

Introduced by Committee on Budget and Fiscal Review

January 23, 2025

An act relating to the Budget Act of 2025. An act to amend Section 53084.5 of the Government Code, to amend Sections 6006, 6009, 6010, 6010.5, 6010.9, 6016, 6406, 7051.3, 17039.4, 17039.5, 17935, 17941, 17948, 19533, 23036.4, and 23036.5 of, to add Sections 6009.5, 6010.5.1, 6016.1, 6016.2, 6052, 6054, 6201.55, 6362.4, 6372, 6372.1, 7202.1, 7254, 17039.6, and 23036.6 to, and to add and repeal Part 10.8 (commencing with Section 22000) of Division 2 of, the Revenue and Taxation Code, relating to taxation, and making an appropriation therefor, to take effect immediately, bill related to the budget.

LEGISLATIVE COUNSEL'S DIGEST

SB 122, as amended, Committee on Budget and Fiscal Review.
~~Budget Act of 2025. Taxation.~~

(1) Existing state sales and use tax laws impose a tax on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in this state of, or on the storage, use, or other consumption in this state of, tangible personal property purchased from a retailer for storage, use, or other consumption in this state. The Sales and Use Tax Law (SUT) defines "tangible personal property" to mean personal property that may be seen, weighed, measured, felt, or touched, or that is in any other manner perceptible to the senses. Existing law punishes various violations of the SUT as crimes.

The Bradley-Burns Uniform Local Sales and Use Tax Law (Bradley-Burns) authorizes counties and cities to impose local sales and use taxes in conformity with the SUT, and existing laws authorize

districts, as specified, to impose transactions and use taxes in accordance with the Transactions and Use Tax Law, which generally conforms to the SUT. Amendments to the SUT are automatically incorporated into the local tax laws.

This bill would define “tangible personal property” to additionally mean a digital product and any copyright or patent interests associated therewith for the purposes of the application of the SUT, as prescribed. The bill would define “digital product” to mean, except as provided, prewritten computer software transferred on tangible storage media, transferred electronically, or accessed remotely. The bill would also make various conforming changes. By expanding the scope of violating the SUT, this bill would impose a state-mandated local program.

This bill would prohibit a purchaser or retailer of a digital product that is transferred electronically or accessed remotely from entering into any form of agreement that would result, directly or indirectly, in the payment, transfer, diversion, or rebate of any tax revenue resulting from the imposition of a sales and use tax under Bradley-Burns imposed on the sale or purchase of a digital product that is transferred electronically or accessed remotely.

This bill would make an appropriation of \$750,000 from the General Fund to the California Department of Tax and Fee Administration for the purpose of administering these sales and use tax provisions.

(2) The Personal Income Tax Law and the Corporation Tax Law authorize various credits against the taxes imposed by those laws. Existing law, for taxable years beginning on or after January 1, 2024, and before January 1, 2027, limits the total tax reduction by all business credits, as defined, to \$5,000,000 per taxable year, except as specified.

This bill would extend this limitation through taxable years beginning before January 1, 2030. The bill would also create additional exceptions to this limitation for certain refundable credits or refundable amounts. The bill would, for taxable years beginning on or after January 1, 2030, similarly apply a business credit limit of 70% of the total taxes imposed or \$5,000,000, whichever is greater, except as specified.

Existing law, for taxable years beginning on or after January 1, 2024, and before January 1, 2027, allows a taxpayer to make an irrevocable election to receive an annual refundable credit amount, beginning the 3rd taxable year after the election is made, equal to 20% of the qualified credits that would have otherwise been available to the taxpayer but for the \$5,000,000 limitation. Existing law requires the annual refundable credit amount to be allowed as a credit for the taxable year,

as specified, and requires the balance, if any, to be paid from the Tax Relief and Refund Account, a continuously appropriated fund, to the taxpayer.

This bill would extend the provisions relating to elections to receive an annual refundable credit amount through taxable years beginning before January 1, 2030. By extending the operation of a continuous appropriation, this bill would make an appropriation.

(3) Existing law imposes an annual minimum franchise tax of \$800, except as provided, on every corporation incorporated in this state, qualified to transact intrastate business in this state, or doing business in this state, and an annual tax in an amount equal to the minimum franchise tax, except as provided, on every limited partnership, limited liability partnership, and limited liability company doing business in this state, as specified.

This bill, for taxable years beginning on or after January 1, 2027, and before January 1, 2030, would reduce the amount of the annual tax imposed on a limited partnership, limited liability partnership, and limited liability company doing business in this state from \$800 to \$400 for the corporation's first taxable year. The bill would require the Franchise Tax Board to submit an annual report to the Legislature regarding the reduction of the annual tax for these corporations, as provided.

(4) The Personal Income Tax Law and Corporation Tax Law impose taxes according to or measured by net income of a taxpayer subject to those laws, including residents of the state, at specified rates. Existing law requires the Franchise Tax Board to administer the Personal Income Tax Law and the Corporation Tax Law pursuant to existing law, the violation of which is a crime. The United States Department of Justice announced on May 18, 2026, the establishment of the federal Anti-Weaponization Fund for the purpose of providing a systematic process to hear and redress claims of persons who suffered weaponization and lawfare.

This bill would, for taxable years beginning on or after January 1, 2026, and before January 1, 2030, impose a tax on any settlement fund payment from the federal Anti-Weaponization Fund, or any subsequent fund, settlement, or agreement, as provided, at a rate of 100%. The bill would provide that the taxes imposed by these provisions would not be subject to reduction due to deductions or credits, as provided. The bill would require the Franchise Tax Board to administer this tax consistent with existing law relating to the administration of the Personal Income

Tax Law and the Corporation Tax Law. By expanding the scope of crimes relating to those provisions, this bill would impose a state-mandated local program.

(5) This bill would include a change in state statute that would result in a taxpayer paying a higher tax within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of ²/₃ of the membership of each house of the Legislature.

(6) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

(7) This bill would declare that it is to take effect immediately as a bill providing for appropriations related to the Budget Bill.

~~This bill would express the intent of the Legislature to enact statutory changes relating to the Budget Act of 2025.~~

Vote: ~~majority~~²/₃. Appropriation: ~~no~~-yes. Fiscal committee: ~~no~~ yes. State-mandated local program: ~~no~~-yes.

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

1 SECTION 1. Section 53084.5 of the Government Code is
2 amended to read:

3 53084.5. (a) On or after January 1, 2016, a local agency shall
4 not enter into any form of agreement that would result, directly or
5 indirectly, in the payment, transfer, diversion, or rebate of any tax
6 revenue resulting from the imposition of a sales and use tax under
7 the Bradley-Burns Uniform Local Sales and Use Tax Law (Part
8 1.5 (commencing with Section 7200) of Division 2 of the Revenue
9 and Taxation Code) to any person for any purpose when both of
10 the following apply:

11 (1) The agreement results in a reduction in the amount of
12 revenue under the Bradley-Burns Uniform Local Sales and Use
13 Tax Law that, in the absence of the agreement, would be received
14 by another local agency.

15 (2) The retailer continues to maintain a physical presence within
16 the territorial jurisdiction of that other local agency.

1 (b) (1) A local agency entering into an agreement that results
2 in a reduction of the amount of revenue under the Bradley-Burns
3 Uniform Local Sales and Use Tax Law that, in the absence of the
4 agreement, would be received by another local agency shall post
5 the proposed agreement on its ~~Internet Web site~~ *internet website*
6 for at least 30 days prior to ratification or approval of that
7 agreement by its governing body.

8 (2) A local agency entering into an agreement that results in a
9 reduction of the amount of revenue under the Bradley-Burns
10 Uniform Local Sales and Use Tax Law that, in the absence of the
11 agreement, would be received by another local agency shall notify
12 the other local agency by certified mail addressed to the attention
13 of the chief executive of that other local agency at least 60 days
14 prior to ratification or approval of that agreement by its governing
15 body.

16 (3) A local agency shall post any agreement on its ~~Internet Web~~
17 ~~site~~ *internet website* it has entered into that results in a reduction
18 of the amount of revenue under the Bradley-Burns Uniform Local
19 Sales and Use Tax Law that, in the absence of the agreement,
20 would be received by another local agency, including any
21 agreements entered into prior to January 1, 2016, that are still in
22 effect on and after that date.

23 (c) (1) *A local agency shall not enter into any form of agreement*
24 *that would result, directly or indirectly, in the payment, transfer,*
25 *diversion, or rebate of any tax revenue resulting from the*
26 *imposition of a sales and use tax under the Bradley-Burns Uniform*
27 *Local Sales and Use Tax Law (Part 1.5 (commencing with Section*
28 *7200) of Division 2 of the Revenue and Taxation Code) imposed*
29 *on the sale or purchase of a digital product that is transferred*
30 *electronically or accessed remotely.*

31 (2) *A payment, transfer, diversion, or rebate of any tax revenue*
32 *pursuant to an agreement described in paragraph (1) may be*
33 *subject to redistribution by the California Department of Tax and*
34 *Fee Administration pursuant to Section 7209 of the Revenue and*
35 *Taxation Code.*

36 (e)

37 (d) For the purposes of this ~~section, the following terms have~~
38 ~~the following meanings:~~ *section:*

39 (1) *“Accessed remotely” has the same meaning as defined in*
40 *Section 6016.2 of the Revenue and Taxation Code.*

- 1 (2) *“Digital product” has the same meaning as defined in*
- 2 *Section 6016.1 of the Revenue and Taxation Code.*
- 3 ~~(1)~~
- 4 (3) *“Local agency” means a chartered or general law city, a*
- 5 *chartered or general law county, or a city and county, of this state.*
- 6 ~~(2)~~
- 7 (4) *“Person” ~~means a person~~ has the same meaning as defined*
- 8 *in Section 6005 of the Revenue and Taxation Code.*
- 9 ~~(3)~~
- 10 (5) *“Physical presence” means the lease or ownership of any*
- 11 *real property for the purpose of carrying on business operations.*
- 12 (6) *“Purchase” has the same meaning as defined in Section*
- 13 *6010 of the Revenue and Taxation Code.*
- 14 ~~(4)~~
- 15 (7) *“Retailer” ~~means a retailer~~ has the same meaning as defined*
- 16 *by in Section 6015 of the Revenue and Taxation Code.*
- 17 (8) *“Sale” has the same meaning as defined in Section 6006 of*
- 18 *the Revenue and Taxation Code.*
- 19 (9) *“Transferred electronically” has the same meaning as*
- 20 *defined in Section 6016.2 of the Revenue and Taxation Code.*
- 21 ~~(d) This~~
- 22 (e) *Except as provided in subdivision (c), this section shall not*
- 23 *apply to any agreement by a local agency to pay or rebate any use*
- 24 *tax revenue resulting from the imposition of a use tax under the*
- 25 *Bradley-Burns Uniform Local Sales and Use Tax Law relating to*
- 26 *a use tax direct payment permit issued under Section 7051.3 of*
- 27 *the Revenue and Taxation Code.*
- 28 ~~(e)~~
- 29 (f) *This section shall not be interpreted to limit the ability of a*
- 30 *local agency to contract with or otherwise enter into an agreement*
- 31 *pursuant to subdivision (b) of Section 7056 of the Revenue and*
- 32 *Taxation Code.*
- 33 ~~(f)~~
- 34 (g) *This section shall not apply to any mutual tax revenue*
- 35 *sharing agreement between local agencies to pay, transfer, or divert*
- 36 *tax revenues that would be received by a local agency resulting*
- 37 *from the imposition of a sales and use tax under the Bradley-Burns*
- 38 *Uniform Local Sales and Use Tax Law to another local agency,*
- 39 *and where the agreement would not result, directly or indirectly,*

1 in the payment, transfer, diversion, or rebate of those tax revenues
2 to a retailer.

3 *(h) The amendments to this section by the act adding this*
4 *subdivision shall become operative immediately upon enactment.*

5 *SEC. 2. Section 6006 of the Revenue and Taxation Code is*
6 *amended to read:*

7 6006. “Sale” means and includes:

8 (a) Any transfer of title or possession, exchange, or barter,
9 conditional or otherwise, in any manner or by any means
10 whatsoever, of tangible personal property for a consideration.
11 “Transfer of possession” includes only transactions found by the
12 ~~board~~ department to be in lieu of a transfer of title, exchange, or
13 barter.

