



Bill Analysis

Author: Tangipa, et al.

Sponsor:

Bill Number: AB 2427

Related Bills: See Legislative
History

Introduced February 20, 2026,
and Amended March 11, 2026

SUBJECT

Farming Tax Credit

SUMMARY

This bill, under the Personal Income Tax Law (PITL) and the Corporate Tax Law (CTL), for taxable years beginning on or after January 1, 2027, and before January 1, 2032, would allow a credit, in an amount up to 30%, to qualified taxpayers in specified agricultural businesses and who operates on at least 50 acres of land for qualified expenditures, subject to a credit reservation by the California Department of Food and Agriculture (CDFA).

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

The March 11, 2026, amendments added coauthors, made technical changes, modified the computation of the credit, amended the number of carryover years, and added a credit cap.

REASON FOR THE BILL

The reason for the bill is to support the state's agricultural economy by providing a tax credit.

ANALYSIS

Tax Credit

This bill would, under the PITL and CTL, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, allow a credit for qualified taxpayers in an amount equal to 25% of qualified expenditures during the taxable year.

The credit would be increased to 30% of qualified expenditures if either of the following conditions are met:

- The qualified taxpayer purchases low-emission equipment during the taxable year; or
- The qualified taxpayer's qualified expenditures relate to operations in a high or very high fire hazard severity zone as identified by the State Fire Marshal pursuant to Government Code section 51178.

The credit allowed would not exceed \$1 million.

The bill defines the following:

- "Agricultural production" means the production of agricultural commodities, including, but not limited to, crops, specialty crops, livestock, dairy, poultry, aquaculture, and mixed agricultural operations.
- "Low-emission equipment" means off-road equipment with a motor that satisfies the requirements of the California Code of Regulations Title 13, section 2423 which provides guidance for exhaust emission standards.
- "Qualified expenditure" means costs related to all of the following:
 - Wages and labor, including wages paid to seasonal and temporary employees.
 - Infrastructure and equipment.
 - Agricultural production.
- "Qualified taxpayer" means a taxpayer that operates on at least 50 acres of land, regardless of whether the taxpayer owns or leases the land and is primarily involved in one or more business described in codes 111110 to 112519 of the 2022 edition of the North American Industry Classification System (NAICS), published by the United States Office of Management and Budget. These NAICS codes include activity within the Crop Production, Animal Production (other than Other Animal Production), and Aquaculture sectors.

Credit Reservation

This bill provides that the total aggregate amount of credit that may be allocated by credit reservations to all qualified taxpayers is not to exceed \$250,000,000 per taxable year.

1. To be eligible for the credit, a qualified taxpayer would be required to request a credit reservation from the CDFA during July for each taxable year, or within 30 days of the start of their taxable year, if the taxpayer's taxable year begins after July, in the form and manner prescribed by the CDFA in coordination with the Franchise Tax Board (FTB).

2. To obtain a credit reservation for qualified expenditures, the qualified taxpayer would be required to provide all necessary information, as determined by CDFA in coordination with FTB.
3. The CDFA, in coordination with the FTB, would approve tentative credit reservations, for qualified taxpayers, of qualified expenditures incurred during a taxable year subject to the annual allocation limitation, and provide a credit certificate to the taxpayer upon approval. The certificate is to be filed with the qualified taxpayer's return for the taxable year in which the credit is claimed.
4. As necessary to administer the credit, the FTB and the CDFA would be required to provide additional information, as requested by the FTB or CDFA. Any information received from the FTB by the CDFA would be considered confidential taxpayer information and would be subject to the provisions of Section 19542.

The unused credit could be carried over for five years until exhausted, whichever occurs first.

The bill provides that a deduction would not be allowed for any amount taken into account in the computation of this credit.

Section 41 Reporting Requirements

This bill would require the FTB to report, no later than April 1, 2029, and annually thereafter, to the Legislature the number of taxpayers allowed the credit and the total allowed credit amount.

The credit 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 various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits, hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise be undertaken.

Under existing state law, 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.

Implementation Considerations

There are numerous items needing clarity within the bill to ensure the program can be administered as intended and the bill produces the desired outcome. FTB staff is available to work with the author's office and can provide language to resolve these and other considerations that may be identified.

