STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Nguyen

Sponsor:

Bill Number: AB 984

Related Bills: See Legislative History

Introduced: February 20, 2025

SUBJECT

California Achieving a Better Life Experience (CalABLE) Contribution Deductions

SUMMARY

This bill, under the Personal Income Tax Law (PITL), would allow the CalABLE deduction to be an above-the-line deduction in determining adjusted gross income (AGI) for taxable years beginning on or after January 1, 2026, and before January 1, 2031, and would add Revenue and Taxation Code (RTC) section 41 goals and Franchise Tax Board (FTB) reporting requirements.

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 taxpayers to increase the amount contributed to CalABLE accounts and to help people with disabilities and their families prepare for the future.

ANALYSIS

For taxable years beginning on or after January 1, 2026, and before January 1, 2031, this bill would allow an above-the-line deduction of the amounts contributed to a CalABLE account during the taxable year to be a deduction in determining AGI.

For purposes of Section 41, the bill provides the Legislature's objectives and would require the FTB to submit a report on or before January 1, 2031, to the Legislature that would include, but would not be limited to, the amount of CalABLE deductions allowed, and the findings and declarations relating to the goals of the deduction. The success of the law would be measured by calculating the average of the contributions made during for the taxable year beginning on or after January 1, 2026, and before January 1, 2027, and each subsequent taxable year, to determine if there is an increase in contributions per year. The report would be required to be submitted in compliance with Government Code section 9795.

This section would be repealed on December 1, 2031.

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

Federal Law

Existing federal and state laws allow for the deduction of certain expenses when calculating AGI, such as certain ordinary and necessary trade and business expenses, losses from the sale or exchange of certain property, and interest on education loans (also known as student loans). Thus, all taxpayers with these types of expenses receive the benefit of the deduction. These are known as “above-the-line” deductions.

Existing federal and state laws also provide for qualified tuition programs, also known as Internal Revenue Code (IRC) 529 accounts as well as Achieving a Better Life Experience accounts (ABLE accounts), known as IRC 529A accounts. Both are tax-favored savings programs. An IRC section 529 plan account is a tax-advantaged investment vehicle in the United States designed to encourage saving for the future higher education expenses of a designated beneficiary. An ABLE account is a tax-advantaged investment vehicle in the United States designed to encourage saving for the account beneficiary’s qualified disability expenses. Federal law also allows rollovers between IRC section 529 accounts and ABLE accounts.

An eligible individual for an ABLE account is an individual either (1) for whom a disability certification has been filed with the Secretary for the taxable year, or (2) who is entitled to Social Security Disability Insurance benefits or SSI benefits, based on blindness or disability, and such blindness or disability occurred before the individual attained age 46. The Consolidated Appropriations Act, 2023 (Public Law 117-328) increased the age from 26 to 46 by which a disability onset for an eligible individual must occur to be a designated beneficiary of an ABLE account.

Federal law does not allow an above-the-line deduction for ABLE account contributions. However, beginning in 2018, contributors to an ABLE account may be eligible for a Saver’s Credit if the contributor is the designated beneficiary. The credit percentage varies based on AGI and is either 50%, 20%, or 10% of the contributions made to the account. The maximum contribution amount that qualifies for the credit is $2,000 ($4,000 if married filing jointly) with the maximum credit being $1,000 ($2,000 if married filing jointly).

State Law

Current state law generally conforms to IRC sections 529 and 529A, as of the "specified date" of January 1, 2015, with modifications. Any distribution from an IRC section 529A plan that is not for qualifying disability expenses is includible in California taxable income and is subject to an additional state tax penalty of 2.5%.

In addition, for taxable years beginning on or after January 1, 2019, California conforms, with modifications, to the allowance of rollovers between IRC section 529 accounts and ABLE accounts made by the Tax Cuts and Jobs Act (TCJA) (Public Law 115-97), and to changes made by the Consolidated Appropriations Act, 2016 (CAA 2016) (Division Q, Protecting Americans from Tax Hikes (PATH) Act), to maintain account qualification for the ABLE program. In addition, for taxable years beginning on or after January 1, 2026, California conformed to the increased age requirement to 46 years of age to be an eligible individual. California law does not conform to the federal Saver's Credit.

Legislation that would create a new tax expenditure, which includes a credit, a deduction, an 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

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.

Because the bill does not specify otherwise, an individual that contributes to multiple CalABLE accounts would be allowed a deduction for 100% of their contributions. If this is contrary to the author's intent, the bill should be amended.

The deduction would also be limited to individuals although contributions to a CalABLE account may be made by any person, including business entities as well as individuals. If the author intends to provide a tax benefit to all CalABLE contributors, the author may want to amend the bill.

The bill would require the FTB to measure this section's success by calculating the average amount of contributions made by January 1, 2026, and annually thereafter, in a report due to the Legislature by January 1, 2031. If the author's intent is to be able to review a report that contains information beginning with the 2026 taxable year, it is recommended that the reporting due date begin on July 1, 2028, and be due annually each year thereafter. (Note that the due date for the 2026 personal income tax return is April 15, 2027, and with extension individuals may file as late as October 15, 2027. The FTB needs approximately six months to complete return processing and finalize and submit the report.) We would also suggest that the report contain information on both the average amount of deductions and the total number of taxpayers allowed the deduction, as the average amount of deduction may increase or decrease when the number of taxpayers claiming the deduction changes.

