AB-1265 Income taxes: credits: rehabilitation of certified historic structures. (2025-2026)

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CALIFORNIA LEGISLATURE— 2025–2026 REGULAR SESSION

ASSEMBLY BILL NO. 1265

Introduced by Assembly Member Haney

February 21, 2025

An act to amend Section ~~38.10~~ *17053.91* of, and to add and repeal Sections 17053.92 and 23692 of, the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

AB 1265, as amended, Haney. Income taxes: credits: rehabilitation of certified historic structures.

The Personal Income Tax Law and the Corporation Tax Law allow a credit against the taxes imposed by those laws, for taxable years beginning on or after January 1, 2021, and before January 1, 2027, for rehabilitation of certified historic structures, as defined, and, under the Personal Income Tax Law, for a qualified residence, as defined. Existing law allows an increased credit of 25% of the qualified rehabilitation expenditures with respect to a certified historic structure meeting any of certain criteria, including a rehabilitated structure that includes affordable housing for lower income households. Existing law requires a taxpayer to receive an allocation from the California Tax Credit Allocation Committee (CTCAC) to be eligible for the credit. Existing law limits the aggregate amount of money that can be allocated for these credits per calendar year and reserves a portion of that money to be allocated for a qualified residence or for projects less than $1,000,000.

Existing law requires, on an annual basis beginning January 1, 2021, until January 1, 2027, the Legislative Analyst to collaborate with the CTCAC and the Office of Historic Preservation to review the effectiveness of these tax credits, as described.

This bill would require the Legislative Analyst to submit a review of the effectiveness of the tax credits for taxable years beginning on or after January 1, 2025, and before January 1, 2027, to the Legislature, as specified.

This bill, for taxable years beginning on or after January 1, 2027, and before January 1, 2031, would enact a similar credit for the rehabilitation of certified historic structures, as provided. The bill, for tax credits allocated for those taxable years, would remove the above-described increased credit of 25% and would remove the credit for a qualified residence. The bill would also remove the limit on the amount of money that can be allocated per calendar year, including the above-described reservations. ~~The bill would also extend the Legislative Analyst's annual review requirement to January 1, 2031, and would make conforming changes.~~

Existing law requires any bill authorizing a new tax expenditure, as defined, to include exclusions from income, to contain, among other things, specific goals, purposes, and objectives that the tax credit will achieve, detailed performance indicators, and data collection requirements.

This bill ~~declares the intent of the Legislature to comply~~ *would include findings and reporting requirements in compliance* with this requirement.

This bill would take effect immediately as a tax levy.
Vote: majority Appropriation: no Fiscal Committee: yes Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

~~SECTION 1.Section 38.10 of the Revenue and Taxation Code is amended to read:~~

~~38.10.(a)The Legislative Analyst shall, on an annual basis beginning January 1, 2027, collaborate with the California Tax Credit Allocation Committee and the Office of Historic Preservation to review the effectiveness of the tax credits allowed by Sections 17053.92 and 23692. The review shall include, but is not limited to, an analysis of the demand for the tax credit, the types and uses of projects receiving the tax credit, the jobs created by the use of the tax credits, and the economic impact of the tax credits.~~

~~(b)This section shall remain in effect only until January 1, 2031, and as of that date is repealed.~~

SECTION 1. *Section 17053.91 of the Revenue and Taxation Code is amended to read:*

17053.91. For each taxable year beginning on or after January 1, 2021, and before January 1, 2027, there shall be allowed to a taxpayer that receives a tax credit allocation a credit against the "net tax," as defined in Section 17039, in an amount determined in accordance with Section 47 of the Internal Revenue Code, except as otherwise provided in this section.

(a) (1) In lieu of the amount of credit computed pursuant to Section 47(a) of the Internal Revenue Code, the amount of credit for the taxable year shall be 20 percent of the qualified rehabilitation expenditures with respect to a certified historic structure.

