



## Bill Analysis

Author: McNerny

Sponsor:

Bill Number: SB 1120

Related Bills: See Legislative  
History

Introduced: February 17, 2026

### SUBJECT

California Competes Tax Credit (CA Competes Credit) Refundability for Strategic Industries

### SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), for taxable years beginning on or after January 1, 2026, and before January 1, 2030, allow a taxpayer in a strategic industry to elect to make their CA Competes Credit refundable. The bill would also require the Governor's Office of Business and Economic Development (GO-Biz) to inform the Franchise Tax Board (FTB) if a taxpayer is in a strategic industry and intends for the credit to be refundable.

### 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 provide an incentive for strategic industries.

### ANALYSIS

This bill would, under the PITL and CTL, for taxable years beginning on or after January 1, 2026, and before January 1, 2030, allow a taxpayer in a strategic industry to elect to make their CA Competes Credit refundable. If the credit exceeds the taxpayer's tax for the taxable year, the credit would be applied to any other amounts due under the PITL and CTL and any balance would be refunded from the Tax Relief and Refund Account.

The excess balance of the CA Competes Credit, if any, is refunded to the taxpayer if at the time of applying for the credit, or within six months of the effective date of this provision, the taxpayer informs GO-Biz that the taxpayer is in a strategic industry and plans to make an election in the form and manner prescribed by GO-Biz.

For purposes of this bill, a "strategic industry" would mean industries involved in developing nuclear fusion technologies, quantum technology, or other industries identified in the California Jobs First State Economic Blueprint (released by the California Jobs First Council).

Lastly, this bill would require GO-Biz to inform the FTB of the terms and conditions of the written agreement upon approval by the California Competes Tax Credit Committee (CCTCC), including whether the taxpayer is in a strategic industry and if the taxpayer intends for the credit to be refundable.

#### *Effective/Operative Date*

This bill would be effective January 1, 2027, and specifically operative for taxable years beginning on or after January 1, 2026, and before January 1, 2030.

#### *Federal/State Law*

##### *Federal Law*

*No comparable provision in federal law.*

##### *State Law*

For taxable years beginning on or after January 1, 2014, and before January 1, 2030, the CA Competes Credit is an income or franchise tax credit available to businesses that come to California or stay and grow in California. CA Competes Credit Agreements are negotiated by GO-Biz and approved by the CCTCC, consisting of the State Treasurer, the Director of the Department of Finance, the Director of GO-Biz, and one appointee each by the Speaker of the Assembly and Senate Committees on Rules.

To claim the CA Competes Credit, a taxpayer must enter into a credit agreement with GO-Biz and meet the terms and conditions in the credit agreement. The credit is allocated by taxable year as specified in the credit agreement. As part of the credit agreement, a taxpayer commits to meet and maintain yearly employment and project investment requirements, referred to as "milestones." If a taxpayer meets the milestones for a taxable year as specified in the credit agreement, then the credit for that year is earned and may be claimed on the tax return. The credit is nonrefundable and any unused credit can be carried over for up to six years.

Upon approval of the tax credit agreement by the CCTCC, GO-Biz informs the FTB of the terms and conditions of the written agreement. The FTB reviews the books and records of taxpayers allocated a CA Competes Credit to ensure the taxpayer complies with the terms and conditions of the written agreement. If the FTB determines that a possible breach of the agreement has occurred, GO-Biz is provided with detailed information regarding the basis of the possible breach, which may lead to requiring the taxpayer to recapture the credit.

### *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.

To support the administration of the credit and timely collection of recaptured credits, the author may wish to include language to authorize the FTB to send a bill to credit recipients once the CCTCC approves a recapture. Under current law, recipients must self-report the recapture amount on their tax return for the year the recapture is approved, and FTB may issue a bill only if the recipient fails to self-report. Maintaining the current process requires FTB to monitor and track returns to determine whether recaptured credits are properly reported before initiating collection efforts. This credit administration process could increase the risk of non-recovery of refunded credits.

### *Technical Considerations*

For consistency of terminology, the following changes are recommended:

- In Sections 17059.2 and 23689(c)(4), replace the phrase "if the taxpayer intends for the credit to be refundable." with "if the taxpayer has made an election for the credit to be refundable."
- In Section 17059.2(c)(7)(F)(i), replace the phrase "Training, career ladder, apprenticeship, and preapprenticeship programs..." with "Training, career ladder, apprenticeship, or preapprenticeship programs..."
- In Section 17059.2(e)(2), replace the paragraphs with:

(e)(2)(A) For taxable years beginning on or after January 1, 2026, and before January 1, 2030, if the taxpayer is in a strategic industry and makes an election for the credit to be refundable, if the credit allowed under this section exceeds the tax for the taxable year, the excess shall be credited against other amounts due, if any, and the balance, if any, shall be paid from the Tax Relief and Refund Account and refunded to the taxpayer.

(e)(2)(B) The election shall be made in the form and manner prescribed by GO-Biz at the time of applying for the credit, or within six months of the effective date of this paragraph.