14 (b) The producing, fabricating, processing, printing, or
15 imprinting of tangible personal property for a consideration for
16 consumers who furnish either directly or indirectly the materials
17 used in the producing, fabricating, processing, printing, or
18 imprinting.

19 (c) The furnishing and distributing of tangible personal property
20 for a consideration by social clubs and fraternal organizations to
21 their members or others.

22 (d) The furnishing, preparing, or serving for a consideration of
23 food, meals, or drinks.

24 (e) A transaction whereby the possession of property is
25 transferred but the seller retains the title as security for the payment
26 of the price.

27 (f) A transfer for a consideration of the title or possession of
28 tangible personal property which has been produced, fabricated,
29 or printed to the special order of the customer, or of any
30 publication.

31 (g) Any lease of tangible personal property in any manner or
32 by any means whatsoever, for a consideration, except a lease of:

33 (1) Motion pictures or animated motion pictures, including
34 television, films, and tapes.

35 (2) Linen supplies and similar articles when an essential part of
36 the lease agreement is the furnishing of the recurring service of
37 laundering or cleaning the articles.

38 (3) Household furnishings with a lease of the living quarters in
39 which they are to be used.

1 (4) Mobile transportation equipment for use in transportation
2 of persons or property as defined in Section 6023.

3 (5) Tangible personal property leased in substantially the same
4 form as acquired by the lessor or leased in substantially the same
5 form as acquired by a transferor, as to which the lessor or transferor
6 has paid sales tax reimbursement or has paid use tax measured by
7 the purchase price of the property. For purposes of this paragraph,
8 “transferor” shall mean the following:

9 (A) A person from whom the lessor acquired the property in a
10 transaction described in subdivision (b) of Section 6006.5.

11 (B) A decedent from whom the lessor acquired the property by
12 will or the laws of succession.

13 (6) A mobilehome, as defined in Sections 18008 and 18211 of
14 the Health and Safety Code, other than a mobilehome originally
15 sold new prior to July 1, 1980, and not subject to local property
16 taxation.

17 (7) Paragraphs (1) and (5) and Section 6094.1 shall not apply
18 to rentals or leases of video cassettes, video tapes, and video discs
19 for private use under which the lessee or renter does not obtain or
20 acquire the right to license, broadcast, exhibit, or reproduce the
21 video cassette, video tape, or video disc.

22 *(h) Any transfer of title or possession, exchange, or barter,*
23 *conditional or otherwise, in any manner or by any means, of a*
24 *digital product transferred on tangible storage media for a*
25 *consideration.*

26 *(i) Any permanent or temporary transfer of the right, in any*
27 *manner or by any means whatsoever, to open, view, access,*
28 *download, copy, update, possess, store, manipulate, or otherwise*
29 *use a digital product transferred electronically or accessed*
30 *remotely for a consideration, beginning January 1, 2027.*

31 *(j) The amendments made to this section by the act adding this*
32 *subdivision shall become operative on January 1, 2027.*

33 *SEC. 3. Section 6009 of the Revenue and Taxation Code is*
34 *amended to read:*

35 6009. (a) “Use” includes the exercise of any right or power
36 over tangible personal property incident to the ownership of that
37 property, and also includes the possession of, or the exercise of
38 any right or power over, tangible personal property by a lessee
39 under a lease, except that it does not include the sale of that
40 property in the regular course of business.

1 (b) For purposes of subdivision (a), the exercise of any right or
2 power over tangible personal property incident to the ownership
3 of that property includes opening, viewing, accessing,
4 downloading, copying, updating, possessing, storing, or
5 manipulating a digital product transferred electronically or
6 accessed remotely.

7 (c) The amendments made to this section by the act adding this
8 subdivision shall become operative on January 1, 2027.

9 SEC. 4. Section 6009.5 is added to the Revenue and Taxation
10 Code, to read:

11 6009.5. (a) For purposes of the use tax liability imposed
12 pursuant to Sections 6052 and 6201.55, “storage” and “use” do
13 not include the keeping, retaining, or exercising of any right or
14 power over a digital product for the purpose of installing or
15 deploying the digital product for use thereafter solely outside the
16 state.

17 (b) This section shall become operative on January 1, 2027.

18 SEC. 5. Section 6010 of the Revenue and Taxation Code is
19 amended to read:

20 6010. “Purchase” means and includes:

21 (a) Any transfer of title or possession, exchange, or barter,
22 conditional or otherwise, in any manner or by any means
23 whatsoever, of tangible personal property for a consideration.
24 “Transfer of possession” includes only transactions found by the
25 ~~board~~ department to be in lieu of a transfer of title, exchange, or
26 barter.

27 (b) When performed outside this state or when the customer
28 gives a resale certificate pursuant to Article 3 (commencing with
29 Section 6091) of Chapter 2, the producing, fabricating, processing,
30 printing, or imprinting of tangible personal property for a
31 consideration for consumers who furnish either directly or
32 indirectly the materials used in the producing, fabricating,
33 processing, printing, or imprinting.

34 (c) A transaction whereby the possession of property is
35 transferred but the seller retains the title as security for the payment
36 of the price.

37 (d) A transfer for a consideration of tangible personal property
38 which has been produced, fabricated, or printed to the special order
39 of the customer, or of any publication.

- 1 (e) Any lease of tangible personal property in any manner or
2 by any means whatsoever, for consideration, except a lease of:
- 3 (1) Motion pictures or animated motion pictures, including
4 television, films, and tapes.
- 5 (2) Linen supplies and similar articles when an essential part of
6 the lease agreement is the furnishing of the recurring service of
7 laundering or cleaning the articles.
- 8 (3) Household furnishings with a lease of the living quarters in
9 which they are to be used.
- 10 (4) Mobile transportation equipment for use in transportation
11 of persons or property as defined in Section 6023.
- 12 (5) Tangible personal property leased in substantially the same
13 form as acquired by the lessor or leased in substantially the same
14 form as acquired by a transferor, as to which the lessor or transferor
15 has paid sales tax reimbursement or has paid use tax measured by
16 the purchase price of the property. For purposes of this paragraph,
17 “transferor” shall mean the following:
- 18 (A) A person from whom the lessor acquired the property in a
19 transaction described in subdivision (b) of Section 6006.5.
- 20 (B) A decedent from whom the lessor acquired the property by
21 will or the laws of succession.
- 22 (6) A mobilehome, as defined in Sections 18008 and 18211 of
23 the Health and Safety Code, other than a mobilehome originally
24 sold new prior to July 1, 1980, and not subject to local property
25 taxation.
- 26 (7) Paragraphs (1) and (5) and Section 6094.1 shall not apply
27 to rentals or leases of video cassettes, video tapes, and video discs
28 for private use under which the lessee or renter does not obtain or
29 acquire the right to license, broadcast, exhibit, or reproduce the
30 video cassette, video tape, or video disc.
- 31 *(f) Any transfer of title or possession, exchange, or barter,*
32 *conditional or otherwise, in any manner or by any means*
33 *whatsoever, of a digital product transferred on tangible storage*
34 *media for a consideration.*
- 35 *(g) Any permanent or temporary transfer of the right, in any*
36 *manner or by any means whatsoever, to open, view, access,*
37 *download, copy, update, possess, store, manipulate, or otherwise*
38 *use a digital product transferred electronically or accessed*
39 *remotely for a consideration, beginning January 1, 2027.*

1 *(h) The amendments made to this section by the act adding this*
2 *subdivision shall become operative on January 1, 2027.*

3 *SEC. 6. Section 6010.5 of the Revenue and Taxation Code is*
4 *amended to read:*

5 ~~6010.5. For~~

6 6010.5. *(a) Subject to subdivision (b), for the purposes of this*
7 *part, the place of the sale or purchase of tangible personal property*
8 *is the place where the property is physically located at the time*
9 *the act constituting the sale or purchase, as defined in this part,*
10 *takes place.*

11 *(b) (1) For a digital product transferred on tangible storage*
12 *media, the place of the sale or purchase of that digital product*
13 *shall be the place where the tangible storage media is physically*
14 *located at the time the act constituting the sale or purchase takes*
15 *place.*

16 *(2) If the sale or purchase of a digital product that is not*
17 *transferred on tangible storage media is an in-person sale or*
18 *purchase at a location of the seller for which the seller is required*
19 *to hold a seller's permit pursuant to Section 6066, the place of the*
20 *sale or purchase of the digital product transferred electronically*
21 *or accessed remotely shall be the seller's place of business in this*
22 *state where the in-person sale or purchase occurred.*

23 *(3) (A) If the sale or purchase of a digital product that is not*
24 *transferred on tangible storage media is not an in-person sale or*
25 *purchase, the place of the sale or purchase of a digital product*
26 *transferred electronically or accessed remotely shall be deemed*
27 *to be the purchaser's known address in this state shown in the*
28 *seller's records maintained in good faith in the ordinary course*
29 *of business.*

30 *(B) If the purchaser provided more than one address to the*
31 *seller during the consummation of the sale or purchase, the*
32 *purchaser's known address shall be determined from those*
33 *addresses in this state in the following order of priority:*

34 *(i) The purchaser's billing address.*

35 *(ii) The purchaser's shipping or delivery address.*

36 *(iii) The mailing address associated with the purchaser's*
37 *payment instrument.*

38 *(iv) The purchaser's mailing address.*

39 *(C) If a purchaser does not provide an address to the seller*
40 *during the consummation of the sale or purchase, the purchaser's*

1 known address in this state shall be determined from the addresses
2 in this state the purchaser previously provided to the seller in the
3 following order of priority:

- 4 (i) The purchaser’s most recent billing address.
- 5 (ii) The purchaser’s most recent shipping or delivery address.
- 6 (iii) The purchaser’s most recent mailing address associated
7 with the purchaser’s payment instrument.
- 8 (iv) The purchaser’s most recent mailing address.

9 (4) If neither paragraph (2) or (3) apply, the place of the sale
10 or purchase of a digital product transferred electronically or
11 accessed remotely shall be deemed to be outside of this state.

12 (c) The amendments made to this section by the act adding this
13 subdivision shall become operative on January 1, 2027.

14 SEC. 7. Section 6010.5.1 is added to the Revenue and Taxation
15 Code, to read:

16 6010.5.1. (a) The place of use of a digital product shall be the
17 place where any right or power is exercised over the digital
18 product. The right or power to remotely access a digital product
19 is exercised at the place where the person accessing the digital
20 product is located.

21 (b) It shall be presumed that a digital product that was
22 purchased outside of this state, as determined pursuant to Section
23 6010.5, and used in this state within 90 days from the date of sale
24 or purchase was purchased for storage, use, or other consumption
25 in this state.

26 (c) This section shall become operative on January 1, 2027.

27 SEC. 8. Section 6010.9 of the Revenue and Taxation Code is
28 amended to read:

29 6010.9. (a) “Sale” and “purchase,” for the purposes of this
30 part, do not include the design, development, writing, translation,
31 fabrication, lease, or transfer for a consideration of title or
32 possession, of a custom computer program, software, other than
33 a basic operational program (as defined in Section 995.2), program,
34 either in the form of written procedures or in the form of tangible
35 storage media on which, or in which, the program custom computer
36 software is recorded, or any required documentation or manuals
37 designed to facilitate the use of the custom computer program
38 software so transferred.

