

AMENDED IN SENATE AUGUST 17, 2010

AMENDED IN SENATE AUGUST 2, 2010

AMENDED IN SENATE JUNE 28, 2010

AMENDED IN SENATE JUNE 16, 2010

AMENDED IN SENATE APRIL 22, 2010

SENATE BILL

No. 1316

Introduced by Senator Romero

February 19, 2010

An act to add Sections 17053.9 and 23622.9 to, and to add and repeal Sections 18036.8 and ~~24941.5~~ 24941.6 of, the Revenue and Taxation Code, relating to taxation, and making an appropriation therefor, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

SB 1316, as amended, Romero. Income taxes: property exchanges: investment credits.

The Personal Income Tax Law and the Corporation Tax Law provide that no gain or loss is recognized on the exchange of property held for productive use in a trade or business or for investment, if that property is exchanged solely for property of a like kind that is to be held either for productive use in a trade or business or for investment.

This bill would, for taxable years beginning on or after January 1, 2011, and before January 1, 2012, exclude from that nonrecognition, any exchange in which out-of-state real property is received in exchange for real property located in California.

The Personal Income Tax Law and the Corporation Tax Law authorize various credits against the taxes imposed by those laws. Existing law

creates the California Tax Credit Allocation Committee, which has specified duties in regard to low-income housing credits.

This bill would authorize a credit under both laws, for taxable years beginning on or after January 1, 2011, and before January 1, 2012, in a specified amount for investments in low-income communities, as provided. This bill would impose specified duties on the California Tax Credit Allocation Committee with regard to the application for, and allocation of, the credit. The bill would require the committee to establish and impose reasonable fees upon entities that apply for the allocation of the credit and use the revenue to defray the cost of administering the program, as specified, thereby making an appropriation. *This bill would also appropriate \$150,000 from the Tax Credit Allocation Fee Account to the committee for purposes of implementing the tax credit.*

This bill would take effect immediately as a tax levy.

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

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

- 1 SECTION 1. The Legislature finds and declares all of the
- 2 following:
- 3 (a) The granting of tax benefits for the purchase of real property
- 4 located beyond California's borders is of no direct benefit to the
- 5 people of the State of California, and does not advance any
- 6 legitimate local purpose.
- 7 (b) The revenue from disallowing these tax benefits, which are
- 8 currently obtained from the exchange of property for like kind
- 9 property, commonly known as a 1031 exchange, can instead be
- 10 used to foster greater economic development within California's
- 11 borders, and this development advances a legitimate local purpose.
- 12 (c) While this disallowance will remove a tax benefit in the
- 13 form of deferred capital gains taxes from investors who purchase
- 14 out-of-state properties, these funds amount to only 10 percent of
- 15 California's total 1031 exchanges. Furthermore, the lion's share
- 16 of the tax benefits for these investment purchases exists at the
- 17 federal, rather than the state level. For this reason, no substantial
- 18 decrease in out-of-state real estate investments is anticipated as a
- 19 result of this legislation.

1 (d) In the current economic climate, the acquisition of revenue
2 to stimulate in-state economic development cannot be achieved
3 by any nondiscriminatory alternative.

4 SEC. 2. Section 17053.9 is added to the Revenue and Taxation
5 Code, to read:

6 17053.9. There is hereby created the California New Markets
7 Tax Credit Program as provided in this section and Section
8 23622.9. The purpose of this program is to stimulate economic
9 development, and hasten California’s economic recovery, by
10 granting tax credits for investment in California, including, but
11 not limited to, retail businesses, real property, financial institutions,
12 and schools. The California Tax Credit Allocation Committee shall
13 have responsibility for the administration of this program as
14 provided in this section and Section 23622.9. The program shall
15 be as follows:

16 (a) (1) For taxable years beginning on or after January 1, 2011,
17 and before January 1, 2012, there shall be allowed to a taxpayer
18 that holds a qualified equity investment on a credit allowance date
19 of the investment which occurs during the taxable year, as a credit
20 against the “net tax,” as defined in Section 17039, an amount equal
21 to the applicable percentage described in paragraph (2).

22 (2) For purposes of paragraph (1), the applicable percentage
23 shall be 39 percent of the qualified equity investment.

