



Bill Analysis

Author: Tangipa

Sponsor:

Bill Number: AB 2533

Related Bills: See Legislative
History

Introduced: February 20, 2026

SUBJECT

Gross Income Exclusion for Employer Provided Fitness Benefit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2026, exclude from the gross income a qualified fitness benefit.

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 encourage employer-sponsored wellness programs.

ANALYSIS

This bill, under the PITL, for taxable years beginning on or after January 1, 2026, would exclude from gross income any qualified fitness benefit provided by an employer to an employee.

For purposes of this bill “qualified fitness benefit” would mean the following:

- Fees or dues for membership in a fitness center, health club, or gym.
- Expenses for participation in fitness or physical activity programs, including yoga, pilates, or group exercise classes.
- Subsidies or reimbursements for the purchase of wearable fitness tracking devices, provided such devices are used as part of a formal employer-sponsored wellness program.

This bill would provide that the exclusion would not apply to either of the following:

- Memberships in any club where the primary purpose is social, athletic, or sporting, such as a country club or golf club.
- Expenses for travel, meals, or lodging associated with fitness activities.

This bill would provide that the exclusion would apply regardless of whether the benefit is provided through a direct payment to a third party or as a reimbursement to the employee upon proof of payment.

This bill would require, for purposes of complying with Revenue and Taxation Code (RTC) section 41, the Franchise Tax Board (FTB) to report on or before June 30, 2029, and each June 30 thereafter, to the Legislature. To the extent that data is available, the report would be required to include the number of California taxpayers that receive the exclusion for the most recent taxable year. 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.

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.

There is no comparable exclusion in federal or state law.

State Law

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

Implementation Considerations

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

This bill defines "qualified fitness benefit" to include "the purchase of wearable fitness tracking devices, provided such devices are used as a part of a formal employer-sponsored wellness program." The bill does not define a "formal employer-sponsored wellness program." For clarity, the author may wish to amend the bill.

The bill uses the undefined phrase that "any club where the primary purpose is social, athletic, or sporting". Many modern fitness centers are hybrid facilities offering features such as workspaces, cafes, and lounges. Absent metrics or requirements to determine the "primary purpose" of a club, this phrase could be broadly interpreted and may lead to taxpayer confusion and administrative difficulty. If this is contrary to the author's intent, the author may wish to amend the bill.

Additionally, the bill refers to "the benefit" and states that it "is provided through" certain payment methods. This phrasing does not clearly identify the employer as the party providing the qualified fitness benefit, does not use the defined term "qualified fitness benefit," and may be read broadly enough to include payments made by entities other than the employer. For clarity, the author may wish to amend the bill.

Technical Considerations

In Section 17151.1(a), replace "provided by an employer to an employee" with "paid or incurred by the employer on behalf of the employee."

Policy Considerations

This bill does not limit the dollar amount that may be excluded from gross income. Income exclusions that could potentially be costly are sometimes limited on a per-taxpayer basis. If this is contrary to the author's intent, the author may wish to amend the bill to provide a provision limiting the amount or providing a phase out provision based on a taxpayer's income.

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.

The bill uses the term employee but does not specify whether the taxpayer may be a part-time employee or whether the taxpayer needs to be employed for a minimum period during the taxable year to qualify for the exclusion. For clarity, the author may wish to amend the bill.

Under RTC section 41, legislation that would create a gross 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. The author may wish to amend the bill to include a determination that there is no available data to collect and report, and remove Section 17151.1(e)(3).

LEGISLATIVE HISTORY

AB 781(DeMaio, 2025/2026), under the PITL, would have allowed a deduction on a California personal income tax return for contributions to a Health Savings Account as is allowed on a federal individual income tax return for taxable years beginning on or after January 1, 2026, and before January 1, 2031. This bill did not pass out of the Assembly by the required deadline.

AB 509 (Fong, 2023/2024), under the PITL, among other things, would have allowed a gross income exclusion for qualified education loan payments made by an employer on an employee’s behalf. This bill did not pass out of the Assembly 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 identified.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2533 as Introduced February 20, 2026
Assumed Enactment after June 30, 2026

(\$ in Millions)

Fiscal Year	Revenue
2026-2027	-\$120
2027-2028	-\$80
2028-2029	-\$80

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

FTBLegislativeServices@ftb.ca.gov