



Bill Analysis

Author: Rodriguez

Sponsor:

Bill Number: AB 2673

Related Bills: See Legislative
History

Introduced: February 20, 2026

SUBJECT

Childcare Facility Tax Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), for each taxable year beginning on or after January 1, 2027, and before January 1, 2032, allow a tax credit in an amount equal to 50% of qualified contributions to promote childcare during the taxable year not to exceed \$100,000 per taxpayer per 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

Not applicable.

REASON FOR THE BILL

The reason for the bill is to generate funding to promote early childcare programs.

ANALYSIS

This bill would, under the PITL and CTL, for each taxable year beginning on or after January 1, 2027, and before January 1, 2032, allow a tax credit in an amount equal to 50% of qualified contributions to promote childcare during the taxable year not to exceed \$100,000 per taxpayer per taxable year.

This bill would define the following:

- "Childcare" means care provided to a child 12 years of age or younger.
- "Qualified childcare facility" means a child day care facility as defined in Section 1596. 750 of the Health and Safety Code (HSC) which provides a facility includes day care centers, employer-sponsored childcare centers and family day care homes.

- “Qualified contributions to promote childcare” means any monetary contribution to promote childcare, including any of the following activities, for which the taxpayer receives documentation from the recipient facility or program of the amount and purpose for the contribution:
 - Money donated for the establishment or operation of a qualified childcare facility that uses the donation to provide childcare.
 - Money donated to establish a grant or loan program for a parent or parents in this state requiring financial assistance for childcare.
 - Money donated for the establishment of an information dissemination program in the state to provide information and referral services to assist a parent or parents in obtaining childcare.
 - Money pool of several businesses and money donated for the establishment of a qualified childcare facility in the state.

Qualified contributions to promote childcare does not include any contribution that is not directly related to promoting childcare in the state or that a taxpayer makes to a childcare facility or program in which the taxpayer or a person related to the taxpayer has a financial interest.

A taxpayer claiming the credit allowed by the provisions of this bill would be required to provide the Franchise Tax Board (FTB) documentation from the recipient facility or program of the qualified contribution amount and purpose for the contribution. In addition, the board may adopt rules and regulations necessary to administer the provisions of this bill.

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

This bill includes language to comply with Revenue and Taxation Code (RTC) section 41. The bill would require the FTB to submit a report to the Legislature, on or before July 1, 2029, and annually thereafter. The report will include the following performance indicators to measure the effectiveness of the credit:

- The number of taxpayers that have claimed credit.
- The amount of each credit claimed and the total amount that was claimed per fiscal year.
- The top 10 qualified childcare facilities or programs that received contributions for which a credit was claimed.
- A list of the types of facilities or programs that received contributions for which a credit was claimed.

In addition, the RTC section 41 reporting requirements would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

The credit would be effective until December 1, 2033, and would be repealed as of that date.

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

Child and Dependent Care Tax Credit

Existing federal law allows a Child and Dependent Care Expenses Credit for 20% to 35% (depending on the taxpayer's adjusted gross income (AGI)) of employment-related expenses of care for a qualifying individual. A qualifying individual is defined as a dependent of the taxpayer that is under the age of 13, or a dependent or spouse who is physically or mentally unable to provide self-care. Employment-related expenses are generally defined as those expenses incurred to enable gainful employment. These expenses are limited to the lesser of the taxpayer's earned income or \$3,000 per taxable year for one qualifying individual, or \$6,000 if there are two or more qualifying individuals.

State law allows a Child and Dependent Care Expenses Credit similar to the federal credit. In general, California conforms to federal law regarding qualifying individuals and the maximum amount and types of expenses eligible for the credit. However, state law limits expenses to care provided in California, and for purposes of the earned income limitation, uses California earned income.

The state credit is computed by first applying the federal credit percentage (20% to 35%) to the smallest of three amounts: the expense cap, California expenses, or California earned income. The state credit percentage is then applied. The state credit percentage varies from 34% to 50% based on the taxpayer's AGI and is limited to taxpayers with AGI of \$100,000 or less.

Charitable Contributions Deduction

Existing federal and state laws allow a deduction from income for charitable contributions. An individual can deduct an amount not to exceed 50% of federal AGI, depending on the type of property given and the type of charitable organization. For taxable years beginning after December 31, 2017, the federal deduction percentage is 60% of federal AGI for specified organizations, while state provides a 50% limitation.