24 (b) For purposes of this section:

25 (1) “Credit allowance date” means, with respect to any qualified
26 equity investment, the date on which the investment is initially
27 made.

28 (2) “Equity investment” means either of the following:

29 (A) Any stock, other than nonqualified preferred stock as defined
30 in Section 351(g)(2) of the Internal Revenue Code, in an entity
31 which is a corporation.

32 (B) Any capital interest in an entity which is a partnership.

33 (3) (A) “Low-income community” means a population census
34 tract where any of the following applies:

35 (i) The tract has a poverty rate of at least 20 percent.

36 (ii) The tract is not located within a metropolitan area and the
37 median family income does not exceed 80 percent of the statewide
38 median family income.

39 (iii) The tract is located within a metropolitan area and the
40 median family income does not exceed 80 percent of the greater

1 statewide median family income or the metropolitan area median
2 family income.

3 (iv) The tract is located within a high migration rural county
4 and the median income does not exceed 85 percent of the statewide
5 median family income. For purposes of this clause, “high migration
6 rural county” means a county which, during the 20-year period
7 ending with the year in which the most recent census was
8 conducted, has a net out migration of inhabitants from the county
9 of at least 10 percent of the population of the county at the
10 beginning of that period.

11 (B) Where a community is in a location that is not tracted for
12 population census tracts, the equivalent county divisions shall be
13 used for purposes of determining poverty rates and median family
14 income.

15 (C) Where a community is in a population census tract with a
16 population of less than 2,000, the community shall be treated as a
17 low-income community if the tract is within an empowerment
18 zone designated under Section 1391 of the Internal Revenue Code
19 and is contiguous to one or more low-income communities, as
20 determined under this paragraph.

21 (4) (A) “Qualified active low-income community business”
22 means, with respect to any taxable year, a corporation, including
23 a nonprofit corporation, or partnership that, for that taxable year,
24 meets all of the following conditions:

25 (i) Derives at least 50 percent of its total gross income from the
26 active conduct of a qualified business in a low-income community
27 in California.

28 (ii) A substantial portion of the use of the tangible property of
29 the entity, whether owned or leased, is within a low-income
30 community in California. “Substantial portion” shall be defined
31 as 40 percent or more of the tangible property of the entity.

32 (iii) Less than 5 percent of the average of the aggregate
33 unadjusted base of the property of the entity is attributable to
34 collectibles, as defined in Section 408(m)(2) of the Internal
35 Revenue Code.

36 (iv) Less than 5 percent of the average of the aggregate
37 unadjusted base of the property of the entity is attributable to
38 nonqualified financial property, as defined in Section 1397C(e) of
39 the Internal Revenue Code.

1 (B) A “qualified active low-income community business” shall
2 include a business carried on by an individual as a proprietor if
3 that business meets the requirements of subparagraph (A) were it
4 incorporated or a trade or business which would qualify if that
5 trade or business were separately incorporated.

6 (5) “Qualified business” has the same meaning as that in Section
7 1397C(d) of the Internal Revenue Code except that:

8 (A) In lieu of applying subparagraph (B) of paragraph (2), the
9 rental to others of real property located in any low-income
10 community shall be treated as a qualified business if there are
11 substantial improvements located on that real property.

12 (B) Paragraph (3) of that section shall not apply.

13 (6) (A) “Qualified community development entity” means a
14 domestic corporation or partnership that meets all of the following
15 conditions:

16 (i) Has a primary mission of serving, or providing investment
17 capital for, low-income communities or low-income persons.

18 (ii) Maintains accountability to residents of low-income
19 communities through their representation on any governing board
20 of the entity or on any advisory board to the entity.

21 (iii) Is certified by the California Tax Credit Allocation
22 Committee for purposes of this section as being a qualified
23 community development entity.

24 (B) A domestic corporation or partnership shall be deemed a
25 “qualified community development entity” if it has entered into
26 an allocation agreement with the Community Development
27 Financial Institutions Fund of the United States Department of the
28 Treasury with respect to credits authorized by Section 45D of the
29 Internal Revenue Code of 1986, as amended, and if the allocation
30 agreement includes the state within its service area.

31 (7) (A) “Qualified equity investment” means any equity
32 investment in a qualified community development entity if all of
33 the following conditions are met:

34 (i) The investment is acquired by the taxpayer at its original
35 issue, directly or through an underwriter, solely in exchange for
36 cash.

