

Introduced by Committee on Budget and Fiscal Review

January 23, 2025

An act ~~relating to the Budget Act of 2025~~; to amend Section 53084.5 of the Government Code, to amend Sections 6006, 6009, 6010, 6010.5, 6010.9, 6016, 6406, 7051.3, 17935, 17941, 17948, and 19533 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 176, 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 similarly apply a business credit limit of 50% of the total taxes imposed or \$5,000,000, whichever is greater, for taxable years beginning on or after January 1, 2027, except as specified.

(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 $\frac{2}{3}$ 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.

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

24 (2) A local agency entering into an agreement that results in a
25 reduction of the amount of revenue under the Bradley-Burns
26 Uniform Local Sales and Use Tax Law that, in the absence of the
27 agreement, would be received by another local agency shall notify
28 the other local agency by certified mail addressed to the attention
29 of the chief executive of that other local agency at least 60 days
30 prior to ratification or approval of that agreement by its governing
31 body.

32 (3) A local agency shall post any agreement on its ~~Internet Web~~
33 *site internet website* it has entered into that results in a reduction

1 of the amount of revenue under the Bradley-Burns Uniform Local
2 Sales and Use Tax Law that, in the absence of the agreement,
3 would be received by another local agency, including any
4 agreements entered into prior to January 1, 2016, that are still in
5 effect on and after that date.

6 (c) (1) *A local agency shall not enter into any form of agreement*
7 *that would result, directly or indirectly, in the payment, transfer,*
8 *diversion, or rebate of any tax revenue resulting from the*
9 *imposition of a sales and use tax under the Bradley-Burns Uniform*
10 *Local Sales and Use Tax Law (Part 1.5 (commencing with Section*
11 *7200) of Division 2 of the Revenue and Taxation Code) imposed*
12 *on the sale or purchase of a digital product that is transferred*
13 *electronically or accessed remotely.*

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

19 (e)

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

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

24 (2) *“Digital product” has the same meaning as defined in*
25 *Section 6016.1 of the Revenue and Taxation Code.*

26 (1)

27 (3) *“Local agency” means a chartered or general law city, a*
28 *chartered or general law county, or a city and county, of this state.*

29 (2)

30 (4) ~~“Person” means a person~~ *has the same meaning as defined*
31 *in Section 6005 of the Revenue and Taxation Code.*

32 (3)

33 (5) *“Physical presence” means the lease or ownership of any*
34 *real property for the purpose of carrying on business operations.*

35 (6) *“Purchase” has the same meaning as defined in Section*
36 *6010 of the Revenue and Taxation Code.*

37 (4)

38 (7) ~~“Retailer” means a retailer~~ *has the same meaning as defined*
39 *by in Section 6015 of the Revenue and Taxation Code.*

1 (8) “Sale” has the same meaning as defined in Section 6006 of
 2 the Revenue and Taxation Code.
 3 (9) “Transferred electronically” has the same meaning as
 4 defined in Section 6016.2 of the Revenue and Taxation Code.
 5 ~~(d) This~~
 6 (e) Except as provided in subdivision (c), this section shall not
 7 apply to any agreement by a local agency to pay or rebate any use
 8 tax revenue resulting from the imposition of a use tax under the
 9 Bradley-Burns Uniform Local Sales and Use Tax Law relating to
 10 a use tax direct payment permit issued under Section 7051.3 of
 11 the Revenue and Taxation Code.
 12 ~~(e)~~
 13 (f) This section shall not be interpreted to limit the ability of a
 14 local agency to contract with or otherwise enter into an agreement
 15 pursuant to subdivision (b) of Section 7056 of the Revenue and
 16 Taxation Code.
 17 ~~(f)~~
 18 (g) This section shall not apply to any mutual tax revenue
 19 sharing agreement between local agencies to pay, transfer, or divert
 20 tax revenues that would be received by a local agency resulting
 21 from the imposition of a sales and use tax under the Bradley-Burns
 22 Uniform Local Sales and Use Tax Law to another local agency,
 23 and where the agreement would not result, directly or indirectly,
 24 in the payment, transfer, diversion, or rebate of those tax revenues
 25 to a retailer.
 26 (h) The amendments to this section by the act adding this
 27 subdivision shall become operative immediately upon enactment.
 28 SEC. 2. Section 6006 of the Revenue and Taxation Code is
 29 amended to read:
 30 6006. “Sale” means and includes:
 31 (a) Any transfer of title or possession, exchange, or barter,
 32 conditional or otherwise, in any manner or by any means
 33 whatsoever, of tangible personal property for a consideration.
 34 “Transfer of possession” includes only transactions found by the
 35 ~~board~~ department to be in lieu of a transfer of title, exchange, or
 36 barter.
 37 (b) The producing, fabricating, processing, printing, or
 38 imprinting of tangible personal property for a consideration for
 39 consumers who furnish either directly or indirectly the materials

1 used in the producing, fabricating, processing, printing, or
2 imprinting.

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

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

8 (e) A transaction whereby the possession of property is
9 transferred but the seller retains the title as security for the payment
10 of the price.

11 (f) A transfer for a consideration of the title or possession of
12 tangible personal property which has been produced, fabricated,
13 or printed to the special order of the customer, or of any
14 publication.

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

17 (1) Motion pictures or animated motion pictures, including
18 television, films, and tapes.

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

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

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

26 (5) Tangible personal property leased in substantially the same
27 form as acquired by the lessor or leased in substantially the same
28 form as acquired by a transferor, as to which the lessor or transferor
29 has paid sales tax reimbursement or has paid use tax measured by
30 the purchase price of the property. For purposes of this paragraph,
31 “transferor” shall mean the following:

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

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

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

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

6 *(h) Any transfer of title or possession, exchange, or barter,*
7 *conditional or otherwise, in any manner or by any means, of a*
8 *digital product transferred on tangible storage media for a*
9 *consideration.*

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

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

17 SEC. 3. Section 6009 of the Revenue and Taxation Code is
18 amended to read:

19 6009. (a) “Use” includes the exercise of any right or power
20 over tangible personal property incident to the ownership of that
21 property, and also includes the possession of, or the exercise of
22 any right or power over, tangible personal property by a lessee
23 under a lease, except that it does not include the sale of that
24 property in the regular course of business.

25 *(b) For purposes of subdivision (a), the exercise of any right or*
26 *power over tangible personal property incident to the ownership*
27 *of that property includes opening, viewing, accessing,*
28 *downloading, copying, updating, possessing, storing, or*
29 *manipulating a digital product transferred electronically or*
30 *accessed remotely.*

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

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

35 6009.5. (a) For purposes of the use tax liability imposed
36 pursuant to Sections 6052 and 6201.55, “storage” and “use” do
37 not include the keeping, retaining, or exercising of any right or
38 power over a digital product for the purpose of installing or
39 deploying the digital product for use thereafter solely outside the
40 state.

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

2 *SEC. 5. Section 6010 of the Revenue and Taxation Code is*
3 *amended to read:*

4 6010. “Purchase” means and includes:

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

11 (b) When performed outside this state or when the customer
12 gives a resale certificate pursuant to Article 3 (commencing with
13 Section 6091) of Chapter 2, the producing, fabricating, processing,
14 printing, or imprinting of tangible personal property for a
15 consideration for consumers who furnish either directly or
16 indirectly the materials used in the producing, fabricating,
17 processing, printing, or imprinting.

18 (c) A transaction whereby the possession of property is
19 transferred but the seller retains the title as security for the payment
20 of the price.

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

24 (e) Any lease of tangible personal property in any manner or
25 by any means whatsoever, for consideration, except a lease of:

26 (1) Motion pictures or animated motion pictures, including
27 television, films, and tapes.

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

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

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

35 (5) Tangible personal property leased in substantially the same
36 form as acquired by the lessor or leased in substantially the same
37 form as acquired by a transferor, as to which the lessor or transferor
38 has paid sales tax reimbursement or has paid use tax measured by
39 the purchase price of the property. For purposes of this paragraph,
40 “transferor” shall mean the following:

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

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

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

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

14 *(f) Any transfer of title or possession, exchange, or barter,*
15 *conditional or otherwise, in any manner or by any means*
16 *whatsoever, of a digital product transferred on tangible storage*
17 *media for a consideration.*

18 *(g) Any permanent or temporary transfer of the right, in any*
19 *manner or by any means whatsoever, to open, view, access,*
20 *download, copy, update, possess, store, manipulate, or otherwise*
21 *use a digital product transferred electronically or accessed*
22 *remotely for a consideration, beginning January 1, 2027.*

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

25 SEC. 6. Section 6010.5 of the Revenue and Taxation Code is
26 amended to read:

27 ~~6010.5. For~~

28 6010.5. (a) Subject to subdivision (b), for the purposes of this
29 part, the place of the sale or purchase of tangible personal property
30 is the place where the property is physically located at the time
31 the act constituting the sale or purchase, as defined in this part,
32 takes place.

33 (b) (1) For a digital product transferred on tangible storage
34 media, the place of the sale or purchase of that digital product
35 shall be the place where the tangible storage media is physically
36 located at the time the act constituting the sale or purchase takes
37 place.

38 (2) If the sale or purchase of a digital product that is not
39 transferred on tangible storage media is an in-person sale or
40 purchase at a location of the seller for which the seller is required

1 to hold a seller's permit pursuant to Section 6066, the place of the
2 sale or purchase of the digital product transferred electronically
3 or accessed remotely shall be the seller's place of business in this
4 state where the in-person sale or purchase occurred.

5 (3) (A) If the sale or purchase of a digital product that is not
6 transferred on tangible storage media is not an in-person sale or
7 purchase, the place of the sale or purchase of a digital product
8 transferred electronically or accessed remotely shall be deemed
9 to be the purchaser's known address in this state shown in the
10 seller's records maintained in good faith in the ordinary course
11 of business.

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

- 16 (i) The purchaser's billing address.
- 17 (ii) The purchaser's shipping or delivery address.
- 18 (iii) The mailing address associated with the purchaser's
19 payment instrument.
- 20 (iv) The purchaser's mailing address.

21 (C) If a purchaser does not provide an address to the seller
22 during the consummation of the sale or purchase, the purchaser's
23 known address in this state shall be determined from the addresses
24 in this state the purchaser previously provided to the seller in the
25 following order of priority:

- 26 (i) The purchaser's most recent billing address.
- 27 (ii) The purchaser's most recent shipping or delivery address.
- 28 (iii) The purchaser's most recent mailing address associated
29 with the purchaser's payment instrument.
- 30 (iv) The purchaser's most recent mailing address.

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

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

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

38 6010.5.1. (a) The place of use of a digital product shall be the
39 place where any right or power is exercised over the digital
40 product. The right or power to remotely access a digital product

1 *is exercised at the place where the person accessing the digital*
 2 *product is located.*

3 *(b) It shall be presumed that a digital product that was*
 4 *purchased outside of this state, as determined pursuant to Section*
 5 *6010.5, and used in this state within 90 days from the date of sale*
 6 *or purchase was purchased for storage, use, or other consumption*
 7 *in this state.*

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

9 *SEC. 8. Section 6010.9 of the Revenue and Taxation Code is*
 10 *amended to read:*

11 6010.9. *(a) “Sale” and “purchase,” for the purposes of this*
 12 *part, do not include the design, development, writing, translation,*
 13 *fabrication, lease, or transfer for a consideration of title or*
 14 *possession, of a custom computer program, software, other than*
 15 *a basic operational program (as defined in Section 995.2), program,*
 16 *either in the form of written procedures or in the form of tangible*
 17 *storage media on which, or in which, the program custom computer*
 18 *software is recorded, or any required documentation or manuals*
 19 *designed to facilitate the use of the custom computer program*
 20 *software so transferred.*

21 ~~As~~

22 *(b) As used in this section:*

23 ~~*(a) “Storage media” includes punched cards, tapes, discs,*~~
 24 ~~*diskettes, or drums on which computer programs may be embodied*~~
 25 ~~*or stored.*~~

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

28 ~~*(b)*~~

29 ~~*(2) “Computer” does not include tape-controlled automatic*~~
 30 ~~*drilling, milling, or other manufacturing machinery or equipment.*~~
 31 *means an electronic device, including word processing equipment,*
 32 *that is programmable and includes a processor (CPU) and internal*
 33 *memory.*

34 ~~*(c)*~~

35 ~~*(3) “Computer program” software” means the complete plan*~~
 36 ~~*for the solution of a problem, such as the complete sequence set*~~
 37 ~~*of automatic data processing equipment coded instructions*~~
 38 ~~*necessary designed to solve cause a problem and includes both*~~
 39 ~~*systems and application programs and subdivisions, such as*~~
 40 ~~*assemblers, compilers, routines, generators, and utility programs.*~~