The One Big Beautiful Bill Act of 2025 (Act) increased the deduction for charitable contributions made in cash for individuals who do not elect to itemize to \$1,000 (\$2,000 in case of a joint return) and made the deduction for individuals who do not itemize

permanent for taxable years beginning after December 31, 2025. In addition, the Act established a 0.5% floor for individuals' charitable contribution deductions. An individual may deduct only the portion of contributions that exceed 0.5% of their contribution base (generally AGI calculated without net operating loss carrybacks). It also specifies the order in which contributions are applied. If an individual's contributions exceed the allowable deduction in a given year, the amount disallowed by the 0.5% floor may be carried forward for up to five succeeding taxable years, subject to existing limitations. Currently under the PTIL, the state does not conform to the changes made by the Act.

Generally, the amount a corporation may annually deduct for charitable contributions is limited to 10% of the corporation's net income. However, the Act established a 1% floor for corporate charitable contribution deductions. A corporation may deduct only the portion of its contributions that exceed 1% of taxable income and allows a five-year carryforward for contributions disallowed because they exceed the 10% ceiling or fall below the 1% floor. The amounts disallowed under the 1% floor may be carried forward only if total contributions for the year also exceed the 10% limit.

Current federal and state law allows an individual to claim an itemized deduction for contributions to a qualified charitable organization. A contribution is not deductible unless it is made to, or for the use of, a qualified organization. The donee organization must be qualified at the time of the donation. It is the organization's responsibility to ensure that its character, purposes, activities, and methods of operations satisfy the qualification requirements, so that donors have assurance their contributions are deductible at the time made. Organizations that qualify to receive deductible donations can be disqualified for activities that violate public policy.

No deduction is allowed for contributions made to individuals, nonqualified organizations, or for contributions made for a reason other than a charitable purpose. A charitable purpose is a contribution from which you do not receive or expect to receive a benefit.

Contributions made by either an individual or a corporation that exceed the annual limitation may be carried over for five years until exhausted, whichever occurs first.

Implementation Considerations

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

This bill defines the term "childcare" and "qualified childcare facility" and the definitions appear to be in conflict. For example, if a facility meets the definition of a childcare facility but provides care for ages 10-16 would they qualify as a qualified childcare facility? The author may want to amend the bill to clarify intent.

This bill uses the phrase “related to”; however, the phrase is not defined in the bill. The absence of a definition may lead to taxpayer confusion. The author may want to amend the bill to clarify this phrase.

This bill would require the FTB to report on or disclose information for qualified childcare facilities or programs that receive contributions. The FTB cannot report or disclose information on specific taxpayers, nor can information be provided that is currently not required to be collected by the FTB. Therefore, the FTB will not be able to provide data as described in the bill, in section 17052.7 (e)(2)(C) and (D). The author may wish to amend the bill to remove the specific taxpayer reporting requirement and to provide that data requests are limited exclusively to anonymized, aggregate information.

Technical Considerations

For consistency of terminology, the following changes are recommended:

- In Section 17052.7(a) and 23627(a) replace the phrase “For each taxable year beginning on or after” with “For taxable years beginning on or after”.
- In Sections 17052.7(d) and 23627(d) remove “The board may adopt rules and regulations as necessary to administer this section” as this is unnecessary language because FTB already has this authority.
- In Section 17052.7(e)(2) replace the term “claimed” with “allowed”.
- In Sections 17052.7(c)(2) and 23627(c)(2), replace “as prescribed” with “upon request of the Franchise Tax Board, in the form and manner prescribed”.
- In Section 23627(c)(1), strike out “net tax” and insert “tax”.

Policy Considerations

This bill would allow a credit for qualified contributions made to childcare facilities. Under current law, if the contribution is made to qualified non-profit organization the contribution would be deductible. Generally, a credit is allowed in lieu of a deduction to eliminate multiple tax benefits for the same item of expense. Providing both a credit and allowing a deduction would provide a double benefit for the same contribution. If this is not the author’s intent, the bill should be amended.

This bill would allow a credit for qualified contributions made to childcare facilities. If the childcare facility is not a qualified non-profit organization the contribution would be treated as income to the facility and would be taxable to the receiving entity.

This bill would allow a credit for qualified contributions for childcare facilities, grant or loan programs without requirements for the facilities and grant or loan programs to remain in business or for the program to remain active. Donations may be made to a facility and then the facility could close without credit recapture requirements. If this is contrary to the author’s intent, the bill should be amended.

This bill would allow a credit for donations made to a facility or program that provides childcare. It is possible for parents that currently pay for childcare services to request their tuition be treated as a donation and would then be eligible for this credit. If this is contrary to the author's intent, the bill should be amended.

The bill would allow a credit for contributions made to promote newly established programs and not for existing programs that offer the same services. If this is contrary to the author's intent, the bill should be amended.