Technical Considerations

For consistency of terminology, in Sections 17072(d) and 17208(a), replace, “For each taxable year beginning on or…” with “For taxable years beginning on or…”

In Section 17208(b)(3), delete the extra word “for.”

Policy Considerations

This bill would potentially provide a double tax benefit for the funds contributed, by allowing an above-the-line deduction for contributions to CalABLE accounts made by an individual, effectively excluding such contributions from state tax in addition to the current law exclusion from gross income for distributions for qualified disability expenses for a designated beneficiary. If this is contrary to the author’s intent, the author may wish to amend the bill.

This bill would create differences between federal and California tax law; thereby increasing the complexity of California tax return preparation. If this is contrary to the author’s intent, the author may want to amend the bill.

For consistency within the RTC, the Section 41 reporting requirements could be included as off-code language.

LEGISLATIVE HISTORY

AB 1076 (Addis, 2025/2026) would, under the RTC, require the FTB to revise individual and fiduciary tax form instructions to inform taxpayers they can request a direct deposit of a portion of an income tax refund into the CalABLE Program Trust. AB 1076 passed out of the Assembly Appropriations Committee and was ordered to the Senate.

AB 339 (Irwin, Chapter 324, Statutes of 2023), under the PITL and Corporation Tax Law (CTL), increased the age for eligible individuals from 26 to 46 years of age for CalABLE accounts for taxable years beginning on or after January 1, 2026.

AB 91 (Burke, Chapter 39, Statutes 2019), in relevant part, under the PITL and the CTL, for taxable years beginning on or after January 1, 2019, conformed, with modifications, to the allowance of rollovers between IRC section 529 accounts and ABLE accounts made by the TCJA, and clarified the treatment of the distributions made under the TCJA. AB 91 also conformed to changes made by the CAA 2016 to maintain account qualification for the ABLE program and the definition of qualified educational expenditures under IRC section 529.

AB 416 (Fong, 2019/2020), under the PITL, for taxable years beginning on or after January 1, 2020, and before January 1, 2025, would have allowed a deduction in computing AGI in an amount equal to the amount contributed by a taxpayer during the taxable year to a CalABLE account under the PITL. AB 416 did not pass out of the Assembly by the constitutional deadline.

AB 2039 (Fong, 2017/2018), under the PITL, for each taxable year beginning on or after January 1, 2018, and before January 1, 2023, would have allowed a deduction in computing AGI in an amount equal to the amount contributed by a taxpayer during the taxable year to a CalABLE account. AB 2039 did not pass out of the Assembly by the constitutional deadline.

PROGRAM BACKGROUND

In 2015, Governor Brown signed the California ABLE Act into law operative for taxable years beginning on or after January 1, 2016, which allows qualified individuals with disabilities and their families to open tax-free savings accounts without the worry of losing vital government assistance. The contribution limit to a CalABLE account for the 2025 tax year is $19,000, and can be made by family, friends, or the beneficiary themselves. The account’s earnings are allowed to accumulate tax-free, and the withdrawals, provided they are applied to qualifying disability expenses, are tax-free.

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 984 as Introduced February 20, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$5.2
2026-2027	-$11
2027-2028	-$16

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

Using CalABLE data from California's Office of the State Treasurer, it is estimated that $105 million in qualified contributions would be made to CalABLE accounts in 2026. Using an average tax rate of 8.6% would result in an estimated revenue loss of $9 million in the 2026 taxable year.

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 Revenue and Taxation Committee Report, dated May 2, 2025.

Support:

California State Treasurer Fiona Ma (Sponsor)
The Arc & United Cerebral Palsy California Collaboration
Easterseals Northern California

Opposition

None on file.

ARGUMENTS

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

Proponents

California State Treasurer Fiona Ma, who noted the following:

> [C]urrent restrictions on income and limitations on financial independence continue to make it difficult to save, even with a CalABLE account. This is an especially significant burden to lower-income beneficiaries. Currently, 71% of CalABLE account holders receive SSI and/or Social Security Disability Insurance (SSDI), both of which are restricted to individuals with low or no income.
>
> To combat these costs, 23 states offer tax deductions or tax credits on deposits made into their ABLE accounts. If applied to California tax law, these tax deductions for taxpayer's contributions to CalABLE accounts would help CalABLE beneficiaries to save for themselves by reducing a significant cost of entry.
>
> This strategy would also serve as a catalyst to empower families and individuals to engage with a CalABLE account by encouraging increased contributions to a CalABLE account. If this tax deduction was adopted, it would make it easier for friends and family to gift money to people with disabilities, exponentially increasing participation and providing financial resources for millions of Californians, including hundreds of thousands of veterans.

In addition, Easterseals Northern California, which noted the following:

> AB 984 would provide tax deductions for contributions to CalABLE (California's Achieving a Better Life Experience) accounts. CalABLE accounts are an essential resource for individuals with disabilities and their families as these accounts allow tax advantaged savings and growth for

disability-related needs without affecting eligibility for public benefits like Medicaid and Supplemental Security Income (SSI). This bill would encourage more contributions to these accounts, thereby promoting the financial health, independence, and quality of life of individuals with disabilities.

Opponents

None on file.

LEGISLATIVE CONTACT

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