37 (ii) Substantially all of the cash is used by the qualified
38 community development entity to make low-income community
39 investments. This requirement shall be deemed met if at least 85
40 percent of the aggregate gross assets of the qualified community

1 development entity are invested in qualified low-income
2 community investments in California.

3 (iii) The investment is designated for purposes of this section
4 by the qualified community development entity.

5 (B) “Qualified equity investment” does not include any equity
6 investment issued by a qualified community development entity
7 more than one year after the date that the entity receives an
8 allocation under subdivision (d).

9 (C) A “qualified equity investment” shall include any equity
10 investment which would, notwithstanding clause (i) of
11 subparagraph (A), be a qualified equity investment in the hands
12 of the taxpayer if the investment was a qualified equity investment
13 in the hands of a prior holder.

14 (D) Section 1202(c)(3) of the Internal Revenue Code, relating
15 to purchases by a corporation of its own stock, shall apply.

16 (8) “Qualified low-income community investment” means any
17 of the following:

18 (A) Any capital or equity investment in, or loan to, a qualified
19 low-income community business.

20 (B) Any capital or equity investment in, or loan to, a real estate
21 project in a low-income community.

22 (C) The purchase from another qualified community
23 development entity of any loan made by that entity which is a
24 qualified low-income community investment.

25 (D) Financial counseling and other services in support of
26 business activities to businesses located in, and residents of,
27 low-income communities.

28 (E) Any equity investment in, or loan to, a qualified community
29 development entity.

30 (c) The California Tax Credit Allocation Committee shall adopt
31 guidelines necessary or appropriate to carry out the purposes of
32 this section. The adoption of the guidelines shall not be subject to
33 the rulemaking provisions of the Administrative Procedure Act of
34 Chapter 3.5 (commencing with Section 11340) of Part 1 of Division
35 3 of Title 2 of the Government Code. The committee shall establish
36 and impose reasonable fees upon entities that apply for the
37 allocation pursuant to subdivision (d) and use the revenue to defray
38 the cost of administering the program. The committee shall
39 establish the fees in a manner that ensures that (1) the total amount
40 collected equals the amount reasonably necessary to defray the

1 commission's costs in performing its administrative duties under
2 this section, and (2) the amount paid by each entity reasonably
3 corresponds with the value of the services provided to the entity.

4 (d) (1) The aggregate amount of credit that may be allowed in
5 any calendar year pursuant to this section and Section 23622.9
6 shall be an amount equal to the aggregate revenue increase
7 attributable in that same calendar year to Sections 18036.8 and
8 ~~24941~~, as amended 24941.6, as added by the act adding this
9 section, as estimated by the Franchise Tax Board, so as to achieve
10 a revenue neutral effect.

11 (2) The aggregate amount of credit specified under paragraph
12 (1) shall be allocated by the California Tax Credit Allocation
13 Committee among entities that apply for the allocation. The
14 California Tax Credit Allocation Committee shall give priority to
15 applications that either are submitted by an entity that has a record
16 of successfully providing capital or technical assistance to
17 disadvantaged businesses or communities or entities that intend
18 to make qualified low-income community investments in one or
19 more businesses in which persons unrelated to the entity hold the
20 majority equity interest.

21 (e) Any credits used under subdivision (a) for a qualified equity
22 investment where a recapture event occurs at any time before the
23 close of the seventh taxable year after the qualified equity
24 investment shall be included in the income in the taxable year in
25 which the recapture event occurred. For purposes of this
26 subdivision, a "recapture event" shall include any of the following
27 that occur any time before the close of the seventh taxable year
28 after the qualified equity investment in a qualified community
29 development entity:

30 (1) The qualified community development entity ceases to be
31 a qualified community development entity.

32 (2) The proceeds of the investment cease to be used as required
33 under clause (ii) of subparagraph (A) of paragraph (7) of
34 subdivision (b).

35 (3) The investment is redeemed by a qualified community
36 development entity.

