

ANALYSIS OF ORIGINAL BILL

Author: Costa Analyst: Jeani Brent Bill Number: SB 2079

Related Bills: See Legislative History Telephone: 845-3410 Introduced Date: 02/20/98

Attorney: Doug Bramhall Sponsor: Trade & Commerce

SUBJECT: Economic Development Areas/Modify Apportionment Formula/Modify Definition of Qualified Property/Allow Extension to 20 years and 20% Expansion

SUMMARY

Under the Government Code, this bill would (1) extend the designation period of each enterprise zone that was designated before 1990 from 15 to 20 years if certain criteria are met; (2) allow for geographic expansion of 20% (rather than 15%) of any enterprise zone that is no greater than 13 square miles; (3) allow a local jurisdiction to request that its enterprise zone designation be revoked if it is unable to meet the goals set forth in its original application. One year after revocation, the Trade and Commerce Agency (TCA) could designate a new enterprise zone from the communities that applied for designation as a targeted tax area.

Under the Revenue and Taxation Code, this bill would make the following changes:

1. Modify the apportionment formula for all economic development area tax incentives to be based on California sourced income instead of worldwide income.
2. Remove "sales" as a factor in the enterprise zone apportionment formula.
3. Change the criteria in the targeted tax area hiring credit definition of "qualified employee" to include an individual who is a member of a targeted group under the federal work opportunity credit instead of the expired federal Targeted Jobs Tax Credit Program.
4. Expand the definition of qualified property for the enterprise zone sales or use tax credit.
5. Make nonsubstantive technical changes.

EFFECTIVE DATE

The changes made to the enterprise zone provisions of the Revenue and Taxation Code would apply to taxable or income years beginning on or after January 1, 1998.

DEPARTMENTS THAT MAY BE AFFECTED:

STATE MANDATE

GOVERNOR'S APPOINTMENT

Board Position: <input type="checkbox"/> S <input type="checkbox"/> O <input type="checkbox"/> SA <input type="checkbox"/> OUA <input type="checkbox"/> N <input type="checkbox"/> NP <input type="checkbox"/> NA <input type="checkbox"/> NAR <input checked="" type="checkbox"/> X PENDING		Agency Secretary Position: <input type="checkbox"/> S <input type="checkbox"/> O <input type="checkbox"/> SA <input type="checkbox"/> OUA <input type="checkbox"/> N <input type="checkbox"/> NP <input type="checkbox"/> NA <input type="checkbox"/> NAR DEFER TO _____		GOVERNOR'S OFFICE USE Position Approved <input type="checkbox"/> Position Disapproved <input type="checkbox"/> Position Noted <input type="checkbox"/>	
Department Director G. Alan Hunter	Date 3/30/98	Agency Secretary	Date	By:	Date

All other changes made to the Revenue and Taxation Code provisions would apply to taxable or income years beginning on or after January 1, 1999.

The Government Code provisions would be effective January 1, 1999.

LEGISLATIVE HISTORY

AB 1937, AB 2205, SB 1814 (1998); AB 3, AB 69, AB 82, AB 638, AB 809, AB1217 (Stats. 1997, Ch. 602), SB 200 (Stats. 1997, Ch. 609), SB 635, SB 965 (Stats. 1997, Ch. 603); AB 2456 (1996), AB 296 (Stats. 1996, Ch. 953), SB 715 (Stats. 1996, Ch. 952), SB 2023 (Stats. 1996, Ch. 955); SB 712 (Stats. 1995, Ch.494); AB 2206 (Stats. 1994, Ch. 853), SB 1438 (Stats. 1994, Ch. 754), SB 1770 (Stats. 1994, Ch. 755).

PROGRAM HISTORY/BACKGROUND

California has five types of economic development areas that have similar tax incentives:

- Enterprise Zones,
- Los Angeles Revitalization Zone (LARZ),
- Local Agency Military Base Recovery Areas (LAMBRA),
- Targeted Tax Area (TTA), and
- Manufacturing Enhancement Areas (MEA)

The following table shows the incentives available to each of the economic development areas.

Types of Incentives	EZ	LARZ	LAMBRA	TTA	MEA
Sales or Use Tax Credit	X	X	X	X	
Hiring Credit	X	X	X	X	X
Construction Hiring Credit		X			
Employee Wage Credit	X				
Business Expense Deduction	X	X	X	X	
Net Interest Deduction	X	X			
Net Operating Loss	X	X	X	X	

* NOTE: the LARZ expires December 1, 1998.