(2) The applicable percentage shall be 25 percent of the qualified rehabilitation expenditures with respect to a certified historic structure if that certified historic structure meets one of the following criteria:

(A) The structure is located on federal surplus property, if obtained by a local agency under Section 54142 of the Government Code, on surplus state real property, as defined by Section 11011.1 of the Government Code, or on surplus land, as defined by subdivision (b) of Section 54221 of the Government Code.

(B) The rehabilitated structure includes affordable housing for lower income households, as defined by Section 50079.5 of the Health and Safety Code.

(C) The structure is located in a designated census tract, as defined in paragraph (7) of subdivision (b) of Section 17053.73.

(D) The rehabilitated structure is a part of a military base reuse authority established pursuant to Title 7.86 (commencing with Section 67800) of the Government Code.

(E) The structure is a transit-oriented development that is a higher density, mixed-use development within a walking distance of one-half mile of a transit station.

(3) (A) The credit shall be allowed for qualified rehabilitation expenditures for a qualified residence determined by the California Tax Credit Allocation Committee and the Office of Historic Preservation to rehabilitate the historic character and improve the integrity of the residence in the year of completion in the percentages specified in paragraphs (1) and (2), as applicable, except that the credit shall only be allowed in an amount

equal to or more than five thousand dollars ($5,000) but not exceeding twenty-five thousand dollars ($25,000). A taxpayer shall only be allowed a credit pursuant to this paragraph once every 10 taxable years.

(B) Section 47(c)(1)(B)(ii) of the Internal Revenue Code, relating to special rule for phased rehabilitation, shall not apply.

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

(1) "Certified historic structure" has the same meaning as defined in Section 47(c)(3) of the Internal Revenue Code, that is a structure in this state and is listed on the California Register of Historical Resources.

(2) "Qualified residence" has the same meaning as that term is defined in Section 163(h)(4) of the Internal Revenue Code, that will be owned and occupied by an individual taxpayer who has a modified adjusted gross income, as defined by Section 86(b)(2) of the Internal Revenue Code, of two hundred thousand dollars ($200,000) or less, as the taxpayer's principal residence or what will be the taxpayer's principal residence within two years after the rehabilitation of the residence.

(3) (A) "Qualified rehabilitation expenditure" has the same meaning as that term is defined in Section 47(c)(2) of the Internal Revenue Code, except that qualified rehabilitation expenditures may include expenditures in connection with the rehabilitation of a building without regard to whether any portion of the building is or is reasonably expected to be tax-exempt use property.

(B) "Qualified rehabilitation expenditure" has the same meaning as that term is defined in Section 47(c)(2) of the Internal Revenue Code and also means rehabilitation expenditures incurred by the taxpayer with respect to a qualified residence for the rehabilitation of the exterior of the building or rehabilitation necessary for the functioning of the home, including, but not limited to, rehabilitation of the electrical, plumbing, or foundation of the qualified residence.

(C) The amendments made by Section 13402(b)(1)(B) of the Tax Cuts and Jobs Act, 2017 (Public Law 115-97) to Section 47(c)(2)(B)(iv) of the Internal Revenue Code, relating to certified historic structure, shall not apply.

(c) (1) To be eligible for the credit allowed by this section, a taxpayer shall request a tax credit allocation from the California Tax Credit Allocation Committee, in conjunction with the Office of Historic Preservation.

(2) To obtain a tax credit allocation, the taxpayer shall provide necessary information, as determined by the Office of Historic Preservation and the California Tax Credit Allocation Committee.

(3) A tax credit allocation provided to a taxpayer shall not constitute a determination by the California Tax Credit Allocation Committee with respect to any of the requirements of this section regarding a taxpayer's eligibility for the credit authorized by this section.

(4) The Office of Historic Preservation shall establish in regulations the time period that a taxpayer who receives a tax credit allocation must commence rehabilitation after the issuance of the tax credit allocation. If rehabilitation is not commenced within the time period established by the office, the tax credit allocation shall be forfeited and the credit amount associated with the tax credit allocation shall be treated as an unused allocation tax credit amount.

(d) A deduction shall not be allowed under this part for any expense for which a credit for that expense is allowed by this section.