37 (f) An exception to the provisions of clause (ii) of subparagraph
38 (A) of paragraph (7) of subdivision (b) shall exist wherein an
39 investment shall be considered held by a community development
40 entity even if the investment has been sold or repaid, provided that

1 the community development entity reinvests an amount equal to
2 the capital returned to or recovered by the community development
3 entity from the original investment, exclusive of any profits
4 realized, in another qualified low-income community investment
5 within 12 months of the receipt of that capital. A community
6 development entity shall not be required to reinvest capital returned
7 from qualified low-income community investments after the sixth
8 anniversary of the issuance of the qualified equity investment, the
9 proceeds of which were used to make the qualified low-income
10 community investment, and the qualified low-income community
11 investment shall be considered held by the community development
12 entity through the seventh anniversary of the qualified equity
13 investment's issuance.

14 SEC. 3. Section 18036.8 is added to the Revenue and Taxation
15 Code, to read:

16 18036.8. (a) For taxable years beginning on or after January
17 1, 2011, and before January 1, 2012, the provisions of Section
18 1031 of the Internal Revenue Code, relating to the exchange of
19 property held for productive use or investment, shall not apply to
20 out-of-state real property that is received in exchange for real
21 property located in California.

22 (b) This section shall remain in effect only until December 1,
23 2012, and as of that date is repealed.

24 SEC. 4. Section 23622.9 is added to the Revenue and Taxation
25 Code, to read:

26 23622.9. There is hereby created the California New Markets
27 Tax Credit Program as provided in this section and Section
28 17053.9. The purpose of this program is to stimulate economic
29 development, and hasten California's economic recovery, by
30 granting tax credits for investment in California, including, but
31 not limited to, retail businesses, real property, financial institutions,
32 and schools. The California Tax Credit Allocation Committee shall
33 have responsibility for the administration of this program as
34 provided in this section and Section 17053.9. The program shall
35 be as follows:

36 (a) (1) For taxable years beginning on or after January 1, 2011,
37 and before January 1, 2012, there shall be allowed to a taxpayer
38 that holds a qualified equity investment on a credit allowance date
39 of the investment which occurs during the taxable year, as a credit

1 against the “tax,” as defined in Section 23036, an amount equal
2 to the applicable percentage described in paragraph (2).

3 (2) For purposes of paragraph (1), the applicable percentage
4 shall be 39 percent of the qualified equity investment.

5 (b) For purposes of this section:

6 (1) “Credit allowance date” means, with respect to any qualified
7 equity investment, the date on which the investment is initially
8 made.

9 (2) “Equity investment” means either of the following:

10 (A) Any stock, other than nonqualified preferred stock as defined
11 in Section 351(g)(2) of the Internal Revenue Code, in an entity
12 which is a corporation.

13 (B) Any capital interest in an entity which is a partnership.

14 (3) (A) “Low-income community” means a population census
15 tract where any of the following applies:

16 (i) The tract has a poverty rate of at least 20 percent.

17 (ii) The tract is not located within a metropolitan area and the
18 median family income does not exceed 80 percent of the statewide
19 median family income.

20 (iii) The tract is located within a metropolitan area and the
21 median family income does not exceed 80 percent of the greater
22 statewide median family income or the metropolitan area median
23 family income.

24 (iv) The tract is located within a high migration rural county
25 and the median income does not exceed 85 percent of the statewide
26 median family income. For purposes of this clause, “high migration
27 rural county” means a county which, during the 20-year period
28 ending with the year in which the most recent census was
29 conducted, has a net out migration of inhabitants from the county
30 of at least 10 percent of the population of the county at the
31 beginning of that period.

32 (B) Where a community is in a location that is not tracted for
33 population census tracts, the equivalent county divisions shall be
34 used for purposes of determining poverty rates and median family
35 income.

36 (C) Where a community is in a population census tract with a
37 population of less than 2,000, the community shall be treated as a
38 low-income community if the tract is within an empowerment
39 zone designated under Section 1391 of the Internal Revenue Code

1 and is contiguous to one or more low-income communities, as
2 determined under this paragraph.

3 (4) (A) “Qualified active low-income community business”
4 means, with respect to any taxable year, a corporation, including
5 a nonprofit corporation, or partnership that, for that taxable year,
6 meets all of the following conditions:

7 (i) Derives at least 50 percent of its total gross income from the
8 active conduct of a qualified business in a low-income community
9 in California.

10 (ii) A substantial portion of the use of the tangible property of
11 the entity, whether owned or leased, is within a low-income
12 community in California. “Substantial portion” shall be defined
13 as 40 percent or more of the tangible property of the entity.