39 As

40 (b) As used in this section:

1 (a) ~~“Storage media” includes punched cards, tapes, discs,~~
2 ~~diskettes, or drums on which computer programs may be embodied~~
3 ~~or stored.~~

4 (1) *“Basic operational program” has the meaning defined in*
5 *Section 995.2.*

6 (b)
7 (2) ~~“Computer” does not include tape-controlled automatic~~
8 ~~drilling, milling, or other manufacturing machinery or equipment.~~
9 *means an electronic device, including word processing equipment,*
10 *that is programmable and includes a processor (CPU) and internal*
11 *memory.*

12 (c)
13 (3) ~~“Computer program” software” means the complete plan~~
14 ~~for the solution of a problem, such as the complete sequence set~~
15 ~~of automatic data processing equipment coded instructions~~
16 ~~necessary designed to solve cause a problem and includes both~~
17 ~~systems and application programs and subdivisions, such as~~
18 ~~assemblers, compilers, routines, generators, and utility programs.~~
19 *computer or automatic data processing equipment to perform a*
20 *task.*

21 (4) (A) *“Custom computer software” means computer software*
22 *prepared to the special order of a single customer and includes*
23 *those services represented by separately stated charges for*
24 *modifications to existing prewritten computer software that are*
25 *prepared to the special order of the customer.*

26 (d)
27 (B) ~~“Custom computer program” means a computer program~~
28 ~~prepared to the special order of the customer and includes those~~
29 ~~services represented by separately stated charges for modifications~~
30 ~~to an existing prewritten program which are prepared to the special~~
31 ~~order of the customer. The term “software” does not include a~~
32 ~~“canned” or prewritten computer program which software that is~~
33 ~~held or existing for general or repeated sale or lease, even if the~~
34 ~~prewritten or “canned” program computer software was initially~~
35 ~~developed on a custom basis or for in-house use. Modification to~~
36 ~~an existing prewritten program computer software to meet the~~
37 ~~customer’s needs is custom computer programming software only~~
38 ~~to the extent of the modification.~~

39 (c) *The amendments made to this section by the act adding this*
40 *subdivision shall become operative on January 1, 2027.*

1 SEC. 9. Section 6016 of the Revenue and Taxation Code is
2 amended to read:

3 6016. (a) “Tangible personal property” means either of the
4 following:

5 “Tangible personal property” means personal

6 (1) Personal property ~~which may~~ that can be seen, weighed,
7 measured, felt, ~~or~~ touched, or ~~which~~ is in any other manner
8 perceptible to the senses.

9 (2) A digital product and any copyright or patent interests
10 associated therewith.

11 (b) The amendments made this section by the act adding this
12 subdivision shall become operative on January 1, 2027.

13 SEC. 10. Section 6016.1 is added to the Revenue and Taxation
14 Code, to read:

15 6016.1. (a) “Digital product” means prewritten computer
16 software transferred on tangible storage media, transferred
17 electronically, or accessed remotely.

18 (b) “Digital product” does not include any of the following:

19 (1) A digital asset.

20 (2) A digital audio work.

21 (3) A digital audiovisual work.

22 (4) A digital book.

23 (5) Digital infrastructure.

24 (6) A digital video game product.

25 (7) A digital visual work.

26 (c) As used in this section:

27 (1) “Computer” has the meaning defined in Section 6010.9.

28 (2) “Computer software” has the meaning defined in Section
29 6010.9.

30 (3) “Custom computer software” has the meaning defined in
31 Section 6010.9.

32 (4) “Digital asset” means a digital representation of value that
33 is recorded on a cryptographically secured distributed ledger or
34 any similar technology, as specified by the Secretary of the
35 Treasury of the United States.

36 (5) “Digital audio work” means a work that results from the
37 fixation of a series of musical, spoken, or other sounds, including
38 a ringtone or music, that is transferred electronically or accessed
39 remotely.

1 (6) “Digital audiovisual work” means a series of related images
2 that when shown in succession impart an impression of motion,
3 together with accompanying sounds, if any, that is transferred
4 electronically or accessed remotely.

5 (7) “Digital book” means a work that is generally recognized
6 in the ordinary and usual sense as a book that is transferred
7 electronically or accessed remotely.

8 (8) “Digital infrastructure” means a cloud-based service
9 provided remotely that allows a user to create, deploy, scale, or
10 run the user’s own computer software on the service provider’s
11 digital platform without managing, operating, or maintaining the
12 user’s own infrastructure, including any hardware, software,
13 networks, and facilities that are required to allow the user to
14 create, deploy, scale, or run the user’s own computer software,
15 required to complete the task.

16 (9) “Digital video game product” means an electronic,
17 interactive game played for entertainment purposes by
18 manipulating an input device to produce visual feedback on a
19 screen that is transferred electronically or accessed remotely.

20 (10) “Digital visual work” means artwork created by using
21 computer hardware and software processes which results in
22 artwork in a digital format that is transferred electronically or
23 accessed remotely.

24 (11) “Prewritten computer software” means computer software
25 that is held or existing for general or repeated sale or lease, even
26 if the prewritten software was initially developed on a custom basis
27 or for in-house use, including the combination of two or more
28 prewritten programs.

29 (d) This section shall become operative on January 1, 2027.

30 SEC. 11. Section 6016.2 is added to the Revenue and Taxation
31 Code, to read:

32 6016.2. (a) “Accessed remotely” means to have accessed for
33 consideration by use of a digital code, password, or other means
34 prewritten computer software that resides on the vendor’s server
35 or the server of a third party.

36 (b) “Tangible storage media” means any tangible device or
37 material capable of storing a digital product, including, but not
38 limited to, any internal or external drive, disk, memory card, or
39 other item capable of storing a digital product.

1 (c) “Transferred electronically” means obtained by the
2 purchaser, by means other than tangible storage media, in a
3 manner that allows the purchaser to open, view, access, download,
4 copy, possess, store, manipulate, update, or otherwise use the
5 digital product.

6 (d) This section shall become operative on January 1, 2027.

7 SEC. 12. Section 6052 is added to the Revenue and Taxation
8 Code, to read:

9 6052. (a) Notwithstanding Section 6010.5, and except as
10 provided in subdivision (c), a retailer is relieved from liability to
11 pay sales tax on the sale or purchase of a digital product that is
12 transferred electronically or accessed remotely if the following
13 applies, unless the purchaser is an insurer, as defined in Section
14 28 of Article XIII of the California Constitution:

15 (1) (A) The gross receipts from the sale of digital products by
16 a retailer to a purchaser that are transferred electronically or
17 accessed remotely exceed five million dollars (\$5,000,000) in the
18 aggregate in the current calendar year, or, beginning January 1,
19 2028, in the current or the preceding calendar year.

20 (B) The purchaser shall become liable for the use tax pursuant
21 to subdivision (b) on the transaction that caused the retailer to
22 exceed the threshold specified in subparagraph (A) and any
23 adjustments made pursuant to paragraph (2).

24 (2) (A) On or before October 1, 2031, and every five years
25 thereafter, the department shall multiply the amount specified in
26 subparagraph (A) of paragraph (1) by the percentage increase in
27 the California Consumer Price Index for All Urban Consumers
28 between October 1, 2026, and the date of the calculation required
29 by this subparagraph, and the result shall be rounded to the nearest
30 one million dollars (\$1,000,000) and shall be the applicable
31 amount for the succeeding calendar year.

32 (B) The applicable amount computed pursuant to subparagraph
33 (A) shall be operative beginning January 1 of the succeeding
34 calendar year, and four years thereafter, as an adjustment of the
35 amount specified in subparagraph (A) of paragraph (1).

36 (b) If a retailer is relieved from liability to pay sales tax pursuant
37 to subdivision (a), the purchaser is liable for the use tax and shall
38 self-assess and pay directly to the department taxes due under this
39 part, Part 1.5 (commencing with Section 7200), and, if otherwise
40 applicable, Part 1.6 (commencing with Section 7251) and Part

1 1.7 (commencing with Section 7280) on the transaction that caused
2 the retailer to exceed the threshold specified in subparagraph (A)
3 of paragraph (1) of subdivision (a) and any adjustments made
4 pursuant to paragraph (2) of subdivision (a).

5 (c) (1) If the department determines that it is necessary for the
6 efficient administration of this part, the department may waive the
7 requirement for the purchaser to self-assess and pay taxes due
8 directly to the department under subdivision (b), and the retailer
9 shall be liable to pay the sales tax if the purchaser submits to the
10 department a request for waiver in a form and manner prescribed
11 by the department that includes all the places of business where
12 the applicant expects to be a place of first use for purchases of
13 digital products subject to subdivision (a).

14 (2) A purchaser that submits a request for waiver to the
15 department under paragraph (1) shall also submit to the retailer
16 all places of business where the purchaser expects to be a place
17 of first use, which shall be considered the place of sale for purposes
18 of the sales tax.

19 (d) A purchaser that is required to pay use taxes to the
20 department under subdivision (b) shall obtain a use tax direct
21 payment permit pursuant to the procedures provided in Section
22 7051.3.

23 (e) This section shall become operative on January 1, 2027.

24 SEC. 13. Section 6054 is added to the Revenue and Taxation
25 Code, to read:

26 6054. (a) A retailer is relieved from liability to pay sales tax
27 or collect use tax on the sale or purchase of a digital product
28 transferred electronically or accessed remotely if the place of the
29 sale or purchase of the digital product was deemed to be outside
30 of this state pursuant to Section 6010.5, and the retailer
31 demonstrates to the satisfaction of the department that the retailer
32 made a reasonable effort to obtain accurate and complete address
33 information from the purchaser.

34 (b) This section shall become operative on January 1, 2027.

35 SEC. 14. Section 6201.55 is added to the Revenue and Taxation
36 Code, immediately following Section 6201.5, to read:

37 6201.55. (a) Notwithstanding Section 6010.5 and except as
38 provided in subdivision (c), a retailer is relieved of the obligation
39 to collect use tax on the sale or purchase of a digital product that

1 *is transferred electronically or accessed remotely if the following*
2 *applies:*

3 *(1) (A) The sales price of digital products purchased by a*
4 *purchaser from a retailer that are transferred electronically or*
5 *accessed remotely exceeds five million dollars (\$5,000,000) in the*
6 *aggregate in the current calendar year, or beginning January 1,*
7 *2028, in the current or the preceding calendar year.*

8 *(B) The purchaser shall be responsible for reporting and paying*
9 *the use tax to the department pursuant to subdivision (b) on the*
10 *transaction that caused the purchaser to exceed the threshold*
11 *specified in subparagraph (A) and any adjustments made pursuant*
12 *to paragraph (2).*

13 *(2) (A) On or before October 1, 2031, and every five years*
14 *thereafter, the department shall multiply the amount specified in*
15 *subparagraph (A) of paragraph (1) by the percentage increase in*
16 *the California Consumer Price Index for All Urban Consumers*
17 *between October 1, 2026, and the date of the calculation required*
18 *by this subparagraph, and the result shall be rounded to the nearest*
19 *one million dollars (\$1,000,000) and shall be the applicable*
20 *amount for the succeeding calendar year.*

21 *(B) The applicable amount computed pursuant to subparagraph*
22 *(A) shall be operative beginning January 1 of the succeeding*
23 *calendar year, and four years thereafter, as an adjustment of the*
24 *amount specified in subparagraph (A) of paragraph (1).*

25 *(b) If a retailer is relieved from the obligation to collect use tax*
26 *pursuant to subdivision (a), the purchaser shall self-assess and*
27 *pay directly to the department taxes due under this part, Part 1.5*
28 *(commencing with Section 7200), and, if otherwise applicable,*
29 *Part 1.6 (commencing with Section 7251) and Part 1.7*
30 *(commencing with Section 7280) on the transaction that caused*
31 *the purchaser to exceed the threshold specified in subparagraph*
32 *(A) of paragraph (1) of subdivision (a) and any adjustments made*
33 *pursuant to paragraph (2) of subdivision (a).*

34 *(c) (1) If the department determines that it is necessary for the*
35 *efficient administration of this part, the department may waive the*
36 *requirement for the purchaser to self-assess and pay taxes due*
37 *directly to the department under subdivision (b), and the retailer*
38 *shall have an obligation to collect the use tax if the purchaser*
39 *submits to the department a request for waiver in a form and*
40 *manner prescribed by the department that includes all the places*

1 of business where the applicant expects to be a place of first use
2 for purchases of digital products subject to subdivision (a).

3 (2) A purchaser that submits a request for waiver to the
4 department under paragraph (1) shall also submit to the retailer
5 all places of business where the purchaser expects to be a place
6 of first use, which shall be considered the place of use for purposes
7 of the use tax.

8 (d) A purchaser that is required to pay taxes to the department
9 under subdivision (b) shall obtain a use tax direct payment permit
10 pursuant to the procedures provided in Section 7051.3.

11 (e) This section shall become operative on January 1, 2027.

12 SEC. 15. Section 6362.4 is added to the Revenue and Taxation
13 Code, to read:

14 6362.4. (a) There are exempted from the taxes imposed by this
15 part the gross receipts from the sale or lease of, and the storage,
16 use, or other consumption in this state of, the right to reproduce
17 or copy a digital product in order for copies of the digital product
18 to be distributed for consideration to third parties, even if a copy
19 of the digital product is transferred concurrently with the granting
20 of that right. Any tangible storage media on which the digital
21 product is transferred is merely incidental.