(e) If a credit is allowed under this section with respect to any property, the basis of that property shall be reduced by the amount of the credit allowed.

(f) (1) A credit allowed under this section shall be claimed in the first taxable year in which the structure is placed in service.

(2) In the case where the credit allowed by this section exceeds the "net tax," the excess may be carried over to reduce the "net tax" in the following year, and the seven succeeding years, if necessary, until the credit is exhausted.

(g) For purposes of this section, the Office of Historic Preservation shall do all of the following:

(1) Adopt regulations to implement the requirements of this section. The regulations shall comply with the requirements of the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with

Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).

(2) Establish a written application, on a form jointly prescribed by the office and the California Tax Credit Allocation Committee, for the allocation of the tax credit. The written application shall require the applicant to include a summary of the expected economic benefits of the project. The economic benefits shall include, but are not limited to, all of the following:

(A) The number of jobs created by the rehabilitation project, both during and after the rehabilitation of the structure.

(B) The expected increase in state and local tax revenues derived from the rehabilitation project, including those from increased wages and property taxes.

(C) Any additional incentives or contributions included in the rehabilitation project from federal, state, or local governments.

(D) For the qualified rehabilitation expenditures with respect to a qualified residence, the rehabilitation has a public benefit, as determined jointly with the Office of Historic Preservation.

(3) Establish a process to determine that applicants meet the requirements of this section and to ensure that the rehabilitation project meets the Secretary of the Interior's Standards for Rehabilitation, as found in Part 67 of Title 36 of the Code of Federal Regulations.

(4) Establish a process to approve, or reject, all tax credit allocation applications.

(h) For purposes of this section, the California Tax Credit Allocation Committee shall do all of the following:

(1) Establish a process jointly with the Office of Historic Preservation to implement the provisions of this section.

(2) (A) Subject to the annual cap established as provided in subdivision (i), allocate on a first-come-first-served basis an aggregate amount of credits under this section and Section 23691, and allocate any carryover of unallocated credits from prior years.

(B) A taxpayer shall be allocated a tax credit pursuant to the taxpayer's tax credit allocation upon receipt by the California Tax Credit Allocation Committee of a cost certification for the qualified rehabilitation expenditures. For projects with qualified rehabilitation expenditures in excess of two hundred fifty thousand dollars ($250,000), the cost certification shall be issued by a licensed certified public accountant.

(3) Certify tax credits allocated to taxpayers.

(4) Provide the Franchise Tax Board an annual list of the taxpayers that were allocated a credit pursuant to this section and Section 23691, including each taxpayer's taxpayer identification number, and the amount allocated to each taxpayer.

(5) Establish procedures for the recapture of amounts allocated for a tax credit allowed to a taxpayer for the rehabilitation of a qualified residence if the taxpayer does not use the qualified residence as their principal residence within two years after the rehabilitation of the residence.

(i) (1) The aggregate amount of credits that may be allocated in any calendar year pursuant to this section and Section 23691 shall be an amount equal to the sum of all of the following:

(A) Fifty million dollars ($50,000,000) in tax credits for the 2021 calendar year and each calendar year thereafter, through and including the 2027 calendar year.

(B) The unused allocation tax credit amount, if any, for the preceding calendar year.

(2) Notwithstanding the foregoing, the California Tax Credit Allocation Committee shall set aside ten million dollars ($10,000,000) of tax credits that may be allocated each calendar year for taxpayers in the aggregate, pursuant to this paragraph and paragraph (2) of subdivision (i) of Section 23691, as follows:

(A) Two million dollars ($2,000,000) of tax credits, in the aggregate, for taxpayers with qualified rehabilitation expenditures for a certified historic structure that is a qualified residence. After providing for the reallocation pursuant to subparagraph (C), to the extent that this amount is not fully allocated in any calendar year, the unused portion shall become available in subsequent calendar years for allocation to

other taxpayers with qualified rehabilitation expenditures for a certified historic structure that is a qualified residence.

