STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Nguyen

Sponsor:

Related Bills: See Legislative History

Bill Number: AB 1435

Introduced: February 21, 2025

SUBJECT

Business Cleanup Costs Tax Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and Corporate Tax Law (CTL), for taxable years beginning on or after January 1, 2026, and before January 1, 2031, provide a tax credit to a qualified taxpayer in an amount equal to qualified cleanup expenditures paid or incurred during the taxable year.

RECOMMENDATION

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

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for the bill is to provide financial relief for cleanup expenditures related to unauthorized encampment and illegal dumping.

ANALYSIS

Under the PITL and CTL, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, this bill would provide a credit to a qualified taxpayer for an amount equal to the qualified cleanup expenditures paid or incurred during the taxable year.

The bill defines the following:

- "Qualified cleanup expenditures" means costs directly related to the removal and disposal of unauthorized encampments, illegal dumping, and abandoned property in the state. Cost may include, but not be limited to the following:
  - o Waste removal and disposal services.
  - o Sanitization and restoration of property.
  - o Security measures necessitated by the cleanup, such as temporary fencing, security gates, or surveillance.
  - o Repairs to property caused by damage from encampments or illegal dumping.
  - o Installation measures to prevent re-encampments or entry, such as riprap or other material.
- "Qualified taxpayer" means a business entity owning or leasing real property in the state impacted by unauthorized encampments, illegal dumping, or abandoned property.

This bill would, upon the request of the Franchise Tax Board (FTB), require the taxpayer to provide the following documentation:

- The condition of the real property before the cleanup, and
- Detailed invoices or receipts from contractors or service providers performing the cleanup.

In addition, this bill would require a qualified taxpayer to certify, under the penalty and perjury, that the expenses were incurred for qualifying activities under the section.

This bill would authorize the FTB to prescribe rules, guidelines, procedures or other guidance to carry out the purpose of this bill. In addition, the FTB, may prescribe any regulations necessary and appropriate to carry out the purposes of the bill, including any regulations to prevent improper claims from being filed.

This bill would exempt the FTB's rules, guidelines, procedures or other guidance from the requirements of the Administrative Procedure Act (APA).

In addition, the adoption of these regulations, may be adopted as emergency regulations in accordance with the rule making provision of the APA and shall be deemed an emergency and necessary for the immediate preservation of the public peace, health and safety, and general welfare. However, the emergency regulations shall not be subject to the review and approval of the Office of Administrative Law (OAL) and shall become effective immediately upon filing with the Secretary of the State and would remain in effect until revised or repealed by the FTB.

This bill includes language to comply with Revenue and Taxation Code (RTC) section 41, which provides the goal of the credit is to provide support to businesses by encouraging timely action and ensuring properties remain safe and accessible. The performance indicators would be the number of taxpayers allowed the credit, and the total dollar value of credit allowed.

The bill would also require the FTB to submit a report to the Legislature on or before December 1, 2027, and annually thereafter, detailing the number of taxpayers allowed the credit and the total value of credit allowed.

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

The credit would be repealed on December 1, 2031.

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 state and federal 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.

Currently, federal and state laws have no credit comparable to the Business Cleanup Costs Tax Credit.

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 requirements to allow the Legislature to evaluate the effectiveness of the tax benefit. Legislation that would create an income exclusion would not require detailed performance indicators and data collection requirements performance measures if the Legislature determines there is no available data to collect and report.

Implementation Considerations

The FTB has identified the following considerations for purposes of a high-level discussion; additional considerations may be identified as the bill moves through the legislative process. FTB staff is available to work with the author's office to resolve these and other considerations that may be identified.

This bill uses undefined terms and phrases, e.g., "business entity", "unauthorized encampments", "illegal dumping", and "abandoned property". The absence of definitions could lead to taxpayer confusion. For clarity the author may wish to amend the bill to define these terms.

This bill requires the FTB to prepare a report on the performance of the credit allowed by this bill no later than December 1, 2027, and each year thereafter. If the author's intent is to review a report that contains complete information for the 2026 taxable year, it is recommended that the reporting due date be extended to no earlier than April of 2029. This date allows time for the FTB to complete processing of both personal income tax returns and corporation returns that file on a fiscal year basis. Corporate filers that file on extension may file as late as October 15, 2028. The FTB needs approximately six months to complete return processing and to compile the needed data to prepare a report. As a result, it is recommended that the reporting due date be no earlier than April of 2029 to provide complete information for the 2026 taxable year. If the reporting due date remains unchanged, the report would include the information available as of six months prior to the date the report is due.

Technical Considerations

For consistency and clarity, the following changes are recommended:

- In section 17053.76(a) and 23688(a) replace "expenditures" with "expenses".
- In Sections 17053.76(a) and 23688(a) delete "that term is".
- In Sections 17053.76(d) and 23688(d) replace "incurred" with "paid or incurred".

In Sections 17053.76(e)(1) and 23688(e)(1) remove the language, "The FTB may prescribe rules, guidelines, procedures, or other guidance to carry out the purpose of this section." as FTB already has this authority.

Remove RTC sections 17053.76(e)(2) and 23688(e)(2) as FTB already has the authority in subparagraph (A).

Policy Considerations

This bill does not provide a carryover period. As a result, any unused credit would be lost if the taxpayer is unable to utilize the entire credit amount in the year claimed. Generally, experience shows that credits are exhausted within five to eight years of being earned. The author may wish to add language to allow a limited carryover period.

This bill would allow a credit for qualified expenditures that could be deductible as business expenses. Generally, a credit is allowed in lieu of a deduction to eliminate multiple tax benefits for the same item of expense. Providing both a credit and allowing the full amount to be deducted would have the effect of providing a double benefit for the same item. If this is contrary to the author’s intent, the author may wish to amend the bill.

This bill would allow a credit for qualified expenditures that could be reimbursed by insurance, if this is not the author’s intent, the bill should be amended to specify that “unreimbursed” expenses qualify for the credit.

This bill does not limit the amount of credit that may be claimed. This bill provides that the credit allowed per qualified taxpayer shall be an amount equal to the qualified cleanup expenditures paid or incurred during the taxable year. The bill would allow a 100% credit, which would be unusual. If this contrary to the author’s intent, the author may wish to amend the bill.

LEGISLATIVE HISTORY

AB 976 (Farias, 2025/2026) would, under the PITL and CTL, allow a credit to qualified taxpayers in an amount equal to a taxpayer’s qualified retail theft prevention measure expenses, limited to $4,000, for taxable years beginning on or after January 1, 2026, and before January 1, 2028. AB 976 is currently in the Assembly committee process and has been placed in the suspense file.

AB 1431 (Tangipa, 2025/2026) would, under the PITL, allow a credit, not to exceed $5,000, to a qualified taxpayer for moneys paid by an employer for medical services performed in rural area of the state and authorized under the qualified taxpayer’s license for taxable year beginning on or after January 1, 2025, and before January 1, 2032. AB 1431 is currently in the Assembly committee process and has been placed in the suspense file.

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 determined.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 1435 as Introduced February 21, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$9.5
2026-2027	-$23.0
2027-2028	-$24.0

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.

Revenue Discussion

Based on available data, it is estimated that in total government, business entities, and individuals would spend about $70 million on homeless encampment cleanup costs in the 2026 taxable year. Of that amount, it is estimated 35%, or $25 million, would be paid or incurred by a qualified business entity for qualified costs resulting in a credit generated of an equal amount, or $25 million, in the 2026 taxable year.

It is estimated that 85%, or $21 million, of the credit generated, would be earned by taxpayers with sufficient tax liability to offset with the credit. Of that amount 95%, or $20 million, would be claimed in the year generated and the remaining credit would go unused.

The tax year estimates are converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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