Senate Bill No. 712

CHAPTER 494

An act to amend Sections 7073, 7073.7, 7073.9, 7102, and 7104 of the Government Code, and to amend Sections 17052.15, 17053.10, 17053.17, 17233, 17266, 17276.2, 23612.6, 23623.5, 23625, 24356.4, 24385, and 24416.2 of the Revenue and Taxation Code, relating to taxation.

[Approved by Governor October 2, 1995. Filed
with Secretary of State October 3, 1995.]

LEGISLATIVE COUNSEL'S DIGEST

SB 712, Committee on Revenue and Taxation. Enterprise zones: Los Angeles Revitalization Zone: income and bank and corporation taxes.

The Enterprise Zone Act authorizes the Trade and Commerce Agency to designate not more than 27 enterprise zones in the state and existing law provides tax credits on wages paid to qualified employees, as defined, within enterprise zones.

This bill would authorize the agency to designate an additional 2 enterprise zones within the state.

This bill would also modify an existing authorization for the designation of 2 enterprise zones by revising prescribed eligibility criteria relating to population growth.

Existing law provides for the establishment of the Los Angeles Revitalization Zone consisting of specific geographic areas that suffered damage as a result of the civil disturbances of April 29, 1992, and the following days in the County of Los Angeles. The geographic areas of the zone are determined by maps that are prepared by the county and affected cities and approved by the Trade and Commerce Agency in accordance with specified criteria.

This bill would require the Secretary of the Trade and Commerce Agency to publish, no later than 10 days after the effective date of this bill, an amended zone as specified, excluding areas in the City of Long Beach.

The Personal Income Tax Law and the Bank and Corporation Tax Law authorize various credits and deductions against the taxes imposed by those laws with respect to certain activities conducted within a program area, an enterprise zone, the Los Angeles Revitalization Zone, or a local area military base recovery area (LAMBRA), including each of the following: a credit for sales or use tax paid or incurred in connection with the purchase of qualified property used within the revitalization zone; a credit in an amount equal to a specified percentage of certain wages paid to a qualified disadvantaged individual, as defined, in the revitalization zone; a

credit for specified percentages of qualified wages paid in the revitalization zone by a qualified business; a deduction for depreciation in connection with business activities in the revitalization zone; and a deduction for net operating losses in connection with business activities in a program area, enterprise zone, the revitalization zone, or a LAMBRA.

This bill would make various technical, clarifying changes to those provisions. The bill would revise the method by which those credits are calculated and would place additional limitations on the net operating loss provisions.

This bill would provide that certain of its provisions would be operative, as specified, with respect to enterprise zones designated in 1995.

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

SECTION 1. Section 7073 of the Government Code is amended to read:

7073. (a) The governing body of any city or county may, either by ordinance or resolution, propose an eligible area plus one commercial or industrial area or both within its respective jurisdiction as the geographic area for an enterprise zone. A county may propose an area within the unincorporated area as the geographic area for an enterprise zone, but shall not propose an area within an incorporated area. This proposed geographic area shall be based upon findings by the governing body that the area is a depressed area and that the designation as an enterprise zone is necessary in order to assist in attracting private sector investment in the area. The city or county shall establish definitive boundaries for the area to be included in the application for designation and, if designated by the agency, the designation shall be binding for a period of 15 years.

(b) Following the application for designation of an enterprise zone by a city or county, the governing body shall apply to the agency for designation. The agency shall adopt regulations and guidelines concerning the necessary contents of each application for designation.

(c) Any city, county, or city and county with an eligible area within its jurisdiction may complete a preliminary application. A maximum of 20 applications may be chosen each year to complete a final application.

(d) (1) From the applications received, the agency may designate not more than 29 enterprise zones within the state, one of which may be designated an airport enterprise zone and not more than three of which may be designated high technology enterprise zones.

(2) In the case of any existing enterprise zone or area established pursuant to Chapter 12.9 (commencing with Section 7080), or any new enterprise zone or area established pursuant to Chapter 12.9 (commencing with Section 7080) designated on or after the effective date of the act adding this paragraph, a city or county may propose that the enterprise zone or area established pursuant to Chapter 12.9 (commencing with Section 7080) within the incorporated area be expanded by 15 percent to include definitive boundaries that are contiguous to the enterprise zone or area established pursuant to Chapter 12.9 (commencing with Section 7080). The agency may approve that expansion for enterprise zones based upon the criterion specified in subdivision (g), and for expansion of areas established pursuant to Chapter 12.9 (commencing with Section 7080), the criterion specified in Section 7082.

(3) Notwithstanding any other provision to the contrary, the two additional enterprise zones authorized by the act adding this paragraph shall be designated by the agency pursuant to Section 7073.7. For the purposes of applying any provision of the Revenue and Taxation Code, the two additional enterprise zones designated pursuant to Section 7073.7 shall be deemed designated by this section.

(4) Notwithstanding any other provision to the contrary, the two additional enterprise zones authorized by the act adding this paragraph shall be designated by the agency pursuant to Section 7073.9. For the purposes of applying any provision of the Revenue and Taxation Code, the two additional enterprise zones designated pursuant to Section 7073.9 shall be deemed designated by this section.

(e) The agency shall review the progress and effectiveness of each enterprise zone within five years of the date of designation, or by December 31, 1999, for zones designated prior to January 1, 1994, and every five years thereafter, and report the findings to the Legislature.

(f) In designating enterprise zones, the agency shall select from the applications submitted those proposed enterprise zones which, based on those applications, meet, to the extent possible, the following criterion:

Those proposed enterprise zones which, upon a comparison of all of the applications submitted, indicate that they propose the most effective, innovative, and comprehensive regulatory, tax, program, and other incentives in attracting private sector investment in the zone proposed.

For purposes of this subdivision, regulatory incentives include, but are not limited to, all of the following: the suspension or relaxation of locally originated or modified building codes, zoning laws, general development plans, or rent controls; the elimination or reduction of fees for applications, permits, and local government services; and the establishment of a streamlined permit process.

Tax incentives include, but are not limited to, the elimination or reduction of construction taxes or business license taxes.

Program and other incentives may include, but are not limited to, all of the following: the provision or expansion of infrastructure; the targeting of federal block grant moneys, including small cities, education, and health and welfare block grants; the targeting of economic development grants and loan moneys, including grant and loan moneys provided by the federal Urban Development Action Grant program and the federal Economic Development Administration; the targeting of state and federal job disadvantaged and vocational education grant moneys, including moneys provided by the federal Job Partnership Training Act of 1982; the targeting of federal or state transportation grant moneys; and the targeting of federal or state low-income housing and rental assistance moneys.

In the process of designating new zones, the agency shall take into consideration the location of existing zones and make every effort to locate new zones in a manner that will not adversely affect any existing zones.

(g) In evaluating applications for designation, the agency shall ensure that applications are not disqualified solely because of technical deficiencies and shall provide applicants with an opportunity to correct the deficiencies. Applications shall be disqualified if the deficiencies are not corrected within two weeks.