In addition to donations, the bill defines qualified contributions to include pooling of money (Section 17052.7(b)(3)(iii) and 23627(b)(3)(iii)) which is broad and could lead to taxpayer confusion. If this is contrary to the author's intent, the bill should be amended.

This bill would repeal the credit on December 1, 2033, two years after the last year the credit is available. The author may consider modifying the repeal date to December 1, 2032, which would be one year after the last tax year the credit is available.

LEGISLATIVE HISTORY

AB 14 (Davies, et al., 2023/2024) would have, under the PITL, allowed a qualified taxpayer a credit equal to childcare costs paid or incurred in the state. The credit would equal the lesser of \$500, or the difference between the existing state child and dependent care expenses credit and the allowable federal child and dependent care expenses credit. This credit would be in addition to the current California child and dependent care expenses credit. AB 14 did not pass out of the Assembly Revenue and Taxation Committee by the constitutional deadline.

AB 1634 (Bauer-Khan, 2023/2024) would have, under the PTIL and CTL, allowed a deduction for any costs paid or incurred by a taxpayer for qualified childcare provided to a qualified dependent. The maximum total deduction that may be claimed by a taxpayer cannot exceed \$5,000 per taxable year per qualified dependent. AB 1634 did not pass out of the Assembly Revenue and Taxation Committee by the constitutional deadline.

SB 533 (Limon, 2023/2024) would have, under the PTIL and CTL, an Employer Childcare Tax Credit and Employer Contributions to a Qualified Care Plant Tax Credit. The Employer Childcare Tax Credit would have provided a tax credit for startup expenses to establish a childcare program or construct a childcare facility in California, and for contributions to California childcare information and referral services and the Employer Contributions to a Qualified Care Plan Tax Credit would have provided a tax credit for employer contributions to a qualified care plan on behalf of any qualified dependent of the taxpayer's qualified employee. SB 533 did not pass out of the Senate Committee on Appropriations by the constitutional deadline.

AB 2803 (Valladares, 2021/2022) would have, under the PITL and CTL, allowed a credit to the taxpayer or the small employer taxpayer for a percentage of the amount paid or incurred for contributions for qualified care. The amount of the credit allowed would not exceed \$250,000 in any taxable year. AB 2803 did not pass out the Assembly Appropriations Committee.

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 Discussion

To determine the revenue impact of this proposal, the number of taxpayers that would contribute and the amount of qualified contributions to promote childcare must be known. Since it is difficult to predict this, the revenue impact is unknown. However, for every \$10 million of donations made, and applying the credit percentage of 50%, credits generated would be \$5 million. It is assumed that approximately 70%, or \$3.5 million, would be earned by taxpayers with sufficient tax liability to offset with the credit. Of that amount, roughly 65%, or approximately \$2.3 million, would be claimed in the year generated and the remaining credits would be used over the subsequent years or until exhausted.

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

Assembly Committee on Revenue and Taxation, dated April 17, 2026

Support

California Chamber of Commerce

Opposition

California Teachers Association

ARGUMENTS

Assembly Committee on Revenue and Taxation, dated April 17, 2026

Proponents

This bill is supported by the California Chamber of Commerce, which notes, in part:

At California Chamber of Commerce, we recognize that access to affordable, reliable childcare is essential to maintaining a stable and productive workforce. This bill provides a practical and flexible mechanism for businesses to invest in childcare solutions - whether through supporting facility development, assisting working families directly, or partnering with other employers to expand local childcare capacity. The proposed 50% tax credit, capped at \$100,000 annually, strikes a thoughtful balance by encouraging meaningful participation from the employer community. By allowing carryforward of unused credits, the bill further enhances its accessibility for businesses of varying sizes. Importantly, this policy directly benefits employees by expanding access to affordable, reliable childcare options. With greater support, working parents can more easily secure safe and consistent care for their children, reducing stress and financial strain. This allows employees to remain focused and engaged at work, maintain stable employment, and find better balance to their professional and familial responsibilities - leading to improved overall well-being.

Opponents

This bill is opposed by the California Teachers Association, which notes, in part:

In fiscal year 2025-26, the Department of Finance estimated a \$94 billion dollar loss in general fund revenue due to existing tax expenditures. This is revenue that would have otherwise gone to the General Fund, of which approximately 40% would have gone toward the Proposition 98 minimum guarantee. Once tax credits are passed with a simple majority, it takes a two-thirds vote of the Legislature to repeal them. While we understand that some of these bills are well intended, CTA does not support this approach, as it would reduce overall funding for education. CTA believes Proposition 98 should be protected from reductions through the creation of new or expanding existing tax expenditures.

LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov