



Bill Analysis

Author: Valladares, et al.

Sponsor:

Bill Number: SB 1137

Related Bills: See Legislative
History

Introduced February 18 and
Amended April 8, 2026

SUBJECT

Medical Expenses Deduction

SUMMARY

Under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2026, and before January 1, 2031, this bill would allow an above-the-line deduction for uninsured medical expenses that exceed 4 percent of the qualified taxpayer's federal adjusted gross income (AGI).

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

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 8, 2026, amendments made technical changes, added coauthors, added a sunset and repeal date, and modified the deduction to an above-the-line deduction.

REASON FOR THE BILL

The reason for the bill is to help low and moderate income Californians pay for medical care costs by allowing an above-the-line deduction for medical and dental related expenses for those that do not take the current itemized deduction for medical care costs.

ANALYSIS

This bill, under the PITL for taxable years beginning on or after January 1, 2026, and before January 1, 2031, would allow an above-the-line deduction for the costs of medical care not compensated for by insurance or otherwise that exceed 4 percent of the qualified taxpayer's federal AGI, not to exceed \$5,000.

The following definitions would apply:

- “Medical care” has the same meaning as that term is defined in Section 213(d) of the Internal Revenue Code (IRC).
- “Qualified taxpayer” means an individual that satisfies both of the following:
 - Has AGI that does not exceed 300 percent of the federal poverty level, as determined by the United States Census Bureau.
 - Does not take an itemized deduction for costs of medical care pursuant to Section 213 of the IRC, relating to medical, dental, etc., expenses, on their California income tax return.

For purposes of complying with Revenue and Taxation Code (RTC) section 41, this bill would require the FTB to provide an anonymized report to the Assembly Committee on Revenue and Taxation and the Senate Revenue and Taxation Committee on or before February 1, 2030. The report would include the following for each taxable year beginning on or after January 1, 2026:

- Number of taxpayers that claimed the deduction.
- Total dollar value of deductions claimed.

In addition, the report would include a comparison on the performance of the deduction by reporting on the change in the number of taxpayers who receive the deduction under this bill compared to the number of taxpayers who received the deduction under Section 213 of the IRC prior to the enactment of this bill.

The deduction 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 allowed individuals to deduct certain expenses, such as medical expenses, charitable contributions, interest, and taxes, as itemized deductions.

Federal and State law allow for above-the-line deductions and below-the-line deductions. Generally, gross income minus above-the-line deductions results in AGI. Below-the-line deductions are either itemized deductions or the standard deduction. If a taxpayer takes the standard deduction, they cannot take itemized deductions. The medical and dental expense deduction is an itemized, below-the-line deduction. The medical and dental expense deduction is allowed to the extent that such expenses exceed 7.5 percent of federal AGI. California conforms to the IRC as of January 1, 2025.

Expenses deductible as unreimbursed medical expenses are amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body, or transportation primarily for and essential to such medical care, for amounts paid for medical insurance that covers such medical care (including essential transportation and amounts paid as premiums for Medicare Part B supplemental medical insurance), and for long-term-care services. In certain circumstances a deduction for unreimbursed medical expenses paid during the taxable year may be included in the calculation of itemized deductions for taxpayers that qualify to itemize their deduction.

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 requirement measures to allow the Legislature to evaluate the effectiveness of the tax benefit.

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.

The bill defines a qualified taxpayer as having AGI that does not exceed 300 percent of the federal poverty level, as determined by the United States Census Bureau. However, the bill is silent if AGI amount should be federal or California. The author may wish to clarify to avoid taxpayer confusion.

This bill would limit the deduction to \$5,000 but does not specify whether that limit is per taxable year or cumulatively for all taxable years. For clarity, the author may wish to amend the bill.

This bill would require the FTB to provide an anonymized report that includes the change in the number of taxpayers receiving the deduction after the changes made by this bill compared to the number of taxpayers receiving the deduction under IRC 213 for taxable years prior to the enactment of this act. The FTB cannot provide federal data or data for expenses not identified on the Schedule CA. Additionally, some taxpayers may take the standard deduction prior to the enactment of this bill. If this is contrary to the author's intent, the author may wish to amend the bill.