22 (b) This section shall become operative on January 1, 2027.

23 SEC. 16. Section 6372 is added to the Revenue and Taxation
24 Code, to read:

25 6372. (a) There are exempted from the taxes imposed by this
26 part the gross receipts from the sale of, and the storage, use, or
27 other consumption of, a digital product purchased solely for use
28 outside of this state or in interstate or foreign commerce.

29 (b) (1) The burden of proving that the exemption created by
30 this section applies is on the seller who makes the sale of a digital
31 product, unless the seller takes from the purchaser a certificate to
32 the effect that the property is purchased solely for use outside of
33 this state or in interstate or foreign commerce in the form and
34 manner prescribed by the department.

35 (2) The certificate described by this subdivision relieves the
36 person selling the digital product from the duty of paying sales
37 tax and collecting the use tax only if taken in good faith.

38 (c) If a purchaser certifies in writing to a seller that a purchase
39 of a digital product is exempted by this section and uses the digital
40 product in this state, the purchaser shall be liable for payment of

1 sales tax as if the purchaser were a retailer making a retail sale
2 of the property at the time of that use, and the cost of the property
3 to the purchaser shall be deemed the gross receipts from that retail
4 sale.

5 (d) (1) A purchaser that purchases a digital product for use in
6 this state and a digital product solely for use outside of this state
7 or in interstate or foreign commerce in the same transaction may
8 issue an exemption certificate under this section for the purchase
9 of any of those digital products eligible for the exemption and
10 report and pay use tax on any of those digital products used in
11 this state.

12 (2) A purchaser that issues an exemption certificate described
13 in paragraph (1) shall report and pay use tax in a manner that
14 reflects the use tax due on any of those digital products used in
15 this state.

16 (e) (1) The department may set forth, authorize, or require
17 alternative methods to calculate the sales or use tax due in this
18 state that fairly reflects the sales or use tax due on any digital
19 product sold or purchased for use in this state, including on
20 licenses of digital products concurrently available for use in
21 multiple locations.

22 (2) If an alternative method set forth, authorized, or required
23 by the department pursuant to paragraph (1) is used to calculate
24 the sales or use tax due, Section 6406 shall not apply.

25 (3) The department may prescribe any forms or exemption
26 certificates, as necessary to administer this subdivision.

27 (f) The exemption created by this section does not apply to a
28 sale or purchase of a digital product transferred on tangible
29 storage media.

30 (g) This section shall become operative on January 1, 2027.

31 SEC. 17. Section 6372.1 is added to the Revenue and Taxation
32 Code, to read:

33 6372.1. (a) There are exempted from the taxes imposed by this
34 part the gross receipts from the sale of, and the storage, use, or
35 other consumption of, a digital product that represents a service
36 provided in electronic form in which both of the following apply:

37 (1) The service primarily involves the application of human
38 effort by the service provider.

39 (2) The human effort described in paragraph (1) originated
40 after the customer requested the service.

1 (b) *The exemption provided by this section does not apply to*
2 *the sale or purchase of the right to use the provider's computer*
3 *software running on a cloud infrastructure or the right to access*
4 *that software from various client devices through either a thin*
5 *client interface, including a web browser, or a program interface.*

6 (c) *This section shall become operative on January 1, 2027.*

7 SEC. 18. *Section 6406 of the Revenue and Taxation Code is*
8 *amended to read:*

9 6406. (a) A credit shall be allowed against, but shall not
10 exceed, the taxes imposed on any person by Chapter 3
11 (commencing with Section 6201) of this part, by any ordinance
12 enacted pursuant to Part 1.5 (commencing with Section 7200), and
13 by any ordinance enacted pursuant to Part 1.6 (commencing with
14 Section ~~7251~~, and 7251) by any ordinance enacted pursuant to
15 Article 2 (commencing with Section ~~37021~~) of Part 17 of this
16 division by reason of the storage, use, or other consumption of
17 tangible personal property in this state to the extent that the person
18 has paid a retail sales or use tax, or reimbursement therefor,
19 imposed with respect to that property by any other state, political
20 subdivision thereof, or the District of Columbia prior to the storage,
21 use, or other consumption of that property in this state. The credit
22 shall be apportioned to the taxes against which it is allowed in
23 proportion to the amounts of those taxes.

24 (b) *A credit shall be allowed against, but shall not exceed, the*
25 *total sales taxes imposed on any retailer by Chapter 2 (commencing*
26 *with Section 6051) of this part, by any ordinance enacted pursuant*
27 *to Part 1.5 (commencing with Section 7200), and by any ordinance*
28 *enacted pursuant to Part 1.6 (commencing with Section 7251) with*
29 *respect to a retail sale in this state of a digital product transferred*
30 *electronically or accessed remotely to the extent that the retailer*
31 *has paid a retail sales tax imposed with respect to that digital*
32 *product by any other state, political subdivision thereof, or the*
33 *District of Columbia at the time of sale.*

34 ~~A credit, otherwise permitted~~

35 (c) *A credit allowed by the foregoing provisions of this section,*
36 *section shall not be allowed against taxes which that are measured*
37 *by periodic payments made under a lease, to the extent that the*
38 *taxes imposed by any other state, political subdivision thereof, or*
39 *the District of Columbia were also measured by periodic payments*

1 made under a lease for a period ~~prior to~~ *before* the storage, use, or
 2 other consumption of the property in this state.

3 *(d) The amendments made to this section by the act adding this*
 4 *subdivision shall become operative on January 1, 2027.*

5 *SEC. 19. Section 7051.3 of the Revenue and Taxation Code is*
 6 *amended to read:*

7 7051.3. (a) “Use tax direct payment permit” means a permit
 8 issued by the ~~board~~ *department* that allows a taxpayer to self-assess
 9 and pay state and local use tax under Part 1 (commencing with
 10 Section 6001), Part 1.5 (commencing with Section 7200), and if
 11 otherwise applicable, Part 1.6 (commencing with Section 7251),
 12 and Part 1.7 (commencing with Section 7280) directly to the ~~board~~.
 13 *department.*

14 (b) (1) (A) Every person seeking to pay use taxes directly to
 15 the ~~board~~ *department* shall file an application for a use tax direct
 16 payment permit. An application for a use tax direct payment permit
 17 shall be made upon a form prescribed by the ~~board~~ *department*
 18 and shall set forth the name under which the applicant transacts
 19 or intends to transact business, the location of the place or places
 20 of business where the applicant intends to make direct payment
 21 of use tax, and any other information that the ~~board~~ *department*
 22 may require. ~~An applicant for a use tax direct payment permit may~~
 23 ~~register as a place to make direct payment of use tax, any of the~~
 24 ~~places of business in this state that the applicant expects to be a~~
 25 ~~place of first use for purchases subject to use tax, in accordance~~
 26 ~~with the requirements of subdivision (d). The application shall be~~
 27 ~~signed by the owner, if a natural person; in the case of an~~
 28 ~~association or partnership, by a member or partner; and in the case~~
 29 ~~of a corporation, by an executive officer or some person specifically~~
 30 ~~authorized by the corporation to sign the application.~~

31 (B) (i) *Except as provided in clause (ii), an applicant for a use*
 32 *tax direct payment permit may register as a place to make direct*
 33 *payment of use tax any of the places of business in this state that*
 34 *the applicant expects to be a place of first use for purchases subject*
 35 *to use tax in accordance with the requirements of subdivision (e).*

36 (ii) *An applicant for a use tax direct payment permit who is*
 37 *required to pay use tax directly to the department pursuant to*
 38 *Section 6052 or Section 6201.55 shall register as a place to make*
 39 *direct payment of use tax any of the places of business in this state*
 40 *that the applicant expects to be a place of first use for purchases*

1 of digital products transferred electronically or accessed remotely
2 that are subject to use tax in accordance with the requirements of
3 subdivision (e).

4 (2) The application described in paragraph (1) shall be signed
5 pursuant to the following:

6 (A) If the owner of the taxpayer is a natural person, the owner
7 shall sign the application.

8 (B) If the taxpayer is an association or partnership, a member
9 or partner shall sign the application.

10 (C) If the taxpayer is a corporation, an executive officer or a
11 person specifically authorized by the corporation shall sign the
12 application.

13 (c) Pursuant to an application, a use tax direct payment permit
14 shall be issued to any person who meets ~~at~~ both of the following
15 conditions:

16 (1) The applicant agrees to self-assess and pay directly to the
17 ~~board~~ department any use tax liability incurred under this section.

18 (2) The applicant certifies to the ~~board~~ department either of the
19 following:

20 (A) The applicant is the purchaser for its own use or is the lessee
21 of tangible personal property at a cost of five hundred thousand
22 dollars (\$500,000) or more in the aggregate, during the calendar
23 year immediately preceding the application for the permit.

24 (B) The applicant is a county, city, *or* city and ~~county, or~~
25 ~~redevelopment agency.~~ *county.*

26 (d) A use tax direct payment permit shall be issued to any person
27 required to pay use tax directly to the department on purchases
28 of digital products transferred electronically or accessed remotely
29 pursuant to Section 6052 or 6201.55 for a period of 12 months.

30 ~~(e)~~

31 (e) (1) Any person who holds a valid use tax direct payment
32 permit shall self-assess and pay directly to the ~~board~~ department
33 use taxes due under this part, Part 1.5 (commencing with Section
34 7200), and if otherwise applicable, Part 1.6 (commencing with
35 Section 7251), and Part 1.7 (commencing with Section 7280) for
36 all purchases subject to use tax for which a use tax direct payment
37 exemption certificate was issued, and shall report on the tax return
38 required to be filed by Section 6452, the amount of local use tax
39 applicable to each county, city, *or* city and ~~county, or~~

1 ~~redevelopment agency county~~ in which the first “use,” as defined
2 in Section 6009, occurs.

3 (2) *A person required to pay use tax directly to the department*
4 *on purchases of digital products pursuant to Section 6052 or*
5 *6201.55 shall issue an exemption certificate to a retailer of digital*
6 *products transferred electronically or accessed remotely.*

7 (e)

8 (f) ~~The board~~ *department* shall allow any holder of a use tax
9 direct payment permit to issue a use tax direct payment certificate
10 to any registered retailer or seller subject to all of the following:

11 (1) The use tax direct payment certificate shall be in a form
12 prescribed by the ~~board~~, *department* and shall be signed by, and
13 bear the name, address, and permit number of, the holder of the
14 use tax direct payment permit.

15 (2) Once a use tax direct payment certificate has been issued
16 by a holder of a use tax direct payment permit, it shall remain
17 effective until revised or withdrawn by the holder of the permit or
18 until the retailer or seller has received actual notice that the permit
19 has been revoked by the ~~board~~, *department*.

20 (3) A use tax direct payment certificate relieves a person selling
21 property from the duty of collecting use tax only if taken in good
22 faith from a person who holds a use tax direct payment permit. A
23 purchaser who issues a use tax direct payment certificate that is
24 accepted in good faith by a seller or retailer of tangible personal
25 property shall be the sole person liable for any sales tax and related
26 interest and penalties with respect to any transaction that is
27 subsequently determined by the ~~board~~ *department* to be subject to
28 sales tax and not use tax.

29 (4) Any person who holds a use tax direct payment permit and
30 gives a use tax direct payment certificate to a seller or retailer shall,
31 in addition to any applicable use tax liabilities, be subject to the
32 same penalty provisions that apply to a seller or retailer.

33 (f)

34 (g) It is the intent of the Legislature that the ~~board~~ *department*
35 administer this part in a manner ~~which~~ *that* assures that local use
36 tax *will* be received by the county, city, *or* city and ~~county, or~~
37 ~~redevelopment agency county~~ where the first use occurs.