14 (iii) Less than 5 percent of the average of the aggregate
15 unadjusted base of the property of the entity is attributable to
16 collectibles, as defined in Section 408(m)(2) of the Internal
17 Revenue Code.

18 (iv) Less than 5 percent of the average of the aggregate
19 unadjusted base of the property of the entity is attributable to
20 nonqualified financial property, as defined in Section 1397C(e) of
21 the Internal Revenue Code.

22 (B) A “qualified active low-income community business” shall
23 include a business carried on by an individual as a proprietor if
24 that business meets the requirements of subparagraph (A) were it
25 incorporated or a trade or business which would qualify if that
26 trade or business were separately incorporated.

27 (5) “Qualified business” has the same meaning as that in Section
28 1397C(d) of the Internal Revenue Code except that:

29 (A) In lieu of applying subparagraph (B) of paragraph (2), the
30 rental to others of real property located in any low-income
31 community shall be treated as a qualified business if there are
32 substantial improvements located on that real property.

33 (B) Paragraph (3) of that section shall not apply.

34 (6) (A) “Qualified community development entity” means a
35 domestic corporation or partnership that meets all of the following
36 conditions:

37 (i) Has a primary mission of serving, or providing investment
38 capital for, low-income communities or low-income persons.

1 (ii) Maintains accountability to residents of low-income
2 communities through their representation on any governing board
3 of the entity or on any advisory board to the entity.

4 (iii) Is certified by the California Tax Credit Allocation
5 Committee for purposes of this section as being a qualified
6 community development entity.

7 (B) A domestic corporation or partnership shall be deemed a
8 “qualified community development entity” if it has entered into
9 an allocation agreement with the Community Development
10 Financial Institutions Fund of the United States Department of the
11 Treasury with respect to credits authorized by Section 45D of the
12 Internal Revenue Code of 1986, as amended, and if the allocation
13 agreement includes the state within its service area.

14 (7) (A) “Qualified equity investment” means any equity
15 investment in a qualified community development entity if all of
16 the following conditions are met:

17 (i) The investment is acquired by the taxpayer at its original
18 issue, directly or through an underwriter, solely in exchange for
19 cash.

20 (ii) Substantially all of the cash is used by the qualified
21 community development entity to make low-income community
22 investments. This requirement shall be deemed met if at least 85
23 percent of the aggregate gross assets of the qualified community
24 development entity are invested in qualified low-income
25 community investments in California.

26 (iii) The investment is designated for purposes of this section
27 by the qualified community development entity.

28 (B) “Qualified equity investment” does not include any equity
29 investment issued by a qualified community development entity
30 more than one year after the date that the entity receives an
31 allocation under subdivision (d).

32 (C) A “qualified equity investment” shall include any equity
33 investment which would, notwithstanding clause (i) of
34 subparagraph (A), be a qualified equity investment in the hands
35 of the taxpayer if the investment was a qualified equity investment
36 in the hands of a prior holder.

37 (D) Section 1202(c)(3) of the Internal Revenue Code, relating
38 to purchases by a corporation of its own stock, shall apply.

39 (8) “Qualified low-income community investment” means any
40 of the following:

1 (A) Any capital or equity investment in, or loan to, a qualified
2 low-income community business.

3 (B) Any capital or equity investment in, or loan to, a real estate
4 project in a low-income community.

5 (C) The purchase from another qualified community
6 development entity of any loan made by that entity which is a
7 qualified low-income community investment.

8 (D) Financial counseling and other services in support of
9 business activities to businesses located in, and residents of,
10 low-income communities.

11 (E) Any equity investment in, or loan to, a qualified community
12 development entity.

13 (c) The California Tax Credit Allocation Committee shall adopt
14 guidelines necessary or appropriate to carry out the purposes of
15 this section. The adoption of the guidelines shall not be subject to
16 the rulemaking provisions of the Administrative Procedure Act of
17 Chapter 3.5 (commencing with Section 11340) of Part 1 of Division
18 3 of Title 2 of the Government Code. The committee shall establish
19 and impose reasonable fees upon entities that apply for the
20 allocation pursuant to subdivision (d) and use the revenue to defray
21 the cost of administering the program. The committee shall
22 establish the fees in a manner that ensures that (1) the total amount
23 collected equals the amount reasonably necessary to defray the
24 commission's costs in performing its administrative duties under
25 this section, and (2) the amount paid by each entity reasonably
26 corresponds with the value of the services provided to the entity.