SPECIFIC FINDINGS

Under the Government Code, existing state law provides for the designation of enterprise zones, the Los Angeles Revitalization Zone (LARZ), Local Agency Military Base Recovery Areas (LAMBRA), a Targeted Tax Area (TTA), and Manufacturing Enhancement Areas (MEA). Using specified criteria, the TCA designates these economic development areas from the applications (maps in the case of the LARZ) received from the governing bodies. Enterprise zones are designated for 15 years and TCA has designated the 39 enterprise zones authorized under existing law. The LARZ was designated in 1992 and is binding for five years. Five LAMBRA designations are authorized, one from each of the five regions (as specified) of the state. Currently, TCA has designated two of the five LAMBRA's authorized under existing law and the other three areas have

received conditional designation. Each LAMBRA designation is binding for eight years. The TTA and MEAs were authorized in 1997 and are binding for 15 years beginning January 1, 1998.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within economic development areas. These incentives include a sales or use tax credit, hiring credit, business expense deduction, and special net operating loss treatment. Two additional incentives include net interest deduction for businesses that make loans to businesses within the economic development areas and a tax credit for employees working in an enterprise zone. See Attachment A for a detailed discussion of each tax incentive.

Under the Government Code, this bill would (1) extend the designation period of each enterprise zone that was designated before 1990 from 15 to 20 years if certain criteria are met; (2) allow for geographic expansion of 20% (rather than 15%) of any enterprise zone that is no greater than 13 square miles; (3) allow a local jurisdiction to request that its enterprise zone designation be revoked if it is unable to meet the goals set forth in its original application. One year after revocation, the Trade and Commerce Agency (TCA) could designate a new targeted tax area.

Under the Revenue and Taxation Code, this bill would make the following changes:

1. Modify the apportionment formula for all economic development area tax incentives to be based on California sourced income instead of worldwide income.
2. Remove "sales" as a factor in the enterprise zone apportionment formula.
3. Change the criteria in the targeted tax area hiring credit definition of "qualified employee" to include an individual who is a member of a targeted group under the federal work opportunity credit instead of the expired federal Targeted Jobs Tax Credit Program. The federal work opportunity credit is the replacement program for the expired federal targeted jobs tax credit. Since the enterprise zone hiring credit included individuals who were members of a targeted group under the federal targeted jobs tax credit before that program expired, this change is merely technical.
4. Expand the definition of qualified property for the enterprise zone sales or use tax credit to include data processing and communications equipment and motion picture manufacturing equipment.
5. Make nonsubstantive technical changes. Specifically, the bill would replace the word "employes" with "employs," add headings for existing law text, and replace the word "'guilty" with "guilt."

Implementation Considerations

Implementing this bill would occur during the department's normal annual system update.

Technical Considerations

This bill raises the following technical considerations:

1. Senate Bill 519 (Stats. 1998, Ch. 7) made modifications to the existing economic development area NOL provisions. Specifically, it reinstated portions of AB 1217 (Stats. 1997, Ch. 602) that were chaptered out by SB 1106 (Stats. 1997, Ch. 604). Because this bill was introduced prior to the enactment of SB 519, it does not reflect the changes made by that bill. Amendments 22 and 44 would delete the obsolete NOL provisions and insert the existing NOL provisions and make all the changes proposed by this bill.
2. The modifications to the apportionment formulas appears to intend to accomplish a two-step apportionment like the one contained in the LARZ credit and NOL provisions. However, this bill leaves out the means by which to compute one of the steps. Amendments 1, 6, 11, 15, 19, 23, 27, 31, 35, and 40 would insert this step. In addition, the bill retains unnecessary language regarding the substitution of the enterprise zone for "this state." This language is made unnecessary by the provisions that explain how to apportion business income. Amendments 3, 8, 13, 17, 21, 25, 29, 33, 37, and 42 would remove the unnecessary language.
3. Only some of the Revenue and Taxation Code provisions contain operative dates. Amendments 4, 9, 14, 22, 38, 43, and 44 would include operative dates to ensure all provisions become operative at the same time.
4. SB 2023 (Stats. 1996, Ch. 955) replaced the reference in the enterprise zone hiring credit to the expired federal Targeted Jobs Tax Credit Program (TJTC) with the criteria of the TJTC program. Other economic development area hiring credits also have included the lengthy criteria of the expired TJTC program. Since that time, the federal work opportunity credit was enacted as a replacement of the expired TJTC, and the economic development area hiring credits were amended to reference the work opportunity credit. However, the economic development area hiring credits were not amended to remove the expired TJTC criteria. Amendments 5, 10, 18, 26, 30, and 39 would remove the now unnecessary TJTC program criteria and, in the MEA hiring credit, replace the TJTC reference with a reference to the federal work opportunity credit.
5. To provide consistency, amendments 2, 7, 12, 20, 22, 24, 28, 32, 36, 41, and 44 would include the phrase "of the taxpayer" in those apportionment formula references to total California business income that do not already include the phrase.
6. Amendment 34 would replace the term "taxable" year with "income" year in one of the Bank and Corporation Tax Law amendments.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