(h) For purposes of this section, ‘‘high technology enterprise zone’’ means an enterprise zone which is intended to attract private sector investment in high technology industries and is proposed to be located in an area which would permit the association of those industries with an urban university or college.

(i) The applications and selection criteria for designation adopted pursuant to Section 7076 prior to the effective date of the act adding this subdivision shall apply to this section, as amended by the act adding this subdivision.

(j) Section 7076 shall not apply to the extent it conflicts with the provisions of the act adding this subdivision.

(k) For purposes of this section, ‘‘airport enterprise zone’’ means an enterprise zone intended to attract private sector investment in aviation-dependent industries, commercial aviation, and other commercial and industrial activity and which includes a rural airport located within unincorporated territory.

SEC. 1.5. Section 7073.7 of the Government Code is amended to read:

7073.7. The agency shall designate two enterprise zones each of which shall meet at least two of the following three criteria:

(a) The unemployment rate in the area has been twice the state average for each of the preceding five years.

(b) The median household income for the area is less than 90 percent of the median household income for the county in which the area is located.

(c) Either of the following:

(1) The designated area has grown at least 8 percent in population per year for each of the preceding two years but has not had a corresponding percentage growth in area employment.

(2) The designated area has grown at least 8 percent in population per year for any three of the four years, from 1991 to 1994, inclusive, but has not had a corresponding percentage growth in area employment.

SEC. 2. Section 7073.9 of the Government Code is amended to read:

7073.9. (a) The agency may accept and consider applications for designation of enterprise zones filed on or before June 30, 1994, by cities whose population on December 31, 1992, was less than 25,000.

(b) The agency may assist the preparation of applications by those cities.

(c) The agency may designate two enterprise zones from the applications submitted by those cities.

(d) For purposes of applying any provision of the Revenue and Taxation Code, any enterprise zone designated pursuant to this section shall be deemed designated by Section 7073.

SEC. 3. Section 7102 of the Government Code is amended to read:

7102. (a) The Los Angeles Revitalization Zone shall be the specific geographic areas that suffered substantial property damage to businesses as a result of the civil disturbances of April 29, 1992, and the following days, in the County of Los Angeles and the affected cities within that county. The zone shall also include the supporting residential areas for the business areas. For purposes of this section, ‘‘supporting residential areas’’ means areas of high-density unemployment adjacent to areas of depressed economic business activity as a result of civil unrest on April 29 and 30, 1992.

(b) The County of Los Angeles and the affected cities within that county shall each prepare a map of the area within their jurisdiction that suffered substantial property damage to businesses as a result of the unrest. These maps shall also include the supporting residential areas. One or more of the following techniques shall be used by the jurisdiction in describing the areas:

(1) ZIP codes.

(2) Census tracts and block groups.

(3) Street names in a modified metes and bounds technique.

(c) The maps shall be submitted to the Trade and Commerce Agency for approval. The agency shall exclude a geographic area from the map if it finds that no substantial damage occurred in the geographic area as a result of the civil disturbances. The agency’s determination on the submitted maps shall be made on or before December 31, 1992. The agency shall retain jurisdiction to determine whether an approved map complies with this chapter.

(d) For purposes of the tax incentives added to the Personal Income Tax Law (Part 10 (commencing with Section 17001) of Division 2 of the Revenue and Taxation Code) and the Bank and Corporations Tax Law (Part 11 (commencing with Section 23001) of Division 2 of the Revenue and Taxation Code) by the act which added this chapter, the Los Angeles Revitalization Zone shall be deemed to be operative on May 1, 1992. Upon a determination in accordance with subdivision (c) that a map is not in compliance, or the exclusion of an area from the amended Los Angeles Revitalization Zone determined pursuant to Section 7104 of this code, Sections 17052.15, 17053.10, 17053.17, 17233, 17266, 17276.2, 23612.6, 23623.5, 23625, 24356.4, 24385, and 24416.2 of the Revenue and Taxation Code shall become inoperative as provided in those sections, and any carryover of unused credit or deduction amounts shall be authorized as may be provided in those sections and Sections 17039 and 23036 of the Revenue and Taxation Code.

SEC. 4. Section 7104 of the Government Code is amended to read:

7104. (a) No later than 10 days after the effective date of the act amending this section, the Secretary of the Trade and Commerce Agency shall publish an amended Los Angeles Revitalization Zone. The amended zone shall consist of the zone as determined or modified pursuant to subdivision (c) of Section 7102 excluding any areas that do not comply with subdivision (b).

(b) The amended zone shall only consist of the map approved by the agency before January 1, 1993, excluding the areas in the City of Long Beach specified in the map dated June 1, 1995, that is in the possession of the agency.

SEC. 5. Section 17052.15 of the Revenue and Taxation Code is amended to read:

17052.15. (a) For each taxable year beginning on or after January 1, 1992, and before January 1, 1998, there shall be allowed a credit against the ‘‘net tax,’’ as defined in Section 17039, 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 the Los Angeles Revitalization Zone designated pursuant to Section 7102 of the Government Code.

(2) ‘‘Qualified property’’ means the purchase on or after May 1, 1992, and before the zone expiration date, of either or both of the following:

(A) Building materials to replace or repair the taxpayer’s building and fixtures.

(B) Machinery or equipment, excluding inventory, to be used by the taxpayer exclusively in the Los Angeles Revitalization Zone.

(3) ‘‘Zone expiration date’’ means the date the Los Angeles Revitalization Zone designation expires, is repealed, or becomes inoperative pursuant to Section 7102, 7103, or 7104 of the Government Code.

(c) (1) In the case where a credit is allowable for qualified property under more than one section in this part, the taxpayer shall make an election, on the original return filed for each year, as to which section applies to the qualified property.

(2) Any election made under this section, and any specification contained in that election, may not be revoked except with the consent of the Franchise Tax Board.

(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 for the number of taxable years in which the designation of the Los Angeles Revitalization Zone under Section 7102 of the Government Code is operative, or 15 taxable years, if longer, 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 the sales and use tax paid or incurred in connection with the taxpayer’s purchase of qualified property.

(f) (1) The amount of credit otherwise allowed under this section, 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 Los Angeles Revitalization Zone (designated pursuant to Section 7102 of the Government Code) determined as if that attributable income represented all of the income of the taxpayer subject to tax under this part.

(2) The amount of attributable income described in paragraph (1) shall be that portion of the taxpayer’s California source business income which is apportioned to the Los Angeles Revitalization Zone. For that purpose, the taxpayer’s business income attributable to sources in this state first shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101) of Part 11. That business income shall be further apportioned to the Los Angeles Revitalization Zone in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified as follows:

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

(B) 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 Los Angeles Revitalization 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.

(C) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the Los Angeles Revitalization 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.

(3) The portion of the 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) If the qualified property is disposed of or no longer used by the taxpayer in the Los Angeles Revitalization Zone, 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 shall be added to the taxpayer's tax liability in the taxable year of that disposition or nonuse.