38 (h) *The amendments made to this section by the act adding this*
39 *subdivision shall become operative on January 1, 2027.*

1 *SEC. 20. Section 7202.1 is added to the Revenue and Taxation*
2 *Code, to read:*

3 *7202.1. (a) For the purposes of a tax adopted under this part,*
4 *any retail sale of a digital product transferred electronically or*
5 *accessed remotely is subject to the sourcing rule established*
6 *pursuant to subdivision (b) of Section 6010.5.*

7 *(b) This section shall become operative on January 1, 2027.*

8 *SEC. 21. Section 7254 is added to the Revenue and Taxation*
9 *Code, immediately following Section 7253, to read:*

10 *7254. (a) For the purposes of a tax adopted under this part,*
11 *any retail sale of a digital product transferred electronically or*
12 *accessed remotely is subject to the sourcing rule established*
13 *pursuant to subdivision (b) of Section 6010.5.*

14 *(b) The section shall become operative on January 1, 2027.*

15 *SEC. 22. Section 17039.4 of the Revenue and Taxation Code*
16 *is amended to read:*

17 *17039.4. (a) Notwithstanding any provision of this part or Part*
18 *10.2 (commencing with Section 18401) to the contrary, for*
19 *taxpayers not required to be included in a combined report under*
20 *Section 25101 or 25110, or taxpayers not authorized to be included*
21 *in a combined report under Section 25101.15, for each taxable*
22 *year beginning on or after January 1, 2024, and before January 1,*
23 *~~2027~~, 2030, the total of all business credits otherwise allowable*
24 *under any provision of Chapter 2 (commencing with Section*
25 *17041), including the carryover of any business credit under a*
26 *former provision of that chapter, for the taxable year shall not*
27 *reduce the “net tax,” as defined in Section 17039, by more than*
28 *five million dollars (\$5,000,000).*

29 *(b) Notwithstanding any provision of this part or Part 10.2*
30 *(commencing with Section 18401) to the contrary, for taxpayers*
31 *required to be included in a combined report under Section 25101*
32 *or 25110, or taxpayers authorized to be included in a combined*
33 *report under Section 25101.15, for each taxable year beginning*
34 *on or after January 1, 2024, and before January 1, ~~2027~~, 2030, the*
35 *total of all business credits otherwise allowable under any provision*
36 *of Chapter 2 (commencing with Section 17041), including the*
37 *carryover of any business credit under a former provision of that*
38 *chapter, by all members of the combined report shall not reduce*
39 *the aggregate amount of “tax,” as defined in Section 23036, of all*

1 members of the combined report by more than five million dollars
2 (\$5,000,000).

3 (c) For purposes of this section, “business credit” means a credit
4 allowable under any provision of Chapter 2 (commencing with
5 Section 17041) other than the following credits:

6 (1) The credit allowed by Section 17052 (relating to credit for
7 earned income).

8 (2) The credit allowed by Section 17052.1 (relating to credit
9 for young child).

10 (3) The credit allowed by Section 17052.2 (relating to credit
11 for foster youth).

12 (4) The credit allowed by Section 17052.6 (relating to credit
13 for household and dependent care).

14 (5) The credit allowed by Section 17052.10 or 17052.11 (relating
15 to the elective tax under the Small Business Relief Act).

16 (6) The credit allowed by Section 17052.25 (relating to credit
17 for adoption costs).

18 (7) The credit allowed by Section 17053.5 (relating to renter’s
19 tax credit).

20 (8) The credit allowed by Section 17054 (relating to credit for
21 personal exemption).

22 (9) The credit allowed by Section 17054.5 (relating to credit
23 for qualified joint custody head of household and a qualified
24 taxpayer with a dependent parent).

25 (10) The credit allowed by Section 17054.7 (relating to credit
26 for qualified senior head of household).

27 (11) The credit allowed by Section 17058 (relating to credit for
28 low-income housing).

29 (12) The credit allowed by Section 17061 (relating to refunds
30 pursuant to the Unemployment Insurance Code).

31 (d) *Any annual refundable credit amount included in an election*
32 *pursuant to Section 17039.5 is not included in the limitation set*
33 *forth in subdivision (a) or (b).*

34 (e) *Notwithstanding the operative date in subdivision (a), for*
35 *taxable years beginning on or after January 1, 2027, if an election*
36 *is made pursuant to subdivision (k) of Section 17053.98.1, both*
37 *the credit allowed against the “net tax” under clause (i) of*
38 *subparagraph (A) of paragraph (3) of subdivision (k) of Section*
39 *17053.98.1 and the annual refundable amount calculated under*

1 *subdivision (k) of Section 17053.98.1 shall not be included in the*
2 *limitation set forth in subdivisions (a) and (b).*

3 ~~(d)~~

4 (f) Any amounts included in an election pursuant to Section
5 6902.5, relating to an irrevocable election to apply credit amounts
6 under Section 17053.85, 17053.95, 17053.98, 17053.98.1, 23685,
7 23695, 23698, or 23698.1 against qualified sales and use tax, as
8 defined in Section 6902.5, are not included in the
9 five-million-dollar (\$5,000,000) limitation set forth in subdivision
10 (a) or (b).

11 ~~(e)~~

12 (g) The amount of any credit otherwise allowable for the taxable
13 year under Section 17039 that is not allowed due to application of
14 this section shall remain a credit carryover amount under this part.

15 ~~(f)~~

16 (h) The carryover period for any credit that is not allowed due
17 to the application of this section shall be increased by the number
18 of taxable years the credit or any portion thereof was not allowed.

19 ~~(g)~~

20 (i) Notwithstanding anything to the contrary in this part or Part
21 10.2 (commencing with Section 18401), the credits listed in
22 subdivision (c) shall be applied after any business credits, as limited
23 by subdivision (a) or (b), are applied.

24 ~~(h)~~

25 (j) For taxpayers that make the election under subdivision (k)
26 of Section 17053.98.1, any amount of refundable credits pursuant
27 to that subdivision over the ~~five-million-dollar~~ *five-million-dollar*
28 (\$5,000,000) limitation under this section shall be allowed in the
29 first taxable year ~~for which the limitation under this section is not~~
30 ~~operative.~~ *beginning on or after January 1, 2027.*

31 ~~(i)~~

32 (k) If a taxpayer makes the election under both Section 17039.5
33 and subdivision (k) of Section 17053.98.1 with respect to the credit
34 amount under Section 17053.98.1, the total amount of credit
35 allowed pursuant to both elections shall not exceed the credit
36 amount allowed under subdivision (a) of Section 17053.98.1.

37 ~~(j)~~

38 (l) Chapter 3.5 (commencing with Section 11340) of Part 1 of
39 Division 3 of Title 2 of the Government Code does not apply to
40 any standard, criterion, procedure, determination, rule, notice, or

1 guideline established or issued by the Franchise Tax Board
2 pursuant to this section.

3 ~~(k) (1) For taxable years beginning on or after January 1, 2025,~~
4 ~~and before January 1, 2026, this section shall not apply if, by May~~
5 ~~14, 2025, the Director of Finance determines that General Fund~~
6 ~~money over the multiyear forecast is sufficient without the revenue~~
7 ~~impact of the net operating loss suspension and credit limitation,~~
8 ~~and pursuant to legislation in the annual Budget Act to not apply~~
9 ~~this section of law.~~

10 ~~(2) For taxable years beginning on or after January 1, 2026, and~~
11 ~~before January 1, 2027, this section~~

12 ~~(m) The amendments made to this section by Section 6 of~~
13 ~~Chapter 17 of the Statutes of 2025 shall not apply if, by May 14,~~
14 ~~2026, the Director of Finance determines that General Fund money~~
15 ~~over the multiyear forecast is sufficient without the revenue impact~~
16 ~~of the net operating loss suspension and credit limitation, and~~
17 ~~pursuant to legislation in the annual Budget Act to not apply this~~
18 ~~section of law. be operative for taxable years beginning on or after~~
19 ~~January 1, 2026.~~

20 ~~(t)~~

21 ~~(n) The amendments made to this section by the act adding this~~
22 ~~subdivision shall be operative for taxable years beginning on or~~
23 ~~after January 1, 2026. 2027.~~

24 *SEC. 23. Section 17039.5 of the Revenue and Taxation Code*
25 *is amended to read:*

26 17039.5. (a) (1) For taxable years beginning on or after
27 January 1, 2024, and before January 1, ~~2027, 2030~~, a taxpayer may
28 make an election to receive an annual refundable credit amount
29 of qualified credits for each taxable year to be allowed pursuant
30 to paragraph (2).

31 (2) In each taxable year of the refundable period, the annual
32 refundable credit amount shall be allowed as a credit against the
33 “net tax” computed under this part for the taxable year, and the
34 excess, if any, shall be credited against other amounts due, if any,
35 and the balance, if any, shall be paid from the Tax Relief and
36 Refund Account to the taxpayer.

37 (b) For purposes of this section, the following definitions shall
38 apply:

39 (1) “Annual refundable credit amount” means 20 percent of the
40 credit amount for the taxable year.

1 (2) (A) “Credit amount” means the amount of the qualified
2 credits that would have otherwise been available to reduce net tax
3 in the taxable year of the election but for the limitation under
4 Section 17039.4.

5 (B) In the case of a pass-thru entity, the “credit amount” refers
6 to the pro rata share or distributive share of the credit passed
7 through to the partner or shareholder of the qualified taxpayer. For
8 purposes of this subparagraph, the term “pass-thru entity” means
9 any partnership, “S” corporation, or limited liability company
10 treated as a partnership.

11 (C) In the case of an assigned credit, the “credit amount” refers
12 to the credit amount that was assigned to the taxpayer.

13 (D) In the case of taxpayers required to be included in a
14 combined report under Section 25101 or 25110, or taxpayers
15 authorized to be included in a combined report under Section
16 25101.15, the “credit amount” refers to the credit amount of all
17 members of the combined report.

18 (3) “Qualified credits” means the credits subject to the limitation
19 under Section 17039.4.

20 (4) “Refundable period” means the first five consecutive taxable
21 years beginning the third taxable year after the taxable year that
22 the taxpayer makes an election under this section.

23 (c) No portion of the annual refundable credit amount can be
24 assigned to another taxpayer.

25 (d) The following shall apply for purposes of the election
26 pursuant to this section:

27 (1) The taxpayer may make an election for each taxable year
28 beginning on or after January 1, 2024, and before January 1, ~~2027~~.
29 2030.

30 (2) Each election shall be irrevocable and shall be made on an
31 original, timely filed return required under Part 10.2 (commencing
32 with Section 18401) for the taxable year that the election is made
33 in the form and manner as prescribed by the Franchise Tax Board.

34 (e) (1) Any adjustment of an annual refundable credit amount
35 shall be treated as a mathematical error appearing on the return.
36 This includes, but is not limited to, all of the following:

37 (A) A valid election as required under this section was not made.

38 (B) The Franchise Tax Board determines that credit amount
39 overstatements in any taxable year resulted in an overstatement in

1 any carryover amount or an overstatement of any refundable credit
2 amount.

3 (C) The Franchise Tax Board determines that the credit amount
4 was overstated as a result of any subsequent adjustment in the
5 amount of net tax, including, but not limited to, an audit adjustment
6 or claim for refund.

7 (2) Any amount of tax due resulting from such disallowance
8 may be assessed by the Franchise Tax Board in the same manner
9 as provided by Section 19051.

10 (f) (1) The Franchise Tax Board may prescribe regulations
11 necessary or appropriate to carry out the purposes of this section.

12 (2) Chapter 3.5 (commencing with Section 11340) of Part 1 of
13 Division 3 of Title 2 of the Government Code shall not apply to
14 any rule, guideline, or procedure prescribed by the Franchise Tax
15 Board pursuant to this section.

16 (g) This section shall remain in effect only until December 1,
17 ~~2034~~, 2037, and as of that date is repealed.

18 *SEC. 24. Section 17039.6 is added to the Revenue and Taxation
19 Code, to read:*

20 *17039.6. (a) Notwithstanding any provision of this part or
21 Part 10.2 (commencing with Section 18401) to the contrary, for
22 taxpayers not required to be included in a combined report under
23 Section 25101 or 25110, or taxpayers not authorized to be included
24 in a combined report under Section 25101.15, for each taxable
25 year beginning on or after January 1, 2030, the total of all business
26 credits otherwise allowable under any provision of Chapter 2
27 (commencing with Section 17041), including the carryover of any
28 business credit under a former provision of that chapter, for the
29 taxable year shall not reduce the "net tax," as defined in Section
30 17039, by more than 70 percent or five million dollars
31 (\$5,000,000), whichever is greater.*

32 *(b) Notwithstanding any provision of this part or Part 10.2
33 (commencing with Section 18401) to the contrary, for taxpayers
34 required to be included in a combined report under Section 25101
35 or 25110, or taxpayers authorized to be included in a combined
36 report under Section 25101.15, for each taxable year beginning
37 on or after January 1, 2030, the total of all business credits
38 otherwise allowable under any provision of Chapter 2
39 (commencing with Section 17041), including the carryover of any
40 business credit under a former provision of that chapter, by all*

1 members of the combined report shall not reduce the aggregate
2 amount of “tax,” as defined in Section 23036, of all members of
3 the combined report by more than 70 percent or five million dollars
4 (\$5,000,000), whichever is greater.