Some of these considerations include, but are not limited to:

The bill uses undefined terms, "wages and labor" and "infrastructure and equipment" to define qualified expenditures. The absence of definitions could lead to taxpayer confusion. For clarity, the author may wish to amend the bill to define these terms and also clarify if it is only those activities that are related to the specified NAICS code business activities, rather than all of the taxpayer's business activities.

Other undefined terms are "operations," "specialty crops," and "mixed agricultural operations" that the author may want to define for clarity.

This bill includes an aggregate limit for total credits allocated in a taxable year. However, the bill is silent on how the credits would be allocated (first come first serve or split pro rata among all qualified applicants). For clarity, it is recommended the bill be amended to indicate how the credits should be allocated, and to allow FTB mathematical error authority for credits claimed that exceed the credit limitation.

This bill would require the CDFA to implement a reservation system "in coordination with the FTB." It is unclear what "in coordination with the FTB" would mean. In addition, the meaning of subdivision (d)(4)(A), "Notwithstanding any other law, the FTB and the CDFA shall provide additional information, as requested by the FTB or CDFA, as necessary to administer the credit allowed by this section." is also unclear.

The bill may require the FTB to provide confidential taxpayer information to the CDFA for purposes of approving a tentative credit reservation. However, the bill does not include a specific exception for this disclosure. The author may wish to amend the bill to provide an exception to specifically allow for any data exchange that is ultimately required and to prohibit the CDFA from disclosing any confidential taxpayer information received by the CDFA from the FTB.

Technical Considerations

For consistency of terminology, the following changes are recommended:

- In Section 17053.66(a)(2)(A) and Section 23668(a)(2)(A), delete “as defined in paragraph (1) of subdivision (b)”.
- In Section 17053.66(b)(3) and Section 23668 (b)(3) the phrase “costs related to all of the following” should be replaced with “costs paid or incurred related to all of the following”.
- In Section 17053.66(d)(4)(B) and Section 23668(d)(4)(B) the phrase “The information received by the Department of Food and Agriculture pursuant....” should be amended to “The information received by the Department of Food and Agriculture and the Franchise Tax Board pursuant....”.
- In Section 17053.66(d)(3) and 23668(d)(3) the phrase “which is to be filed with the qualified taxpayer’s return for the taxable year in which the credit is claimed” should be amended to “which is to be filed with the qualified taxpayer’s return, upon request, for the taxable year in which the credit is claimed”.

The bill specifies that the allowed credit is not to exceed \$1,000,000. However, it is unclear whether the limitation is a lifetime cap or per taxable year. For clarify, the author may wish to amend the bill.

Policy Considerations

Under Revenue and Taxation Code section 41, legislation that would create a new tax expenditure, which includes a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, and objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the tax benefit. The author may wish to amend the bill to include these goals, purposes and objectives, and performance measures.

LEGISLATIVE HISTORY

No legislation similar to this bill has been identified.

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 2427 as amended on March 11, 2026
 Assumed Enactment after June 30, 2026

(\$ in Millions)

Fiscal Year	Revenue
2026-2027	-\$49
2027-2028	-\$110
2028-2029	-\$130

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

Based on data from the United States Department of Agriculture, it is estimated that approximately 24,000 qualified taxpayers in California operate on at least 50 acres of land regardless of whether the taxpayer owns or leases the land. Applying the estimated ranges of qualified expenses to the qualifying taxpayer results in a total of approximately \$20 billion qualified expenditures in 2027. Applying the credit percentages to this amount, results in credits generated of \$5.8 billion in 2027. Because the estimated demand for the credit exceeds the \$250 million total aggregated credit allocation amount, it is assumed that the credit would be fully allocated, and any remaining credit requests would be denied. This results in \$250 million in credit generated in the 2027 taxable year.

It is estimated that approximately 70%, or \$175 million, of credit generated would be earned by taxpayers with sufficient tax liability to offset with the credit. Of that amount 65%, or \$110 million, would be claimed in the year generated and the remaining credit would be used over the subsequent five years or until exhausted.

To arrive at the offsetting tax effect of expense deduction that would otherwise be allowed under current law, it is estimated that qualified taxpayers would be able to deduct approximately \$250 million in qualified expenses in taxable year 2027. Applying an average tax rate of 6.5%, results in an offsetting revenue gain of \$16 million. The resulting net revenue loss, for taxable year 2027, would be \$90 million.

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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