(h) This section shall be inoperative on the first day of the taxable year beginning on or after the determination date, and each taxable year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code. However, if the taxpayer has any unused credit amount as of the date this section becomes inoperative, that unused credit amount may continue to be carried forward as provided in subdivision (d).

(i) This section shall remain in effect only until December 1, 1998, and as of that date is repealed. However, any unused credit may continue to be carried forward, as provided in subdivision (d).

SEC. 6. Section 17053.10 of the Revenue and Taxation Code is amended to read:

17053.10. (a) For each taxable year beginning on or after January 1, 1992, and before January 1, 1998, there shall be allowed to a taxpayer who employs qualified employees in the Los Angeles Revitalization Zone during the taxable year as a credit against the ''net tax,'' as defined in Section 17039, an amount equal to the sum of the following:

(1) One hundred percent of the qualified wages paid or incurred during the period from May 1, 1992, to the end of the sixth full month after the designation of the Los Angeles Revitalization Zone, with respect to qualified employees that are hired during that period.

(2) Seventy-five percent of the qualified wages paid or incurred during the period from the beginning of the seventh month after designation to the end of the 12th full month after designation, with respect to qualified employees that are hired during that period.

(3) Fifty percent of the qualified wages paid or incurred during the period from the beginning of the 13th month after designation to the end of the 60th full month after designation, with respect to qualified employees that are hired during that period.

(b) For purposes of this section:

(1) (A) ''Qualified wages'' means that portion of wages paid or incurred by the taxpayer for construction work in the Los Angeles Revitalization Zone during the taxable year with respect to qualified employees that does not exceed 150 percent of the minimum wage.

(B) If, after a taxpayer hires a qualified employee, the geographic area in which the taxpayer's trade or business is located is excluded from the map of the Los Angeles Revitalization Zone by the Trade and Commerce Agency pursuant to Section 7102 or 7104 of the Government Code, wages paid or incurred with respect to the qualified employee may continue to be qualified wages and may qualify for the credit under this section, provided all provisions of this section are satisfied, applied as if the taxpayer's trade or business was still located with the Los Angeles Revitalization Zone.

(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) ''Qualified employee'' means an individual to whom both of the following apply:

(A) Is a resident, as defined in Section 7101 of the Government Code, in the Los Angeles Revitalization Zone.

(B) Was hired by the taxpayer to perform construction work in the Los Angeles Revitalization Zone.

(4) ''Los Angeles Revitalization Zone'' means the area designated pursuant to Section 7102 of the Government Code.

(5) ''Construction work'' means any work performed by a qualified employee directly to the erection, demolition, repair, or renovation of a structure located within the Los Angeles Revitalization Zone.

(6) ''Taxpayer'' means a person or entity engaged in a trade or business within the Los Angeles Revitalization Zone.

(c) If an employer acquires the major portion of a trade or business of another employer (hereafter in this subdivision referred to as the ''predecessor'') or the major portion of a separate unit of a

trade or business of a predecessor, then, for the purposes of applying this section, other than subdivision (h), for any taxable year ending after the acquisition, the employment relationship between a qualified employee and employer shall not be treated as terminated if the employee continues to be employed in that trade or business.

(d) The credit shall be reduced by the credits allowable under Sections 17053.7, 17053.8, 17053.11, and 17053.17 claimed for the same qualified employee. The credit shall also be reduced by the credit allowed under Section 51 of the Internal Revenue Code for the same qualified employee.

(e) 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 credit, prior to any reduction required by subdivision (f) or (g).

(f) 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 for the number of taxable years in which the designation of the Los Angeles Revitalization Zone under Section 7102 of the Government Code is operative, or 15 taxable years, if longer, until the credit is exhausted. The credit shall be applied first to the earliest taxable years possible.

(g) (1) The amount of credit otherwise allowed under this section, 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 Los Angeles Revitalization Zone determined as if that attributable income represented all of the income of the taxpayer subject to tax under this part.

(2) The amount of attributable income described in paragraph (1) shall be that portion of the taxpayer's California source business income which is apportioned to the Los Angeles Revitalization Zone. For that purpose, the taxpayer's business income attributable to sources in this state first shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101) of Part 11. That business income shall be further apportioned to the Los Angeles Revitalization Zone in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified as follows:

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

(B) 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 Los Angeles Revitalization 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.

(C) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the Los Angeles Revitalization 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.

(3) The portion of the 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 (f).

(h) (1) If the 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.

(2) (A) 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 qualified employee.

(iii) A termination of employment of a qualified employee, if it is determined under the applicable employment compensation provisions that the termination was due to the misconduct of that qualified 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 qualified 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.

(vi) A termination of employment due to a contractual agreement.

(B) 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.

(i) This section shall be inoperative on the first day of the taxable year beginning on or after the determination date, and each taxable year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code. However, if the taxpayer has any unused credit amount as of the date this section become inoperative, that unused credit amount may continue to be carried forward as provided in subdivision (f).

(j) This section shall remain in effect only until December 1, 1998, and as of that date is repealed. However, any unused credit may continue to be carried forward, as provided in subdivision (f).

SEC. 7. Section 17053.17 of the Revenue and Taxation Code is amended to read:

17053.17. (a) For each taxable year beginning on or after January 1, 1992, and before January 1, 1998, the taxpayer shall be allowed for hiring qualified disadvantaged individuals on or after May 1, 1992, a credit against the ''net tax,'' as defined in Section 17039, for the taxable year 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 all of the following:

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

(B) Wages received during the 60-month period beginning with the day the disadvantaged individual commences employment within the Los Angeles Revitalization Zone.

(C) Qualified wages do not include any wages paid or incurred by the taxpayer on or after the zone expiration date.

(D) If, after a taxpayer hires a qualified disadvantaged individual, the geographic area in which the taxpayer's trade or business is located is excluded from the map of the Los Angeles Revitalization Zone by the Trade and Commerce Agency pursuant to Section 7102 or 7104 of the Government Code, wages paid or incurred with respect to the disadvantaged individual may continue to be qualified wages and may qualify for the credit under this section, provided all provisions of this section are satisfied, applied as if the taxpayer's trade or business was still located within the Los Angeles Revitalization Zone.

(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) ''Qualified disadvantaged individual'' means an individual who is a resident of the Los Angeles Revitalization Zone.

(4) ''Los Angeles Revitalization Zone'' means the area designated under Section 7102 of the Government Code.

(5) ''Qualified employee'' means an individual that meets both of the following:

(A) 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 the Los Angeles Revitalization Zone.

(B) Who performs at least 50 percent of his or her services for the taxpayer during the taxable year in the Los Angeles Revitalization Zone.

(6) ''Resident'' means a ''resident'' as defined in Section 7101 of the Government Code.

(7) ''Taxpayer'' means a person or entity engaged in a trade or business within the Los Angeles Revitalization Zone.

(8) ''Zone expiration date'' means the date the Los Angeles Revitalization Zone designation expires, is repealed, or becomes inoperative pursuant to Section 7102, 7103, or 7104 of the Government Code.

