STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Ávila Farías

Sponsor:

Bill Number: AB 976

Related Bills: See Legislative History

Amended: April 28, 2025

SUBJECT

Retail Security Tax Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), allow a credit to qualified taxpayers in an amount equal to the taxpayer's qualified retail theft prevention expenses, limited to $4,000, for taxable years beginning on or after January 1, 2026, and before January 1, 2028, subject to a credit reservation by the Franchise Tax Board (FTB).

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 28, 2025, amendments replaced the credit reservation process from the California Tax Credit Allocation Committee to the FTB and modified the definition of a qualified taxpayer. As a result, one of the implementation considerations identified in FTB's analysis of this bill as introduced February 20, 2025, and amended on March 14, 2025, no longer applies, and a new consideration was created.

REASON FOR THE BILL

The reason for the bill is to allow a tax credit to assist small retail businesses in disadvantaged California communities by offsetting the cost of security equipment.

ANALYSIS

This bill would, under the PITL and CTL, for taxable years beginning on or after January 1, 2026, and before January 1, 2028, allow a tax credit to a qualified taxpayer in an amount equal to the taxpayer's qualified retail theft prevention measure expenses during the taxable year at retail locations in the state, subject to a credit reservation by the FTB, not to exceed $4,000 per taxable year.

The bill defines the following terms and phrases:

- "Full-time equivalent employee" would be calculated as follows:
  - An employee of a qualified taxpayer who works a minimum of 36 hours per week for each week the employee is employed by the qualified taxpayer, at the qualified taxpayer's retail location in the state, shall equal one full-time equivalent employee.
  - An employee of the qualified taxpayer who works a minimum of 20 hours per week, but less than 36 hours per week, for each week the employee is employed by the qualified taxpayer, at the qualified taxpayer's retail location in the state, shall equal one-half full-time equivalent employee.
  - A salaried employee of the qualified taxpayer who was paid compensation during the taxable year for full-time employment by the qualified taxpayer, at the qualified taxpayer's retail location in the state, shall equal one full-time equivalent employee.
- "Qualified retail theft prevention measure expenses" would mean the purchase, that is incurred on or after the operative date of this section, in an amount of at least $4,000, of any of the following equipment by the qualified taxpayer at a retail location in the state:
  - Security cameras.
  - Interior or exterior locking or hardening measures.
  - Perimeter security lighting.
  - Access control systems.
  - Alarm systems.
- "Qualified taxpayer" would mean a business that employs 25 or fewer total full-time equivalent employees who are employed for at least 40 weeks within the prior taxable year at one or more retail locations in the state, operating in a disadvantaged community as of January 1, 2026, as defined in the Health and Safety Code, with total gross annual receipts of $5 million or less.

FTB would be required to publish the application form to obtain a credit reservation on its internet website by January 1, 2026. FTB would be required to approve credit reservations on or before March 15, 2026, for credit reservation applications received on or before February 1, 2026. FTB would also be required to, on or before March 15, 2026, or within 30 days of receiving a credit reservation application, whichever is later, notify qualified taxpayers of the amount of credit reserved. FTB would also continue to accept and approve additional credit reservation applications received after February 1, 2026, on a rolling basis until the annual credit cap is fully allocated.

The total aggregate amount of the credit, under the PITL and CTL, that could be allocated by credit reservations per taxable year cannot exceed $10 million, plus the unallocated credit amount, if any, from the preceding taxable year.

This credit would be repealed by its own terms on December 1, 2027.

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, 2028.

Federal/State Law

Existing 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 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.

Current state and federal laws generally allow taxpayers engaged in a trade or business to deduct all expenses that are considered ordinary and necessary in conducting that trade or business.

There is no comparable federal or state income tax credit similar to the credit this bill would create.

Implementation Considerations

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

This bill would require the FTB to begin accepting applications for a tentative credit reservation on or before March 15, 2026. However, implementation of the bill’s provisions would not begin until after the enactment of this bill. The author may wish to delay the operation of the bill to allow FTB additional time for implementation of the reservation system to the earliest date of July 1, 2027.

This bill does not specify how a business “operating in a disadvantaged community” would be determined, which may create challenges in administration and compliance. As written, it is unclear if a taxpayer could claim the credit for a retail location that is physically located in a disadvantaged community or if a business operates, but is not located in such a community, would qualify. Without clarification, these ambiguities may lead to administrative challenges for the FTB. The author may wish to clarify this phrase.

The definition of a qualified taxpayer refers to the term “gross annual receipts” and the bill refers to the phrases, “total gross annual receipts” and “retail location.” These are undefined and are not items captured on the California income tax return. This could lead to administrative challenges for FTB. For clarity and consistency within the Revenue and Taxation Code (RTC), it is recommended that the bill be amended to define these terms and, instead of referring to gross annual receipts, refer to “gross income.”

This bill specifies that the credit has a $4,000 limitation per taxable year, while also requiring qualified retail theft prevention measure expenses to be at least $4,000. It is unclear whether the intent is to provide a flat $4,000 credit once a qualified taxpayer meets the minimum spending threshold or if the credit amount is intended to be calculated as a percentage of eligible expenses up to a cap. The absence of clarifying language could lead to taxpayer confusion and could complicate the administration of this bill. The author may want to amend the bill to clarify how the credit is determined and applied.

