STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Lee

Sponsor:

Related Bills: See Legislative History

Bill Number: AB 2394

Introduced: February 20, 2026

SUBJECT

Gross Income Exclusion on Sale or Exchange of Real Property for Seniors

SUMMARY

This bill would, under Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2027, and before January 1, 2032, provide a gross income exclusion for any income received by a qualified taxpayer from the sale or exchange of qualified real property.

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 tax relief to seniors who sell property that they have owned for 20 or more years.

ANALYSIS

This bill would, under the PITL, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, exclude from gross income any income received by a qualified taxpayer from the sale or exchange of qualified real property.

The bill would define the following:

- "Qualified real property" means real property for which both of the following are true:
  - o The qualified taxpayer has, or the qualified taxpayer or their spouse in the case of spouses filing joint returns have, owned the real property for 20 consecutive years or longer.

  - The real property is owned entirely by the taxpayer or, in the case of spouses filing joint returns, entirely by the taxpayer and their spouse.
- “Qualified taxpayer” means an individual who is 65 years of age or older.

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

Federal and state laws provide that gross income includes all income from whatever source derived, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded. Types of income currently excluded include amounts received as a gift or inheritance, certain compensation for injuries and sickness, educational assistance programs, foster care payments, interest received on certain state or federal obligations, and qualified scholarships.

Federal and state laws provide an exclusion of gain from gross income from the sale of a home if the taxpayer owned and used the property as their principal residence for at least two of the five years before the sale. The maximum exclusion is $250,000 for an individual or $500,000 for married taxpayers filing jointly, provided that one spouse meets the ownership requirement, both meet the use requirement, and neither is disqualified under the one sale every two years rule. Additionally, a surviving spouse may exclude up to $500,000 of gain from the sale of a jointly owned principal residence if the sale occurs within two years of the other spouse’s death.

Implementation Considerations

The Franchise Tax Board (FTB) has identified the following implementation 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 defines a qualified taxpayer as an individual who is 65 years of age or older. The bill does not specify at what point in time the taxpayer is required to be 65 years of age or older. For example, does the taxpayer need to meet the age requirement at the time of the sale or exchange, or on the last day of the taxable year. The author may wish to clarify how the age requirement should be met.

Technical Considerations

For consistency of terminology, consider replacing the phrase “gross income does not include any income” in section 17152.5(a) with “gross income does not include any gain”. As drafted, the exclusion could be interpreted to apply the gross income exclusion to the total sale proceeds from the sale or exchange of the qualified property rather than the gain, which is the total proceeds net of the taxpayer’s basis in the property.

Policy Considerations

The bill as drafted does not impose any limit on the amount of income from the result of a sale that a taxpayer or the taxpayer’s spouse may exclude or limit who may qualify with an adjusted gross income (AGI) limitation. For qualified taxpayers, this means that the total sale amount would qualify for the exclusion. If this is contrary to the author’s intent, the author may wish to amend the bill to clarify the scope of the benefit—such as specifying a per-taxpayer exclusion limit, adopting an AGI threshold, or establishing a maximum exclusion amount.

This bill as drafted would allow a taxpayer or the taxpayer and their spouse to exclude income from the sale or exchange of an unlimited number of qualified properties. If this is contrary to the author’s intent, the author may wish to amend the bill to limit the number of properties a taxpayer or the taxpayer and their spouse can sell or exchange within a taxable year.

This bill would not allow an exclusion to a qualified taxpayer when filing using the married filing separately status instead of the married filing jointly status. If this is contrary to the author’s intent, the author may wish to amend the bill.

This bill would provide an exclusion for the qualified taxpayer’s portion of income from the sale or exchange of qualified property that is solely owned by the taxpayer’s spouse, without regard to age of the qualified taxpayer’s spouse. If this is contrary to the author’s intent the author may wish to amend the bill.

This bill does not provide a repeal date. If this is contrary to the author’s intent, the author may wish to amend the bill.

LEGISLATIVE HISTORY

AB 1096 (Dahle, 2025/2026) would, under PITL, for each taxable year beginning on or after January 1, 2026, and before January 1, 2031, allow a senior tax credit to a qualified taxpayer in an amount equal to $1,500 per dependent claimed. SB 1096 is currently in the Senate Committee on Revenue and Taxation.

SB 1249 (Richardson, 2025/2026) would, under the PITL, allow an above-the-line deduction for qualified taxpayers who claim one or more elderly senior dependents for taxable years beginning on or after January 1, 2027, and before January 1, 2032. SB 1249 is currently in the Senate Committee on Revenue and Taxation.

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 2394 as Introduced February 20, 2026
Assumed Enactment after June 30, 2026

($ in millions)

Fiscal Year	Revenue
2026-2027	-$65
2027-2028	-$120
2028-2029	-$120

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 returns filed with the FTB, it is estimated approximately $1.8 billion would be excluded from gross income as a result of the sale or exchange of qualified real property by taxpayers and/or their spouses aged 65 and older. Applying an average tax rate of 6.3 percent results in an estimated revenue loss of $114 million in taxable year 2027.

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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