(9) (A) All employees of trades or businesses, that 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 allocated in that manner.

Principles similar to the principles that apply in the case of controlled groups of corporations as specified in paragraph (8) of subdivision (b) of Section 23623.5 shall apply with respect to determining common control of employees.

(10) If a taxpayer acquires the major portion of a trade or business of another employer (hereafter 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 the purposes of applying this section (other than subdivision (c)) 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.

(c) (1) If the 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 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.

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

(i) A termination of employment of an individual 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 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 individual.

(iii) A termination of employment of an individual, if it is determined under the applicable employment compensation provisions that the termination was due to the misconduct 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) 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.

(d) 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 taxpayer with respect to those wages.

(e) The credit shall be reduced by the credits allowed under Sections 17053.7, 17053.8, 17053.10, and 17053.11, claimed for the same individual. The credit shall also be reduced by the 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 (f) or (g).

(f) 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 while the designation of the Los Angeles Revitalization Zone under Section 7102 of the Government Code is operative or 15 taxable years, if longer, until the credit is exhausted. The credit shall be applied first to the earliest taxable years possible.

(g) (1) The amount of the credit otherwise allowed under this section, 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 Los Angeles Revitalization Zone determined as if that attributable income represented all of the income of the taxpayer subject to tax under this part.

(2) The amount of attributable income described in paragraph (1) shall be that portion of the taxpayer's California source business income which is apportioned to the Los Angeles Revitalization Zone. For that purpose, the taxpayer's business income attributable to sources in this state first shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101) of Part 11. That business income shall be further apportioned to the Los Angeles Revitalization Zone in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified for purposes of this section as follows:

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

(B) 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 Los Angeles Revitalization 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.

(C) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the Los Angeles Revitalization 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.

(3) The portion of the 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 (f).

(h) Except as provided in subparagraph (D) of paragraph (2) of subdivision (b), this section shall cease to be operative as of the first day of the taxable year beginning on or after the determination date and each taxable year thereafter with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant Section 7104 of the Government Code. For purposes of this subdivision, ''determination date'' means the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code. However, if the taxpayer has any unused credit amount as of the date this section becomes inoperative, that unused credit amount may continue to be carried forward as provided in subdivision (f).

(i) This section shall remain in effect only until December 1, 1998, and as of that date is repealed. However, any unused credit may continue to be carried forward, as specified in subdivision (f).

SEC. 8. Section 17233 of the Revenue and Taxation Code is amended to read:

17233. (a) There shall be allowed as a deduction the amount of net interest received by the taxpayer in payment of indebtedness incurred on or after May 1, 1992, of a person or entity engaged in trade or business located in the Los Angeles Revitalization Zone (as defined in Section 7102 of the Government Code).

(b) No deduction shall be allowed under subdivision (a) unless at the time the indebtedness is incurred each of the following requirements are met:

(1) The trade or business is located solely within the Los Angeles Revitalization Zone (as defined in Section 7102 of the Government Code).

(2) The indebtedness is incurred solely in connection with activity within the Los Angeles Revitalization Zone.

(3) The taxpayer has no equity or other ownership interest in the debtor.

(c) This section shall remain in effect only until December 1, 1998, and as of that date is repealed.

(d) This section shall be inoperative on the first day of the taxable year beginning on or after the determination date, and each taxable year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code.

SEC. 9. Section 17266 of the Revenue and Taxation Code is amended to read:

17266. (a) A taxpayer may elect to treat the cost of any Section 17266 property as an expense that is not chargeable to capital account. Any cost so treated shall be allowed as a deduction for the taxable year in which the taxpayer places the Section 17266 property in service.

(b) (1) An election made under this section for any taxable year shall meet both of the following requirements:

(A) Specify the items of Section 17266 property to which the election applies and the cost of each of those items that is to be taken into account under subdivision (a).

(B) Be made on the taxpayer's original return of the tax imposed by this part for the taxable year.

(2) Any election made under this section, and any specifications contained in that election, may not be revoked except with the consent of the Franchise Tax Board.

(c) For purposes of this section:

(1) ''Taxpayer'' means a person or entity engaged in a trade or business within the Los Angeles Revitalization Zone designated pursuant to Section 7102 of the Government Code.

(2) ''Section 17266 property'' means any recovery property that is all of the following:

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

(B) Purchased and placed in service by the taxpayer on or after September 1, 1992, and before the zone expiration date.

(C) Used exclusively in a trade or business conducted within the Los Angeles Revitalization Zone designated pursuant to Section 7102 of the Government Code.

(3) ''Purchase'' means any acquisition of property, but only if both of the following apply:

(A) The property is not acquired from a person whose relationship to the person acquiring it would result in the disallowance of losses under Section 267 or 707(b) of the Internal Revenue Code (but, in applying Sections 267(b) and 267(c) of the Internal Revenue Code for purposes of this section, Section 267(c)(4) of the Internal Revenue Code shall be treated as providing that the family of an individual shall include only his or her spouse, ancestors, and lineal descendants).

(B) The basis of the property in the hands of the person acquiring it is not determined by either of the following:

(i) In whole or in part by reference to the adjusted basis of the property in the hands of the person from whom acquired.

(ii) Under Section 1014 of the Internal Revenue Code, relating to the basis of the property acquired from a decedent.

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

(d) For purposes of this section, the cost of the property does not include that portion of the basis of the property that is determined by reference to the basis of other property held at any time by the person acquiring the property.

(e) This section shall not apply to estates and trusts.

(f) This section shall not apply to any property described in Section 168(f) of the Internal Revenue Code, relating to property to which Section 168 of the Internal Revenue Code does not apply.

(g) This section shall apply only to Section 17266 property that is used by the taxpayer exclusively in a trade or business conducted in the Los Angeles Revitalization Zone.

(h) Any amount deducted under subdivision (a) with respect to Section 17266 property that ceases to be used in the taxpayer's trade or business within the Los Angeles Revitalization Zone at any time before the close of the second taxable year after the property was placed in service shall be included in income in the taxable year in which the property ceases to be so used.

(i) This section shall remain in effect only until December 1, 1998, and as of that date is repealed.

(j) This section shall be inoperative on the first day of the taxable year beginning on or after the determination date, and each taxable year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los

Angeles Revitalization Zone under Section 7104 of the Government Code.

SEC. 10. Section 17276.2 of the Revenue and Taxation Code is amended to read:

17276.2. The term ‘‘qualified taxpayer’’ as used in Section 17276.1 means any of the following:

(a) A qualified business as defined in Section 7082 of the Government Code.

(1) A net operating loss shall not be a net operating loss carryback to any taxable year and a net operating loss for any taxable year beginning on or after the date that the taxpayer becomes a qualified business shall be a net operating loss carryover to each of the 15 taxable years following the taxable year of loss.

