



## Bill Analysis

Author: Bains

Sponsor:

Bill Number: AB 2363

Related Bills: See Legislative  
History

Introduced: February 19, 2026

### SUBJECT

Individual Shared Responsibility (ISR) Penalty Exemption

### SUMMARY

This bill would, under the Revenue and Taxation Code (RTC), exempt responsible individuals from the monthly ISR Penalty for an applicable household member that was enrolled in Medi-Cal in 2024 or 2025 for taxable years beginning on or after January 1, 2027.

### 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 add an exemption from the ISR Penalty.

### ANALYSIS

This bill would provide an exemption from the ISR Penalty for taxable years beginning on or after January 1, 2027, for an applicable household member, who would otherwise be imposed the ISR Penalty, if the applicable household member was enrolled in Medi-Cal in either 2024 or 2025.

#### *Effective/Operative Date*

This bill would be effective January 1, 2027, and operative for taxable years beginning on or after January 1, 2027.

*Federal/State Law**Federal Law*

Existing federal law, the Patient Protection and Affordable Care Act (PPACA), enacted various health care coverage market reforms as of January 1, 2014. The PPACA generally requires an individual, and any dependent of the individual, to maintain Minimum Essential Coverage (MEC), as defined, and, if an individual does not maintain MEC, the PPACA imposes the ISR payment. This provision is referred to as the individual mandate. The federal Tax Cuts and Jobs Act set the payment associated with the ISR requirement of the PPACA to zero beginning in 2019.

*State Law*

For each month beginning on or after January 1, 2020, the MEC mandate was enacted to ensure a responsible individual and the individual's spouse and dependents maintain MEC and imposes a penalty for failure to maintain MEC. Additionally, California created the Individual Market Assistance to provide financial assistance for healthcare coverage to California residents with incomes at, or below, 600% of the Federal Poverty Level.

A responsible individual is an applicable individual, as defined in Section 100710 of the Government Code (GOV), who is required to file a return and who is either of the following:

- o An applicable individual required to be enrolled in and maintain minimum essential coverage.
- o An applicable individual required to ensure that a person who qualifies as the applicable individual's applicable spouse or applicable dependent is enrolled in and maintains MEC for that month.
- o If two applicable individuals file a joint return, only one is considered the responsible individual for purposes of calculating the penalty.
- o If a dependent files a return, only the dependent of the individual claiming the dependent, but not both, is considered the responsible individual for purposes of calculating the penalty.

With respect to the responsible individual, the applicable household members are defined as all of the following persons:

- o The responsible individual.
- o The responsible individual's applicable spouse, as defined in GOV section 100710.

The responsible individual's applicable dependents. Dependent has the same meaning as in RTC section 17056.

*Implementation Considerations*

None noted.

*Technical Considerations*

The Franchise Tax Board (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.

For clarity it is recommended that the phrase, "was enrolled in Medi-Cal in 2024 or 2025." be replaced with "was enrolled in Medi-Cal in either calendar year 2024 or 2025."

*Policy Considerations*

This exemption would apply to a responsible individual if an applicable household member was enrolled in Medi-Cal in 2024 or 2025. For example, if a taxpayer is filing their 2030 tax return, this provision would require looking back to 2024 and 2025 to determine whether the exemption applies for the 2030 taxable year. If the author's intent is to apply a look-back to the two prior taxable years rather than the specified period of 2024 or 2025, the author may wish to amend the bill.

This bill does not provide a sunset date, which would generally allow periodic review of the effectiveness of the tax law change. If this is contrary to the author's intent, the author may wish to amend the bill.

**LEGISLATIVE HISTORY**

SB 999 (Weber Pierson, 2025/2026) would, under the RTC, modify the FTB annual reporting due date of the healthcare mandate ISR Penalty report. SB 999 is in the Assembly pending referral.

SB 967 (Hertzberg, Chapter 170, Statutes of 2022), under the RTC and GOV, required the FTB to add a checkbox to the personal income tax return to ask taxpayers if they wanted health care coverage information, and to provide this information to the California Health Benefit Exchange for outreach and enrollment efforts. The provisions relating to the Exchange's outreach and FTB's disclosure were operative January 1, 2023, and the provision relating to the checkbox requirement was specifically operative for taxable years beginning on or after January 1, 2023.

AB 85 (Assembly Committee on Budget, Chapter 8, Statutes of 2020), among other items, under the RTC, adjusted the ISR Penalty in the following ways: modified collection priority; limited the maximum monthly penalty for a responsible individual with a household size of five or more; corrected references to “responsible individual” and “applicable household member;” and exempted the FTB’s regulations from the Administrative Procedures Act requirements until January 1, 2022.

AB 414 (Bonta, Chapter 808, Statutes of 2019), under the RTC, required the FTB to report to the Legislature specified information regarding the MEC Individual Mandate, ISR Penalty, and the state financial assistance paid for health care coverage.

SB 78 (Senate Committee on Budget and Fiscal Review, Chapter 38, Statutes of 2019), under the GOV and RTC, established the MEC mandate, which requires individuals and individual’s spouse and dependents to maintain MEC and imposes the ISR Penalty for failure to maintain MEC.

AB 2564 (Bigelow, 2021/2022), would have, under the RTC, required the FTB to waive the ISR Penalty in certain situations. It did not pass out of the Assembly Committee on Health by the required deadline.

## **PROGRAM BACKGROUND**

Beginning January 1, 2020, California residents and their dependents must maintain qualifying MEC for each month during the taxable year unless they qualify for one of 14 exemptions. Most exemptions can be claimed on the tax return, e.g., income is below the tax filing threshold, health coverage is considered unaffordable, families’ self-only coverage combined cost is unaffordable, short coverage gap of three consecutive months or less, etc. However, the individual must apply with Covered California, which administers the California Health Benefit Exchange, for MEC exemptions for religious conscience and general hardships. Additionally, individuals may qualify for federal and California health care subsidies to assist them in maintaining MEC.

On the FTB’s public website, there is a webpage for individuals, tax professionals, and insurance providers and employers, that provides information about the MEC Individual Mandate, the subsidy, the ISR Penalty, relevant tax forms and instructions, an ISR Penalty tool that can be used to estimate the penalty, instructional videos, news articles, and useful website links. This can be found using the FTB’s public website and searching the term “health care mandate.”

## **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, as introduced on February 19, 2026, would not impact state income or franchise tax revenue.

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**

To be determined.

**ARGUMENTS**

To be determined.

**LEGISLATIVE CONTACT**

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