1 *computer or automatic data processing equipment to perform a*
2 *task.*

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

8 ~~(d)~~

9 (B) ~~“Custom computer program” means a computer program~~
10 ~~prepared to the special order of the customer and includes those~~
11 ~~services represented by separately stated charges for modifications~~
12 ~~to an existing prewritten program which are prepared to the special~~
13 ~~order of the customer. The term “software” does not include a~~
14 ~~“canned” or prewritten computer program which~~ *software that is*
15 *held or existing for general or repeated sale or lease, even if the*
16 *prewritten or “canned” program computer software was initially*
17 *developed on a custom basis or for in-house use. Modification to*
18 *an existing prewritten program computer software to meet the*
19 *customer’s needs is custom computer programming software only*
20 *to the extent of the modification.*

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

23 SEC. 9. *Section 6016 of the Revenue and Taxation Code is*
24 *amended to read:*

25 6016. (a) *“Tangible personal property” means either of the*
26 *following:*

27 ~~“Tangible personal property” means personal~~

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

31 (2) *A digital product and any copyright or patent interests*
32 *associated therewith.*

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

35 SEC. 10. *Section 6016.1 is added to the Revenue and Taxation*
36 *Code, to read:*

37 6016.1. (a) *“Digital product” means prewritten computer*
38 *software transferred on tangible storage media, transferred*
39 *electronically, or accessed remotely.*

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

- 1 (1) *A digital asset.*
- 2 (2) *A digital audio work.*
- 3 (3) *A digital audiovisual work.*
- 4 (4) *A digital book.*
- 5 (5) *Digital infrastructure.*
- 6 (6) *A digital video game product.*
- 7 (7) *A digital visual work.*
- 8 (c) *As used in this section:*
- 9 (1) *“Computer” has the meaning defined in Section 6010.9.*
- 10 (2) *“Computer software” has the meaning defined in Section*
- 11 *6010.9.*
- 12 (3) *“Custom computer software” has the meaning defined in*
- 13 *Section 6010.9.*
- 14 (4) *“Digital asset” means a digital representation of value that*
- 15 *is recorded on a cryptographically secured distributed ledger or*
- 16 *any similar technology, as specified by the Secretary of the*
- 17 *Treasury of the United States.*
- 18 (5) *“Digital audio work” means a work that results from the*
- 19 *fixation of a series of musical, spoken, or other sounds, including*
- 20 *a ringtone or music, that is transferred electronically or accessed*
- 21 *remotely.*
- 22 (6) *“Digital audiovisual work” means a series of related images*
- 23 *that when shown in succession impart an impression of motion,*
- 24 *together with accompanying sounds, if any, that is transferred*
- 25 *electronically or accessed remotely.*
- 26 (7) *“Digital book” means a work that is generally recognized*
- 27 *in the ordinary and usual sense as a book that is transferred*
- 28 *electronically or accessed remotely.*
- 29 (8) *“Digital infrastructure” means a cloud-based service*
- 30 *provided remotely that allows a user to create, deploy, scale, or*
- 31 *run the user’s own computer software on the service provider’s*
- 32 *digital platform without managing, operating, or maintaining the*
- 33 *user’s own infrastructure, including any hardware, software,*
- 34 *networks, and facilities that are required to allow the user to*
- 35 *create, deploy, scale, or run the user’s own computer software,*
- 36 *required to complete the task.*
- 37 (9) *“Digital video game product” means an electronic,*
- 38 *interactive game played for entertainment purposes by*
- 39 *manipulating an input device to produce visual feedback on a*
- 40 *screen that is transferred electronically or accessed remotely.*

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

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

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

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

13 6016.2. (a) “Accessed remotely” means to have accessed for
14 consideration by use of a digital code, password, or other means
15 prewritten computer software that resides on the vendor’s server
16 or the server of a third party.

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

21 (c) “Transferred electronically” means obtained by the
22 purchaser, by means other than tangible storage media, in a
23 manner that allows the purchaser to open, view, access, download,
24 copy, possess, store, manipulate, update, or otherwise use the
25 digital product.

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

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

29 6052. (a) Notwithstanding Section 6010.5, and except as
30 provided in subdivision (c), a retailer is relieved from liability to
31 pay sales tax on the sale or purchase of a digital product that is
32 transferred electronically or accessed remotely if the following
33 applies, unless the purchaser is an insurer, as defined in Section
34 28 of Article XIII of the California Constitution:

35 (1) (A) The gross receipts from the sale of digital products by
36 a retailer to a purchaser that are transferred electronically or
37 accessed remotely exceed five million dollars (\$5,000,000) in the
38 aggregate in the current calendar year, or, beginning January 1,
39 2028, in the current or the preceding calendar year.

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

5 (2) (A) On or before October 1, 2031, and every five years
6 thereafter, the department shall multiply the amount specified in
7 subparagraph (A) of paragraph (1) by the percentage increase in
8 the California Consumer Price Index for All Urban Consumers
9 between October 1, 2026, and the date of the calculation required
10 by this subparagraph, and the result shall be rounded to the nearest
11 one million dollars (\$1,000,000) and shall be the applicable
12 amount for the succeeding calendar year.

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

17 (b) If a retailer is relieved from liability to pay sales tax pursuant
18 to subdivision (a), the purchaser is liable for the use tax and shall
19 self-assess and pay directly to the department taxes due under this
20 part, Part 1.5 (commencing with Section 7200), and, if otherwise
21 applicable, Part 1.6 (commencing with Section 7251) and Part
22 1.7 (commencing with Section 7280) on the transaction that caused
23 the retailer to exceed the threshold specified in subparagraph (A)
24 of paragraph (1) of subdivision (a) and any adjustments made
25 pursuant to paragraph (2) of subdivision (a).

26 (c) (1) If the department determines that it is necessary for the
27 efficient administration of this part, the department may waive the
28 requirement for the purchaser to self-assess and pay taxes due
29 directly to the department under subdivision (b), and the retailer
30 shall be liable to pay the sales tax if the purchaser submits to the
31 department a request for waiver in a form and manner prescribed
32 by the department that includes all the places of business where
33 the applicant expects to be a place of first use for purchases of
34 digital products subject to subdivision (a).

35 (2) A purchaser that submits a request for waiver to the
36 department under paragraph (1) shall also submit to the retailer
37 all places of business where the purchaser expects to be a place
38 of first use, which shall be considered the place of sale for purposes
39 of the sales tax.

1 (d) A purchaser that is required to pay use taxes to the
2 department under subdivision (b) shall obtain a use tax direct
3 payment permit pursuant to the procedures provided in Section
4 7051.3.