(2) For purposes of this subdivision:

(A) ‘‘Net operating loss’’ means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 17276.1, attributable to the taxpayer’s business activities within the program area (as defined in Section 7082 of the Government Code) prior to the program area expiration date. That attributable loss shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101) of Part 11, modified for purposes of this section as follows:

(i) For each taxable year beginning on or after January 1, 1991, and ending on or before December 31, 1996, loss shall be apportioned to the program area by multiplying total loss from the business by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ‘‘The program area’’ shall be substituted for ‘‘this state.’’

(B) A net operating loss carryover shall be a deduction only with respect to the taxpayer’s business income attributable to the program area (as defined in Section 7082 of the Government Code) determined in accordance with the provisions of Chapter 17 (commencing with Section 25101) of Part 11, modified for purposes of this section as follows:

(i) For each taxable year beginning on or after January 1, 1991, and ending on or before December 31, 1996, income shall be apportioned to the program area by multiplying total business income by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ‘‘The program area’’ shall be substituted for ‘‘this state.’’

(C) ‘‘Program area expiration date’’ means the date the program area designation expires or becomes inoperative pursuant to Section 7085 of the Government Code.

(b) A person or entity engaged in the conduct of a trade or business within an enterprise zone designated pursuant to Section 7073 of the Government Code on or after that designation.

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

(2) For purposes of this subdivision:

(A) ''Net operating loss'' means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 17276.1, attributable to the taxpayer's business activities within the enterprise zone (as defined in Section 7073 of the Government Code) prior to the enterprise zone expiration date. The attributable loss shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101) of Part 11, modified for purposes of this section as follows:

(i) For each taxable year beginning on or after January 1, 1991, and ending on or before December 31, 1996, loss shall be apportioned to the enterprise zone by multiplying total loss from the business by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The enterprise zone'' shall be substituted for ''this state.''

(B) A net operating loss carryover shall be a deduction only with respect to the taxpayer's business income attributable to the enterprise zone (as defined in Section 7073 of the Government Code) determined in accordance with the provisions of Chapter 17 (commencing with Section 25101) of Part 11, modified for purposes of this section as follows:

(i) For each taxable year beginning on or after January 1, 1991, and ending on or before December 31, 1996, income shall be apportioned to the enterprise zone by multiplying total business income by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ''The enterprise zone'' shall be substituted for ''this state.''

(C) ''Enterprise zone expiration date'' means the date the enterprise zone designation expires, is no longer binding, or becomes inoperative pursuant to Section 7073 of the Government Code.

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

(1) A net operating loss shall not be a net operating loss carryback for any taxable year, and a net operating loss for any taxable year beginning on or after the date the area in which the taxpayer conducts a trade or business is designated the Los Angeles Revitalization Zone shall be a net operating loss carryover to each following taxable year that ends before the Los Angeles

Revitalization Zone expiration date or to each of the 15 taxable years following the taxable year of loss, if longer.

(2) For the purposes of this subdivision:

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

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

(ii) ‘‘The Los Angeles Revitalization Zone’’ shall be substituted for ‘‘this state.’’

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

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

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

(B) 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 Los Angeles Revitalization 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.

(C) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the Los Angeles Revitalization 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) ‘‘Los Angeles Revitalization Zone expiration date’’ means the date the Los Angeles Revitalization Zone designation expires, is repealed, or becomes inoperative pursuant to Section 7102, 7103, or 7104 of the Government Code.

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

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

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

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

(2) For the purposes of this subdivision:

(A) ‘‘LAMBRA’’ means a local agency military base recovery area designated in accordance with Section 7114 of the Government Code.

(B) ‘‘Taxpayer’’ means a person or entity 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 and this state.

(i) 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. The deduction shall be allowed only if the taxpayer has a net increase in jobs in the state, and if one or more full-time employees is employed within the LAMBRA.

(ii) 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.

(iii) In the case of a taxpayer who first commences doing business in the LAMBRA during the taxable year, for purposes of subclauses (I) and (II), respectively, of clause (ii) 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.

(C) ''Net operating loss'' means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 17276.1, attributable to the taxpayer's business activities within a LAMBRA prior to the LAMBRA expiration date. The attributable loss shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101) of Part 11, modified as follows:

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

(ii) ''The LAMBRA'' shall be substituted for ''this state.''

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

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

(ii) ''The LAMBRA'' shall be substituted for ''this state.''

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

(E) ''LAMBRA expiration date'' means the date the LAMBRA designation expires, is no longer binding, or becomes inoperative pursuant to Section 7110 of the Government Code.

(e) A taxpayer who qualifies as a ''qualified taxpayer'' shall, for the taxable year of the net operating loss and any taxable year to which

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

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

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

SEC. 11. Section 23612.6 of the Revenue and Taxation Code is amended to read:

23612.6. (a) For each income year beginning on or after January 1, 1992, and before January 1, 1998, there shall be allowed a credit against the ''tax,'' as defined in Section 23036, for the income year an amount equal to the sales or use tax paid or incurred during the income year by the taxpayer in connection with the taxpayer's purchase of qualified property.

(b) For purposes of this section:

(1) ''Taxpayer'' means a bank or corporation engaged in a trade or business within the Los Angeles Revitalization Zone designated pursuant to Section 7102 of the Government Code.

(2) ''Qualified property'' means the purchase on or after May 1, 1992, and before the zone expiration date, of either or both of the following:

(A) Building materials to replace or repair the taxpayer's building and fixtures.

(B) Machinery or equipment, excluding inventory, to be used by the taxpayer exclusively in the Los Angeles Revitalization Zone.

(3) ''Zone expiration date'' means the date the Los Angeles Revitalization Zone designation expires, is repealed, or becomes inoperative pursuant to Section 7102, 7103, or 7104 of the Government Code.

(c) (1) In the case where a credit is allowable for qualified property under more than one section in this part, the taxpayer shall make an election, on the original return filed for each year, as to which section applies to the qualified property.

(2) Any election made under this section, and any specification contained in that election, may not be revoked except with the consent of the Franchise Tax Board.

(d) In the case where the credit otherwise allowed under this section exceeds the tax for the income year, that portion of the credit

that exceeds the tax may be carried over and added to the credit, if any, in succeeding income years for the number of income years in which the designation of the Los Angeles Revitalization Zone under Section 7102 of the Government Code is operative, or 15 income years, if longer, until the credit is exhausted. The credit shall be applied first to the earliest income year 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 the sales and use tax paid or incurred in connection with the taxpayer's purchase of qualified property.

(f) (1) The amount of credit otherwise allowed under this section, including any credit carryover from prior years, that may reduce the tax for the income year shall not exceed the amount of tax which would be imposed on the taxpayer's business income attributable to the Los Angeles Revitalization Zone (designated pursuant to Section 7102 of the Government Code) determined as if that attributable income represented all of the income of the taxpayer subject to tax under this part.

(2) The amount of attributable income described in paragraph (1) shall be that portion of the taxpayer's California source business income which is apportioned to the Los Angeles Revitalization Zone. For that purpose, the taxpayer's business income attributable to sources in this state first shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101). That business income shall be further apportioned to the Los Angeles Revitalization Zone in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17, modified as follows:

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

(B) 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 Los Angeles Revitalization Zone during the income 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 income year.

