



Bill Analysis

Author: Lee

Sponsor:

Bill Number: AB 2394

Related Bills: See Legislative
History

Amended: April 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 gain received by a qualified taxpayer from the sale or exchange of qualified real property made during the taxable year.

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 20, 2026, amendments modified the definition of a qualified taxpayer and qualified real property and added Section 41 requirements. The April 20, 2026, amendments resolved one implementation consideration, one technical consideration and two of the five policy considerations and reduced the economic impact as discussed in **Franchise Tax Board's** (FTB) analysis of the bill as introduced on February 20, 2026.

REASON FOR THE BILL

The reason for the bill is to provide an exclusion to encourage more homes to be sold to new owners.

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 gain received by a qualified taxpayer from the sale or exchange of qualified real property made during the taxable year.

The bill would define the following:

- “Qualified real property” means real property for which all of the following are true:
 - 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 as of the date of the sale of the real property.
 - 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.
 - The real property was the qualified taxpayer's primary residence for at least two of the five years immediately prior to the date of the sale of the real property.
 - The property is sold to a natural person.
- “Qualified taxpayer” means an individual who is 55 years of age or older on the date of the sale of the qualified real property.

For purposes of complying with Section 41 of the Revenue and Taxation Code (RTC), the specific goal, purpose, and objective of the exclusion is to encourage more homes that have been off the market for decades to be sold to new owners, unlocking inventory for the market and for younger home buyers.

The exclusion 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

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.

State law provides that 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 requirement measures to allow the Legislature to evaluate the effectiveness of the tax benefit.

In addition, legislation that would create an income exclusion would not require detailed performance indicators and data collection measures if the Legislature determines there is no available data to collect and report.

Implementation Considerations

None noted.

Technical 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.

For consistency of terminology, consider replacing the term "taxpayer" in Section 17152.5(b)(1)(B) with "qualified taxpayer".

Policy Considerations

The bill as drafted does not impose any limit on the amount of gain 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 gain 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 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 the qualified real property is owned by both spouses. Additionally, if the taxpayer is filing married filing jointly, but only one spouse owns the qualified property, the taxpayer would not be allowed an exclusion. 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 gain 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.

LEGISLATIVE HISTORY

SB 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 Appropriations Committee.

SB 384 (Morrell, 2019/2020) would, under the PITL, have increased the maximum gain a taxpayer may exclude on the sale of a principal residence to a first-time home buyer. SB 384 did not pass out of the Senate Committee on Environmental Quality by the required 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:

Estimated Revenue Impact of AB 2394 as Amended April 20, 2026
 Assumed Enactment after June 30, 2026

(\$ in millions)

Fiscal Year	Revenue
2026-2027	-\$20
2027-2028	-\$34
2028-2029	-\$35

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 \$540 million 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 55 and older. Applying an average tax rate of 6.3 percent results in an estimated revenue loss of \$34 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

Assembly Committee on Revenue and Taxation, dated April 24, 2026

Support

None on file.

Opposition

None on file.

ARGUMENTS

Assembly Committee on Revenue and Taxation, dated April 24, 2026

Proponents

None on file.

Opponents

None on file.

LEGISLATIVE CONTACT

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