(B) Eight million dollars ($8,000,000) of tax credits, in the aggregate, for taxpayers with qualified rehabilitation expenditures of less than one million dollars ($1,000,000) for any other certified historic building that is not a qualified residence. After providing for the reallocation pursuant to subparagraph (C), to the extent that this amount is not fully allocated in any calendar year, the unused portion shall become available in subsequent calendar years for allocation to other taxpayers, except those taxpayers subject to subparagraph (A).

(C) Beginning July 1, 2025, any unused allocation set aside in subparagraphs (A) and (B) for the 2025 calendar year shall be made available within 90 days to taxpayers with qualified rehabilitation expenditures of one million dollars ($1,000,000) or more that submitted applications in that same calendar year and did not receive any allocation, are eligible to receive an allocation, and would have been the next affordable housing project application to receive an award.

(j) In the case of any application for tax credits by an entity treated as a partnership for income tax purposes:

(1) Credits awarded to a partnership shall be allocated to the partners of that partnership in accordance with the partnership agreement, regardless of how the federal historic rehabilitation tax credit with respect to the project is allocated to the partners, or whether the allocation of the credit under the terms of the partnership agreement has substantial economic effect, within the meaning of Section 704(b) of the Internal Revenue Code.

(2) To the extent the allocation of the credit to a partner under this section lacks substantial economic effect, any loss or deduction otherwise allowable under this part that is attributable to the sale or other disposition of that partner's partnership interest made prior to the expiration of the tax credit recapture period for the project described in paragraph (1) shall not be allowed in the taxable year in which the sale or other disposition occurs, but shall instead be deferred until, and treated as if, it occurred in the first taxable year immediately following the taxable year in which the tax credit recapture period expires for the project described in paragraph (1). The credits awarded to a partnership shall be allocated to the partners of that partnership in accordance with the partnership agreement.

(k) For purposes of this section, the provisions of subsection (a) of Section 50 of the Internal Revenue Code shall apply.

(l) Notwithstanding any other provision of this part, a credit allowed pursuant to this section may reduce the tax imposed under Section 17041 or 17048 plus the tax imposed under Section 17504, relating to the separate tax on lump-sum distributions, below the tentative minimum tax.

(m) This section shall remain in effect regardless of the expiration or repeal of Section 47 of the Internal Revenue Code, relating to rehabilitation credit.

(n) The California Tax Credit Allocation Committee and the Office of Historic Preservation may charge a reasonable fee in an amount that does not exceed the reasonable costs incurred by the California Tax Credit Allocation Committee and the Office of Historic Preservation in fulfilling the responsibilities described in paragraphs (4) and (5) of subdivision (g) and subdivision (h) and paragraphs (4) and (5) of subdivision (g) and subdivision (h) of Section 23691.

(o) (1) For purposes of complying with Section 41, for this section and Section 23691, the Legislature finds and declares:

(A) The specific goal and purpose of these credits are to help address the high costs of rehabilitating California's historic buildings while preserving their cultural significance and stimulating economic growth.

(B) The data used for the Legislature to evaluate whether the credits are achieving the intended goal are all of the following:

(i) The number of jobs created by the rehabilitation project, both during and after the rehabilitation of the structure.

(ii) The expected increase in state and local tax revenue derived from the rehabilitation project, including those from increased wages and property taxes.

(iii) Any additional incentives or contributions included in the rehabilitation project from federal, state, or local governments.

(2) To assist the Legislature in determining whether the credits fulfil the goal and purpose stated in subparagraph (A) of paragraph (1), the Legislative Analyst's Office shall collaborate with the Office of Historic Preservation and the California Tax Credit Allocation Committee to review the effectiveness of the tax credits for taxable years beginning on or after January 1, 2025, and before January 1, 2027, using the indicators described in subparagraph (B) of paragraph (1) and shall submit the review to the Legislature on or before July 1, 2028, in compliance with Section 9795 of the Government Code.

~~(o)~~

(p) (1) This section shall remain in effect only until December 1, ~~2027,~~ *2028,* and as of that date is repealed.