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

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

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

(h) This section shall be inoperative on the first day of the income year beginning on or after the determination date, and each income year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code. However, if the taxpayer has any unused credit amount as of the date this section becomes inoperative, that unused credit amount may continue to be carried forward as provided in subdivision (d).

(i) This section shall remain in effect only until December 1, 1998, and as of that date is repealed. However, any unused credit may continue to be carried forward, as provided in subdivision (d).

SEC. 12. Section 23623.5 of the Revenue and Taxation Code is amended to read:

23623.5. (a) For each income year beginning on or after January 1, 1992, and before January 1, 1998, the taxpayer shall be allowed for hiring qualified disadvantaged individuals on or after May 1, 1992, a credit against the ''tax,'' as defined in Section 23036, for the income year 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 all of the following:

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

(B) Wages received during the 60-month period beginning with the day the disadvantaged individual commences employment within the Los Angeles Revitalization Zone.

(C) Qualified wages does not include any wages paid or incurred by the taxpayer on or after the zone expiration date.

(D) If, after a taxpayer hires a qualified disadvantaged individual, the geographic area in which the taxpayer's trade or business is located is excluded from the map of the Los Angeles Revitalization Zone by the Trade and Commerce Agency pursuant to Section 7102 or 7104 of the Government Code, wages paid or incurred with respect to the disadvantaged individual may continue to be qualified wages and may qualify for the credit under this section, provided all provisions of this section are satisfied, applied as if the taxpayer's trade or business was still located within the Los Angeles Revitalization Zone.

(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) ''Qualified disadvantaged individual'' means an individual who is a resident of the Los Angeles Revitalization Zone.

(4) ''Los Angeles Revitalization Zone'' means the area designated under Section 7102 of the Government Code.

(5) ''Qualified employee'' means an individual that meets both of the following:

(A) At least 90 percent of whose services for the taxpayer during the income year are directly related to the conduct of the taxpayer's trade or business located in the Los Angeles Revitalization Zone.

(B) Who performs at least 50 percent of his or her services for the taxpayer during the income year in the Los Angeles Revitalization Zone.

(6) ''Resident'' means a ''resident'' as defined in Section 7101 of the Government Code.

(7) ''Taxpayer'' means a bank or corporation engaged in a trade or business within the Los Angeles Revitalization Zone.

(8) ''Zone expiration date'' means the date the Los Angeles Revitalization Zone designation expires, is repealed, or becomes inoperative pursuant to Section 7102, 7103, or 7104 of the Government Code.

(9) (A) (i) All employees of all corporations that are members of the same controlled group of corporations shall be treated as employed by a single taxpayer.

(ii) The credit, if any, allowable by this section to each member shall be determined by reference to its proportionate share of the expense of the qualified wages giving rise to the credit and allocated in that manner.

(iii) ‘‘Controlled group of corporations’’ means ‘‘controlled group of corporations’’ as defined in Section 1563(a) of the Internal Revenue Code, except that:

(I) ‘‘More than 50 percent’’ shall be substituted for ‘‘at least 80 percent’’ each place it appears in Section 1563(a)(1) of the Internal Revenue Code.

(II) The determination shall be made without regard to Sections 1563(a)(4) and 1563(e)(3)(C) of the Internal Revenue Code.

(10) If a taxpayer acquires the major portion of a trade or business of another employer (hereafter 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 the purposes of applying this section (other than subdivision (c)) 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.

(c) (1) If the 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 income year in which that employment is terminated shall be increased by an amount equal to the credit allowed under subdivision (a) for that income year and all prior income years attributable to qualified wages paid or incurred with respect to that employee.

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

(i) A termination of employment of an individual 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 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 individual.

(iii) A termination of employment of an individual, if it is determined under the applicable employment compensation provisions that the termination was due to the misconduct 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) For purposes of paragraph (1), the employment relationship between the taxpayer and an employee shall not be treated as terminated by either of the following:

(i) By a transaction to which Section 381(a) of the Internal Revenue Code applies, if the employee continues to be employed by the acquiring corporation.

(ii) 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.

(d) In the case of an organization to which Section 593 of the Internal Revenue Code applies, and a regulated investment company or a real estate investment trust subject to taxation under this part, rules similar to the rules provided in Sections 46(e) and 46(h) of the Internal Revenue Code shall apply.

(e) The credit shall be reduced by the credits allowed under Sections 23621, 23622, 23623, and 23625, claimed for the same individual. The credit shall also be reduced by the 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 (f) or (g).

(f) In the case where the credit otherwise allowed under this section exceeds tax for the income year, that portion of the credit that exceeds the tax may be carried over and added to the credit, if any, in succeeding income years while the designation of the Los Angeles Revitalization Zone under Section 7102 of the Government Code is operative or 15 income years, if longer, until the credit is exhausted. The credit shall be applied first to the earliest income years possible.

(g) (1) The amount of credit otherwise allowed under this section, including any credit carryover from prior years, that may reduce the tax for the income year shall not exceed the amount of tax that would be imposed on the taxpayer's business income attributable to the Los Angeles Revitalization Zone determined as if that attributable income represented all of the income of the taxpayer subject to tax under this part.

(2) The amount of attributable income described in paragraph (1) shall be that portion of the taxpayer's California source business income which is apportioned to the Los Angeles Revitalization Zone. For that purpose, the taxpayer's business income attributable to sources in this state first shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101). That business income shall be further apportioned to the Los Angeles

Revitalization Zone in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17, modified for purposes of this section as follows:

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

(B) 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 Los Angeles Revitalization Zone during the income 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 income year.

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

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

(h) Except as provided in subparagraph (D) of paragraph (2) of subdivision (b), this section shall be inoperative on the first day of the income year beginning on or after the determination date, and each income year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code. However, if the taxpayer has any unused credit amount as of the date this section becomes inoperative, that unused credit amount may continue to be carried forward as provided in subdivision (f).

(i) This section shall remain in effect only until December 1, 1998, and as of that date is repealed. However, any unused credit may continue to be carried forward, as specified in subdivision (f).

SEC. 13. Section 23625 of the Revenue and Taxation Code is amended to read:

23625. (a) For each income year beginning on or after January 1, 1992, and before January 1, 1998, there shall be allowed to a taxpayer who employs qualified employees in the Los Angeles Revitalization Zone during the income year as a credit against the

‘‘tax,’’ as defined in Section 23036, an amount equal to the sum of the following:

(1) One hundred percent of the qualified wages paid or incurred during the period from May 1, 1992, to the end of the sixth full month after the designation of the Los Angeles Revitalization Zone with respect to qualified employees that are hired during that period.

(2) Seventy-five percent of the qualified wages paid or incurred during the period from the beginning of the seventh month after designation to the end of the 12th full month after designation with respect to qualified employees that are hired during that period.

(3) Fifty percent of the qualified wages paid or incurred during the period from the beginning of the 13th month after designation to the end of the 60th full month after designation with respect to qualified employees that are hired during that period.

