



Bill Analysis

Author: Nguyen

Sponsor:

Bill Number: AB 1606

Related Bills: See Legislative
History

Introduced: January 20, 2026

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, 2027, and before January 1, 2032, provide a tax credit to a qualified taxpayer in an amount equal to qualified cleanup expenses paid or incurred during the taxable year, not to exceed \$20,000 for taxpayers subject to the PITL and without limitation for taxpayers subject to the CTL.

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 expenses related to unauthorized encampment and illegal dumping.

ANALYSIS

Under the PITL and CTL, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, this bill would provide a credit to a qualified taxpayer for an amount equal to the qualified cleanup expenses paid or incurred during the taxable year. For taxpayers under the PITL, the credit could not exceed \$20,000. For taxpayers under the CTL, the credit would not have a dollar amount limitation.

The bill defines the following:

- “Qualified cleanup expenses” means costs directly related to the one-time removal and disposal of unauthorized encampments, illegal dumping, and abandoned property in the state, provided the costs are paid or incurred within 60 days of discovery. Costs would be limited to the following:
 - Waste removal and disposal services.
 - Sanitization and restoration of property as necessary to restore the property to its pre-encampment condition.
 - Security measures installed as a temporary and nonpermanent measure directly related to the immediate cleanup, such as temporary fencing or temporary security gates. Ongoing monitoring, surveillance equipment, or security service contracts shall not qualify.
 - Repairs to property caused by damage from encampments or illegal dumping, excluding property improvements or upgrades.
 - Under the PITL, installation of passive deterrent measures to prevent re-encampments or entry, such as riprap or other material, excluding permanent construction or new structures. Under the CTL, installation of measures to prevent re-encampments or entry, such as riprap or other material, excluding permanent construction or new structures.
- “Qualified cleanup expenses” would not include either of the following:
 - Ongoing or unrelated maintenance, permanent security systems, construction of new structures, and other capital improvements.
 - Compensation paid to the taxpayer’s employees, independent contractors, or other personnel for services performed in the normal course of employment or lease obligations.
- “Qualified taxpayer” means:
 - Under the PITL a business entity, including an individual operating as a sole proprietorship, owning or leasing real property used for commercial purposes in the state impacted by unauthorized encampments, illegal dumping, or abandoned property.
 - Under the CTL, a taxpayer owning or leasing real property used for commercial purposes 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 of perjury, that the expenses were paid or incurred as a direct result of unauthorized encampments, illegal dumping, or abandoned property on the taxpayer's real property were not caused or contributed by the taxpayer or related parties, the real property address associated with the claimed expenses, whether the taxpayer is the property owner or a lessee, and that such expenses meet all of the qualifications in the bill.

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

The bill provides that a deduction would not be allowed for any amount taken into account in the computation of this credit.

In addition, a qualified taxpayer may not claim a credit for any qualified expenses paid or incurred by another taxpayer who has also claimed a credit provided by this bill. If two or more taxpayers are eligible for the same qualified cleanup expenses, the credit shall only be allowed to the taxpayer who directly incurred and paid for the expenses and retains documentary evidence demonstrating payment.

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 July 1, 2029, 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, 2032.

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, 2027, and before January 1, 2032.

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.

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.

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.

Technical Considerations

In RTC section 23688(d), replace "taxpayer's real property not caused or contributed to" with "taxpayer's real property and were not caused or contributed to".

Remove RTC sections 17053.76(g) and 23688(g) as this language is unnecessary and could lead to taxpayer confusion. Generally qualified expenses are claimed by a taxpayer that paid or incurred the expense during the taxable year.

This bill uses the terms "qualified taxpayer" and "taxpayer" interchangeably. For clarity, the author should amend the bill to use exclusively "qualified taxpayer".

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 expenses 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 would provide a credit limit of \$20,000 under the PITL, however the bill does not limit the amount of credit for corporations under the CTL. If this is contrary to the author's intent, the author may wish to amend the bill to apply the \$20,000 credit limit to corporations, as well.

This bill provides that the credit allowed shall be an amount equal to the qualified cleanup expenses paid or incurred during the taxable year. The bill would allow a 100 percent credit, which would be unusual. If this is contrary to the author's intent, the author may wish to amend the bill.

This bill defines "qualified cleanup expenses" under the PITL to include the installation of *passive deterrent measures* to prevent re-encampments, and under the CTL to include the installation of *measures* to prevent re-encampments. If this is 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 did not pass out of the Assembly by the constitutional deadline.

AB 1431 (Tangipa, 2025/2026) would, under the PITL, allow a credit, not to exceed \$5,000, to a qualified taxpayer for monetary compensation paid by an employer for medical services performed in rural area of the state and authorized under the qualified taxpayer's license for taxable years beginning on or after January 1, 2026, and before January 1, 2031. AB 1431 did not pass out of the Assembly by the constitutional deadline.

AB 1435 (Nguyen, 2025/2026) a similar bill, would have under the PITL and CTL, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, provided a tax credit to a qualified taxpayer in an amount equal to qualified cleanup expenses paid or incurred during the taxable year, not to exceed \$20,000 for taxpayers subject to the PITL and without limitation for taxpayers subject to the CTL. AB 1435 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 determined.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:
Assumed Enactment after June 30, 2026

(\$ in Millions)

Fiscal Year	Revenue*
2026-2027	-\$7.2
2027-2028	-\$16.0
2028-2029	-\$17.0

*This estimate assumes that members/shareholders of pass-through entities would receive and claim the pro rata share of any credit generated by the business.

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 \$80 million on homeless encampment cleanup costs in the 2027 taxable year. Of that amount, it is estimated that 25 percent, or \$20 million, would be paid or incurred by a qualified taxpayer for qualified cleanup expenses resulting in a credit generated of an equal amount, or \$20 million in the 2027 taxable year.

It is estimated that 85 percent, or \$17 million, of the credit generated would be earned by taxpayers with sufficient tax liability to offset with the credit. Of that amount, 95 percent, or \$16 million, would be claimed in the year generated and the remaining credit would go unused.

To arrive at the offsetting tax effect of expense deduction that would otherwise be allowed under current law, it is estimated that qualified taxpayers would be able to deduct approximately \$20 million in qualified expenses in taxable year 2027. Applying an average tax rate of 7 percent results in an offsetting revenue gain of \$1.4 million. The resulting net revenue loss, for taxable year 2027, would be \$15 million.

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.

ARGUMENTS

To be determined.

SUPPORT/OPPOSITION

To be determined.

LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov