An act to add Sections 17276.23 and 24416.23 to the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.
THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 17276.23 is added to the Revenue and Taxation Code, to read:

  17276.23. (a) Notwithstanding Sections 17276, 17276.1, 17276.4, 17276.7, and 17276.22, former Sections 17276.2, 17276.5, 17276.6, and 17276.20, and Section 172 of the Internal Revenue Code, a net operating loss deduction shall not be allowed for any taxable year beginning on or after January 1, 2020, and before January 1, 2023.

  (b) For any net operating loss or carryover of a net operating loss for which a deduction is denied by subdivision (a), the carryover period under Section 172 of the Internal Revenue Code shall be extended as follows:

       (1) By one year, for losses incurred in taxable years beginning on or after January 1, 2021, and before January 1, 2022.

       (2) By two years, for losses incurred in taxable years beginning on or after January 1, 2020, and before January 1, 2021.

       (3) By three years, for losses incurred in taxable years beginning before January 1, 2020.

  (c) This section shall not apply as follows:

       (1) For a taxable year beginning on or after January 1, 2020, and before January 1, 2023, this section shall not apply to a taxpayer with a net business income of less than one million dollars ($1,000,000) for the taxable year.

       (2) For a taxable year beginning on or after January 1, 2020, and before January 1, 2023, this section shall not apply to a taxpayer with a modified adjusted gross income of less than one million dollars ($1,000,000) for the taxable year.

  (d) For purposes of this section:

       (1) “Business income” means any of the following:

              (A) Income from a trade or business, whether conducted by the taxpayer or by a passthrough entity owned directly or indirectly by the taxpayer.

              (B) Income from rental activity.

              (C) Income attributable to a farming business.

       (2) “Modified adjusted gross income” means the amount described in paragraph (2) of subdivision (h) of Section 17024.5, determined without regard to the deduction allowed under Section 172 of the Internal Revenue Code, relating to net operating loss deduction.

       (3) “Passthrough entity” means a partnership or an S corporation.

SEC. 2. Section 24416.23 is added to the Revenue and Taxation Code, to read:

  24416.23. (a) Notwithstanding Sections 24416, 24416.1, 24416.4, 24416.7, and 24416.22, former Sections 24416.2, 24416.5, 24416.6, and 24416.20, and Section 172 of the Internal Revenue Code, a net operating loss deduction shall not be allowed for any taxable year beginning on or after January 1, 2020, and before January 1, 2023.

  (b) For any net operating loss or carryover of a net operating loss for which a deduction is denied by subdivision (a), the carryover period under Section 172 of the Internal Revenue Code shall be extended as follows:

       (1) By one year, for losses incurred in taxable years beginning on or after January 1, 2021, and before January 1, 2022.

       (2) By two years, for losses incurred in taxable years beginning on or after January 1, 2020, and before January 1, 2021.
(3) By three years, for losses incurred in taxable years beginning before January 1, 2020.

(c) The disallowance of any net operating loss deduction for any taxable year beginning on or after January 1, 2020, and before January 1, 2023, pursuant to subdivision (a) shall not apply to a taxpayer with income subject to tax under this part of less than one million dollars ($1,000,000) for the taxable year.

SEC. 3. This act provides for a tax levy within the meaning of Article IV of the California Constitution and shall go into immediate effect.
LEGISLATIVE COUNSEL’S DIGEST

Bill No.
as introduced, _____.
General Subject: Income taxes: net operating loss deduction.

The Personal Income Tax Law and the Corporation Tax Law, in modified conformity with federal income tax laws, allow various deductions in computing the income that is subject to the taxes imposed by those laws, including a deduction for a net operating loss, as specified.

This bill would, subject to certain exceptions related to a taxpayer’s income, disallow, under both laws, a net operating loss deduction for any taxable year beginning on or after January 1, 2020, and before January 1, 2023, and would extend the carryover period for a net operating loss deduction disallowed by that provision, as specified.

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

This bill would take effect immediately as a tax levy.