(b) For purposes of this section:

(1) (A) ‘‘Qualified wages’’ means that portion of wages paid or incurred by the taxpayer for construction work in the Los Angeles Revitalization Zone during the income year with respect to qualified employees which does not exceed 150 percent of the minimum wage.

(B) If, after a taxpayer hires a qualified employee, the geographic area in which the taxpayer’s trade or business is located is excluded from the map of the Los Angles Revitalization Zone by the Trade and Commerce Agency pursuant to Section 7102 or 7104 of the Government Code, wages paid or incurred with respect to the qualified employee may continue to be qualified wages and may qualify for the credit under this section, provided all provisions of this section are satisfied, applied as if the taxpayer’s trade or business was still located within the Los Angeles Revitalization Zone.

(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) ‘‘Qualified employee’’ means an individual to whom both of the following apply:

(A) Is a resident, as defined in Section 7101 of the Government Code, in the Los Angeles Revitalization Zone.

(B) Was hired by the taxpayer to perform construction work in the Los Angeles Revitalization Zone.

(4) ‘‘Los Angeles Revitalization Zone’’ means the area designated pursuant to Section 7102 of the Government Code.

(5) ‘‘Construction work’’ means any work performed by a qualified employee directly related to the erection, demolition, repair, or renovation of a structure located within the Los Angeles Revitalization Zone.

(6) ‘‘Taxpayer’’ means a bank or corporation engaged in a trade or business within the Los Angeles Revitalization Zone.

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

(d) The credit shall be reduced by the credits allowable under Sections 23621, 23622, 23623, and 23623.5 claimed for the same qualified employee. The credit shall also be reduced by the credit allowed under Section 51 of the Internal Revenue Code for the same qualified employee.

(e) 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 credit, prior to any reduction required by subdivision (f) or (g).

(f) In the case where the credit otherwise allowed under this section exceeds the tax for the income year, that portion of the credit that exceeds the tax may be carried over and added to the credit, if any, in succeeding income years for the number of income years in which the designation of the Los Angeles Revitalization Zone under Section 7102 of the Government Code is operative, or 15 income years, if longer, until the credit is exhausted. The credit shall be applied first to the earliest income year possible.

(g) (1) The amount of credit otherwise allowed under this section, including any credit carryover from prior years, that may reduce the tax for the income year shall not exceed the amount of tax that would be imposed on the taxpayer's business income attributable to the Los Angeles Revitalization Zone determined as if that attributable income represented all of the income of the taxpayer subject to tax under this part.

(2) The amount of attributable income described in paragraph (1) shall be that portion of the taxpayer's California source business income which is apportioned to the Los Angeles Revitalization Zone. For that purpose, the taxpayer's business income attributable to sources in this state first shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101). That business income shall be further apportioned to the Los Angeles Revitalization Zone in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified as follows:

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

(B) 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 Los Angeles Revitalization Zone during the income 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 income year.

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

(3) The portion of the credit remaining, if any, after application of this subdivision, shall be carried over to succeeding income years, as if it were an amount exceeding the tax for the income year, as provided in subdivision (f).

(h) (1) If the 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 income year in which that employment is terminated shall be increased by an amount equal to the credit allowed under subdivision (a) for that income year and all prior income years attributable to qualified wages paid or incurred with respect to that employee.

(2) (A) 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 qualified employee.

(iii) A termination of employment of a qualified employee, if it is determined under the applicable employment compensation provisions that the termination was due to the misconduct of that qualified 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 qualified 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.

(vi) A termination of employment due to a contractual agreement.

(B) 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.

(i) This section shall be inoperative on the first day of the income year beginning on or after the determination date, and each income year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code. However, if the taxpayer has any unused credit amount as of the date this section becomes inoperative, that unused credit amount may continue to be carried forward as provided in subdivision (f).

(j) This section shall remain in effect only until December 1, 1998, and as of that date is repealed. However, any unused credit may continue to be carried forward, as provided in subdivision (f).

SEC. 14. Section 24356.4 of the Revenue and Taxation Code is amended to read:

24356.4. (a) A taxpayer may elect to treat the cost of any Section 24356.4 property as an expense that is not chargeable to capital account. Any cost so treated shall be allowed as a deduction for the income year in which the taxpayer places the Section 24356.4 property in service.

(b) (1) An election made under this section for any income year shall meet both of the following requirements:

(A) Specify the items of Section 24356.4 property to which the election applies and the cost of each of those items that is to be taken into account under subdivision (a).

(B) Be made on the taxpayer's original return of the tax imposed by this part for the income year.

(2) Any election made under this section, and any specifications contained in that election, may not be revoked except with the consent of the Franchise Tax Board.

(c) For purposes of this section:

(1) ''Taxpayer'' means a bank or corporation engaged in a trade or business within the Los Angeles Revitalization Zone designated pursuant to Section 7102 of the Government Code.

(2) ''Section 24356.4 property'' means any recovery property that is all of the following:

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

(B) Purchased and placed in service by the taxpayer on or after September 1, 1992, and before the zone expiration date.

(C) Used exclusively in a trade or business conducted within the Los Angeles Revitalization Zone designated pursuant to Section 7102 of the Government Code.

(3) ''Purchase'' means any acquisition of property, but only if all of the following apply:

(A) The property is not acquired from a person whose relationship to the person acquiring it would result in the disallowance of losses under Section 267 or 707(b) of the Internal Revenue Code (but, in applying Sections 267(b) and 267(c) of the Internal Revenue Code, Section 267(c)(4) of the Internal Revenue Code shall be treated as providing that the family of an individual shall include only his or her spouse, ancestors, and lineal descendants).

(B) The property is not acquired by one member of an affiliated group from another member of the same affiliated group.

(C) The basis of the property in the hands of the person acquiring it is not determined in whole or in part by reference to the adjusted basis of the property in the hands of the person from whom acquired.

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

(d) This section shall not apply to any property described in Section 168(f) of the Internal Revenue Code, relating to property to which Section 168 of the Internal Revenue Code does not apply.

(e) This section shall apply only to Section 24356.4 property that is used by the taxpayer exclusively in a trade or business conducted in the Los Angeles Revitalization Zone.

(f) Any amount deducted under subdivision (a) with respect to Section 24356.4 property that ceases to be used in the taxpayer's trade or business within the Los Angeles Revitalization Zone at any time before the close of the second income year after the property was placed in service shall be included in income in the income year in which property ceases to be so used.

(g) This section shall remain in effect only until December 1, 1998, and as of that date is repealed.

(h) This section shall be inoperative on the first day of the income year beginning on or after the determination date, and each income year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a

determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code.

SEC. 15. Section 24385 of the Revenue and Taxation Code is amended to read:

24385. (a) There shall be allowed as a deduction the amount of net interest received by the taxpayer in payment of indebtedness incurred on or after May 1, 1992, of a person or entity engaged in trade or business located in the Los Angeles Revitalization Zone (as defined in Section 7102 of the Government Code).