- In Section 23689(e)(2), replace the paragraphs with:

(e)(2)(A) For taxable years beginning on or after January 1, 2026, and before January 1, 2030, if the taxpayer is in a strategic industry and makes an election for the credit to be refundable, if the credit allowed under this section exceeds the tax for the taxable year, the excess shall be credited against other amounts due, if any, and the balance, if any, shall be paid from the Corporate Tax Fund Account and refunded to the taxpayer.

(e)(2)(B) The election shall be made in the form and manner prescribed by GO-Biz at the time of applying for the credit, or within six months of the effective date of this paragraph.

### *Policy Considerations*

This bill does not meet the conditions to be effective immediately. It is not a tax levy, an urgency bill, or an appropriation for current expenses of the state or related to the budget. If this is contrary to the author's intent, the author may wish to amend the bill.

This bill would allow, for 2026 taxable years, taxpayers in a strategic industry to elect at the time of applying for the credit, or within six months of the effective date of this bill, to make their CA Competes Credit refundable. However, this bill would be effective January 1, 2027. The earliest a taxpayer could apply for a credit with GO-Biz and elect to have their credit refundable would be on or after January 1, 2027, which may be after taxpayers have filed their 2026 taxable year returns. If this is contrary to the author's intent the author may wish to amend the bill to delay the operative date of the refundable credit.

Current law limits business tax credits to \$5,000,000 for taxable years beginning on or after January 1, 2024, and before January 1, 2027. For each taxable year of the limitation, taxpayers may make an irrevocable election to receive an annual refundable credit amount for business credits disallowed due to the \$5,000,000 limitation. Taxpayers may claim 20% of this refundable credit in each year of a five-year refundable period. The refundable period begins the third taxable year after the taxable year in which the election is made. The limitation applies for the 2026 taxable year unless, by May 14, 2026, the Director of Finance determines that General Fund money over the multiyear forecast is sufficient without the revenue impact of the credit limitation and related net operating loss suspension. For the 2026 taxable year, the refundable CA Competes Credit would be subject to the business tax credit limitation. If this is contrary to the author's intent, the author may wish to amend the bill.

Under Revenue and Taxation Code section 41, legislation that would create a new tax expenditure, which includes a credit, deduction, exclusion, exemption, or any other tax benefit as provided by the state, is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the tax benefit. The author may wish to amend the bill to include these goals, purposes, objectives, and performance measures.

## **LEGISLATIVE HISTORY**

AB 194 (Assembly Committee on Budget, Chapter 55, Statutes of 2022), among other things, Sections 7 and 14 of the bill, under the PITL and the CTL, extended the CA Competes Credit allocations through the 2027-2028 fiscal year, added additional factors for GO-Biz to consider when allocating the CA Competes Credit, and made other non-substantive changes.

AB 150 (Assembly Committee on Budget, Chapter 82, Statutes of 2021), among other things, Sections 13, 19, and 25 of the bill, under the PITL and the CTL, increased the amount of the CA Competes Credit allocated for the 2021-22 fiscal year.

SB 313 (Durazo, 2021/2022) would have, under the PITL and the CTL, modified the CA Competes Credit to be refundable for qualified taxpayers that reinvest the refund in immobile capital equipment that supports infrastructure improvements, expansion, or developments for media production facilities in the state. SB 313 was held in the Senate Governance and Finance Committee without further action.

SB 51 (Durazo, et al., 2019/2020) would have, under the PITL and CTL, for taxable years beginning on or after January 1, 2021, allowed qualified taxpayers to obtain a refund of their CA Competes Credit to invest in specified property in the state. SB 51 did not pass out of the Assembly Revenue and Taxation Committee by the required deadline.

## **PROGRAM BACKGROUND**

Upon approval of the CA Competes Credit Agreement by the CCTCC, GO-Biz informs the FTB of the terms and conditions of the written agreement. The FTB reviews the books and records of taxpayers allocated a CA Competes Credit to ensure that the taxpayer complies with the terms and conditions of the written agreement. If the FTB determines that a possible breach of the agreement has occurred, GO-Biz is provided with detailed information regarding the basis of the possible breach.

If a taxpayer fails to satisfy the terms of their written CA Competes Credit Agreement, GO-Biz is required to notify the FTB of the amount of the CA Competes Credit to be recaptured from the taxpayer. Any recapture is treated as a mathematical error appearing on the return and is added to the tax otherwise due by the taxpayer for the taxable year in which the CCTCC's recapture determination occurs.

**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*

In accordance with the bill provisions, FTB defers to the Department of Finance to determine the revenue impact of this bill.

*Revenue Discussion*

The amount and timing of the CA Competes Credit is subject to the agreement between GO-Biz and the taxpayer. Staff defers to the Department of Finance for the estimated revenue loss for this credit.

**LEGAL IMPACT**

None noted.

**EQUITY IMPACT**

None noted.

**APPOINTMENTS**

None noted.

**SUPPORT/OPPOSITION**

To be determined.

**ARGUMENTS**

To be determined.

**LEGISLATIVE CONTACT**

[FTBLegislativeServices@ftb.ca.gov](mailto:FTBLegislativeServices@ftb.ca.gov)