(2) Unless otherwise specified in any bill providing for appropriations related to the Budget Act, for taxable years beginning on or after January 1, 2021, and before January 1, 2027, the amount of credit allowed pursuant to this section shall be zero dollars ($0).

SEC. 2. Section 17053.92 is added to the Revenue and Taxation Code, to read:

17053.92. For each taxable year beginning on or after January 1, 2027, and before January 1, 2031, there shall be allowed to a taxpayer that receives a tax credit allocation a credit against the "net tax," as defined in Section 17039, in an amount determined in accordance with Section 47 of the Internal Revenue Code, except as otherwise provided in this section.

(a) (1) In lieu of the amount of credit computed pursuant to Section 47(a) of the Internal Revenue Code, the amount of credit for the taxable year shall be 20 percent of the qualified rehabilitation expenditures with respect to a certified historic structure.

(2) The maximum credit allowed pursuant to this section shall not exceed five million dollars ($5,000,000) per taxpayer.

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

(1) "Certified historic structure" has the same meaning as defined in Section 47(c)(3) of the Internal Revenue Code, that is a structure in this state and is listed on the California Register of Historical Resources.

(2) (A) "Qualified rehabilitation expenditure" has the same meaning as that term is defined in Section 47(c)(2) of the Internal Revenue Code, except that qualified rehabilitation expenditures may include expenditures in connection with the rehabilitation of a building without regard to whether any portion of the building is or is reasonably expected to be tax-exempt use property.

(B) The amendments made by Section 13402(b)(1)(B) of the Tax Cuts and Jobs Act of 2017 (Public Law 115-97) to Section 47(c)(2)(B)(iv) of the Internal Revenue Code, relating to certified historic structure, shall not apply.

(c) (1) To be eligible for the credit allowed by this section, a taxpayer shall request a tax credit allocation from the California Tax Credit Allocation Committee, in conjunction with the Office of Historic Preservation.

(2) To obtain a tax credit allocation, the taxpayer shall provide necessary information, as determined by the Office of Historic Preservation and the California Tax Credit Allocation Committee.

(3) A tax credit allocation provided to a taxpayer shall not constitute a determination by the California Tax Credit Allocation Committee with respect to any of the requirements of this section regarding a taxpayer's eligibility for the credit authorized by this section.

(4) The Office of Historic Preservation shall establish in regulations the time period that a taxpayer who receives a tax credit allocation must commence rehabilitation after the issuance of the tax credit allocation. If rehabilitation is not commenced within the time period established by the office, the tax credit allocation shall be forfeited and the credit amount associated with the tax credit allocation shall be treated as an unused allocation tax credit amount.

(d) A deduction shall not be allowed under this part for any expense for which a credit for that expense is allowed by this section.

(e) If a credit is allowed under this section with respect to any property, the basis of that property shall be reduced by the amount of the credit allowed.

(f) (1) A credit allowed under this section shall be claimed in the first taxable year in which the structure is placed in service.

(2) In the case where the credit allowed by this section exceeds the "net tax," the excess may be carried over to reduce the "net tax" in the following year, and the seven succeeding years, if necessary, until the credit is exhausted.

(g) For purposes of this section, the Office of Historic Preservation shall do all of the following:

(1) Adopt regulations to implement the requirements of this section. The regulations shall comply with the requirements of the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).

(2) Establish a written application, on a form jointly prescribed by the office and the California Tax Credit Allocation Committee, for the allocation of the tax credit. The written application shall require the applicant to include a summary of the expected economic benefits of the project. The economic benefits shall include, but are not limited to, all of the following:

(A) The number of jobs created by the rehabilitation project, both during and after the rehabilitation of the structure.

(B) The expected increase in state and local tax revenues derived from the rehabilitation project, including those from increased wages and property taxes.

(C) Any additional incentives or contributions included in the rehabilitation project from federal, state, or local governments.

(3) Establish a process to determine that applicants meet the requirements of this section and to ensure that the rehabilitation project meets the Secretary of the Interior's Standards for Rehabilitation, as found in Part 67 of Title 36 of the Code of Federal Regulations.

