



Bill Analysis

Author: Quirk-Silva

Sponsor:

Bill Number: AB 2205

Related Bills: See Legislative
History

Introduced: February 19, 2026

SUBJECT

Extend the New Employment Credit

SUMMARY

This bill, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), would extend the sunset date for the New Employment Credit (NEC) for five years to taxable years beginning before January 1, 2031, and the repeal date to December 1, 2034. This bill would also extend the exemption from the designated census tract or economic development area requirements for taxpayers in specified industries, who self-certify and provide verification, as specified, for five years to taxable years beginning before January 1, 2031.

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 extend the sunset date for the NEC to encourage businesses to hire employees and invest in California.

ANALYSIS

This bill would, under the PITL and CTL, modify the NEC by extending the sunset date for five years from taxable years beginning before January 1, 2026, to taxable years beginning before January 1, 2031. The credit's repeal date would also be extended five years from December 1, 2029, to December 1, 2034.

This bill would also extend the exemption from the designated census tract or economic development area requirements for specified “qualified taxpayers” for five years from taxable years beginning before January 1, 2026, to taxable years beginning before January 1, 2031.

This bill, for purposes of complying with Section 41, would require the Franchise Tax Board (FTB) to provide a written report to the Legislature on or before January 1, 2030, and annually thereafter, that includes the following information:

- The number of taxpayers allowed a credit, and
- The total dollar value of credits allowed.

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

Federal Law

Existing federal law provides special tax incentives for empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

State Law

For taxable years beginning on or after January 1, 2014, and before January 1, 2026, current state law allows a NEC that is available to a qualified taxpayer that hires a qualified full-time employee, has an overall net increase in employment, and pays or incurs qualified wages attributable to work performed by the qualified full-time employee in a designated census tract or former Enterprise Zone. The qualified taxpayer must receive a tentative credit reservation from the FTB for that qualified fulltime employee. Additionally, the FTB must provide a searchable database on its website reporting the name of the person or entity claiming the credit, the total amount of credit claimed, and the number of new jobs created.

For taxable years beginning on or after January 1, 2023, and before January 1, 2026, the NEC is expanded for qualified taxpayers meeting the following requirements:

- Engaged in semiconductor manufacturing or research and development that has applied, or intends to apply, for funding under the federal Creating Helpful Incentives to Product Semiconductors (CHIPS) Act of 2022 (NAICS Code category 3344)
- Engaged in electric airplane manufacturing that has received a sales and use tax exclusion as an electric vertical takeoff and landing (eVTOL) manufacturer (NAICS Code category 3364)
- Engaged in lithium production as defined under the California Lithium Extraction Tax Law (NAICS Codes 212390 or 325180)
- Engaged in lithium battery manufacturing as at least 50% of your primary business (NAICS Code 335910)

For the taxpayers meeting the above requirements, the following applies:

- A qualified full-time employee is not required to perform their services for the qualified taxpayer in a Designated Geographic Area (DGA).
- Qualified wages are that portion of wages paid by the qualified taxpayer during the taxable year to a qualified full-time employee that exceeds 100% but does not exceed 350% of California minimum wage.

Implementation Considerations

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

This bill, in Section 23626(o)(2), requires the FTB to submit a new annual report for purposes of Section 41. There is also an existing annual reporting requirement for purposes of this credit in Sections 17053.73(m)(2) and 23626(m)(2). In order to avoid duplication and to create consistency, the author may wish to amend the bill to consolidate the reporting requirements.

Technical Considerations

The Section 41 reporting performance metrics that would be added by this bill would not be aligned with the current March 1st reporting requirement. For ease of administration, it is recommended that a single report be required within the same timeframe.

In Sections 23626(o)(2)(A), replace "by January 1, 2030, and annually thereafter" with "March 1..."

In Sections 17053.73(a)(1)-(2) and 23626(a)(1)-(2), replace "For each taxable year beginning on..." with "For taxable years beginning on..."

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 2294 (Schiavo, 2023/2024), under the PITL and CTL, would have modified the existing New Employment Credit (NEC) to remove the requirement that work be performed in a designated census tract or economic development area, expand the definition of a qualified full-time employee, and qualified wages. AB 2294 did not pass out of the Assembly by the required deadline.

SB 131 (Senate Committee on Budget and Fiscal Review, Chapter 55, Statutes of 2023) expanded the NEC by providing that the designated census tract or economic development area requirements would not apply, and a later tentative credit reservation requirement would apply, to certain "qualified taxpayers" that are engaged in the following industries: semiconductor manufacturing or semiconductor research and development, electric airplane manufacturing, lithium production, and manufacturing of lithium batteries.

AB 93 (Assembly Committee on Budget, Chapter 69, Statutes of 2013), among other changes, created a NEC.

SB 90 (Galgiani and Canella, Chapter 70, Statutes of 2013), modified AB 93 as chaptered on July 11, 2013. Specifically, SB 90, for purposes of the NEC, modified the definition of qualified employee, excluded sexually oriented businesses from the definition of qualified taxpayer and small business, and modified the defined geographical area that the hiring credit may be generated in.

AB 2035 (Villapudua, 2021/2022), under the PITL and CTL, would have amended the existing NEC to expand eligibility to additional industries similar to SB 1349 and extended the pilot area designation period. AB 2035 did not pass out of the Assembly by the required deadline.

SB 1349 (Caballero & Villapudua, 2021/2022), under the PITL and CTL, would have modified the existing NEC to remove the requirement that work be performed in a designated census tract or economic development area, remove all requirements relating to those designated areas, expand the definition of a qualified full-time employee, add Section 41 language, add a tax levy provision, and make other technical nonsubstantive changes. SB 1349 did not pass out of the Assembly by the required deadline.

PROGRAM BACKGROUND

The NEC Program was created in 2014 to promote employment for businesses that operate in areas with historically high unemployment and high poverty rates. The NEC is available to a qualified taxpayer that hires a qualified full-time employee, has an overall net increase in employment, and pays or incurs qualified wages attributable to work performed by the qualified full-time employee in a designated census tract.

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 2205 as Introduced February 19, 2026
 Assumed Enactment after June 30, 2026

(\$ in Millions)

Fiscal Year	Revenue
2026-2027	-\$1.4
2027-2028	-\$3.0
2028-2029	-\$4.2

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

Using data from the FTB, two estimates were prepared. One for the revenue loss of the credit with the sunset date and one for the revenue loss with the 5-year extension. The two estimates are then compared, and the net difference would be the estimated revenue loss from extending the credit.

Under current law, it is estimated that approximately \$4.5 in carryover credit would be used by taxpayers in the 2026 taxable year and that amount would decrease each year thereafter. Under the proposal, it is estimated that approximately \$4.7 million in credits would be used by taxpayers in the 2026 taxable year and that amount would grow with changes in the economy over time. The net difference results in an additional revenue loss of about \$200,000 in the 2026 taxable year and would increase each year thereafter peaking at about \$5.5 million in the 2030 taxable year.

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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