



## Bill Analysis

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Sponsor:

Bill Number: AB 1869

Related Bills: See Legislative  
History

Amended: April 14, 2026

### SUBJECT

Real Estate Investment Trusts' (REIT) Management Activities

### SUMMARY

Effective January 1, 2027, this bill would, under the Corporate Tax Law (CTL), allow employees of lodging facilities to provide evidence to the Labor Commissioner or their designee that a REIT or its subsidiary is operating or managing the facility, require the Labor Commissioner or designee to provide a written response to the employee, and require that response to be forwarded to the Franchise Tax Board (FTB).

### 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 14, 2026, amendments removed the modified definition of impermissible tenant service income (ITSI), modified the days of receipt response, removed the FTB from the written response responsibilities, and added the Labor Commissioner (or their designee) as the responsible agency that must respond to the affected employee (or representative).

### REASON FOR THE BILL

The reason for the bill is to allow employees to report potential operating or managing activities by a REIT to the Labor Commissioner (or their designee) and receive a written response to the reporting.

### ANALYSIS

This bill would, under the CTL, allow affected employees at a lodging facility to provide evidence to the Labor Commissioner or their designee that a REIT or taxable REIT subsidiary is directly or indirectly operating or managing a lodging facility by doing any of the following activities:

- Exercising, or reserving the right to exercise, control over wages, hours, or working conditions of employees at a lodging facility.

- Exercising control over the discretion of another entity, including an eligible independent contractor as defined in Section 856(d)(9)(A) of the Internal Revenue Code, to establish any aspect of the wages, hours, or working conditions of employees at the lodging facility.
- Exercising, or reserving the right to exercise, control over the negotiation, approval, or application of any collective bargaining agreement covering employees at the lodging facility.

This bill would also require the Labor Commissioner (or designee) to receive evidence submitted by an affected employee or representative at a lodging facility that a REIT or taxable REIT subsidiary is directly or indirectly operating or managing a lodging facility. The Labor Commissioner (or designee) must confirm receipt and provide a written response within 45 days of receipt. The response must then be forwarded to the FTB.

#### *Effective/Operative Date*

This bill would be effective and operative January 1, 2027.

#### *Federal/State Law*

#### *Federal Law*

#### *In general*

REITs are structured as entities that meet specific organization requirements and are generally restricted to those entities investing in passive investments, primarily in real estate and securities.

A REIT must satisfy four conditions on a year-by-year basis: organizational structure, source of income, nature of assets, and distribution of income. Whether the REIT meets the asset conditions is generally measured each quarter.

#### *Organizational structure requirements*

To qualify as a REIT, an entity must be for its entire taxable year, a corporation or an unincorporated trust or association that would be taxable as a domestic corporation if the REIT provisions were unavailable, and must be managed by one or more trustees. Except for the first taxable year when an entity elects to be a REIT, the beneficial ownership of the entity must be held by 100 or more persons, and the entity may not be so closely held by individuals that it would be treated as a personal holding company if all its adjusted gross income constituted personal holding company income. A REIT is required to comply with regulations to ascertain the actual ownership of the REIT's outstanding shares.

### *Income requirements*

For an entity to qualify as a REIT, at least 95 percent of its gross income generally must be derived from certain passive sources (the "95 percent income test"). In addition, at least 75 percent of its income generally must be from certain real estate sources (the "75 percent income test"), including rents from real property (as defined) and gain from the sale or other disposition of real property, and income and gain derived from foreclosure property.

Rents from real property do not include any ITSI. ITSI means, with respect to any real or personal property, any amount received accrued directly or indirectly by the REIT for services furnished or rendered by the trust to the tenants of such property, or managing or operating such property. If ITSI from a property exceeds 1 percent of the total amounts received or accrued for that property during the taxable year, all income from such property is treated as other than rents from real property.

### *State Law*

#### *REITS*

California generally conforms to federal REIT rules as of the specified date of January 1, 2025, with modifications. However, California law provides that a corporation, trust, or association that is a REIT for any taxable year for federal purposes is automatically a REIT for California purposes for the same taxable year. Conversely, a corporation, trust, or association that is not a REIT for any taxable year for federal purposes is automatically not a REIT for California purposes for the same taxable year.

