Revised Bill Analysis

Author: Soria

Sponsor:

Bill Number: AB 2377

Related Bills: See Legislative History

Amended: March 19, 2026, March 26, 2026

SUBJECT

Accelerated Depreciation for New Manufacturing Operations

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, 2027, and before January 1, 2032, allow a qualified taxpayer to claim an accelerated depreciation deduction for either 50% or 100% of the adjusted basis of qualified property placed in service in California. The qualified property must have an adjusted basis of at least $1 million and be primarily used in this state for at least 3 years.

This is the Franchise Tax Board's (FTB) first analysis of the bill.

SUMMARY OF REVISION

This revised analysis updates the "Economic Impact" section of FTB's analysis of this bill as amended March 26, 2026. Except for the "Economic Impact" section, the remainder of FTB's analysis of this bill as amended March 26, 2026, still applies.

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 19, 2026, amendments removed intent language relating to the bill as introduced on February 19, 2026, and replaced it with the provisions discussed in this analysis.

The March 26, 2026, amendments modified the definition of "qualified taxpayer".

REASON FOR THE BILL

The reason for this bill is to attract investment in advanced manufacturing and strategic industries, while promoting economic development in underserved regions of the state.

ANALYSIS

Under the PITL and CTL, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, this bill would allow a qualified taxpayer to claim an accelerated depreciation deduction for the adjusted basis of qualified property placed in service in California during the taxable year.

For purposes of the accelerated depreciation deduction, the deduction amount would be equal to either of the following:

- Except as provided below, 50% of the adjusted basis of the qualified property for the taxable year the qualified property is placed in service and the standard depreciation rules would apply for any subsequent taxable year, or
- 100% of the adjusted basis of the qualified property for the taxable year the qualified property is placed in service in the state in a high-need area.

In addition, the bill requires the adjusted basis of the qualified property giving rise to this deduction to be reduced by the amount of this deduction.

The bill defines the following terms:

- "High-need area" means a census tract, city, or county with an annual unemployment rate or poverty rate of at least 150% of the statewide unemployment rate or poverty rate.
- "Qualified property" means any of the following:
    - Machinery and equipment, including component parts and contrivances, such as belts, shafts, moving parts, and operating structures.
    - Equipment or devices used or required to operate, control, regulate, or maintain the machinery, including, but not limited to, computers, data-processing equipment, and computer software, together with all repair and replacement parts with a useful life of one or more years therefor, whether purchased separately or in conjunction with a complete machine, and regardless of whether the machine or component parts are assembled by the qualified taxpayer or another party.
    - Tangible personal property (TPP) used in pollution control that meets standards established by this state or any local or regional governmental agency within this state.
- "Qualified taxpayer" means a taxpayer that is primarily engaged in a trade or business described in Codes 3111 to 3399, inclusive, or 541713 to 541715,

inclusive, of the North American Industry Classification System published by the United States Office of Management and Budget, 2022 edition.

To be eligible for the accelerated depreciation deduction authorized by this bill, a qualified taxpayer would be required to place qualified property with adjusted basis of at least $1 million in service in the state during the taxable year.

A qualified taxpayer would be required to certify under penalty of perjury that qualified property placed in service during the taxable year would be primarily used in the state for at least three years.

In addition, this bill would require the FTB to prescribe any regulations necessary to recapture any benefit received by a taxpayer as a result of this bill where the qualified property is subsequently converted to a nonqualifying use or is primarily used out of state prior to the end of the three-year period.

This bill includes language required by Revenue and Taxation Code section 41, and provides that one of the goals of the accelerated depreciation deductions is to improve early year cashflow for businesses, particularly those in economically distressed areas. The performance indicators used to evaluate the effectiveness of the accelerated depreciation deductions would be the number of taxpayers claiming an accelerated depreciation deduction on qualified property and the total dollar value of accelerated depreciation deductions taken on qualified property.

The bill would require the FTB to submit a report to the Legislature on or before March 1, 2029, and annually thereafter, that includes the number of taxpayers allowed an accelerated depreciation deduction and the total dollar value of accelerated depreciation deductions taken on qualified property.

The deduction would be repealed on January 1, 2032.

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

Existing state and federal laws generally allow a depreciation deduction for the obsolescence or wear and tear of property used in the production of income or property used in a trade or business. The amount of this deduction is determined, in part, by the cost, or basis, of the property. In addition, the property must have a limited, useful life of more than one year. Depreciable property includes equipment, machinery, vehicles, and buildings, but excludes land.