The revenue impact of this bill is estimated to be:

Effective on or after January 1, 1998 Assumed Enactment After June 30, 1998 (millions)			
1998-9	1999-0	2000-1	2001-2
(\$3)	(\$3)	(\$3)	(\$14)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Estimate Discussion

(1) Extend enterprise zones to 20 years (rather than 15).

Extending the designation period of enterprise zones is estimated to be approximately \$1 million a year per enterprise zone, beginning when the enterprise zone would have expired. Beginning in the 2001-2 fiscal year, ten enterprise zone designations will expire under existing law. By extending the designation period, this provision would result in an estimated revenue loss of \$10 million. As other enterprise zone designations expire, this loss would increase accordingly.

(2) Expand enterprise zones up to 20% in size.

The impact for the expansion of the area of an enterprise zone by 20% rather than 15% is estimated to be \$500,000 annually.

(3) Expand enterprise zone definition of qualified property to include data processing and motion picture manufacturing equipment.

Including data processing and communication equipment and motion picture manufacturing equipment for the sales or use tax credit is estimated to be on the order of \$500,000 annually.

(4) Change enterprise zone to a two factor zone apportionment formula and change enterprise zone, TTA, MEA, and LAMBRAs to California source.

The impact of a two-factor apportionment formula for enterprise zone tax incentives depends on the ratio of the taxpayer's sales factor to the sum of the taxpayer's property and payroll factors. If the sales factor is less than 50% of the sum of the property and payroll factors, the taxpayer would have greater income attributable to the zone under the proposed changes, and thus be able to use a greater amount of enterprise zone credits or net operating loss deduction. Conversely, if the sales factor were greater than 50% of the sum of the property and payroll factors, the taxpayer would be disadvantaged. Based on the results of a prior special sample for corporate taxpayers in the LARZ, net revenue losses are expected due to lower sales factors relative to combined property and payroll factors. The order of magnitude loss for a two-factor apportionment formula for enterprise zone tax incentives is projected at \$1 million annually.

Additionally, changing from worldwide to California sourced income in the apportionment formula for all economic development area tax incentives is

projected to be annual revenue losses of \$1 million. The combined loss from these two apportionment formula changes is estimated to be \$2 million annually.

(5) Revoke enterprise zones that do not meet criteria and designate new enterprise zones.

Any revenue effect for this provision would not occur until an enterprise zone is revoked and replaced by a new enterprise zone. The impact is unknown as it would depend on relative tax benefits, prior enterprise zones versus new enterprise zones.

BOARD POSITION

Pending.

Senate Bill 2079
Introduced February 20, 1998
Attachment A

Sales or Use Tax Credit

The sales or use tax credit is allowed for an amount equal to the sales or use taxes paid on the purchase of qualified machinery purchased for exclusive use in an economic development area. The amount of the credit is limited to the tax attributable to economic development area income. Qualified property is defined as follows:

Enterprise Zone:

- machinery and machinery parts used to:
 - manufacture, process, combine, or otherwise fabricate a product;
 - produce renewable energy resources; or
 - control air or water pollution.

LAMBRA:

- high technology equipment (e.g., computers);
- aircraft maintenance equipment;
- aircraft components; or
- certain depreciable property.

LARZ:

- building materials used to replace or repair the business's building and fixtures; and
- machinery or equipment, excluding inventory.

TTA:

- machinery and machinery parts used to:
 - manufacture, process, combine, or otherwise fabricate a product;
 - produce renewable energy resources;
 - control air or water pollution;
 - data process and communications; or
 - manufacture motion pictures.

In addition, qualified property must be purchased and placed in service before the economic development area designation expires. The maximum value of property that may be eligible for the enterprise zone, LAMBRA, and TTA sales or use tax credit is \$1 million for individuals and \$20 million for corporations. No such limitation exists for the LARZ sales or use tax credit.