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

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

8 6054. (a) A retailer is relieved from liability to pay sales tax
9 or collect use tax on the sale or purchase of a digital product
10 transferred electronically or accessed remotely if the place of the
11 sale or purchase of the digital product was deemed to be outside
12 of this state pursuant to Section 6010.5, and the retailer
13 demonstrates to the satisfaction of the department that the retailer
14 made a reasonable effort to obtain accurate and complete address
15 information from the purchaser.

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

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

19 6201.55. (a) Notwithstanding Section 6010.5 and except as
20 provided in subdivision (c), a retailer is relieved of the obligation
21 to collect use tax on the sale or purchase of a digital product that
22 is transferred electronically or accessed remotely if the following
23 applies:

24 (1) (A) The sales price of digital products purchased by a
25 purchaser from a retailer that are transferred electronically or
26 accessed remotely exceeds five million dollars (\$5,000,000) in the
27 aggregate in the current calendar year, or beginning January 1,
28 2028, in the current or the preceding calendar year.

29 (B) The purchaser shall be responsible for reporting and paying
30 the use tax to the department pursuant to subdivision (b) on the
31 transaction that caused the purchaser to exceed the threshold
32 specified in subparagraph (A) and any adjustments made pursuant
33 to paragraph (2).

34 (2) (A) On or before October 1, 2031, and every five years
35 thereafter, the department shall multiply the amount specified in
36 subparagraph (A) of paragraph (1) by the percentage increase in
37 the California Consumer Price Index for All Urban Consumers
38 between October 1, 2026, and the date of the calculation required
39 by this subparagraph, and the result shall be rounded to the nearest

1 one million dollars (\$1,000,000) and shall be the applicable
2 amount for the succeeding calendar year.

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

7 (b) If a retailer is relieved from the obligation to collect use tax
8 pursuant to subdivision (a), the purchaser shall self-assess and
9 pay directly to the department taxes due under this part, Part 1.5
10 (commencing with Section 7200), and, if otherwise applicable,
11 Part 1.6 (commencing with Section 7251) and Part 1.7
12 (commencing with Section 7280) on the transaction that caused
13 the purchaser to exceed the threshold specified in subparagraph
14 (A) of paragraph (1) of subdivision (a) and any adjustments made
15 pursuant to paragraph (2) of subdivision (a).

16 (c) (1) If the department determines that it is necessary for the
17 efficient administration of this part, the department may waive the
18 requirement for the purchaser to self-assess and pay taxes due
19 directly to the department under subdivision (b), and the retailer
20 shall have an obligation to collect the use tax if the purchaser
21 submits to the department a request for waiver in a form and
22 manner prescribed by the department that includes all the places
23 of business where the applicant expects to be a place of first use
24 for purchases of digital products subject to subdivision (a).

25 (2) A purchaser that submits a request for waiver to the
26 department under paragraph (1) shall also submit to the retailer
27 all places of business where the purchaser expects to be a place
28 of first use, which shall be considered the place of use for purposes
29 of the use tax.

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

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

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

36 6362.4. (a) There are exempted from the taxes imposed by this
37 part the gross receipts from the sale or lease of, and the storage,
38 use, or other consumption in this state of, the right to reproduce
39 or copy a digital product in order for copies of the digital product
40 to be distributed for consideration to third parties, even if a copy

1 of the digital product is transferred concurrently with the granting
2 of that right. Any tangible storage media on which the digital
3 product is transferred is merely incidental.

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

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

7 6372. (a) There are exempted from the taxes imposed by this
8 part the gross receipts from the sale of, and the storage, use, or
9 other consumption of, a digital product purchased solely for use
10 outside of this state or in interstate or foreign commerce.

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

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

20 (c) If a purchaser certifies in writing to a seller that a purchase
21 of a digital product is exempted by this section and uses the digital
22 product in this state, the purchaser shall be liable for payment of
23 sales tax as if the purchaser were a retailer making a retail sale
24 of the property at the time of that use, and the cost of the property
25 to the purchaser shall be deemed the gross receipts from that retail
26 sale.

27 (d) (1) A purchaser that purchases a digital product for use in
28 this state and a digital product solely for use outside of this state
29 or in interstate or foreign commerce in the same transaction may
30 issue an exemption certificate under this section for the purchase
31 of any of those digital products eligible for the exemption and
32 report and pay use tax on any of those digital products used in
33 this state.

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

38 (e) (1) The department may set forth, authorize, or require
39 alternative methods to calculate the sales or use tax due in this
40 state that fairly reflects the sales or use tax due on any digital

1 *product sold or purchased for use in this state, including on*
2 *licenses of digital products concurrently available for use in*
3 *multiple locations.*

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

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

9 *(f) The exemption created by this section does not apply to a*
10 *sale or purchase of a digital product transferred on tangible*
11 *storage media.*

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

13 *SEC. 17. Section 6372.1 is added to the Revenue and Taxation*
14 *Code, to read:*

15 *6372.1. (a) There are exempted from the taxes imposed by this*
16 *part the gross receipts from the sale of, and the storage, use, or*
17 *other consumption of, a digital product that represents a service*
18 *provided in electronic form in which both of the following apply:*

19 *(1) The service primarily involves the application of human*
20 *effort by the service provider.*

21 *(2) The human effort described in paragraph (1) originated*
22 *after the customer requested the service.*

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

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

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

31 *6406. (a) A credit shall be allowed against, but shall not*
32 *exceed, the taxes imposed on any person by Chapter 3*
33 *(commencing with Section 6201) of this part, by any ordinance*
34 *enacted pursuant to Part 1.5 (commencing with Section 7200), and*
35 *by any ordinance enacted pursuant to Part 1.6 (commencing with*
36 *Section 7251), and 7251) by any ordinance enacted pursuant to*
37 *Article 2 (commencing with Section 37021) of Part 17 of this*
38 *division by reason of the storage, use, or other consumption of*
39 *tangible personal property in this state to the extent that the person*
40 *has paid a retail sales or use tax, or reimbursement therefor,*

1 imposed with respect to that property by any other state, political
2 subdivision thereof, or the District of Columbia prior to the storage,
3 use, or other consumption of that property in this state. The credit
4 shall be apportioned to the taxes against which it is allowed in
5 proportion to the amounts of those taxes.

