



Bill Analysis

Author: Grove

Sponsor:

Bill Number: SB 1277

Related Bills: See Legislative
History

Introduced: February 20, 2026

SUBJECT

Cost-Of-Living Refundable Tax Credit

SUMMARY

This bill would, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, under the Personal Income Tax Law (PITL), allow a refundable cost-of-living tax credit to a qualified taxpayer in a qualified amount based on the qualified taxpayer's filing status, adjusted gross income (AGI), dependents, and the portion of the taxable year the qualified taxpayer resided in California.

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 this bill is to help California taxpayers with the cost of living in the state by providing a tax credit.

ANALYSIS

Tax Credit

This bill would, under the PITL, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, allow a cost-of-living refundable tax credit to a qualified taxpayer in a qualified amount.

A "qualified taxpayer" would mean a taxpayer who was a resident of the state for at least six months during the taxable year prior to the taxable year when the taxpayer would claim the cost-of-living tax credit and who is a resident of the state at the time the taxpayer claims the cost-of-living tax credit.

The "qualified amount" would be determined as follows:

For a qualified taxpayer who is a single individual, or a spouse making a separate return, the following:

| AGI | Credit amount with one or more dependent(s) | Credit amount with no dependents |
|--|---|----------------------------------|
| Less than or equal to \$75,000 | \$700 | \$350 |
| More than \$75,000 but less than \$125,001 | \$500 | \$250 |
| \$125,001 or more, but less than \$250,001 | \$400 | \$200 |

For a qualified taxpayer who is a head of household, the following:

| AGI | Credit amount, with one or more dependent(s) | Credit amount with no dependents |
|---|--|----------------------------------|
| Less than or equal to \$150,000 | \$700 | \$350 |
| More than \$150,000 but less than \$250,001 | \$500 | \$250 |
| \$250,001 or more, but less than \$500,001 | \$400 | \$200 |

For a qualified taxpayer who is a surviving spouse or spouses making a joint return, the following:

| AGI | Credit amount, if one or more dependent(s) | Credit amount with no dependents |
|---|--|----------------------------------|
| Less than or equal to \$150,000 | \$1,050 | \$700 |
| More than \$150,000 but less than \$250,001 | \$750 | \$500 |
| \$250,001 or more, but less than \$500,001 | \$600 | \$400 |

Prorated Credit Amounts

Spouses would receive one credit, unless the spouses file separate returns, in which case, one spouse may claim the credit, or the credit may be divided equally between them, unless the following occurs:

- If one spouse was a full-time resident, and the other was a nonresident for part or all of the taxable year, the resident spouse would be allowed one half of the credit allowed to a married person. The nonresident spouse would be allowed one-half of the credit allowed to a married person, however it would be prorated, at one-twelfth of the credit for each full month the individual resided in the state during the taxable year.
- In the case where both spouses were nonresidents for parts of the taxable year, the credit allowed to married spouses would be divided equally between both spouses and would then be prorated at one-twelfth of the credit for each full month the individual resided in the state during the taxable year.

For spouses who are full-time residents and live separately the entire year, both spouses would be allowed one-half of the full credit allowed to married persons that applies to them.

If a taxpayer is eligible to receive a credit, but was a nonresident for any part of the taxable year, the taxpayer would be able to claim the credit at a prorated rate of one-twelfth of the credit for each full month the individual resides in the state during the taxable year.

Refundable Credit

This bill specifies any credit in excess of the tax liability would be credited against other amounts due with any remaining balance being refunded to the taxpayer.

Gross Income Exclusion

This bill would provide that any amount of this credit that is refunded to a qualified taxpayer would be excluded from gross income.

Credit Administration

The bill would allow Franchise Tax Board (FTB) specific authority to prescribe rules and regulations as necessary to administer the credit.

The credit would remain in effect until December 1, 2032, and as of that date would be repealed.

In addition, this bill would provide that this credit is for the public purpose of alleviating the cost-of-living crisis in the state and therefore does not constitute a gift of public funds.

Effective/Operative Date

This bill would be effective January 1, 2027, and specifically operative for taxable years beginning on or after January 1, 2027, and before January 1, 2032.

Federal/State Law

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, hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise be undertaken.

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. In addition, legislation that would create an income exclusion would not require detailed performance indicators and data collection measures if the Legislature determines there is no available data to collect and report.

Implementation Considerations

None noted.

Technical 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.

For consistency of terminology, consider replacing the following throughout the bill:

- The term "taxpayer" with "qualified taxpayer."
- The term "spouse (or spouses) making a joint return" with "married filing jointly."

For clarity and consistency, the author may consider replacing in Section 17054.6.5(c), "prior to" with "immediately preceding."

The author may wish to consider striking out the following, as they are unnecessary or duplicative of current law:

- Section 17054.6.5 (e) of the bill. FTB already has the authority to prescribe rules or regulations under existing law.
- SEC. 4 of the bill. The proposed credit is not retroactive, therefore, this section is unnecessary.

Policy Considerations

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.

Historically, at a national level, refundable tax credits have had significant problems with attempts by bad actors to file invalid or fraudulent claims. If a refund is erroneously made and is later determined to likely be fraudulent, the refunds commonly cannot be recovered.

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.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 1277 as Introduced 02/20/2026
Assumed Enactment after June 30, 2026

(\$ in Billions)

| Fiscal Year | Revenue |
|--------------------|----------------|
| 2026-2027 | -\$6.0 |
| 2027-2028 | -\$10 |
| 2028-2029 | -\$10 |

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

The revenue impact for this proposal was estimated using California personal income taxpayer data available. The refundable credit was computed by applying the qualified credit amount to the qualified taxpayer as specified by the proposal. The estimate considers the qualified taxpayer’s filing status, adjusted gross income, dependents, and the portion of the taxable year the qualified taxpayer resided in California. Approximately 17 million taxpayers would be impacted by the proposal resulting in a total estimated revenue loss of approximately \$10 billion in taxable year 2027.

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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