5 (c) For purposes of this section, “business credit” means a
6 credit allowable under any provision of Chapter 2 (commencing
7 with Section 17041) other than the following credits:

8 (1) The credit allowed by Section 17052 (relating to credit for
9 earned income).

10 (2) The credit allowed by Section 17052.1 (relating to credit
11 for young child).

12 (3) The credit allowed by Section 17052.2 (relating to credit
13 for foster youth).

14 (4) The credit allowed by Section 17052.6 (relating to credit
15 for household and dependent care).

16 (5) The credit allowed by Section 17052.10 or 17052.11
17 (relating to the elective tax under the Small Business Relief Act).

18 (6) The credit allowed by Section 17052.25 (relating to credit
19 for adoption costs).

20 (7) The credit allowed by Section 17053.5 (relating to renter’s
21 tax credit).

22 (8) The credit allowed by Section 17054 (relating to credit for
23 personal exemption).

24 (9) The credit allowed by Section 17054.5 (relating to credit
25 for qualified joint custody head of household and a qualified
26 taxpayer with a dependent parent).

27 (10) The credit allowed by Section 17054.7 (relating to credit
28 for qualified senior head of household).

29 (11) The credit allowed by Section 17058 (relating to credit for
30 low-income housing).

31 (12) The credit allowed by Section 17061 (relating to refunds
32 pursuant to the Unemployment Insurance Code).

33 (d) Any amounts included in an election pursuant to Section
34 6902.5, relating to an irrevocable election to apply credit amounts
35 under Section 17053.85, 17053.95, 17053.98, 17053.98.1, 23685,
36 23695, 23698, or 23698.1 against qualified sales and use tax, as
37 defined in Section 6902.5, are not included in the limitation set
38 forth in subdivision (a) or (b).

1 (e) Any annual refundable credit amount included in an election
2 pursuant to Section 17039.5 is not included in the limitation set
3 forth in subdivision (a) or (b).

4 (f) If an election is made pursuant to subdivision (k) of Section
5 17053.98.1, both the credit allowed against the “net tax” under
6 clause (i) of subparagraph (A) of paragraph (3) of subdivision (k)
7 of Section 17053.98.1 and the annual refundable amount calculated
8 under subdivision (k) of Section 17053.98.1 shall not be included
9 in the limitation set forth in subdivisions (a) and (b) of this section.

10 (g) The amount of any credit otherwise allowable for the taxable
11 year under Section 17039 that is not allowed due to application
12 of this section shall remain a credit carryover amount under this
13 part.

14 (h) Notwithstanding anything to the contrary in this part or Part
15 10.2 (commencing with Section 18401), the credits listed in
16 subdivision (c) shall be applied after any business credits, as
17 limited by subdivision (a) or (b), are applied.

18 (i) Chapter 3.5 (commencing with Section 11340) of Part 1 of
19 Division 3 of Title 2 of the Government Code does not apply to
20 any standard, criterion, procedure, determination, rule, notice, or
21 guideline established or issued by the Franchise Tax Board
22 pursuant to this section.

23 SEC. 25. Section 17935 of the Revenue and Taxation Code is
24 amended to read:

25 17935. (a) Except as provided in subdivision (f), for each
26 taxable year beginning on or after January 1, 1997, every limited
27 partnership doing business in this state (as defined by Section
28 23101) and required to file a return under Section 18633 shall pay
29 annually to this state a tax for the privilege of doing business in
30 this state in an amount equal to the applicable amount specified
31 in Section 23153.

32 (b) (1) In addition to any limited partnership that is doing
33 business in this state and therefore is subject to the tax imposed
34 by subdivision (a), for each taxable year beginning on or after
35 January 1, 1997, every limited partnership that has executed,
36 acknowledged, and filed a certificate of limited partnership with
37 the Secretary of State pursuant to Section 15621 or 15902.01 of
38 the Corporations Code, and every foreign limited partnership that
39 has registered with the Secretary of State pursuant to Section 15692
40 or 15909.01 of the Corporations Code, shall pay annually the tax

1 prescribed in subdivision (a). The tax shall be paid for each taxable
2 year, or part thereof, until a certificate of cancellation is filed on
3 behalf of the limited partnership with the office of the Secretary
4 of State pursuant to Section 15623, 15696, 15902.03, or 15909.07
5 of the Corporations Code.

6 (2) If a taxpayer files a return with the Franchise Tax Board that
7 is designated its final return, that board shall notify the taxpayer
8 that the tax imposed by this chapter is due annually until a
9 certificate of cancellation is filed with the Secretary of State
10 pursuant to Section 15623, 15696, 15902.03, or 15909.07 of the
11 Corporations Code.

12 (c) The tax imposed by this chapter shall be due and payable
13 on the date the return is required to be filed under former Section
14 18432 or 18633.

15 (d) For purposes of this section, “limited partnership” means
16 any partnership formed by two or more persons under the laws of
17 this state or any other jurisdiction and having one or more general
18 partners and one or more limited partners.

19 (e) Notwithstanding subdivision (b), any limited partnership
20 that ceased doing business prior to January 1, 1997, filed a final
21 return with the Franchise Tax Board for a taxable year ending
22 before January 1, 1997, and filed a certificate of dissolution with
23 the Secretary of State pursuant to Section 15623 of the
24 Corporations Code prior to January 1, 1997, shall not be subject
25 to the tax imposed by this chapter for any period following the
26 date the certificate of dissolution was filed with the Secretary of
27 State, but only if the limited partnership files a certificate of
28 cancellation with the Secretary of State pursuant to Section 15623
29 of the Corporations Code. In the case where a notice of proposed
30 deficiency assessment of tax or a notice of tax due (whichever is
31 applicable) is mailed after January 1, 2001, the first sentence of
32 this subdivision shall not apply unless the certificate of cancellation
33 is filed with the Secretary of State not later than 60 days after the
34 date of the mailing of the notice.

35 (f) (1) (A) Every limited partnership doing business in this
36 state as described in subdivision (a) that files a certificate of limited
37 partnership or registers with the Secretary of the State pursuant to
38 subdivision (b) on or after January 1, 2021, and before January 1,
39 2024, shall not be subject to the tax imposed under this section for
40 its first taxable year.

1 ~~(2)~~

2 (B) This subdivision shall become operative only for a taxable
3 year in which any budget measure appropriates one dollar (\$1) or
4 more to the Franchise Tax Board for the costs associated with
5 administration of this subdivision.

6 (2) *For taxable years beginning on or after January 1, 2027,*
7 *and before January 1, 2030, every limited partnership required*
8 *to file a return under Section 18633 shall, instead of the amount*
9 *specified in Section 23153, pay the annual tax to this state in the*
10 *amount of four hundred dollars (\$400) for its first taxable year.*

11 SEC. 26. *Section 17941 of the Revenue and Taxation Code is*
12 *amended to read:*

13 17941. (a) Except as provided in subdivision (g), for each
14 taxable year beginning on or after January 1, 1997, a limited
15 liability company doing business in this state (as defined in Section
16 23101) shall pay annually to this state a tax for the privilege of
17 doing business in this state in an amount equal to the applicable
18 amount specified in subdivision (d) of Section 23153 for the taxable
19 year.

20 (b) (1) In addition to any limited liability company that is doing
21 business in this state and is therefore subject to the tax imposed
22 by subdivision (a), for each taxable year beginning on or after
23 January 1, 1997, a limited liability company shall pay annually
24 the tax prescribed in subdivision (a) if articles of organization have
25 been accepted, or a certificate of registration has been issued, by
26 the office of the Secretary of State. The tax shall be paid for each
27 taxable year, or part thereof, until a certificate of cancellation of
28 registration or of articles of organization is filed on behalf of the
29 limited liability company with the office of the Secretary of State.

30 (2) If a taxpayer files a return with the Franchise Tax Board that
31 is designated as its final return, the Franchise Tax Board shall
32 notify the taxpayer that the annual tax shall continue to be due
33 annually until a certificate of dissolution is filed with the Secretary
34 of State pursuant to Section 17707.08 of the Corporations Code
35 or a certificate of cancellation is filed with the Secretary of State
36 pursuant to Section 17708.06 of the Corporations Code.

37 (c) The tax assessed under this section shall be due and payable
38 on or before the 15th day of the fourth month of the taxable year.

39 (d) For purposes of this section, “limited liability company”
40 means an organization, other than a limited liability company that

1 is exempt from the tax and fees imposed under this chapter
2 pursuant to Section 23701h or Section 23701x, that is formed by
3 one or more persons under the law of this state, any other country,
4 or any other state, as a “limited liability company” and that is not
5 taxable as a corporation for California tax purposes.

6 (e) Notwithstanding anything in this section to the contrary, if
7 the office of the Secretary of State files a certificate of cancellation
8 pursuant to Section 17707.02 of the Corporations Code for any
9 limited liability company, then paragraph (1) of subdivision (f) of
10 Section 23153 shall apply to that limited liability company as if
11 the limited liability company were properly treated as a corporation
12 for that limited purpose only, and paragraph (2) of subdivision (f)
13 of Section 23153 shall not apply. Nothing in this subdivision
14 entitles a limited liability company to receive a reimbursement for
15 any annual taxes or fees already paid.

16 (f) (1) Notwithstanding any provision of this section to the
17 contrary, for taxable years beginning on or after January 1, 2020,
18 a limited liability company that is a small business solely owned
19 by a deployed member of the United States Armed Forces shall
20 not be subject to the tax imposed under this section for any taxable
21 year the owner is deployed and the limited liability company
22 operates at a loss or ceases operation.

23 (2) The Franchise Tax Board may promulgate regulations as
24 necessary or appropriate to carry out the purposes of this
25 subdivision, including a definition for “ceases operation.”

26 (3) For the purposes of this subdivision, all of the following
27 definitions apply:

28 (A) “Deployed” means being called to active duty or active
29 service during a period when a Presidential Executive order
30 specifies that the United States is engaged in combat or homeland
31 defense. “Deployed” does not include either of the following:

- 32 (i) Temporary duty for the sole purpose of training or processing.
- 33 (ii) A permanent change of station.

34 (B) “Operates at a loss” means a limited liability company’s
35 expenses exceed its receipts.

36 (C) “Small business” means a limited liability company with
37 total income from all sources derived from, or attributable to, the
38 state of two hundred fifty thousand dollars (\$250,000) or less.

39 (4) This subdivision shall become inoperative for taxable years
40 beginning on or after January 1, 2030.

1 (g) (1) (A) Every limited liability company doing business in
2 this state as described in subdivision (a) that organizes or registers
3 with the Secretary of the State pursuant to subdivision (b) on or
4 after January 1, 2021, and before January 1, 2024, shall not be
5 subject to the tax imposed under this section for its first taxable
6 year.

7 ~~(2)~~

8 (B) This subdivision shall become operative only for a taxable
9 year in which any budget measure appropriates one dollar (\$1) or
10 more to the Franchise Tax Board for the costs associated with
11 administration of this subdivision.

12 (2) *For taxable years beginning on or after January 1, 2027,*
13 *and before January 1, 2030, every limited liability company*
14 *required to file a return under Section 18633 shall, instead of the*
15 *amount specified in Section 23153, pay the annual tax to this state*
16 *in the amount of four hundred dollars (\$400) for its first taxable*
17 *year.*

18 *SEC. 27. Section 17948 of the Revenue and Taxation Code is*
19 *amended to read:*

20 17948. (a) Except as provided in subdivision (e), for each
21 taxable year beginning on or after January 1, 1997, every limited
22 liability partnership doing business in this state (as defined in
23 Section 23101) and required to file a return under Section 18633
24 shall pay annually to the Franchise Tax Board a tax for the privilege
25 of doing business in this state in an amount equal to the applicable
26 amount specified in paragraph (1) of subdivision (d) of Section
27 23153 for the taxable year.

28 (b) In addition to any limited liability partnership that is doing
29 business in this state and therefore is subject to the tax imposed
30 by subdivision (a), for each taxable year beginning on or after
31 January 1, 1997, every registered limited liability partnership that
32 has registered with the Secretary of State pursuant to Section 16953
33 of the Corporations Code and every foreign limited liability
34 partnership that has registered with the Secretary of State pursuant
35 to Section 16959 of the Corporations Code shall pay annually the
36 tax prescribed in subdivision (a). The tax shall be paid for each
37 taxable year, or part thereof, until any of the following occurs:

38 (1) A notice of cessation is filed with the Secretary of State
39 pursuant to subdivision (b) of Section 16954 or 16960 of the
40 Corporations Code.

1 (2) A foreign limited liability partnership withdraws its
2 registration pursuant to subdivision (a) of Section 16960 of the
3 Corporations Code.

4 (3) The registered limited liability partnership or foreign limited
5 liability partnership has been dissolved and finally wound up.

6 (c) The tax assessed under this section shall be due and payable
7 on the date the return is required to be filed under Section 18633.

8 (d) If a taxpayer files a return with the Franchise Tax Board that
9 is designated as its final return, the Franchise Tax Board shall
10 notify the taxpayer that the annual tax shall continue to be due
11 annually until a certificate of cancellation is filed with the Secretary
12 of State pursuant to Section 16954 or 16960 of the Corporations
13 Code.

14 (e) (1) (A) Every limited liability partnership doing business
15 in this state as described in subdivision (a) that registers with the
16 Secretary of the State pursuant to subdivision (b) on or after
17 January 1, 2021, and before January 1, 2024, shall not be subject
18 to the tax imposed under this section for its first taxable year.

19 ~~(2)~~

20 (B) This subdivision shall become operative only for a taxable
21 year in which any budget measure appropriates one dollar (\$1) or
22 more to the Franchise Tax Board for the costs associated with
23 administration of this subdivision.

24 (2) *For taxable years beginning on or after January 1, 2027,*
25 *and before January 1, 2030, every limited liability partnership*
26 *required to file a return under Section 18633 shall, instead of the*
27 *amount specified in Section 23153, pay the annual tax to this state*
28 *in the amount of four hundred dollars (\$400) for its first taxable*
29 *year.*

30 *SEC. 28. Section 19533 of the Revenue and Taxation Code is*
31 *amended to read:*

32 19533. (a) In the event the debtor has more than one debt being
33 collected by the Franchise Tax Board and the amount collected by
34 the Franchise Tax Board is insufficient to satisfy the total amount
35 owing, the amount collected shall be applied in the following
36 priority:

37 (1) Payment of any taxes, additions to tax, penalties, interest,
38 fees, or other amounts due and payable under Part 7.5 (commencing
39 with Section 13201), Part 10 (commencing with Section 17001),
40 Part 11 (commencing with Section 23001), Part 32 (commencing

1 with Section 61000), or this part, amounts authorized to be
 2 collected under Section 19722 of this code, or payment of advanced
 3 premium subsidies in excess of the amount allowed under Title 25
 4 (commencing with Section 100800) of the Government Code.

5 (2) Payment of delinquencies collected under Section 10878.

6 (3) Payment of any amounts due that are referred for collection
 7 under Article 5.5 (commencing with Section 19280) of Chapter
 8 5.

9 (4) Payment of any delinquencies referred for collection under
 10 Article 7 (commencing with Section 19291) of Chapter 5.

11 (5) *Payment of any taxes imposed under Part 10.8 (commencing*
 12 *with Section 22000).*

13 (b) Notwithstanding the payment priority established by this
 14 section, voluntary payments designated by the taxpayer as payment
 15 for a personal income tax liability or as a payment on amounts
 16 authorized to be collected under Section 19722, shall not be applied
 17 pursuant to this priority, but shall instead be applied as designated.

18 *SEC. 29. Part 10.8 (commencing with Section 22000) is added*
 19 *to Division 2 of the Revenue and Taxation Code, to read:*

20

21 *PART 10.8. TAXATION OF ANTI-WEAPONIZATION FUND*
 22 *PAYMENTS ACT*

23

24 22000. (a) *Notwithstanding any other law, for taxable years*
 25 *beginning on or after January 1, 2026, and before January 1,*
 26 *2030, there shall be imposed on a taxpayer, a tax equal to 100*
 27 *percent of any settlement fund payment received by the taxpayer*
 28 *during the taxable year.*

29 (b) (1) *For purposes of this part, the following definitions shall*
 30 *apply:*

31 (A) *“Member of the family” means the following:*

32 (i) *The spouse of an individual.*

33 (ii) *An individual who bears a relationship to an individual*
 34 *which is described in subparagraphs (A) to (G) of Section 152(d)(2)*
 35 *of the Internal Revenue Code, relating to relationship.*

36 (B) *“Settlement fund payment” means any payment, distribution,*
 37 *or monetary transfer received by a taxpayer during the taxable*
 38 *year, from either of the following:*

39 (i) *The Anti-Weaponization Fund established by the Department*
 40 *of Justice in relation to President Donald J. Trump v. Internal*

1 *Revenue Service, Case No. 1:26-cv-20609 (S.D. Fla. 2026), or*
2 *any subsequent fund, settlement, or agreement.*

3 (ii) *Any fund, trust, or account, the assets of which are derived*
4 *from the outcome, whether by settlement, verdict, or otherwise, of*
5 *any civil action that was filed by a specified person, who is not*
6 *the taxpayer, against the United States, or any agency or*
7 *instrumentality thereof, or against any state and its political*
8 *subdivisions.*

9 (C) *“Specified person” means any of the following:*

10 (i) *An individual who served, or is currently serving, as*
11 *President of the United States.*

12 (ii) *A member of the family of an individual who served, or is*
13 *currently serving, as President of the United States.*

14 (iii) *A person controlled, based on principles specified in Section*
15 *52(b) of the Internal Revenue Code, by one or more individuals*
16 *described in clause (i) or (ii).*

17 (D) *“Taxpayer” has the same meaning as Sections 17004 and*
18 *23037.*

19 (2) *Unless the context otherwise requires, the definitions set*
20 *forth in this part and those in Part 10 (commencing with Section*
21 *17001), Part 10.2 (commencing with Section 18401), or Part 11*
22 *(commencing with Section 23001) shall apply to this part.*

23 (c) *Any specified settlement fund payment that is taxed under*
24 *subdivision (a) shall be excluded from the gross income under*
25 *Part 10 (commencing with Section 17001) or Part 11 (commencing*
26 *with Section 23001) for the taxable year that the specified*
27 *settlement fund payment is subject to tax.*

28 (d) *The tax imposed under subdivision (a) shall not be reduced*
29 *by any deduction or credit allowed under Part 10 (commencing*
30 *with Section 17001) or Part 11 (commencing with Section 23001).*

31 (e) *The tax imposed under subdivision (a) shall be in addition*
32 *to, and not in place of, any other tax or fee that is due and payable*
33 *under Part 10 (commencing with Section 17001), Part 10.2*
34 *(commencing with Section 18401), or Part 11 (commencing with*
35 *Section 23001), and shall not change any filing requirements for*
36 *those taxes and fees.*

37 (f) (1) *The tax imposed by this part shall be due and payable*
38 *on or before the due date of the original return that the taxpayer*
39 *is required to file pursuant to Part 10.2 (commencing with Section*
40 *18401) without regard to any extension of time for filing the return*

1 for the taxable year of the imposition of tax imposed under
2 subdivision (a).

3 (2) All taxes paid pursuant to this section shall be made in the
4 form and manner as prescribed by the Franchise Tax Board.

5 (3) The tax imposed under this part shall be assessed and
6 collected pursuant to Part 10.2 (commencing with Section 18401),
7 except Articles 6 (commencing with Section 19101) and 7
8 (commencing with Section 19131) of Chapter 4 of Part 10.2 shall
9 not apply.

10 (g) (1) The Franchise Tax Board may adopt regulations that
11 are necessary or appropriate to implement this part.

12 (2) The Administrative Procedure Act (Chapter 3.5 (commencing
13 with Section 11340) of Part 1 of Division 3 of Title 2 of the
14 Government Code) shall not apply to any regulation, rule,
15 guideline, or procedure prescribed by the Franchise Tax Board
16 pursuant to this part.

17 (h) This part shall remain in effect until December 1, 2030, and
18 as of that date is repealed.

19 SEC. 30. Section 23036.4 of the Revenue and Taxation Code
20 is amended to read:

21 23036.4. (a) Notwithstanding any provision of this part or Part
22 10.2 (commencing with Section 18401) to the contrary, except as
23 provided in subdivision (d), for taxpayers not required to be
24 included in a combined report under Section 25101 or 25110, or
25 taxpayers not authorized to be included in a combined report under
26 Section 25101.15, for each taxable year beginning on or after
27 January 1, 2024, and before January 1, ~~2027~~, 2030, the total of all
28 credits otherwise allowable under any provision of Chapter 3.5
29 (commencing with Section ~~23604~~) 23604, including the carryover
30 of any credit under a former provision of that chapter, for the
31 taxable year shall not reduce the “tax,” as defined in Section 23036,
32 by more than five million dollars (\$5,000,000).

33 (b) Notwithstanding any provision of this part or Part 10.2
34 (commencing with Section 18401) to the contrary, except as
35 provided in subdivision (d), for taxpayers required to be included
36 in a combined report under Section 25101 or 25110, or taxpayers
37 authorized to be included in a combined report under Section
38 25101.15, for each taxable year beginning on or after January 1,
39 2024, and before January 1, ~~2027~~, 2030, the total of all credits
40 otherwise allowable under any provision of Chapter 3.5

1 (commencing with Section 23604), including the carryover of any
2 credit under a former provision of that chapter, by all members of
3 the combined report shall not reduce the aggregate amount of
4 “tax,” as defined in Section 23036, of all members of the combined
5 report by more than five million dollars (\$5,000,000).

6 (c) Any amounts included in an election pursuant to Section
7 6902.5, relating to an irrevocable election to apply credit amounts
8 under Section 17053.85, 17053.95, 17053.98, 17053.98.1, 23685,
9 23695, 23698, or 23698.1 against qualified sales and use tax, as
10 defined in Section 6902.5, are not included in the five million
11 dollar (\$5,000,000) limitation set forth in subdivision (a) or (b).

12 (d) The limitation under subdivision (a) or (b) shall not apply
13 to the credit allowed by Section 23610.5 (relating to credit for
14 low-income housing).

15 (e) *Any annual refundable credit amount included in an election*
16 *pursuant to Section 23036.5 is not included in the limitation set*
17 *forth in subdivision (a) or (b).*

18 (f) *Notwithstanding the operative date in subdivision (a), for*
19 *taxable years beginning on or after January 1, 2027, if an election*
20 *is made pursuant to subdivision (k) of Section 23698.1, both the*
21 *credit allowed against the “tax” under clause (i) of subparagraph*
22 *(A) of paragraph (3) of subdivision (k) of Section 23698.1 and the*
23 *annual refundable amount calculated under subdivision (k) of*
24 *Section 23698.1 shall not be included in the limitation set forth in*
25 *subdivisions (a) and (b).*

26 (e)

27 (g) The amount of any credit otherwise allowable for the taxable
28 year under Section 23036 that is not allowed due to the application
29 of this section shall remain a credit carryover amount under this
30 part.

31 (f)

32 (h) The carryover period for any credit that is not allowed due
33 to the application of this section shall be increased by the number
34 of taxable years the credit or any portion thereof was not allowed.

35 (g)

36 (i) For taxpayers that make the election under subdivision (k)
37 of Section 23698.1, any amount of refundable credits pursuant to
38 that subdivision over the ~~five million dollar~~ *five-million-dollar*
39 (\$5,000,000) limitation under this section shall be allowed in the

1 first taxable year for which the limitation under this section is not
 2 operative: beginning on or after January 1, 2027.

3 ~~(h)~~

4 (j) If a taxpayer makes the election under both Section 23036.5
 5 and subdivision (k) of Section 23698.1 with respect to the credit
 6 amount under Section 23698.1, the total amount of credit allowed
 7 pursuant to both elections shall not exceed the credit amount
 8 allowed under subdivision (a) of Section 23698.1.

9 ~~(i)~~

10 (k) Chapter 3.5 (commencing with Section 11340) of Part 1 of
 11 Division 3 of Title 2 of the Government Code does not apply to
 12 any standard, criterion, procedure, determination, rule, notice, or
 13 guideline established or issued by the Franchise Tax Board
 14 pursuant to this section.

15 ~~(j) (1) For taxable years beginning on or after January 1, 2025,
 16 and before January 1, 2026, this section shall not apply if, by May
 17 14, 2025, the Director of Finance determines that General Fund
 18 money over the multiyear forecast is sufficient without the revenue
 19 impact of the net operating loss suspension and credit limitation,
 20 and pursuant to legislation in the annual Budget Act to not apply
 21 this section of law.~~

22 ~~(2) For taxable years beginning on or after January 1, 2026, and
 23 before January 1, 2027, this section shall not apply if, by May 14,
 24 2026, the Director of Finance determines that General Fund money
 25 over the multiyear forecast is sufficient without the revenue impact
 26 of the net operating loss suspension and credit limitation, and
 27 pursuant to legislation in the annual Budget Act to not apply this
 28 section of law.~~

29 ~~(l) The amendments made to this section by the act adding this
 30 subdivision shall be operative for taxable years beginning on or
 31 after January 1, 2027.~~

32 *SEC. 31. Section 23036.5 of the Revenue and Taxation Code*
 33 *is amended to read:*

34 23036.5. (a) (1) For taxable years beginning on or after
 35 January 1, 2024, and before January 1, ~~2027, 2030~~, a taxpayer may
 36 make an election to receive an annual refundable credit amount
 37 of qualified credits for each taxable year to be allowed pursuant
 38 to paragraph (2).

39 (2) In each taxable year of the refundable period, the annual
 40 refundable credit amount shall be allowed as a credit against the

1 “tax” computed under this part for the taxable year, and the excess,
2 if any, shall be credited against other amounts due, if any, and the
3 balance, if any, shall be paid from the Tax Relief and Refund
4 Account to the taxpayer.

5 (b) For purposes of this section, the following definitions shall
6 apply:

7 (1) “Annual refundable credit amount” means 20 percent of the
8 credit amount for the taxable year.

9 (2) (A) “Credit amount” means the amount of the qualified
10 credits that would have otherwise been available to reduce net tax
11 in the taxable year of the election but for the limitation under
12 Section 23036.4.

13 (B) In the case of a pass-thru entity, the “credit amount” refers
14 to the pro rata share or distributive share of the credit passed
15 through to the partner or shareholder of the qualified taxpayer. For
16 purposes of this subparagraph, the term “pass-thru entity” means
17 any partnership, “S” corporation, or limited liability company
18 treated as a partnership.

19 (C) In the case of an assigned credit, the “credit amount” refers
20 to the credit amount that was assigned to the taxpayer.

21 (D) In the case of taxpayers required to be included in a
22 combined report under Section 25101 or 25110, or taxpayers
23 authorized to be included in a combined report under Section
24 25101.15, the “credit amount” refers to the credit amount of all
25 members of the combined report.

26 (3) “Qualified credits” means the credits subject to the limitation
27 under Section 23036.4.

28 (4) “Refundable period” means the first five consecutive taxable
29 years beginning the third taxable year after the taxable year that
30 the taxpayer makes an election under this section.

31 (c) No portion of the annual refundable credit amount can be
32 assigned to another taxpayer.

33 (d) The following shall apply for purposes of the election
34 pursuant to this section:

35 (1) The taxpayer may make an election for each taxable year
36 beginning on or after January 1, 2024, and before January 1, ~~2027~~.
37 2030.

38 (2) Each election shall be irrevocable and shall be made on an
39 original, timely filed return required under Part 10.2 (commencing

1 with Section 18401) for the taxable year that the election is made
2 in the form and manner as prescribed by the Franchise Tax Board.

3 (e) (1) Any adjustment of an annual refundable credit amount
4 shall be treated as a mathematical error appearing on the return.
5 This includes, but is not limited to, all of the following:

6 (A) A valid election as required under this section was not made.

7 (B) The Franchise Tax Board determines that credit amount
8 overstatements in any taxable year resulted in an overstatement in
9 any carryover amount or an overstatement of any refundable credit
10 amount.

11 (C) The Franchise Tax Board determines that the credit amount
12 was overstated as a result of any subsequent adjustment in the
13 amount of net tax, including, but not limited to, an audit adjustment
14 or claim for refund.

15 (2) Any amount of tax due resulting from such disallowance
16 may be assessed by the Franchise Tax Board in the same manner
17 as provided by Section 19051.

18 (f) (1) The Franchise Tax Board may prescribe regulations
19 necessary or appropriate to carry out the purposes of this section.

20 (2) Chapter 3.5 (commencing with Section 11340) of Part 1 of
21 Division 3 of Title 2 of the Government Code shall not apply to
22 any rule, guideline, or procedure prescribed by the Franchise Tax
23 Board pursuant to this section.

24 (g) This section shall remain in effect only until December 1,
25 ~~2034~~, 2037, and as of that date is repealed.

26 *SEC. 32. Section 23036.6 is added to the Revenue and Taxation*
27 *Code, to read:*

28 *23036.6. (a) Notwithstanding any provision of this part or*
29 *Part 10.2 (commencing with Section 18401) to the contrary, except*
30 *as provided in subdivision (d), for taxpayers not required to be*
31 *included in a combined report under Section 25101 or 25110, or*
32 *taxpayers not authorized to be included in a combined report under*
33 *Section 25101.15, for each taxable year beginning on or after*
34 *January 1, 2030, the total of all credits otherwise allowable under*
35 *any provision of Chapter 3.5 (commencing with Section 23608),*
36 *including the carryover of any credit under a former provision of*
37 *that chapter, for the taxable year shall not reduce the "tax," as*
38 *defined in Section 23036, by more than 70 percent or five million*
39 *dollars (\$5,000,000), whichever is greater.*

1 (b) Notwithstanding any provision of this part or Part 10.2
2 (commencing with Section 18401) to the contrary, except as
3 provided in subdivision (d), for taxpayers required to be included
4 in a combined report under Section 25101 or 25110, or taxpayers
5 authorized to be included in a combined report under Section
6 25101.15, for each taxable year beginning on or after January 1,
7 2030, the total of all credits otherwise allowable under any
8 provision of Chapter 3.5 (commencing with Section 23608),
9 including the carryover of any credit under a former provision of
10 that chapter, by all members of the combined report shall not
11 reduce the aggregate amount of “tax,” as defined in Section 23036,
12 of all members of the combined report by more than 70 percent
13 or five million dollars (\$5,000,000), whichever is greater.

14 (c) Any amounts included in an election pursuant to Section
15 6902.5, relating to an irrevocable election to apply credit amounts
16 under Section 17053.85, 17053.95, 17053.98, 17053.98.1, 23685,
17 23695, 23698, or 23698.1 against qualified sales and use tax, as
18 defined in Section 6902.5, are not included in the limitation set
19 forth in subdivision (a) or (b).

20 (d) The limitation under subdivision (a) or (b) shall not apply
21 to the credit allowed by Section 23610.5 (relating to credit for
22 low-income housing).

23 (e) Any annual refundable credit amount included in an election
24 pursuant to Section 23036.5 is not included in the limitation set
25 forth in subdivision (a) or (b).

26 (f) If an election is made pursuant to subdivision (k) of Section
27 23698.1, both the credit allowed against the “tax” under clause
28 (i) of subparagraph (A) of paragraph (3) of subdivision (k) of
29 Section 23698.1 and the annual refundable amount calculated
30 under subdivision (k) of Section 23698.1 shall not be included in
31 the limitation set forth in subdivisions (a) and (b) of this section.

32 (g) The amount of any credit otherwise allowable for the taxable
33 year under Section 23036 that is not allowed due to the application
34 of this section shall remain a credit carryover amount under this
35 part.

36 (h) Chapter 3.5 (commencing with Section 11340) of Part 1 of
37 Division 3 of Title 2 of the Government Code does not apply to
38 any standard, criterion, procedure, determination, rule, notice, or
39 guideline established or issued by the Franchise Tax Board
40 pursuant to this section.

1 SEC. 33. *The sum of seven hundred fifty thousand dollars*
2 *(\$750,000) is hereby appropriated from the General Fund to the*
3 *California Department of Tax and Fee Administration for the*
4 *purpose of administering Sections 1 to 20, inclusive, of this act.*

5 SEC. 34. (a) *The California Department of Tax and Fee*
6 *Administration may prescribe, adopt, and enforce any emergency*
7 *regulations as necessary to implement, administer, and enforce*
8 *its duties under Sections 1 to 20, inclusive, of this act.*

9 (b) *Any emergency regulation prescribed, adopted, or enforced*
10 *pursuant to this section shall be adopted in accordance with*
11 *Chapter 3.5 (commencing with Section 11340) of Part 1 of Division*
12 *3 of Title 2 of the Government Code, and, for purposes of that*
13 *chapter, including Section 11349.6 of the Government Code, the*
14 *adoption of the regulation is an emergency and shall be considered*
15 *by the Office of Administrative Law as necessary for the immediate*
16 *preservation of the public peace, health and safety, and general*
17 *welfare.*

18 (c) *Notwithstanding any other law, an emergency regulation*
19 *adopted by the California Department of Tax and Fee*
20 *Administration under this section may remain in effect for two*
21 *years from adoption and may be readopted in accordance with*
22 *subdivision (h) of Section 11346.1 of the Government Code.*

23 SEC. 35. (a) *It is the intent of the Legislature to apply the*
24 *requirements of Section 41 of the Revenue and Taxation Code to*
25 *this act.*

26 (b) *With respect to Sections 17935, 17941, and 17948 of the*
27 *Revenue and Taxation Code, as amended by Sections 25, 26, and*
28 *27 of this act, the Legislature finds and declares as follows:*

29 (1) *The goal of this act is to help and reduce costs for first-year*
30 *California small businesses. Existing law imposes an annual*
31 *minimum franchise tax of eight hundred dollars (\$800) on every*
32 *corporation, and an annual tax of eight hundred dollars (\$800)*
33 *on every limited liability company (LLC), limited partnership (LP),*
34 *and limited liability partnership (LLP), which may be difficult to*
35 *afford for first-year businesses.*

36 (2) *The performance indicator for this act is the number of*
37 *first-year LLCs, LPs, and LLPs that are affected by the act.*

38 (3) *Notwithstanding Section 19542 of the Revenue and Taxation*
39 *Code, on or before January 1, 2029, and on or before January 1*
40 *each year thereafter through, and including, January 1, 2031, the*

1 Franchise Tax Board shall submit an annual report to the
2 Legislature on the performance of first-year LLCs, LPs, and LLPs
3 in the state using the data in paragraph (2). The report required
4 by this paragraph shall be submitted pursuant to Section 9795 of
5 the Government Code.

6 SEC. 36. The provisions of this act are severable. If any
7 provision of this act or its application is held invalid, that invalidity
8 shall not affect other provisions or applications that can be given
9 effect without the invalid provision or application.

10 SEC. 37. No reimbursement is required by this act pursuant
11 to Section 6 of Article XIII B of the California Constitution because
12 the only costs that may be incurred by a local agency or school
13 district will be incurred because this act creates a new crime or
14 infraction, eliminates a crime or infraction, or changes the penalty
15 for a crime or infraction, within the meaning of Section 17556 of
16 the Government Code, or changes the definition of a crime within
17 the meaning of Section 6 of Article XIII B of the California
18 Constitution.

19 SEC. 38. This act is a bill providing for appropriations related
20 to the Budget Bill within the meaning of subdivision (e) of Section
21 12 of Article IV of the California Constitution, has been identified
22 as related to the budget in the Budget Bill, and shall take effect
23 immediately.

24 ~~SECTION 1. It is the intent of the Legislature to enact statutory~~
25 ~~changes relating to the Budget Act of 2025.~~