(4) Establish a process to approve, or reject, all tax credit allocation applications.

(h) For purposes of this section, the California Tax Credit Allocation Committee shall do all of the following:

(1) Establish a process jointly with the Office of Historic Preservation to implement the provisions of this section.

(2) (A) Subject to the amount of funding made available as described in subdivision ~~(n),~~ *(o),* allocate on a first-come-first-served basis an aggregate amount of credits under this section and Section 23692, and allocate any carryover of unallocated credits from prior years.

(B) A taxpayer shall be allocated a tax credit pursuant to the taxpayer's tax credit allocation upon receipt by the California Tax Credit Allocation Committee of a cost certification for the qualified rehabilitation expenditures. For projects with qualified rehabilitation expenditures in excess of two hundred fifty thousand dollars ($250,000), the cost certification shall be issued by a licensed certified public accountant.

(3) Certify tax credits allocated to taxpayers.

(4) Provide the Franchise Tax Board an annual list of the taxpayers that were allocated a credit pursuant to this section and Section 23692, including each taxpayer's taxpayer identification number, and the amount allocated to each taxpayer.

(i) In the case of any application for tax credits by an entity treated as a partnership for income tax purposes:

(1) Credits awarded to a partnership shall be allocated to the partners of that partnership in accordance with the partnership agreement, regardless of how the federal historic rehabilitation tax credit with respect to the project is allocated to the partners, or whether the allocation of the credit under the terms of the partnership agreement has substantial economic effect, within the meaning of Section 704(b) of the Internal Revenue Code.

(2) To the extent the allocation of the credit to a partner under this section lacks substantial economic effect, any loss or deduction otherwise allowable under this part that is attributable to the sale or other disposition of that partner's partnership interest made prior to the expiration of the tax credit recapture period for the project described in paragraph (1) shall not be allowed in the taxable year in which the sale or other

disposition occurs, but shall instead be deferred until, and treated as if, it occurred in the first taxable year immediately following the taxable year in which the tax credit recapture period expires for the project described in paragraph (1). The credits awarded to a partnership shall be allocated to the partners of that partnership in accordance with the partnership agreement.

(j) For purposes of this section, the provisions of subsection (a) of Section 50 of the Internal Revenue Code shall apply.

(k) Notwithstanding any other provision of this part, a credit allowed pursuant to this section may reduce the tax imposed under Section 17041 or 17048 plus the tax imposed under Section 17504, relating to the separate tax on lump-sum distributions, below the tentative minimum tax.

(l) This section shall remain in effect regardless of the expiration or repeal of Section 47 of the Internal Revenue Code, relating to rehabilitation credit.

(m) The California Tax Credit Allocation Committee and the Office of Historic Preservation may charge a reasonable fee in an amount that does not exceed the reasonable costs incurred by the California Tax Credit Allocation Committee and the Office of Historic Preservation in fulfilling the responsibilities described in paragraphs (3) and (4) of subdivision (g) and subdivision (h) and paragraphs (3) and (4) of subdivision (g) and subdivision (h) of Section 23692.

(n) (1) For purposes of complying with Section 41, for this section and Section 23692, the Legislature finds and declares:

(A) The specific goal and purpose of these credits are to help address the high costs of rehabilitating California's historic buildings while preserving their cultural significance and stimulating economic growth.

(B) The data used for the Legislature to evaluate whether the credits are achieving the intended goal are all of the following:

(i) The number of jobs created by the rehabilitation project, both during and after the rehabilitation of the structure.

(ii) The expected increase in state and local tax revenue derived from the rehabilitation project, including those from increased wages and property taxes.

(iii) Any additional incentives or contributions included in the rehabilitation project from federal, state, or local governments.

(2) To assist the Legislature in determining whether the credits fulfil the goal and purpose stated in subparagraph (A) of paragraph (1), and provided the amount of credit allowed under this section was greater than zero dollars ($0) pursuant to subdivision (o), the Legislative Analyst's Office shall collaborate with the Office of Historic Preservation and the California Tax Credit Allocation Committee to review the effectiveness of the tax credits for taxable years beginning on or after January 1, 2027, and before January 1, 2031, using the indicators described in subparagraph (B) of paragraph (1) and shall submit the review to the Legislature on or before July 1, 2032, in compliance with Section 9795 of the Government Code.

