenue and Taxation Code is amended to read:

24692. (a) Section 469 of the Internal Revenue Code, relating to passive activity losses and credits limited, shall apply~~, except as otherwise provided~~.

(b) ~~Section 469(c)(7) of the Internal Revenue Code, relating to special rules for taxpayers in real property business, shall not apply~~ Section 502 of the Tax Reform Act of 1986 (Public Law 99-514) shall apply.

~~(c) Section 469(d)(2) of the Internal Revenue Code, relating to passive activity credits, is modified to refer to the following credits:~~

~~(1) The credit for research expenses allowed by Section 23609.~~

~~(2) The credit for clinical testing expenses allowed by Section 23609.5.~~

~~(3) The credit for low-income housing allowed by Section 23610.5.~~

~~(4) The credit for certain wages paid (targeted jobs) allowed by Section 23621.~~

~~(d) Section 469(g)(1)(A) of the Internal Revenue Code is modified to provide that if all gain or loss realized on the disposition of the taxpayer's entire interest in any passive activity (or former passive activity) is recognized, the excess of—~~

~~(1) The sum of—~~

~~(A) Any loss from that activity for that taxable year (determined after application of Section 469(b) of the Internal Revenue Code), plus~~

~~(B) Any loss realized on that disposition, over~~

~~(2) Net income or gain for the taxable year from all passive activities (determined without regard to losses described in paragraph (1)), shall be treated as a loss which is not from a passive activity.~~

~~(e) For purposes of applying Section 469(i) of the Internal Revenue Code, relating to the twenty-five thousand dollars ($25,000) offset for rental real estate activities, the dollar limitation for the credit allowed under Section 23610.5 (relating to low-income housing) shall be equal to seventy-five thousand dollars ($75,000) in lieu of the amount specified in Section 469(i)(2) of the Internal Revenue Code.~~

~~(f) Section 502 of the Tax Reform Act of 1986 (Public Law 99-514) shall apply.~~

~~(g)~~

(c) For each taxable year beginning on or after January 1, 1987, Section 10212 of Public Law 100-203, relating to treatment of publicly traded partnerships under Section 469 of the Internal Revenue Code, shall apply, except as otherwise provided.

~~(h)~~

(d) The amendments to Section 469(k) of the Internal Revenue Code made by Section 2004 of Public Law 100-647, relating to separate application of section in case of publicly traded partnerships, shall apply to each taxable year beginning on or after January 1, 1990~~, except as otherwise provided~~.

SEC. 67. The provisions of this measure are severable. If any provision of this measure or the application of the provisions of this measure is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.

SEC. 68. Sections 6 to 66, inclusive, of this measure are operative for each taxable year beginning on and after January 1, 2007.