Technical Considerations

The bill includes a reporting requirement for the FTB that is uncodified and not incorporated into the relevant RTC section. For clarity and ease of reference, it is recommended that the bill be amended to include these provisions in the relevant code section.

In SEC. 3, subdivision (a)(2)(A), replace “number of taxpayers receiving the deduction under” with “number of taxpayers allowed a deduction under” and “number of taxpayers receiving that deduction for taxable years” with “number of taxpayers allowed that deduction for taxable years”.

In SEC. 3, subdivision (a)(2)(B), replace “taken pursuant” with “allowed pursuant”, and, replace “total dollar value of deductions...” with “total dollar amount of deductions...”

In SEC. 2, subdivision (b)(2)(A), if the intent of the author is for a qualified taxpayer’s AGI not to exceed 300 percent of the federal poverty level, per taxable year, insert “per taxable year” after “... federal poverty level,”.

In SEC. 3, subdivision (a)(2)(A), insert “as reported to the Franchise Tax Board on the state tax return” after “The change in number of taxpayers receiving the deduction...”

Policy Considerations

Taxpayers that file a return on a married filing separate basis would each qualify for the \$5,000 deduction. It’s common for taxpayers filing married filing jointly to receive twice the benefit as taxpayers filing individually or taxpayers with a filing status of married filing separate. If this is not the author’s intent, the author may wish to amend the bill.

The bill defines a qualified taxpayer as having AGI that does not exceed 300 percent of the federal poverty level, as determined by the United States Census Bureau. However, the bill is silent if the AGI should not exceed the 300 percent per taxable year.

This could complicate tax computation for taxpayers with medical expenses that are able to choose between this limited above-the-line deduction or the existing below-the-line deduction.

LEGISLATIVE HISTORY

AB 1282 (Gonzalez, et al., 2025/2026), under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, would have allowed a miscellaneous itemized deduction not exceeding \$5,000 for out-of-pocket medical costs paid or incurred by a taxpayer during the taxable year. AB 1282 did not pass out of the Assembly by the constitutional deadline.

AB 2533 (Tangipa, 2025/2026), under the PITL, for taxable years beginning on or after January 1, 2026, allow an above-the-line deduction for a qualified fitness benefit provided by an employer to an employee. AB 2533 has been placed in the Assembly Revenue and Taxation Committee suspense file.

SB 711 (McNeaney, Chapter 231, Statutes of 2025) under the PITL, Administration of Franchise and Income Tax Law, and Corporate Tax Law, changed the RTC’s general “specified date” conformity to the IRC from January 1, 2015, to January 1, 2025, for taxable years beginning on or after January 1, 2025. SB 711 conformed to the 7.5 percent of federal AGI medical expense deduction.

AB 243 (Choi, 2021/2022), under the PITL, would have reduced the percentage threshold that medical and dental expenses must exceed to be deductible from 7.5 percent to 4 percent of federal AGI. AB 243 did not pass out of the Assembly by the constitutional deadline.

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.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1137 as Amended April 8, 2026.
 Assumed Enactment after June 30, 2026

(\$ in Millions)

Fiscal Year	Revenue
2026-2027	-\$95
2027-2028	-\$60
2028-2029	-\$65

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

This bill would provide a qualified taxpayer with an alternative deduction option for medical and dental expenses. This proposal would allow up to \$5,000 medical and dental expenses as an above-the-line deduction for medical dental expenses exceeding 4 percent of the taxpayer's federal AGI. Under current law, taxpayers can deduct as an itemized deduction medical and dental expenses to the extent it exceeds 7.5 percent of the taxpayer's federal adjusted gross income.

Using 2023 Personal Income Tax data from the FTB, the amount of medical and dental expense deductions that would be claimed under the proposal is calculated and compared to the deductions that could be claimed under current law. Because both options would be available to the taxpayer, it is assumed the taxpayer would choose the option that affords them the highest deduction amount, resulting in an estimated \$800 million in an above-the-line deduction claimed in the 2023 taxable year. After adjusting for changes in the economy over time, it is estimated taxpayers would report an above-the-line deduction of \$950 in the 2026 taxable year. Applying an average tax rate of 6 percent this amount would result in an estimated revenue loss of \$60 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

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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