~~(n)~~

(o) (1) This section shall remain in effect only until December 1, ~~2031,~~ *2032,* and as of that date is repealed.

(2) Unless otherwise specified in any bill providing for appropriations related to the Budget Act, for taxable years beginning on or after January 1, 2027, and before January 1, 2031, the amount of credit allowed pursuant to this section shall be zero dollars ($0).

SEC. 3. Section 23692 is added to the Revenue and Taxation Code, to read:

23692. For each taxable year beginning on or after January 1, 2027, and before January 1, 2031, there shall be allowed to a taxpayer that receives a tax credit allocation a credit against the "tax," as defined in Section 23036, in an amount determined in accordance with Section 47 of the Internal Revenue Code, except as otherwise provided in this section.

(a) (1) In lieu of the amount of credit computed pursuant to Section 47(a) of the Internal Revenue Code, the amount of credit for the taxable year shall be 20 percent of the qualified rehabilitation expenditures with respect to a certified historic structure.

(2) The maximum credit allowed pursuant to this section shall not exceed five million dollars ($5,000,000) per taxpayer.

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

(1) "Certified historic structure" has the same meaning as defined in Section 47(c)(3) of the Internal Revenue Code, that is a structure in this state and is listed on the California Register of Historical Resources.

(2) (A) "Qualified rehabilitation expenditure" has the same meaning as that term is defined in Section 47(c)(2) of the Internal Revenue Code, except that qualified rehabilitation expenditures may include expenditures in connection with the rehabilitation of a building without regard to whether any portion of the building is or is reasonably expected to be tax-exempt use property.

(B) The amendments made by Section 13402(b)(1)(B) of the Tax Cuts and Jobs Act of 2017 (Public Law 115-97) to Section 47(c)(2)(B)(iv) of the Internal Revenue Code, relating to certified historic structure, shall not apply.

(c) (1) To be eligible for the credit allowed by this section, a taxpayer shall request a tax credit allocation from the California Tax Credit Allocation Committee, in conjunction with the Office of Historic Preservation.

(2) To obtain a tax credit allocation, the taxpayer shall provide necessary information, as determined by the Office of Historic Preservation and the California Tax Credit Allocation Committee.

(3) A tax credit allocation provided to a taxpayer shall not constitute a determination by the California Tax Credit Allocation Committee with respect to any of the requirements of this section regarding a taxpayer's eligibility for the credit authorized by this section.

(4) The Office of Historic Preservation shall establish in regulations the time period that a taxpayer who receives a tax credit allocation must commence rehabilitation after the issuance of the tax credit allocation. If rehabilitation is not commenced within the time period established by the office, the tax credit allocation shall be forfeited and the credit amount associated with the tax credit allocation shall be treated as an unused allocation tax credit amount.

(d) A deduction shall not be allowed under this part for any expense for which a credit for that expense is allowed by this section.

(e) If a credit is allowed under this section with respect to any property, the basis of that property shall be reduced by the amount of the credit allowed.

(f) (1) A credit allowed under this section shall be claimed in the first taxable year in which the structure is placed in service.

(2) In the case where the credit allowed by this section exceeds the "tax," the excess may be carried over to reduce the "tax" in the following year, and the seven succeeding years, if necessary, until the credit is exhausted.

(g) For purposes of this section, the Office of Historic Preservation shall do all of the following:

(1) Adopt regulations to implement the requirements of this section. The regulations shall comply with the requirements of the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).

(2) Establish a written application, on a form jointly prescribed by the office and the California Tax Credit Allocation Committee, for the allocation of the tax credit. The written application shall require the applicant to include a summary of the expected economic benefits of the project. The economic benefits shall include, but are not limited to, all of the following:

(A) The number of jobs created by the rehabilitation project, both during and after the rehabilitation of the structure.

