STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Rubio

Sponsor:

Bill Number: AB 895

Related Bills: See Legislative History

Amended: March 24, 2025

SUBJECT

Fast-Food Restaurant Owner Tax Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and Corporate Tax Law (CTL), for taxable years beginning on or after January 1, 2026, and before January 1, 2031, allow a tax credit of $12,000 per qualified taxpayer per qualified fast-food restaurant.

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 24, 2025, amendments removed provisions of the bill relating to the Business and Professions Code and replaced them with the provisions discussed in this analysis.

This is the Franchise Tax Board's (FTB) first analysis of the bill and only addresses the provisions that would impact the FTB.

REASON FOR THE BILL

The reason for the bill is to provide relief to fast-food restaurant owners impacted by rising unemployment insurance costs.

ANALYSIS

This bill would, under the PITL and CTL, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, allow a tax credit for an amount equal to $12,000 per qualified taxpayer per qualified fast-food restaurant during the taxable year.

The bill defines the following:

- "Qualified fast-food restaurant" would mean a restaurant that is subject to Part 4.5.5, Division 2 of the California Labor Code (LAB).
- "Qualified taxpayer" would mean a franchisee or independent fast-food restaurant operator with no more than 45 locations under common ownership within the State of California.

Any excess credit could be carried over for three years, until the credit is exhausted.

In addition, for an employer to qualify for the credit, the employer would be required to annually demonstrate by reasonable means its compliance with appropriate provisions of the LAB and actively maintain an unemployment insurance account with the Employment Development Department (EDD). Additionally, the FTB could request necessary information from the Department of Industrial Relations to help administer this credit and ensure qualified taxpayers' compliance.

The FTB may prescribe rules, guidelines, procedures or other guidance to carry out the purpose of this bill. In addition, the FTB, may prescribe any regulations necessary and appropriate to carry out the purposes of the bill, including any regulations to prevent improper claims from being filed. This bill would exempt FTB's rules, guidelines, procedures or other guidance from the requirements of the Administrative Procedure Act.

This bill includes language to comply with Revenue and Taxation Code (RTC) section 41, which provides the goal of the credit is to provide relief to fast-food restaurant owners impacted by rising unemployment insurance costs. The performance indicators would be the number of taxpayers claiming the credit, and the total dollar value of credit claimed per taxpayer.

The bill would also require the FTB to submit a report to the Legislature on or before December 1, 2027, and annually thereafter, detailing the number of taxpayers claiming the credit and the total value of credit claimed per taxpayer.

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, 2031, 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, 2026, and before January 1, 2031.

Federal/State Law

Existing state and federal 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 or hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake. Currently, federal and state laws have no credit comparable to the Fast-Food Restaurant Owner Tax Credit.

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 requirements 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 requirements performance measures if the Legislature determines there is no available data to collect and report.

Implementation 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.

This bill uses undefined terms and phrases, e.g., "must demonstrate by reasonable means," "compliance with appropriate provisions of the Labor Code," and "active unemployment insurance account." The absence of definitions could lead to taxpayer confusion. For clarity the author may wish to amend the bill to define these terms. FTB also does not have expertise in the areas of labor and unemployment insurance.

The bill does not specify if restaurants must be in operation or if they must be in operation for the entire taxable year in order to qualify.

In addition, the bill provides that the credit would be allowed per qualified taxpayer per qualified restaurant. To ensure taxpayer compliance and consistency with the author's intent, the author may want to amend the bill to clarify whether a $12,000 credit is allowed per location or whether a qualified taxpayer is allowed a maximum $12,000 credit per taxable year.

The taxpayer would be required to be in compliance with certain labor laws and maintain an active unemployment insurance account with EDD. The FTB would not have access to this information. Typically, credits involving areas for which the FTB does not have the expertise, or the information would be certified by another agency or agencies that have the relevant expertise. Any certification language should specify the responsibilities of both the certifying agencies and the taxpayer. It is recommended that this bill be amended to include a certifying agency.

This bill requires the FTB to prepare a report on the performance of the credit allowed by this bill no later than December 1, 2027, and each year thereafter. If the author's intent is to review a report that contains complete information for the 2026 taxable year, it is recommended that the reporting due date be extended to no earlier than April of 2029. This date allows time for the FTB to complete processing of both personal income tax returns and corporation returns that file on a fiscal year basis. Corporate filers that file on extension may file as late as October 15, 2028. The FTB needs approximately six months to complete return processing and to compile the needed data to prepare a report. As a result, it is recommended that the reporting due date be no earlier than April of 2029 to provide complete information for the 2026 taxable year. If the reporting due date remains unchanged, the report would include the information available as of six months prior to the date the report is due.

Technical Considerations

For consistency and clarity, the following changes are recommended:

- In Section 17053.92(a), replace "For each taxable year beginning on…" with "For taxable years beginning on…"
- In Section 17053.92(b) replace the phrase "a franchisee or independent fast food restaurant operator" with "a franchisee or fast-food restaurant operator within the meaning of Part 4.5.5 (commencing with Section 1474) of Division 2 of the Labor Code."
- In Section 17053.92(d)(1) replace "an employer" with "a qualified taxpayer."

The bill would add RTC section 17053.92. AB 244 (Alanis, 2025/2026), if enacted, would also add section 17053.92. To avoid numbering issues, the author may want to renumber the section.

"Employer" and "qualified taxpayer" are used interchangeably. To avoid confusion, the author may want to amend the bill to replace reference to "employer" with "qualified taxpayer".

In Sections 17053.92(e)(1) and 23692(e)(1) remove the language, "The FTB may prescribe rules, guidelines, procedures, or other guidance to carry out the purpose of this section." as FTB already has this authority.

Policy Considerations

A $12,000 credit could exceed the taxpayer's costs paid or incurred for unemployment insurance contributions. If that is contrary to the author's intent, the bill should be amended.

This bill authorizes the FTB to request information from the Department of Industrial Relations (DIR). However, the bill does not require DIR to provide that information to FTB. If this is contrary to the author's intent, the bill should be amended.

LEGISLATIVE HISTORY

AB 244 (Alanis, 2025/2026) would, under the PITL and CTL, allow a tax credit of $1,000 for each registered apprentices continuously employed, for at least six months, by a qualified taxpayer for taxable years beginning on or after January 1, 2026, and before January 1, 2031. AB 244 has been referred to the Assembly Labor and Employment Committee.

AB 976 (Farias, 2025/2026) would, under the PTIL and CTL, allow a credit to qualified taxpayers in an amount equal to a taxpayer's qualified retail theft prevention measure expenses, limited to $4,000, for taxable years beginning on or after January 1, 2026, and before January 1, 2028. AB 976 is currently in the Assembly committee process and has been placed in the suspense file.

AB 1431 (Tangipa, 2025/2026) would, under the PITL, allow a credit, not to exceed $5,000, to a qualified taxpayer for moneys paid by an employer for medical services performed in rural area of the state and authorized under the qualified taxpayer's license for taxable year beginning on or after January 1, 2025, and before January 1, 2032. AB 1431 has been referred to the Assembly Revenue and Taxation Committee.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

The 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 895 as Introduced March 24, 2025.
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$45
2026-2027	-$85
2027-2028	-$90

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

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