This bill requires the FTB to prepare a report on the performance of the credit allowed by this bill no later than June 30, 2027, and each June 30 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 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 clarity, the following changes are recommended:

In Sections 17053.77(b)(2) and 23621.5(b)(2), replace the phrase “…the purchase, that is incurred on or after the operative date of this section, in an amount of at least four thousand dollars ($4,000), of any…” with “…the amount paid or incurred for any…”

In Sections 17053.77(b)(3) and 23621.5(b)(3), add “by the qualified taxpayer” after “who are employed.”

To keep the RTC clear of duplicative language, remove Section 23621.5(e), the Section 41 findings, because Section 17053.77(e) contains a cross-reference to Section 23621.5 for purposes of Section 41.

The repeal date in Sections 17053.77(f) and 23621.5(f) should be changed from December 1, 2027, to December 1, 2028.

Policy Considerations

A “qualified taxpayer” is defined in terms of a business. Under both the PITL and the CTL, a single taxpayer may operate multiple businesses that could each qualify for the credit. If this is contrary to the author’s intent, the author may wish to amend the bill.

This bill does not provide a carryover period. As a result, any unused credit would be lost if the taxpayer is unable to use the entire credit amount in the year claimed. The author may wish to add language to allow a limited carryover period.

Taxpayers that pay or incur eligible expenses that are not at least $4,000 would be ineligible for the credit. If this is contrary to the author’s intent, the author may wish to amend the bill.

The bill does not specify whether the qualified taxpayer would be limited to one credit reservation per taxable year or could make multiple reservations in a taxable year. If this is contrary to the author’s intent, the author may wish to amend the bill.

This bill would require that a business’ total gross annual receipts not exceed $5 million to qualify as a “qualified taxpayer.” This threshold would apply on a per-business basis. If the intention is to apply the $5 million cap to each taxpayer or the combined reporting group, in the case of a combined reporting group, the author may wish to amend the bill.

LEGISLATIVE HISTORY

SB 665 (Choi, et al., 2025/2026), under the PITL and CTL, would allow a tax credit to qualified taxpayers for qualified expenditures related to retail theft prevention measures. SB 665 did not pass out of the Senate by the required deadline.

SB 666 (Choi, et al., 2025/2026), under the PITL, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, would allow for a credit against net tax for the purchase and installation of a home security surveillance system. SB 666 did not pass out of the required deadline.

AB 2219 (Wallis, 2023/2024), under the PITL, would have allowed a credit against net tax for the purchase and installation of a security surveillance system. AB 2219 was held in the Assembly Revenue and Taxation Committee without further action.

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 976 as Amended April 28, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$2.7
2026-2027	-$6.3
2027-2028	-$3.2

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 Employment Development Department and the Small Business Administration, it is estimated that in the 2026 taxable year there would be approximately 50,000 retail businesses with 25 or fewer full-time equivalent employees. It is further assumed that 60 percent, or 30,000, would be in a qualified disadvantage community and have no more than $5 million in total gross annual receipts. Of this amount, it is estimated that 25 percent, or 7,500 qualified businesses would be ready to purchase qualified security equipment. It is estimated that 40 percent, or 3,000, would request a credit reservation. However, due to the minimum qualifying expense amount of $4,000 and the $10 million aggregate credit allocation amount, only 2,500 businesses would receive a credit allocation in the 2026 taxable year. It is further assumed that for various reasons 5 percent, or 125 qualified taxpayers would return $500,000 in allocated credits, resulting in $9.5 million in credit generated in the 2026 taxable year.

It is estimated that 80 percent, including the S corporation adjustment, or about $7.6 million, would be earned by taxpayers with sufficient tax liability to offset with the credit. Of that amount, 85 percent, or $6.7 million, would be claimed in the year generated and the remaining credit would go unused.

To arrive at the offsetting tax effect of the expense deduction that would otherwise be allowed under current law, it is estimated that qualified taxpayers would be able to deduct approximately $9.5 million in qualified expenses. Applying an average tax rate of 7 percent, results in an offsetting revenue gain of $700,000. The resulting net revenue loss, for 2026 taxable year, would be $6.1 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

Assembly Committee on Revenue and Taxation, dated May 2, 2025.

Support

ADT Security Services
California Retailers Association
Family Business Association of California
NFIB California
Security Industry Association

Opposition

California Teachers Association

ARGUMENTS

Assembly Committee on Revenue and Taxation, dated May 2, 2025.

Proponents

The bill is supported by the Security Industry Association, noting in part:

> California has been grappling with a surge in retail crime, impacting not only businesses but also the safety and well-being of our communities. Small retailers struggle to afford security systems that can help deter theft because of the upfront costs often needed to install effective systems.
>
> While recent legislative efforts and voter-approved propositions have sought to address the criminal aspect of retail theft, they do not alleviate the financial burden on small businesses to protect themselves. This is where AB 976 plays a vital role.

Opponents

The bill is opposed by the California Teacher's Association, noting:

> According to the Department of Finance, the state provided over $91.5 billion in General Fund tax expenditures in 2024-25 (including income, sales and use, corporate and other taxes). This number continues to grow each year. This revenue would have otherwise gone to the General Fund, of which, approximately 39 percent would have gone toward Proposition 98 for K-14 education. Due to existing tax expenditures, approximately $35 billion is redirected away from schools and community colleges each year.
>
> While we understand 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

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