STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Tangipa

Sponsor:

Bill Number: AB 1431

Related Bills: See Legislative History

Amended: April 28, 2025

SUBJECT

Rural Medical Care Professionals Tax Credit

SUMMARY

This bill, under the Personal Income Tax Law (PITL), for each taxable year beginning on or after January 1, 2026, and before January 1, 2031, would allow a tax credit to a qualified taxpayer for paid monetary compensation, for medical services performed in a rural area in the state by the qualified taxpayer and authorized under the qualified taxpayer's license.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

The April 28, 2025, amendments changed the operative date, defined the term "medical services", added detailed performance indicators and added a Section 41 reporting due date. The April 28, 2025, amendments resolved the technical and policy considerations discussed in the Franchise Tax Board's (FTB's) analysis of the bill as introduced February 21, 2025, and created an additional policy consideration.

REASON FOR THE BILL

The reason for the bill is to provide a tax credit to employees providing medical services in rural areas.

ANALYSIS

Under the PITL, for each taxable year beginning on or after January 1, 2026, and before January 1, 2031, this bill would allow a tax credit to a qualified taxpayer equal to the taxpayer's qualified income, not to exceed $5,000 per taxable year.

The bill defines the following terms:

- "Medical services" means the diagnosis, treatment, and prevention of illness, injury, or other physical or mental conditions performed by a qualified taxpayer who is physically present while providing those services.
    - Medical services include, but are not limited to, doctor visits, hospital care, surgeries, mental health therapy, rehabilitative treatments.
    - Medical services do not include elective cosmetic procedures or telehealth services.
- "Qualified income" means monetary compensation paid to a qualified taxpayer for medical services performed in a rural area in the state by the qualified taxpayer and authorized under the qualified taxpayer's license.
- "Qualified taxpayer" means an individual who is licensed in the state as any of the following professions under Division 2 of the Business and Professions Code:
    - A dental hygienist licensed under Article 9 of Chapter 4.
    - A certified nurse-midwife licensed under Article 2.5 of Chapter 6.
    - A chiropractor licensed under Chapter 2.
    - A dentist, including a dentist that performs oral and maxillofacial surgery, licensed under Chapter 4.
    - A doctor of podiatric medicine licensed under Article 22 of Chapter 5.
    - An optometrist licensed under Chapter 7.
    - An osteopathic physician and surgeon licensed under Article 4.5 of Chapter 5.
    - A physical therapist licensed under Chapter 5.7.
    - A physician and surgeon licensed under Chapter 5.
    - A physician assistant licensed under Chapter 7.7.
    - A psychologist licensed under Chapter 6.6.
    - A registered nurse or nurse practitioner licensed under Chapter 6.
    - A speech-language pathologist or audiologist licensed under Chapter 5.3.
- "Rural area" as defined in the Health and Safety Code (HSC) section 50199.21.

The bill specifies that any deduction or credit otherwise allowed, for any amount of qualified income upon which the credit is based, must be reduced by the amount of this credit.

Unused credits may be carried over for eight years until the credit is exhausted.

This bill would require that qualified taxpayers report to the FTB, upon request, and in the form and manner specified by the FTB, any information regarding allowed credits that is necessary for the FTB to administer the credit.

This credit would be repealed on December 1, 2031.

The bill, for purposes of complying with the Revenue and Taxation Code (RTC) section 41 requirements, this bill would require the FTB to submit a report to the Legislature on or before January 1, 2030, that include the following information:

- The total dollar amount of tax credit allowed, and
- The number of taxpayers that were allowed a credit.

The Section 41 reporting requirements would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment, and specifically operative for taxable years beginning on or after January 1, 2026, and before January 1, 2031.

Federal/State Law

Existing federal and state laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Current state and federal laws generally allow taxpayers engaged in a trade or business to deduct all expenses that are considered ordinary and necessary in conducting that trade or business.

Currently, there are no federal or state credits comparable to the credit this bill would create.

Section 41

Under existing state law, legislation that would create a new tax expenditure, which includes a credit, deduction, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, detailed performance indicators and data collection requirement measures to allow the Legislature to evaluate the effectiveness of the tax benefit. Legislation that would create an income exclusion is not required to provide detailed performance indicators and data collection requirement measures if the Legislature determines there is no available data to collect and report.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

The FTB has identified the following policy consideration and is available to work with the author's office to resolve this and other considerations that may be identified.

This bill would require the FTB to prepare a one-time report on or before January 1, 2030, and would be prepared with data available as of fall of 2029. If the author's intent is to view a report that contains complete information for taxable years 2026 through 2030, the author may wish to extend the report due date to no earlier than July 2032.

LEGISLATIVE HISTORY

AB 918 (Ransom, 2025/2026), under the PITL, would for taxable years beginning on or after January 1, 2025, and before January 1, 2030, exclude from gross income qualified wages of a qualified first responder. This bill was held in the Assembly Revenue and Taxation Committee.

AB 1057 (Rodriguez, 2025/2026), under the PITL, would for taxable years beginning on or after January 1, 2025, and before January 1, 2030, exclude from gross income qualified overtime wages received by a qualified taxpayer. This bill was held in the Assembly Revenue and Taxation Committee.

AB 1124 (Bains, 2025/2026), under the PITL, would for taxable years beginning on or after January 1, 2025, and before January 1, 2030, exclude from gross income qualified overtime wages of a qualified first responder. This bill has been referred to the Assembly Revenue and Taxation Committee.

AB 1456 (Patterson, 2023/2024) would have, under the PITL, and the Corporation Tax Law, allowed a qualified taxpayer, a $500 credit per qualified guest lecture, not to exceed $1000 per taxable year. AB 1456 did not pass out of the Assembly by the Constitutional deadline.

AB 895 (Halderman & Portantino, 2011/2012), would have allowed an income tax credit for a physician and surgeon who provides emergency medical services, as specified. AB 895 did not pass out of the Assembly by the Constitutional deadline.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 1431 as Amended April 28, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$60
2026-2027	-$110
2027-2028	-$110

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Assembly Committee on Revenue and Taxation, dated May 2, 2025.

Support

California Association of Medical Product Suppliers

Opposition

California Teachers Association

ARGUMENTS

Assembly Committee on Revenue and Taxation, dated May 2, 2025.

Proponents

The bill is supported by the California Association of Medical Product Suppliers, noting in part:

> Rural areas have been faced with shortages of medical providers for decades which has resulted in the closure of several of our member companies. Contributing to the shortage of medical professionals in rural areas is the reality that more people are living longer thereby increasing the demand for healthcare services and professionals statewide and across the nation. California has not been able to keep up with the need for additional investments in training to ensure an adequate number of slots for students in medical schools, nursing schools and other medical education programs. And it's important to recognize that many communities are still feeling the affects from the COVID-19 pandemic when many healthcare workers left the profession due to physical and emotional exhaustion and worries about transmitting the virus to loved ones at home.

Opponents

The bill is opposed by the California Teachers Association (CTA), noting in part:

> According to the Department of Finance, the state provided over $91.5 billion in General Fund tax expenditures in 2024-25 (including income, sales and use, corporate and other taxes). This number continues to grow each year. This revenue would have otherwise gone to the General Fund, of which, approximately 39 percent would have gone toward Proposition 98 for K-14 education. Due to existing tax expenditures, approximately $35 billion is redirected away from schools and community colleges each year.

While we understand these bills are well intended, CTA does not support this approach, as it would reduce overall funding for education. CTA believes Proposition 98 should be protected from reductions through the creation of new or expanding existing tax expenditures.

LEGISLATIVE CONTACT

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