#### *Tax Fraud/Tax Enforcement*

Under state law, the FTB is responsible for administering and enforcing the franchise and income tax laws under the Revenue and Taxation Code (RTC), including the identification and resolution of tax fraud (the intentional underreporting or failing to report income). In general, the FTB's enforcement activity includes the audit, protest, appeals, filing enforcement, collection, and criminal investigation programs. However, information on alleged tax fraud by an individual or business, including whistleblower complaints, can be submitted to the FTB by phone, fax, mail, or online.

#### *Implementation Considerations*

None noted.

*Technical Considerations*

The bill includes a reporting requirement for the Labor Commissioner that is not incorporated into the relevant Government or Labor Code section. For clarity and ease of reference, it is recommended that the bill be amended to be removed from the RTC section.

In Section 24872.4(c)(1), insert "(REIT)" after "real estate investment trust".

*Policy Considerations*

None noted.

**LEGISLATIVE HISTORY**

No legislation similar to this bill has been identified.

**PROGRAM BACKGROUND**

None noted.

**OTHER STATES' INFORMATION**

None noted.

**FISCAL IMPACT**

FTB anticipates minimal costs to implement this bill.

**ECONOMIC IMPACT***Revenue Estimate*

This bill as Amended April 14, 2026, would not impact the computation of state income or franchise tax.

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 Labor and Employment analysis, dated April 20, 2026

*Support*

California Federation of Labor Unions, AFL-CIO  
Unite Here International Union, AFL-CIO

*Opposition*

Advance San Francisco  
American Hotel and Lodging Association  
Building Owners and Managers Association of California  
California Business Properties Association  
California Business Roundtable  
California Chamber of Commerce  
California Hospitality United Coalition  
California Hotel and Lodging Association  
California Self Storage Association  
California Travel Association  
Hotel Association of Los Angeles  
Hotel Council of San Francisco  
Los Angeles Area Chamber of Commerce  
National Association of Real Estate Investment Trusts  
Orange County Hotel and Lodging Association  
San Diego County Lodging Association  
San Francisco Chamber of Commerce  
Self Storage Association

**ARGUMENTS**

Assembly Committee Labor and Employment analysis, dated April 20, 2026

*Proponents*

As proponents of the bill, California Federation of Labor Unions, AFL-CIO, writes in part:

REITs that own hotels benefit from a special tax-favored status intended for passive real estate investors. Under both federal law and the California Revenue and Taxation Code, lodging REITs are prohibited from directly or indirectly operating or managing the hotels they own. Instead, hotels must be operated by independent contractors so that the REIT remains a passive investor in real estate rather than an active hotel operator.

Unfortunately, some lodging REITs have crossed this line while continuing to claim the tax advantages associated with passive ownership. In many instances, REITs have become directly involved in operational decisions affecting hotel employees, including setting wages, working conditions, and collective bargaining strategies. These actions undermine the legal framework that allows REITs to receive preferential tax treatment in the first place.

### *Opponents*

As opponents of the bill, California Federation of Labor Unions, AFL-CIO, writes:

Real Estate Investment Trusts ("REITs") are legal entities specifically created to enable everyday people to pool their retirement savings to invest in large projects, like hotels. These may seem like large companies, but that's by design – millions of people, including 56 percent of Californians, invest their life savings into these entities directly and through retirement funds in the hopes of earning enough to retire, sending their children to college, and chasing their dreams. In turn, these REITs invest in hotels which fund local governments, create well-paying jobs for Californians, and support the local community.

Assembly Bill 1869 would jeopardize all of their futures and broader California hotel stability by undermining state conformity with federal law through a reporting provision which misrepresents and indirectly contravenes existing law. Under this bill, REITs which are acting within the law would face the threat of fines, penalties, and loss of tax status for standard contract terms and for possessing tools given to them by Congress to protect the interests of those everyday people who invest in hotel REITs. Further, this measure would force at least two state agencies to assume more costs via an unwieldy reporting scheme which would generate no additional compliance benefit.

### **LEGISLATIVE CONTACT**

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