Hiring Credit

A business located in an economic development area may reduce tax by a percentage of wages paid to qualified employees. A qualified employee must be hired after the area is designated as an economic development area and meet certain other criteria. At least 90% of the qualified employee's work must be directly related to a trade or business located in the economic development area and at least 50% must be performed inside the economic development area. The business may claim up to 50% of the wages paid to a qualified employee as a credit against tax imposed on economic development area income. The credit is based on the lesser

of the actual hourly wage paid or 150% of the current minimum hourly wage. The amount of the credit must be reduced by any other federal or state jobs tax credits and the taxpayer's deduction for ordinary and necessary trade or business expenses must be reduced by the amount of the hiring credit. Certain criteria regarding who may be qualified employees and certain limitations differ between the various economic development areas.

LARZ Construction Hiring Credit

A business located in a LARZ may reduce tax by a percentage of wages paid to construction employees. A qualified construction employee must be hired on or after May 1, 1992, be a resident of the LARZ, and be hired by the employer to perform construction work in the LARZ. Construction work is any work directly related to the demolition, repair, erection, or renovation of a structure located within the LARZ. The business may claim 50% to 100% of the wages paid to a qualified employee as a credit against tax imposed on LARZ income. The actual percentage depends upon the date the employee was hired:

Date Hired	Applicable %
5/1/92 - 6/30/93	100%
7/1/93 - 12/31/93	75%
1/1/94 - 12/31/97	50%
After 12/31/97	0%

As is the hiring credit, the construction hiring credit is based on the lesser of the actual hourly wage paid or 150% of the current minimum hourly wage. Also, the amount of the credit must be reduced by any other federal or state jobs tax credits and the taxpayer's deduction for ordinary and necessary trade or business expenses must be reduced by the amount of the hiring construction credit.

This incentive is not available to enterprise zone, LAMBRA, or TTA businesses.

Business Expense Deduction

A business located in an economic development area may elect to deduct as a business expense a specified amount of the cost of qualified property purchased for exclusive use in the economic development area. The deduction is allowed in the taxable or income year in which the taxpayer places the qualified property in service. For LAMBRA businesses, the amount of the deduction is added back to the taxpayer's income if at the close of the second year the taxpayer does not have a net increase of one or more jobs (defined as 2,000 paid hours per employee per year). The property's basis must be reduced by the amount of the deduction. For enterprise zones, LAMBRAs, and TTA the maximum deduction for all qualified property is the lesser of the cost (for enterprise zones, it is 40% of the cost) or the following:

If the property was placed in service:

Months after designation	Maximum deduction	
	EZ & TTA	LAMBRA
0 to 24	\$40,000	\$ 5,000
25 to 48	30,000	7,500
48 and over	20,000	10,000

NOTE: This limitation does not apply to the LARZ.

Net Operating Loss Deduction

A business located in an economic development area may elect to carry over 100% of the economic development area net operating losses (NOLs) to deduct from economic development area income of future years. The election must be made on the original return for the year of the loss. The NOL carryover is determined by computing the business loss that results from business activity in the economic development area.

Net Interest Deduction

A deduction from income is allowed for the amount of net interest earned on loans made to a trade or business located in an enterprise zone or a LARZ. Net interest is defined as the full amount of the interest less any direct expenses (e.g., commission paid) incurred in making the loan. The loan must be used solely for business activities within the enterprise zone or LARZ and the lender may not have equity or other ownership interest in the enterprise zone or LARZ trade or business. This incentive is not available for LAMBRAs or TTA.

Enterprise Zone Employee Wage Credit

Certain disadvantaged individuals are allowed a credit for wages received from an enterprise zone business. Public employees are not eligible for the credit. The amount of the credit is 5% of "qualified wages," defined as wages subject to federal unemployment insurance. For each dollar of income received by the taxpayer in excess of qualified wages, the credit is reduced by nine cents. The credit is not refundable and cannot be carried forward. The amount of the credit is limited to the amount of tax that would be imposed on income from employment in the enterprise zone, computed as though that income represented the taxpayer's entire taxable income. This incentive is not available for LARZ, LAMBRAs, or TTA.

Apportioning

For businesses operating inside and outside an economic development area, the amount of credit or net operating loss deduction that may be claimed is limited by the amount of tax or income attributable to the economic development area. For businesses operating in a LAMBRA, TTA, or MEA these amounts are determined using a formula based on the property and payroll of the business. For businesses operating in an enterprise zone the apportionment formula is the same as that used by all businesses that operate inside and outside the state, which,

along with property and payroll, includes a double-weighted sales factor. For businesses operating in the LARZ, income is first apportioned to California using the same formula as that used by all businesses that operate inside and outside the state (property, payroll, a double-weighted sales factor). This income is further apportioned to the LARZ using a two factor formula based on the property and payroll of the business.

The LARZ apportionment formula differs from the formulas used for other economic development areas. The other formulas do not first apportion to California and then to the economic development area. Thus, the denominator for the apportionment formula for other economic development area tax incentives is world-wide income whereas the LARZ denominator is California income.

Analyst Jeani Brent
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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO SB 2079
As Introduced February 20, 1998

AMENDMENT 1

On page 12, modify lines 24 through 27, as follows:

~~described in paragraph (1)~~ attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11. That business income shall be further apportioned to the targeted tax area in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified for purposes of this section as follows:

AMENDMENT 2

On page 12, line 30, after "income" insert:

of the taxpayer

AMENDMENT 3

On page 13, strikeout lines 7 and 8

@@@LEG. COUNSEL: Please renumber subparagraph within (g)(2).

AMENDMENT 4

On page 13, between lines 20 and 21, insert:

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

AMENDMENT 5

On page 15, strikeout lines 17 through 39, strikeout page 16, and on page 17, strikeout lines 1 through 6.

@@@@LEG. COUNSEL: Please renumber remaining subclauses.

AMENDMENT 6

On page 21, modify lines 10 through 13, as follows:

~~described in paragraph (1)~~ attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11~~7~~. That business income shall be further apportioned to the targeted tax area in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified for purposes of this section as follows:

AMENDMENT 7

On page 21, line 16, after "income" insert:

of the taxpayer

AMENDMENT 8

On page 21, ~~strikeout~~ lines 33 and 34.

@@@LEG. COUNSEL: Please renumber subparagraphs and clauses.

AMENDMENT 9

On page 22, between lines 5 and 6, insert:

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

AMENDMENT 10

On page 24, ~~strikeout~~ lines 9 through 12, and insert:

(iii) Any individual who is a member of a targeted group as defined in Section 51(d) of the Internal Revenue Code, or its successor.

AMENDMENT 11

On page 27, modify lines 20 through 24, as follows:

(2) ~~The amount of attributed income described in paragraph (1) shall be determined~~ Attributable income shall be that portion of the taxpayer's California source business income that is apportioned to the Manufacturing Enhancement Area. For that purpose, the taxpayer's business income attributable to sources in this state first shall be determined in accordance with the provisions of Chapter 17 (commencing with Section 25101) of Part 11~~7~~. That business income shall be further apportioned to the Manufacturing Enhancement Area in accordance with the

provisions of Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified for purposes of this section as follows:

AMENDMENT 12

On page 27, line 27, after "income" insert:

of the taxpayer

AMENDMENT 13

On page 28, strikeout lines 5 and 6.

@@@LEG. COUNSEL: Please renumber subparagraphs and clauses.

AMENDMENT 14

On page 28, between lines 19 and 20, insert:

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

AMENDMENT 15

On page 30, modify lines 14 through 18, as follows:

~~described in paragraph (1)~~ attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11~~7~~. That business income shall be further apportioned to the enterprise zone in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified for purposes of this section as follows:

AMENDMENT 16

On page 30, line 21, after "income" insert:

of the taxpayer

AMENDMENT 17

On page 30, strikeout lines 38 and 39.

@@@LEG. COUNSEL: Please renumber subparagraphs and clauses.

AMENDMENT 18

On page 33, strikeout lines 9 through 40, strikeout page 34, and on page 35, strikeout lines 1 through 7.

@@@LEG. COUNSEL: Please renumber subparagraphs and clauses.

AMENDMENT 19

On page 39, modify lines 3 through 7, as follows:

~~described in paragraph (1)~~ attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11~~7~~. That business income shall be further apportioned to the enterprise zone in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified for purposes of this section as follows:

AMENDMENT 20

On page 39, line 10, after "income" insert:

of the taxpayer

AMENDMENT 21

On page 39, strikeout lines 27 and 28.

@@@LEG. COUNSEL: Please renumber subparagraphs and clauses.

AMENDMENT 22

On page 39, strikeout lines 39 and 40, strikeout pages 40 through 46, inclusive, and on page 47, strikeout lines 1 through 10, and insert:

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

(a) A person or entity engaged in the conduct of a trade or business within an enterprise zone designated pursuant to Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code.

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

(2) For purposes of this subdivision:

(A) "Net operating loss" means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 17276.1, attributable to the taxpayer's business activities within the enterprise zone (as defined in Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government

Code) prior to the enterprise zone expiration date. That attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11, modified for purposes of this section by substituting "enterprise zone" subdivision, as follows:

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

(ii) "the enterprise zone" shall be substituted for "this state."

(B) A net operating loss carryover shall be a deduction only with respect to the taxpayer's business income attributable to the enterprise zone (as defined in Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code) Code.

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

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

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

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

~~(C)~~

(ii) If a loss carryover is allowable pursuant to this section for any taxable year after the enterprise zone designation has expired, the enterprise zone shall be deemed to remain in existence for purposes of computing the limitation set forth in subparagraph (B) and allowing a net operating loss deduction.

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

(3) The changes made to this subdivision by the act adding this paragraph shall apply to taxable years beginning on or after January 1, 1998.

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

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

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

(2) For the purposes of this subdivision:

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

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

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

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

(C) If a loss carryover is allowable pursuant to this section for any taxable year after the Los Angeles Revitalization Zone designation has expired, the Los Angeles Revitalization Zone shall be deemed to remain in existence for purposes of computing the limitation set forth in subparagraph (B) and allowing a net operating loss deduction.

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

(A) Business income shall be apportioned to the Los Angeles Revitalization Zone by multiplying total California business income of the taxpayer by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

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

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

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

(5) This subdivision shall be inoperative on the first day of the taxable year beginning on or after the determination date, and each taxable year thereafter, with respect to the taxpayer's business activities within a geographic area that is excluded from the map pursuant to Section 7102 of the Government Code, or an

excluded area determined pursuant to Section 7104 of the Government Code. The determination date is the earlier of the first effective date of a determination under subdivision (c) of Section 7102 of the Government Code occurring after December 1, 1994, or the first effective date of an exclusion of an area from the amended Los Angeles Revitalization Zone under Section 7104 of the Government Code. However, if the taxpayer has any unused loss amount as of the date this section becomes inoperative, that unused loss amount may continue to be carried forward as provided in this subdivision.

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

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

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

(2) For the purposes of this subdivision:

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

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

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

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

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

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

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

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

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

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

(D) A net operating loss carryover shall be a deduction only with respect to the taxpayer's business income attributable to a LAMBRA

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

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

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

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

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

~~(iii)~~

(ii) If a loss carryover is allowable pursuant to this section for any taxable year after the LAMBRA designation has expired, the LAMBRA shall be deemed to remain in existence for purposes of computing ~~this limitation.~~ the limitation specified in subparagraph (D) and allowing a net operating loss deduction.

~~(E)~~

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

(3) The changes made to this subdivision by the act adding this paragraph shall apply to taxable years beginning on or after January 1, 1998.

(d) (1) For each taxable year beginning on or after January 1, 1998, a person or entity that meets both of the following:

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

(B) Is engaged in those lines of business described in Codes 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299, inclusive; 4500 to 4599,

inclusive; and 4700 to 5199, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition. In the case of any passthrough entity, the determination of whether a taxpayer is a qualified taxpayer under this section shall be made at the entity level.

(2) A net operating loss shall not be a net operating loss carryback to any taxable year and a net operating loss for any taxable year beginning on or after the date that the area in which the qualified taxpayer conducts a trade or business is designated as a targeted tax area shall be a net operating loss carryover to each of the 15 taxable years following the taxable year of loss.

(3) For purposes of this subdivision:

(A) "Net operating loss" means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 17276.1, attributable to the qualified taxpayer's business activities within the targeted tax area (as defined in Chapter 12.93 (commencing with Section 7097) of Division 7 of Title 1 of the Government Code) prior to the targeted tax area expiration date. That attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11, modified for purposes of this subdivision as follows:

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

(ii) "The targeted tax area" shall be substituted for "this state."

(B) A net operating loss carryover shall be a deduction only with respect to the qualified taxpayer's business income attributable to the targeted tax area (as defined in Chapter 12.93 (commencing with Section 7097) of Division 7 of Title 1 of the Government Code) Code.

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

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

~~(ii) "The targeted tax area" shall be substituted for "this state."~~

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

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

~~(C)~~

(ii) If a loss carryover is allowable pursuant to this subdivision for any taxable year after the targeted tax area expiration date, the targeted tax area designation shall be deemed to remain in existence for purposes of computing the limitation specified in ~~this subparagraph.~~ subparagraph (B) and allowing a net operating loss deduction.

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

(4) The changes made to this subdivision by the act adding this paragraph shall apply to taxable years beginning on or after January 1, 1998.

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

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

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

AMENDMENT 23

On page 49, modify lines 6 through 11, as follows:

~~described in paragraph (1) attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101).~~ That business income shall be further apportioned to the enterprise zone in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17, modified for purposes of this section as follows:

AMENDMENT 24

On page 49, line 14, after "income" insert:

of the taxpayer

AMENDMENT 25

On page 49, ~~strikeout~~ lines 31 and 32.

AMENDMENT 26

Strikeout pages 52 and 53.

@@@LEG. COUNSEL: Please renumber the remaining subclauses.

AMENDMENT 27

On page 58, modify lines 3 through 8, as follows:

~~described in paragraph (1) attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101).~~ That business income shall be further apportioned to the enterprise zone in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17, modified for purposes of this section as follows:

AMENDMENT 28

On page 58, line 11, after "income" insert:

of the taxpayer

AMENDMENT 29

On page 58, strikeout lines 28 and 29.

AMENDMENT 30

On page 61, strikeout lines 3 through 6, and insert:

(iii) Any individual who is a member of a targeted group as defined in Section 51(d) of the Internal Revenue Code, or its successor.

AMENDMENT 31

On page 64, modify lines 16 through 20, as follows:

business income ~~described in paragraph (1) attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101).~~ That business income shall be further apportioned to the Manufacturing Enhancement Area in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17, modified for purposes of this section as follows:

AMENDMENT 32

On page 64, line 23, after "income" insert:
of the taxpayer

AMENDMENT 33

On page 65, strikeout lines 1 and 2.
@@@LEG. COUNSEL: Please renumber the remaining paragraph.

AMENDMENT 34

On page 65, line 17, strikeout "taxable" and insert:
income

AMENDMENT 35

On page 67, modify line 40 and on page 68, modify lines 1 through 3, as follows:

~~described in paragraph (1)~~ attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101). That business income shall be further apportioned to the targeted tax area in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17, modified for purposes of this section as follows:

AMENDMENT 36

On page 68, line 6, after "income" insert:
of the taxpayer

AMENDMENT 37

On page 68, strikeout lines 23 and 24.

AMENDMENT 38

On page 68, between lines 36 and 37, insert:

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

AMENDMENT 39

On page 70, strikeout lines 33 through 40, strikeout page 71, and on page 72, strikeout lines 1 through 21.

@@@LEG. COUNSEL: Please renumber the remaining subclauses.

AMENDMENT 40

On page 76, modify lines 34 through 37, as follows:

~~described in paragraph (1)~~ attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101). That business income shall be further apportioned to the targeted tax area in accordance with the provisions of Article 2 (commencing with Section 25120) of Chapter 17, modified for purposes of this section as follows:

AMENDMENT 41

On page 76, line 40, after "income" insert:

of the taxpayer

AMENDMENT 42

On page 77, strikeout lines 17 and 18.

AMENDMENT 43

On page 77, between lines 29 and 30, insert:

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

AMENDMENT 44

On page 77, strikeout lines 32 through 40, strikeout pages 78 through 85, inclusive, and insert:

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

(a) A corporation engaged in the conduct of a trade or business within an enterprise zone designated pursuant to Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code.

(1) A net operating loss shall not be a net operating loss carryback for any income year and a net operating loss for any income year beginning on or after

the date that the area in which the taxpayer conducts a trade or business is designated as an enterprise zone shall be a net operating loss carryover to each of the 15 income years following the income year of loss.

(2) For purposes of this subdivision:

(A) "Net operating loss" means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 24416.1, attributable to the taxpayer's business activities within the enterprise zone (as defined in Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code) prior to the enterprise zone expiration date. That attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101), modified for purposes of this ~~section by substituting "enterprise zone"~~ subdivision as follows:

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

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

(B) A net operating loss carryover shall be a deduction only with respect to the taxpayer's business income attributable to the enterprise zone (as defined in Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the ~~Government Code~~ Code.