6 *(b) A credit shall be allowed against, but shall not exceed, the*
7 *total sales taxes imposed on any retailer by Chapter 2 (commencing*
8 *with Section 6051) of this part, by any ordinance enacted pursuant*
9 *to Part 1.5 (commencing with Section 7200), and by any ordinance*
10 *enacted pursuant to Part 1.6 (commencing with Section 7251) with*
11 *respect to a retail sale in this state of a digital product transferred*
12 *electronically or accessed remotely to the extent that the retailer*
13 *has paid a retail sales tax imposed with respect to that digital*
14 *product by any other state, political subdivision thereof, or the*
15 *District of Columbia at the time of sale.*

16 ~~(c) A credit, otherwise permitted credit allowed by the~~
17 ~~foregoing provisions of this section, shall not be allowed~~
18 ~~against taxes which that are measured by periodic payments made~~
19 ~~under a lease, to the extent that the taxes imposed by any other~~
20 ~~state, political subdivision thereof, or the District of Columbia~~
21 ~~were also measured by periodic payments made under a lease for~~
22 ~~a period prior to before the storage, use, or other consumption of~~
23 ~~the property in this state.~~

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

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

28 7051.3. (a) “Use tax direct payment permit” means a permit
29 issued by the ~~board~~ department that allows a taxpayer to self-assess
30 and pay state and local use tax under Part 1 (commencing with
31 Section 6001), Part 1.5 (commencing with Section 7200), and if
32 otherwise applicable, Part 1.6 (commencing with Section 7251),
33 and Part 1.7 (commencing with Section 7280) directly to the ~~board~~.
34 department.

35 (b) (1) (A) Every person seeking to pay use taxes directly to
36 the ~~board~~ department shall file an application for a use tax direct
37 payment permit. An application for a use tax direct payment permit
38 shall be made upon a form prescribed by the ~~board~~ department
39 and shall set forth the name under which the applicant transacts
40 or intends to transact business, the location of the place or places

1 of business where the applicant intends to make direct payment
2 of use tax, and any other information that the ~~board~~ department
3 may require. ~~An applicant for a use tax direct payment permit may~~
4 ~~register as a place to make direct payment of use tax, any of the~~
5 ~~places of business in this state that the applicant expects to be a~~
6 ~~place of first use for purchases subject to use tax, in accordance~~
7 ~~with the requirements of subdivision (d). The application shall be~~
8 ~~signed by the owner, if a natural person; in the case of an~~
9 ~~association or partnership, by a member or partner; and in the case~~
10 ~~of a corporation, by an executive officer or some person specifically~~
11 ~~authorized by the corporation to sign the application.~~

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

17 (ii) *An applicant for a use tax direct payment permit who is*
18 *required to pay use tax directly to the department pursuant to*
19 *Section 6052 or Section 6201.55 shall register as a place to make*
20 *direct payment of use tax any of the places of business in this state*
21 *that the applicant expects to be a place of first use for purchases*
22 *of digital products transferred electronically or accessed remotely*
23 *that are subject to use tax in accordance with the requirements of*
24 *subdivision (e).*

25 (2) *The application described in paragraph (1) shall be signed*
26 *pursuant to the following:*

27 (A) *If the owner of the taxpayer is a natural person, the owner*
28 *shall sign the application.*

29 (B) *If the taxpayer is an association or partnership, a member*
30 *or partner shall sign the application.*

31 (C) *If the taxpayer is a corporation, an executive officer or a*
32 *person specifically authorized by the corporation shall sign the*
33 *application.*

34 (c) Pursuant to an application, a use tax direct payment permit
35 shall be issued to any person who meets ~~all~~ both of the following
36 conditions:

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

39 (2) The applicant certifies to the ~~board~~ department either of the
40 following:

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

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

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

11 ~~(d)~~

12 (e) (1) Any person who holds a valid use tax direct payment
13 permit shall self-assess and pay directly to the ~~board~~ *department*
14 use taxes due under this part, Part 1.5 (commencing with Section
15 7200), and if otherwise applicable, Part 1.6 (commencing with
16 Section 7251), and Part 1.7 (commencing with Section 7280) for
17 all purchases subject to use tax for which a use tax direct payment
18 exemption certificate was issued, and shall report on the tax return
19 required to be filed by Section 6452, the amount of local use tax
20 applicable to each county, city, *or city and county, or*
21 ~~redevelopment agency~~ *county* in which the first “use,” as defined
22 in Section 6009, occurs.

23 (2) *A person required to pay use tax directly to the department*
24 *on purchases of digital products pursuant to Section 6052 or*
25 *6201.55 shall issue an exemption certificate to a retailer of digital*
26 *products transferred electronically or accessed remotely.*

27 ~~(e)~~

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

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

35 (2) Once a use tax direct payment certificate has been issued
36 by a holder of a use tax direct payment permit, it shall remain
37 effective until revised or withdrawn by the holder of the permit or
38 until the retailer or seller has received actual notice that the permit
39 has been revoked by the ~~board.~~ *department.*

1 (3) A use tax direct payment certificate relieves a person selling
 2 property from the duty of collecting use tax only if taken in good
 3 faith from a person who holds a use tax direct payment permit. A
 4 purchaser who issues a use tax direct payment certificate that is
 5 accepted in good faith by a seller or retailer of tangible personal
 6 property shall be the sole person liable for any sales tax and related
 7 interest and penalties with respect to any transaction that is
 8 subsequently determined by the ~~board~~ department to be subject to
 9 sales tax and not use tax.

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

14 (f)

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

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

21 SEC. 20. Section 7202.1 is added to the Revenue and Taxation
 22 Code, to read:

23 7202.1. (a) For the purposes of a tax adopted under this part,
 24 any retail sale of a digital product transferred electronically or
 25 accessed remotely is subject to the sourcing rule established
 26 pursuant to subdivision (b) of Section 6010.5.

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

28 SEC. 21. Section 7254 is added to the Revenue and Taxation
 29 Code, immediately following Section 7253, to read:

30 7254. (a) For the purposes of a tax adopted under this part,
 31 any retail sale of a digital product transferred electronically or
 32 accessed remotely is subject to the sourcing rule established
 33 pursuant to subdivision (b) of Section 6010.5.

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

35 SEC. 22. Section 17039.6 is added to the Revenue and Taxation
 36 Code, to read:

37 17039.6. (a) Notwithstanding any provision of this part or
 38 Part 10.2 (commencing with Section 18401) to the contrary, for
 39 taxpayers not required to be included in a combined report under
 40 Section 25101 or 25110, or taxpayers not authorized to be included

1 *in a combined report under Section 25101.15, for each taxable*
2 *year beginning on or after January 1, 2027, the total of all business*
3 *credits otherwise allowable under any provision of Chapter 2*
4 *(commencing with Section 17041), including the carryover of any*
5 *business credit under a former provision of that chapter, for the*
6 *taxable year shall not reduce the “net tax,” as defined in Section*
7 *17039, by more than 50 percent or five million dollars*
8 *(\$5,000,000), whichever is greater.*

9 *(b) Notwithstanding any provision of this part or Part 10.2*
10 *(commencing with Section 18401) to the contrary, for taxpayers*
11 *required to be included in a combined report under Section 25101*
12 *or 25110, or taxpayers authorized to be included in a combined*
13 *report under Section 25101.15, for each taxable year beginning*
14 *on or after January 1, 2027, the total of all business credits*
15 *otherwise allowable under any provision of Chapter 2*
16 *(commencing with Section 17041), including the carryover of any*
17 *business credit under a former provision of that chapter, by all*
18 *members of the combined report shall not reduce the aggregate*
19 *amount of “tax,” as defined in Section 23036, of all members of*
20 *the combined report by more than 50 percent or five million dollars*
21 *(\$5,000,000), whichever is greater.*

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

25 *(1) The credit allowed by Section 17052 (relating to credit for*
26 *earned income).*

27 *(2) The credit allowed by Section 17052.1 (relating to credit*
28 *for young child).*

29 *(3) The credit allowed by Section 17052.2 (relating to credit*
30 *for foster youth).*

31 *(4) The credit allowed by Section 17052.6 (relating to credit*
32 *for household and dependent care).*

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

35 *(6) The credit allowed by Section 17052.25 (relating to credit*
36 *for adoption costs).*

37 *(7) The credit allowed by Section 17053.5 (relating to renter’s*
38 *tax credit).*

39 *(8) The credit allowed by Section 17054 (relating to credit for*
40 *personal exemption).*

1 (9) *The credit allowed by Section 17054.5 (relating to credit*
2 *for qualified joint custody head of household and a qualified*
3 *taxpayer with a dependent parent).*

4 (10) *The credit allowed by Section 17054.7 (relating to credit*
5 *for qualified senior head of household).*

6 (11) *The credit allowed by Section 17058 (relating to credit for*
7 *low-income housing).*

8 (12) *The credit allowed by Section 17061 (relating to refunds*
9 *pursuant to the Unemployment Insurance Code).*

10 (d) *Any amounts included in an election pursuant to Section*
11 *6902.5, relating to an irrevocable election to apply credit amounts*
12 *under Section 17053.85, 17053.95, 17053.98, 17053.98.1, 23685,*
13 *23695, 23698, or 23698.1 against qualified sales and use tax, as*
14 *defined in Section 6902.5, are not included in the limitation set*
15 *forth in subdivision (a) or (b).*

16 (e) *Any annual refundable credit amount included in an election*
17 *pursuant to Section 17039.5 is not included in the limitation set*
18 *forth in subdivision (a) or (b).*

19 (f) *If an election is made pursuant to subdivision (k) of Section*
20 *17053.98.1, both the credit allowed against the “net tax” under*
21 *clause (i) of subparagraph (A) of paragraph (3) of subdivision (k)*
22 *of Section 17053.98.1 and the annual refundable amount calculated*
23 *under subdivision (k) of Section 17053.98.1 shall not be included*
24 *in the limitation set forth in subdivision (a) and (b) of this section.*

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

29 (h) *Notwithstanding anything to the contrary in this part or Part*
30 *10.2 (commencing with Section 18401), the credits listed in*
31 *subdivision (c) shall be applied after any business credits, as*
32 *limited by subdivision (a) or (b), are applied.*

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

38 *SEC. 23. Section 17935 of the Revenue and Taxation Code is*
39 *amended to read:*

1 17935. (a) Except as provided in subdivision (f), for each
2 taxable year beginning on or after January 1, 1997, every limited
3 partnership doing business in this state (as defined by Section
4 23101) and required to file a return under Section 18633 shall pay
5 annually to this state a tax for the privilege of doing business in
6 this state in an amount equal to the applicable amount specified
7 in Section 23153.

8 (b) (1) In addition to any limited partnership that is doing
9 business in this state and therefore is subject to the tax imposed
10 by subdivision (a), for each taxable year beginning on or after
11 January 1, 1997, every limited partnership that has executed,
12 acknowledged, and filed a certificate of limited partnership with
13 the Secretary of State pursuant to Section 15621 or 15902.01 of
14 the Corporations Code, and every foreign limited partnership that
15 has registered with the Secretary of State pursuant to Section 15692
16 or 15909.01 of the Corporations Code, shall pay annually the tax
17 prescribed in subdivision (a). The tax shall be paid for each taxable
18 year, or part thereof, until a certificate of cancellation is filed on
19 behalf of the limited partnership with the office of the Secretary
20 of State pursuant to Section 15623, 15696, 15902.03, or 15909.07
21 of the Corporations Code.

22 (2) If a taxpayer files a return with the Franchise Tax Board that
23 is designated its final return, that board shall notify the taxpayer
24 that the tax imposed by this chapter is due annually until a
25 certificate of cancellation is filed with the Secretary of State
26 pursuant to Section 15623, 15696, 15902.03, or 15909.07 of the
27 Corporations Code.

28 (c) The tax imposed by this chapter shall be due and payable
29 on the date the return is required to be filed under former Section
30 18432 or 18633.

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

35 (e) Notwithstanding subdivision (b), any limited partnership
36 that ceased doing business prior to January 1, 1997, filed a final
37 return with the Franchise Tax Board for a taxable year ending
38 before January 1, 1997, and filed a certificate of dissolution with
39 the Secretary of State pursuant to Section 15623 of the
40 Corporations Code prior to January 1, 1997, shall not be subject

1 to the tax imposed by this chapter for any period following the
2 date the certificate of dissolution was filed with the Secretary of
3 State, but only if the limited partnership files a certificate of
4 cancellation with the Secretary of State pursuant to Section 15623
5 of the Corporations Code. In the case where a notice of proposed
6 deficiency assessment of tax or a notice of tax due (whichever is
7 applicable) is mailed after January 1, 2001, the first sentence of
8 this subdivision shall not apply unless the certificate of cancellation
9 is filed with the Secretary of State not later than 60 days after the
10 date of the mailing of the notice.

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

17 ~~(2)~~

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

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

27 *SEC. 24. Section 17941 of the Revenue and Taxation Code is*
28 *amended to read:*

29 17941. (a) Except as provided in subdivision (g), for each
30 taxable year beginning on or after January 1, 1997, a limited
31 liability company doing business in this state (as defined in Section
32 23101) shall pay annually to this state a tax for the privilege of
33 doing business in this state in an amount equal to the applicable
34 amount specified in subdivision (d) of Section 23153 for the taxable
35 year.

36 (b) (1) In addition to any limited liability company that is doing
37 business in this state and is therefore subject to the tax imposed
38 by subdivision (a), for each taxable year beginning on or after
39 January 1, 1997, a limited liability company shall pay annually
40 the tax prescribed in subdivision (a) if articles of organization have

1 been accepted, or a certificate of registration has been issued, by
2 the office of the Secretary of State. The tax shall be paid for each
3 taxable year, or part thereof, until a certificate of cancellation of
4 registration or of articles of organization is filed on behalf of the
5 limited liability company with the office of the Secretary of State.

6 (2) If a taxpayer files a return with the Franchise Tax Board that
7 is designated as its final return, the Franchise Tax Board shall
8 notify the taxpayer that the annual tax shall continue to be due
9 annually until a certificate of dissolution is filed with the Secretary
10 of State pursuant to Section 17707.08 of the Corporations Code
11 or a certificate of cancellation is filed with the Secretary of State
12 pursuant to Section 17708.06 of the Corporations Code.

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

15 (d) For purposes of this section, “limited liability company”
16 means an organization, other than a limited liability company that
17 is exempt from the tax and fees imposed under this chapter
18 pursuant to Section 23701h or Section 23701x, that is formed by
19 one or more persons under the law of this state, any other country,
20 or any other state, as a “limited liability company” and that is not
21 taxable as a corporation for California tax purposes.

22 (e) Notwithstanding anything in this section to the contrary, if
23 the office of the Secretary of State files a certificate of cancellation
24 pursuant to Section 17707.02 of the Corporations Code for any
25 limited liability company, then paragraph (1) of subdivision (f) of
26 Section 23153 shall apply to that limited liability company as if
27 the limited liability company were properly treated as a corporation
28 for that limited purpose only, and paragraph (2) of subdivision (f)
29 of Section 23153 shall not apply. Nothing in this subdivision
30 entitles a limited liability company to receive a reimbursement for
31 any annual taxes or fees already paid.

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

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

4 (3) For the purposes of this subdivision, all of the following
5 definitions apply:

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

10 (i) Temporary duty for the sole purpose of training or processing.

11 (ii) A permanent change of station.

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

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

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

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

25 ~~(2)~~

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

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

36 *SEC. 25. Section 17948 of the Revenue and Taxation Code is*
37 *amended to read:*

38 17948. (a) Except as provided in subdivision (e), for each
39 taxable year beginning on or after January 1, 1997, every limited
40 liability partnership doing business in this state (as defined in

1 Section 23101) and required to file a return under Section 18633
2 shall pay annually to the Franchise Tax Board a tax for the privilege
3 of doing business in this state in an amount equal to the applicable
4 amount specified in paragraph (1) of subdivision (d) of Section
5 23153 for the taxable year.

6 (b) In addition to any limited liability partnership that is doing
7 business in this state and therefore is subject to the tax imposed
8 by subdivision (a), for each taxable year beginning on or after
9 January 1, 1997, every registered limited liability partnership that
10 has registered with the Secretary of State pursuant to Section 16953
11 of the Corporations Code and every foreign limited liability
12 partnership that has registered with the Secretary of State pursuant
13 to Section 16959 of the Corporations Code shall pay annually the
14 tax prescribed in subdivision (a). The tax shall be paid for each
15 taxable year, or part thereof, until any of the following occurs:

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

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

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

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

26 (d) If a taxpayer files a return with the Franchise Tax Board that
27 is designated as its final return, the Franchise Tax Board shall
28 notify the taxpayer that the annual tax shall continue to be due
29 annually until a certificate of cancellation is filed with the Secretary
30 of State pursuant to Section 16954 or 16960 of the Corporations
31 Code.

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

37 ~~(2)~~

38 (B) This subdivision shall become operative only for a taxable
39 year in which any budget measure appropriates one dollar (\$1) or

1 more to the Franchise Tax Board for the costs associated with
2 administration of this subdivision.

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

9 *SEC. 26. Section 19533 of the Revenue and Taxation Code is*
10 *amended to read:*

11 19533. (a) In the event the debtor has more than one debt being
12 collected by the Franchise Tax Board and the amount collected by
13 the Franchise Tax Board is insufficient to satisfy the total amount
14 owing, the amount collected shall be applied in the following
15 priority:

16 (1) Payment of any taxes, additions to tax, penalties, interest,
17 fees, or other amounts due and payable under Part 7.5 (commencing
18 with Section 13201), Part 10 (commencing with Section 17001),
19 Part 11 (commencing with Section 23001), Part 32 (commencing
20 with Section 61000), or this part, amounts authorized to be
21 collected under Section 19722 of this code, or payment of advanced
22 premium subsidies in excess of the amount allowed under Title 25
23 (commencing with Section 100800) of the Government Code.

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

25 (3) Payment of any amounts due that are referred for collection
26 under Article 5.5 (commencing with Section 19280) of Chapter
27 5.

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

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

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

37 *SEC. 27. Part 10.8 (commencing with Section 22000) is added*
38 *to Division 2 of the Revenue and Taxation Code, to read:*

1
2 *PART 10.8. TAXATION OF ANTI-WEAPONIZATION FUND*
3 *PAYMENTS ACT*
4

5 22000. (a) *Notwithstanding any other law, for taxable years*
6 *beginning on or after January 1, 2026, and before January 1,*
7 *2030, there shall be imposed on a taxpayer, a tax equal to 100*
8 *percent of any settlement fund payment received by the taxpayer*
9 *during the taxable year.*

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

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

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

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

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

20 (i) *The Anti-Weaponization Fund established by the Department*
21 *of Justice in relation to President Donald J. Trump v. Internal*
22 *Revenue Service, Case No. 1:26-cv-20609 (S.D. Fla. 2026), or*
23 *any subsequent fund, settlement, or agreement.*

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

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

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

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

35 (iii) *A person controlled, based on principles specified in Section*
36 *52(b) of the Internal Revenue Code, by one or more individuals*
37 *described in clause (i) or (ii).*

38 (D) *“Taxpayer” has the same meaning as Sections 17004 and*
39 *23037.*

1 (2) Unless the context otherwise requires, the definitions set
2 forth in this part and those in Part 10 (commencing with Section
3 17001), Part 10.2 (commencing with Section 18401), or Part 11
4 (commencing with Section 23001) shall apply to this part.

5 (c) Any specified settlement fund payment that is taxed under
6 subdivision (a) shall be excluded from the gross income under
7 Part 10 (commencing with Section 17001) or Part 11 (commencing
8 with Section 23001) for the taxable year that the specified
9 settlement fund payment is subject to tax.

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

13 (e) The tax imposed under subdivision (a) shall be in addition
14 to, and not in place of, any other tax or fee that is due and payable
15 under Part 10 (commencing with Section 17001), Part 10.2
16 (commencing with Section 18401), or Part 11 (commencing with
17 Section 23001), and shall not change any filing requirements for
18 those taxes and fees.

19 (f) (1) The tax imposed by this part shall be due and payable
20 on or before the due date of the original return that the taxpayer
21 is required to file pursuant to Part 10.2 (commencing with Section
22 18401) without regard to any extension of time for filing the return
23 for the taxable year of the imposition of tax imposed under
24 subdivision (a).

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

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

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

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

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

1 *SEC. 28. Section 23036.6 is added to the Revenue and Taxation*
2 *Code, to read:*

3 23036.6. (a) *Notwithstanding any provision of this part or*
4 *Part 10.2 (commencing with Section 18401) to the contrary, except*
5 *as provided in subdivision (d), for taxpayers not required to be*
6 *included in a combined report under Section 25101 or 25110, or*
7 *taxpayers not authorized to be included in a combined report under*
8 *Section 25101.15, for each taxable year beginning on or after*
9 *January 1, 2027, the total of all credits otherwise allowable under*
10 *any provision of Chapter 3.5 (commencing with Section 23608)*
11 *including the carryover of any credit under a former provision of*
12 *that chapter, for the taxable year shall not reduce the “tax,” as*
13 *defined in Section 23036, by more than 50 percent or five million*
14 *dollars (\$5,000,000), whichever is greater.*

15 (b) *Notwithstanding any provision of this part or Part 10.2*
16 *(commencing with Section 18401) to the contrary, except as*
17 *provided in subdivision (d), for taxpayers required to be included*
18 *in a combined report under Section 25101 or 25110, or taxpayers*
19 *authorized to be included in a combined report under Section*
20 *25101.15, for each taxable year beginning on or after January 1,*
21 *2027, the total of all credits otherwise allowable under any*
22 *provision of Chapter 3.5 (commencing with Section 23608),*
23 *including the carryover of any credit under a former provision of*
24 *that chapter, by all members of the combined report shall not*
25 *reduce the aggregate amount of “tax,” as defined in Section 23036,*
26 *of all members of the combined report by more than 50 percent*
27 *or five million dollars (\$5,000,000), whichever is greater.*

28 (c) *Any amounts included in an election pursuant to Section*
29 *6902.5, relating to an irrevocable election to apply credit amounts*
30 *under Section 17053.85, 17053.95, 17053.98, 17053.98.1, 23685,*
31 *23695, 23698, or 23698.1 against qualified sales and use tax, as*
32 *defined in Section 6902.5, are not included in the limitation set*
33 *forth in subdivision (a) or (b).*

34 (d) *The limitation under subdivision (a) or (b) shall not apply*
35 *to the credit allowed by Section 23610.5 (relating to credit for*
36 *low-income housing).*

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

1 (f) If an election is made pursuant to subdivision (k) of Section
2 23698.1, both the credit allowed against the “tax” under clause
3 (i) of subparagraph (A) of paragraph (3) of subdivision (k) of
4 Section 23698.1 and the annual refundable amount calculated
5 under subdivision (k) of Section 23698.1 shall not be included in
6 the limitation set forth in subdivisions (a) and (b) of this section.

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

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

16 SEC. 29. The sum of seven hundred fifty thousand dollars
17 (\$750,000) is hereby appropriated from the General Fund to the
18 California Department of Tax and Fee Administration for the
19 purpose of administering Sections 1 to 20, inclusive, of this act.

20 SEC. 30. (a) The California Department of Tax and Fee
21 Administration may prescribe, adopt, and enforce any emergency
22 regulations as necessary to implement, administer, and enforce
23 its duties under Sections 1 to 20, inclusive, of this act.

24 (b) Any emergency regulation prescribed, adopted, or enforced
25 pursuant to this section shall be adopted in accordance with
26 Chapter 3.5 (commencing with Section 11340) of Part 1 of Division
27 3 of Title 2 of the Government Code, and, for purposes of that
28 chapter, including Section 11349.6 of the Government Code, the
29 adoption of the regulation is an emergency and shall be considered
30 by the Office of Administrative Law as necessary for the immediate
31 preservation of the public peace, health and safety, and general
32 welfare.

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

38 SEC. 31. (a) It is the intent of the Legislature to apply the
39 requirements of Section 41 of the Revenue and Taxation Code to
40 this act.

1 (b) With respect to Sections 17935, 17941, and 17948 of the
2 Revenue and Taxation Code, as amended by Sections 23, 24, and
3 25 of this act, the Legislature finds and declares as follows:

4 (1) The goal of this act is to help and reduce costs for first-year
5 California small businesses. Existing law imposes an annual
6 minimum franchise tax of eight hundred dollars (\$800) on every
7 corporation, and an annual tax of eight hundred dollars (\$800)
8 on every limited liability company (LLC), limited partnership (LP),
9 and limited liability partnership (LLP), which may be difficult to
10 afford for first-year businesses.

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

13 (3) Notwithstanding Section 19542 of the Revenue and Taxation
14 Code, on or before January 1, 2029, and on or before January 1
15 each year thereafter through, and including, January 1, 2031, the
16 Franchise Tax Board shall submit an annual report to the
17 Legislature on the performance of first-year LLCs, LPs, and LLPs
18 in the state using the data in paragraph (2). The report required
19 by this paragraph shall be submitted pursuant to Section 9795 of
20 the Government Code.

21 SEC. 32. The provisions of this act are severable. If any
22 provision of this act or its application is held invalid, that invalidity
23 shall not affect other provisions or applications that can be given
24 effect without the invalid provision or application.

25 SEC. 33. No reimbursement is required by this act pursuant
26 to Section 6 of Article XIII B of the California Constitution because
27 the only costs that may be incurred by a local agency or school
28 district will be incurred because this act creates a new crime or
29 infraction, eliminates a crime or infraction, or changes the penalty
30 for a crime or infraction, within the meaning of Section 17556 of
31 the Government Code, or changes the definition of a crime within
32 the meaning of Section 6 of Article XIII B of the California
33 Constitution.

34 SEC. 34. This act is a bill providing for appropriations related
35 to the Budget Bill within the meaning of subdivision (e) of Section
36 12 of Article IV of the California Constitution, has been identified
37 as related to the budget in the Budget Bill, and shall take effect
38 immediately.

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

O