(b) No deduction shall be allowed under subdivision (a) unless at the time the indebtedness is incurred each of the following requirements are met:

(1) The trade or business is located solely within the Los Angeles Revitalization Zone (as defined in Section 7102 of the Government Code).

(2) The indebtedness is incurred solely in connection with activity within the Los Angeles Revitalization Zone.

(3) The taxpayer has no equity or other ownership interest in the debtor.

(c) This section shall remain in effect only until December 1, 1998, and as of that date is repealed.

(d) This section shall be inoperative on the first day of the income year beginning on or after the determination date, and each income year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code.

SEC. 16. Section 24416.2 of the Revenue and Taxation Code is amended to read:

24416.2. The term ''qualified taxpayer'' as used in Section 24416.1 means any of the following:

(a) A qualified business as defined in Section 7082 of the Government Code.

(1) A net operating loss shall not be a net operating loss carryback for any income year and a net operating loss for any income year beginning on or after the date that the taxpayer becomes a qualified business shall be a net operating loss carryover to each of the 15 income years following the income year of loss.

(2) For purposes of this subdivision:

(A) ‘‘Net operating loss’’ means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 24416.1, attributable to the taxpayer’s business activities within the program area (as defined in Section 7082 of the Government Code) prior to the program area expiration date. That attributable loss shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101), modified for purposes of this section as follows:

(i) For each income year beginning on or after January 1, 1991, and ending on or before December 31, 1996, loss shall be apportioned to the program area by multiplying total loss from the business by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ‘‘The program area’’ shall be substituted for ‘‘this state.’’

(B) A net operating loss carryover shall be a deduction only with respect to the taxpayer’s business income attributable to the program area (as defined in Section 7082 of the Government Code) determined in accordance with the provisions of Chapter 17 (commencing with Section 25101), modified for purposes of this section as follows:

(i) For each income year beginning on or after January 1, 1991, and ending on or before December 31, 1996, income shall be apportioned to the program area by multiplying total business income by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ‘‘The program area’’ shall be substituted for ‘‘this state.’’

(C) ‘‘Program area expiration date’’ means the date the program area designation expires or becomes inoperative pursuant to Section 7085 of the Government Code.

(b) A bank or corporation engaged in the conduct of a trade or business within an enterprise zone designated pursuant to Section 7073 of the Government Code on or after that designation.

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

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

(2) For purposes of this subdivision:

(A) ‘‘Net operating loss’’ means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 24416.1, attributable to the taxpayer’s business activities within the enterprise zone (as defined in Section 7073 of the Government Code) prior to the enterprise zone expiration date. The attributable loss shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101), modified for purposes of this section as follows:

(i) For each income year beginning on or after January 1, 1991, and ending on or before December 31, 1996, loss shall be apportioned to the enterprise zone by multiplying total loss from the business by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ‘‘The enterprise zone’’ shall be substituted for ‘‘this state.’’

(B) A net operating loss carryover shall be a deduction only with respect to the taxpayer’s business income attributable to the enterprise zone (as defined in Section 7073 of the Government Code) determined in accordance with the provisions of Chapter 17 (commencing with Section 25101), modified for purposes of this section as follows:

(i) For each income year beginning on or after January 1, 1991, and ending on or before December 31, 1996, income shall be apportioned to the enterprise zone by multiplying total business income by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(ii) ‘‘The enterprise zone’’ shall be substituted for ‘‘this state.’’

(C) ‘‘Enterprise zone expiration date’’ means the date the enterprise zone designation expires, is no longer binding, or becomes inoperative pursuant to Section 7073 of the Government Code.

(c) A bank or corporation engaged in the conduct of a trade or business within the Los Angeles Revitalization Zone designated pursuant to Section 7102 of the Government Code.

(1) (A) A net operating loss shall not be a net operating loss carryback for any income year and, except as provided in subparagraph (B), a net operating loss for any income year beginning on or after the date the area in which the taxpayer conducts a trade or business is designated the Los Angeles Revitalization Zone shall be a net operating loss carryover to each following income year that ends before the Los Angeles Revitalization Zone expiration date or to each of the 15 income years following the income year of loss, if longer.

(B) In the case of a financial institution to which Section 585, 586, or 593 of the Internal Revenue Code applies, a net operating loss for any income year beginning on or after January 1, 1984, shall be a net operating loss carryover to each of the five years following the

income year of the loss. Subdivision (b) of Section 24416.1 shall not apply.

(2) For the purposes of this subdivision:

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

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

(ii) ‘‘The Los Angeles Revitalization Zone’’ shall be substituted for this state.

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

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

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

(B) 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 Los Angeles Revitalization Zone during the income 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 income year.

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

(4) ‘‘Los Angeles Revitalization Zone expiration date’’ means the date the Los Angeles Revitalization Zone designation expires, is repealed, or becomes inoperative pursuant to Section 7102, 7103, or 7104 of the Government Code.

(5) This subdivision shall be inoperative on the first day of the income year beginning on or after the determination date, and each income year thereafter, with respect to the taxpayer’s business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code. However, if the taxpayer has any unused loss amount as of the date this section becomes inoperative, that unused loss amount may continue to be carried forward as provided in this subdivision.

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

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

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

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

(2) For the purposes of this subdivision:

(A) ‘‘LAMBRA’’ means a local agency military base recovery area designated in accordance with Section 7114 of the Government Code.

(B) ‘‘Taxpayer’’ means a bank or corporation that conducts a trade or business within a LAMBRA and, for the first two income 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 and this state.

(i) 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 income 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 income 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 income year prior to commencing business operations in the LAMBRA shall be zero. The deduction shall be allowed only if the taxpayer has a net increase in jobs in the state, and if one or more full-time employees is employed within the LAMBRA.

(ii) 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.

(iii) In the case of a taxpayer that first commences doing business in the LAMBRA during the income year, for purposes of subclauses (I) and (II), respectively, of clause (ii) the divisors ''2,000'' and ''12'' shall be multiplied by a fraction, the numerator of which is the number of months of the income year that the taxpayer was doing business in the LAMBRA and the denominator of which is 12.

(C) ''Net operating loss'' means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 24416.1, attributable to the taxpayer's business activities within a LAMBRA prior to the LAMBRA expiration date. The attributable loss shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101), modified as follows:

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

(ii) ''The LAMBRA'' shall be substituted for ''this state.''

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

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

(ii) ''The LAMBRA'' shall be substituted for ''this state.''

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

(E) ''LAMBRA expiration date'' means the date the LAMBRA designation expires, is no longer binding, or becomes inoperative pursuant to Section 7110 of the Government Code.

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

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

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

SEC. 17. Section 3 and Sections 5 to 16, inclusive, of this act shall be applied in the computation of taxes for taxable or income years beginning on or after January 1, 1995. Any provisions of the Revenue and Taxation Code related to the computation of tax with respect to the new enterprise zones referred to in this act and designated during the 1995 calendar year shall be applied as of the date those zones are designated.

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