27 (d) (1) The aggregate amount of credit that may be allowed in
28 any calendar year pursuant to this section and Section 17053.9
29 shall be an amount equal to the aggregate revenue increase
30 attributable in that same calendar year to Sections 18036.8 and
31 ~~24941, as amended 24941.6, as added~~ by the act adding this
32 section, as estimated by the Franchise Tax Board, so as to achieve
33 a revenue neutral effect.

34 (2) The aggregate amount of credit specified under paragraph
35 (1) shall be allocated by the California Tax Credit Allocation
36 Committee among entities that apply for the allocation. The
37 California Tax Credit Allocation Committee shall give priority to
38 applications that either are submitted by an entity that has a record
39 of successfully providing capital or technical assistance to
40 disadvantaged businesses or communities or entities that intend

1 to make qualified low-income community investments in one or
2 more businesses in which persons unrelated to the entity hold the
3 majority equity interest.

4 (e) Any credits used under subdivision (a) for a qualified equity
5 investment where a recapture event occurs at any time before the
6 close of the seventh taxable year after the qualified equity
7 investment shall be included in the income in the taxable year in
8 which the recapture event occurred. For purposes of this
9 subdivision, a “recapture event” shall include any of the following
10 that occur any time before the close of the seventh taxable year
11 after the qualified equity investment in a qualified community
12 development entity:

13 (1) The qualified community development entity ceases to be
14 a qualified community development entity.

15 (2) The proceeds of the investment cease to be used as required
16 under clause (ii) of subparagraph (A) of paragraph (7) of
17 subdivision (b).

18 (3) The investment is redeemed by a qualified community
19 development entity.

20 (f) An exception to the provisions of clause (ii) of subparagraph
21 (A) of paragraph (7) of subdivision (b) shall exist wherein an
22 investment shall be considered held by a community development
23 entity even if the investment has been sold or repaid, provided that
24 the community development entity reinvests an amount equal to
25 the capital returned to or recovered by the community development
26 entity from the original investment, exclusive of any profits
27 realized, in another qualified low-income community investment
28 within 12 months of the receipt of that capital. A community
29 development entity shall not be required to reinvest capital returned
30 from qualified low-income community investments after the sixth
31 anniversary of the issuance of the qualified equity investment, the
32 proceeds of which were used to make the qualified low-income
33 community investment, and the qualified low-income community
34 investment shall be considered held by the community development
35 entity through the seventh anniversary of the qualified equity
36 investment’s issuance.

37 SEC. 5. Section ~~24941.5~~ 24941.6 is added to the Revenue and
38 Taxation Code, to read:

1 ~~24941.5.~~

2 24941.6. (a) For taxable years beginning on or after January
3 1, 2011, and before January 1, 2012, the provisions of Section
4 1031 of the Internal Revenue Code, relating to the exchange of
5 property held for productive use or investment, shall not apply to
6 out-of-state real property that is received in exchange for real
7 property located in California.

8 (b) This section shall remain in effect only until December 1,
9 2012, and as of that date is repealed.

10 *SEC. 6. Notwithstanding Section 50199.9 of the Health and*
11 *Safety Code, or any other law, the sum of one-hundred and fifty*
12 *thousand dollars (\$150,000) is hereby appropriated from the Tax*
13 *Credit Allocation Fee Account to the California Tax Credit*
14 *Allocation Committee for purposes of implementing the California*
15 *New Markets Tax Credit Program as provided in Sections 17053.9*
16 *and 23622.9 of the Revenue and Taxation Code. The appropriated*
17 *funds shall remain in the Tax Credit Allocation Fee Account until*
18 *such time as the funds are required for purposes of implementing*
19 *this new program, and shall only be available for expenditure until*
20 *January 1, 2012. It is the intent of the Legislature that these*
21 *appropriated funds shall be reimbursed by the application fees*
22 *collected by the committee for this new program.*

23 ~~SEC. 6.~~

24 SEC. 7. This act provides for a tax levy within the meaning of
25 Article IV of the Constitution and shall go into immediate effect.