The One Big Beautiful Bill Act of 2025 (P.L. 119-21) classified and added "any qualified production property" as property that is depreciated under modified accelerated cost recovery system (MACRS). However, the provision allows a taxpayer a special depreciation deduction of 100% of the adjusted basis for any qualified production property placed in service during the taxable year and the adjusted basis must be reduced by the amount of the deduction before computing the allowable depreciation deduction.

California conforms with modifications, under the PITL, to the federal rules relating to MACRS depreciation, under Internal Revenue Code (IRC) section 168, as of the specified date of January 1, 2025. However, California does not conform to the provision to allow the special depreciation treatment for any qualified production property.

California also does not conform, under the CTL, to IRC section 168, relating to MACRS depreciation. The CTL is in substantial conformity to the pre-1981 Class Life Asset Depreciation Range System (ADR) deductions. The ADR is an accounting method established by the IRS based on the "useful life" of depreciable property.

The California CTL generally uses federal methods that predate the federal modified accelerated cost recovery system (MACRS) and the alternative depreciation system (ADS) on commercial and industrial real property. Instead, property must be depreciated over its estimated useful life, which is the period over which the asset may reasonably be expected to be useful in the trade or business. Taxpayers may elect to use the useful life specified under the federal Class Life ADR. ADR grouped assets into more than 100 classes and assigned an asset guideline period, or useful life, to each class.

The CTL does not require that an election be made to adopt the ordinary straight-line method, declining balance method, or the sum-of-the-years-digits method. The straight-line method and the sum-of-the-years-digits method require a salvage value; the declining balance method does not require a salvage value. California has conformed to the federal 39-year recovery period for nonresidential real property placed in service on or after January 1, 1996. Most nonresidential real property, however, is depreciated over at least 30 years up to the maximum of 39 years.

Generally, significant improvements to real property are added to the basis, or cost, of the property and are depreciated over the property's remaining useful life.

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.

To avoid taxpayer confusion and disputes with taxpayers, the author may wish to amend the bill to clarify how to apply the "standard depreciation rules" in the taxable years following the taxable year the qualified property is placed in service.

The bill defines a "high-need area" to mean a census tract, city, or county with an annual unemployment rate or poverty rate of at least 150% of the statewide unemployment rate or poverty rate. The bill does not specify whether the annual unemployment rate or poverty rate needs to be at least 150% only during the taxable year the qualified property is placed in service in California or during each of the three years the qualified property is in service in California. To ensure the bill is implemented in accordance with the author's intent, the author may wish to clarify when the unemployment rate or poverty rate needs to be at least 150%.

The bill requires the FTB to prescribe regulations necessary to recapture benefits received by a taxpayer if the qualified property is subsequently converted to a nonqualifying use or is primarily used out of state prior to the end of the three-year period. The FTB already has authority to prescribe rules, guidelines, procedures, or other guidance for tax implementation purposes. The author may want to amend the bill to remove this requirement.

This bill would apply to TPP used in pollution control that meet the standards established by this state or any local or regional governmental agency within this state. FTB staff lacks expertise in these requirements for TPP. Accordingly, it is unclear how FTB would verify whether the taxpayer's TPP placed in service would qualify as qualified property. The author may want to consider having a qualified third party certify that the pollution control TPP meet the standards established by this state or any local or regional governmental agency within this state.

Technical Considerations

The bill provisions specify a repeal date of January 1, 2032. However, the bill provisions would apply for taxable years beginning before January 1, 2032. To retain the provisions "in law" until after the last day of the taxable year beginning December 1, 2031, the author may wish to change the repeal date to December 1, 2032.

For clarity, in Sections 17250.6(d)(2) and 24349.3(d)(2), it is recommended that the phrase "The Franchise Tax Board shall prescribe any regulations" be replaced with "The Franchise Tax Board may prescribe any regulations".

Policy Considerations

The bill requires the qualified taxpayer to certify under penalty of perjury that qualified property placed in service during the taxable year shall be primarily used in the state for at least three years, despite this not being a requirement in either the definition of a

qualified taxpayer or qualified property. If this is contrary to the author's intent, the author may wish to amend the bill.

LEGISLATIVE HISTORY

No legislation similar to this bill has been identified.

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.

REVISED ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2377 as Amended March 26, 2026
Assumed Enactment after June 30, 2026

($ in Millions)

Fiscal Year	Revenue
2026-2027	-$170
2027-2028	-$350
2028-2029	-$290

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 Department of Finance and the Franchise Tax Board, it is estimated that qualified taxpayers would spend approximately $8 billion on qualified property in 2027. It is estimated that taxpayers would take an additional depreciation deduction of approximately $4.6 billion in the 2027 taxable year. Applying an average tax rate of approximately 7.5 percent results in a revenue loss of approximately $350 million in the 2027 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

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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