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

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

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

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

~~(C)~~

(ii) If a loss carryover is allowable pursuant to this section for any income year after the enterprise zone designation has expired, the enterprise zone shall be deemed to remain in existence for purposes of computing the limitation set forth in subparagraph (B) and allowing a net operating loss deduction.

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

(3) The changes made to this subdivision by the act adding this paragraph shall apply to income years beginning on or after January 1, 1998.

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

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

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

(2) For the purposes of this subdivision:

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

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

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

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

(C) If a loss carryover is allowable pursuant to this section for any income year after the Los Angeles Revitalization Zone designation has expired, the Los Angeles Revitalization Zone shall be deemed to remain in existence for purposes of computing the limitation set forth in subparagraph (B) and allowing a net operating loss deduction.

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

(A) Business income shall be apportioned to the Los Angeles Revitalization Zone by multiplying total California business income of the taxpayer by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two.

(B) The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in the Los Angeles Revitalization Zone during the income year and the

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

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

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

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

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

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

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

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

(2) For the purposes of this subdivision:

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

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

(i) The net increase in the number of jobs shall be determined by subtracting the total number of full-time employees (defined as 2,000 paid hours per employee per year) the taxpayer employed in this state in the income year prior to commencing business operations in the LAMBRA from the total number of full-time employees the taxpayer employed in this state during the second income year after

commencing business operations in the LAMBRA. For taxpayers who commence doing business in this state with their LAMBRA business operation, the number of employees for the income year prior to commencing business operations in the LAMBRA shall be zero. The deduction shall be allowed only if the taxpayer has a net increase in jobs in the state, and if one or more full-time employees is employed within the LAMBRA.

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

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

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

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

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

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

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

(D) A net operating loss carryover shall be a deduction only with respect to the taxpayer's business income attributable to a LAMBRA

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

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

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

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

(II) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the LAMBRA during the income year for

compensation, and the denominator of which is the total compensation paid by the taxpayer in this state during the income year.

~~(iii)~~

(ii) If a loss carryover is allowable pursuant to this section for any income year after the LAMBRA designation has expired, the LAMBRA shall be deemed to remain in existence for purposes of computing this limitation. the limitation specified in subparagraph (D) and allowing a net operating loss deduction.

~~(E)~~

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

(3) The changes made to this subdivision by the act adding this paragraph shall apply to income years beginning on or after January 1, 1998.

(d) (1) For each income year beginning on or after January 1, 1998, a corporation that meets both of the following:

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

(B) Is engaged in those lines of business described in Codes 2000 to 2099, inclusive; 2200 to 3999, inclusive; 4200 to 4299, inclusive; 4500 to 4599, inclusive; and 4700 to 5199, inclusive, of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition. In the case of any passthrough entity, the determination of whether a taxpayer is a qualified taxpayer shall be made at the entity level.

(2) A net operating loss shall not be a net operating loss carryback for any income year and a net operating loss for any income year beginning on or after the date that the area in which the qualified taxpayer conducts a trade or business is designated as a targeted tax area shall be a net operating loss carryover to each of the 15 income years following the income year of loss.

(3) For purposes of this subdivision:

(A) "Net operating loss" means the loss determined under Section 172 of the Internal Revenue Code, as modified by Section 24416.1, attributable to the qualified taxpayer's business activities within the targeted tax area (as defined in Chapter 12.93 (commencing with Section 7097) of Division 7 of Title 1 of the Government Code) prior to the targeted tax area expiration date. That attributable loss shall be determined in accordance with Chapter 17 (commencing with Section 25101), modified for purposes of this subdivision as follows:

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

(ii) "The targeted tax area" shall be substituted for "this state."

(B) A net operating loss carryover shall be a deduction only with respect to the qualified taxpayer's business income attributable to the targeted tax area (as defined in Chapter 12.93 (commencing with Section 7097) of Division 7 of Title 1 of the Government Code) ~~Code~~ Code).

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

targeted tax area in accordance with Article 2 (commencing with Section 25120) of Chapter 17, modified for purposes of this subdivision as follows:

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

~~(ii) "The targeted tax area" shall be substituted for "this state."~~

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

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

~~(C)~~

(ii) If a loss carryover is allowable pursuant to this subdivision for any income year after the targeted tax area expiration date, the targeted tax area designation shall be deemed to remain in existence for purposes of computing the limitation specified in ~~this subparagraph.~~ subparagraph (B) and allowing a net operating loss deduction.

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

(3) The changes made to this subdivision by the act adding this paragraph shall apply to income years beginning on or after January 1, 1998.

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

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

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