(B) The expected increase in state and local tax revenues derived from the rehabilitation project, including those from increased wages and property taxes.

(C) Any additional incentives or contributions included in the rehabilitation project from federal, state, or local governments.

(3) Establish a process to determine that applicants meet the requirements of this section and to ensure that the rehabilitation project meets the Secretary of the Interior's Standards for Rehabilitation, as found in Part 67 of Title 36 of the Code of Federal Regulations.

(4) Establish a process to approve, or reject, all tax credit allocation applications.

(h) For purposes of this section, the California Tax Credit Allocation Committee shall do all of the following:

(1) Establish a process jointly with the Office of Historic Preservation to implement the provisions of this section.

(2) (A) Subject to the amount of funding made available as described in subdivision (n), allocate on a first-come-first-served basis an aggregate amount of credits under this section and Section 17053.92, and allocate any carryover of unallocated credits from prior years.

(B) A taxpayer shall be allocated a tax credit pursuant to the taxpayer's tax credit allocation upon receipt by the California Tax Credit Allocation Committee of a cost certification for the qualified rehabilitation expenditures. For projects with qualified rehabilitation expenditures in excess of two hundred fifty thousand dollars ($250,000), the cost certification shall be issued by a licensed certified public accountant.

(3) Certify tax credits allocated to taxpayers.

(4) Provide the Franchise Tax Board an annual list of the taxpayers that were allocated a credit pursuant to this section and Section 17053.92 including each taxpayer's taxpayer identification number, and the amount allocated to each taxpayer.

(i) In the case of any application for tax credits by an entity treated as a partnership for income tax purposes:

(1) Credits awarded to a partnership shall be allocated to the partners of that partnership in accordance with the partnership agreement, regardless of how the federal historic rehabilitation tax credit with respect to the project is allocated to the partners, or whether the allocation of the credit under the terms of the partnership agreement has substantial economic effect, within the meaning of Section 704(b) of the Internal Revenue Code.

(2) To the extent the allocation of the credit to a partner under this section lacks substantial economic effect, any loss or deduction otherwise allowable under this part that is attributable to the sale or other disposition of that partner's partnership interest made prior to the expiration of the tax credit recapture period for the project described in paragraph (1) shall not be allowed in the taxable year in which the sale or other disposition occurs, but shall instead be deferred until, and treated as if, it occurred in the first taxable year immediately following the taxable year in which the tax credit recapture period expires for the project described in paragraph (1). The credits awarded to a partnership shall be allocated to the partners of that partnership in accordance with the partnership agreement.

(j) For purposes of this section, the provisions of subsection (a) of Section 50 of the Internal Revenue Code shall apply.

(k) Notwithstanding any other provision of this part, a credit allowed pursuant to this section may reduce the "tax" below the tentative minimum tax, as defined by paragraph (1) of subdivision (a) of Section 23455.

(l) This section shall remain in effect regardless of the expiration or repeal of Section 47 of the Internal Revenue Code, relating to rehabilitation credit.

(m) The California Tax Credit Allocation Committee and the Office of Historic Preservation may charge a reasonable fee in an amount that does not exceed the reasonable costs incurred by the California Tax Credit Allocation Committee and the Office of Historic Preservation in fulfilling the responsibilities described in paragraphs (3) and (4) of subdivision (g) and subdivision (h) and paragraphs (3) and (4) of subdivision (g) and subdivision (h) of Section 17053.92.

(n) (1) This section shall remain in effect only until December 1, 2031, and as of that date is repealed.

(2) Unless otherwise specified in any bill providing for appropriations related to the Budget Act, for taxable years beginning on or after January 1, 2027, and before January 1, 2031, the amount of credit allowed pursuant to this section shall be zero dollars ($0).

~~SEC. 4. It is the intent of the Legislature to comply with Section 41 of the Revenue and Taxation Code.~~

~~**SEC. 5.**~~***SEC. 4.*** This act provides for a tax levy within the meaning of Article IV of the California Constitution and shall go into immediate effect.