STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Senate Committee on Budget and Fiscal Review	Sponsor:	Bill Number: SB 132
	Related Bills: See Legislative History	Amended: June 24, 2025

SUBJECT

Taxation Budget Trailer Bill

SUMMARY

This bill would do the following:

Provision No. 1 - Passthrough Entity (PTE) Election and Tax Credit:

Sections 5-6, 8, 7, 11, and 17 of the bill, under the Small Business Relief Act (SBRA) and Personal Income Tax Law (PITL), would create a new PTE election and credit for taxable years beginning January 1, 2026, and before January 1, 2031. In addition, an election can be made for the taxable year if the June 15 required payment is not made or is less than the amount due, and in that case, the credit would be reduced by 12.5% of the amount of the qualified taxpayer's pro rata or distributive share of the amount due but not paid by June 15. Furthermore, this provision would also provide that a qualified taxpayer would be allowed the PTE credit in its taxable year beginning on or after January 1, 2026, and before January 1, 2027, if it is a partner, shareholder, or member of an electing qualified entity that files its return on a fiscal year basis and makes a PTE election for their taxable year beginning on or after January 1, 2025, and before January 1, 2026.

Provision No. 2 - Rehabilitation of Certified Historic Structures Credit (RCHSC):

Sections 9 and 18 of the bill, under the PITL, beginning July 1, 2025, would require amounts set aside for certain qualified rehabilitation expenditures under the RCHSC not allocated during the 2025 calendar year to be made available within 90 days to taxpayers with qualified rehabilitation expenditures of $1 million or more and that did not receive an allocation of the credit, and would have been the next affordable housing project application to receive an award.

Provision No. 3 - Motion Picture Credit 4.0:

Sections 10 and 19 of the bill, under the PITL and the Corporate Tax Law (CTL), for purposes of the Motion Picture Credit 4.0, would increase the aggregate amount of credits that may be allocated annually by the California Film Commission (CFC) from $330 million to $750 million for the 2025-2026 fiscal year through the 2029-2030 fiscal year.

Provision No. 4 - Gross Income Exclusions: Uniformed Services Retirement Pay & Survivor Benefit Plan Payments:

Sections 12, 13, and 28 of the bill, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, would exclude from gross income up to $20,000 of retirement pay received from the federal government for service in the uniformed services and up to $20,000 of annuity payments received from a United States (U.S.) Department of Defense Survivor Benefit Plan.

Provision No. 5 - Gross Income Exclusion for Wildfire Settlements:

Sections 14, 20, 29, and 33 of the bill, under the PITL and the CTL, for taxable years beginning on or after January 1, 2021, and before January 1, 2030, would allow a gross income exclusion to a qualified taxpayer who received qualified amounts from a settlement entity in connection with a wildfire in California.

Provision No. 6 - Gross Income Exclusion: Chiquita Canyon Elevated Temperature Landfill Event:

Sections 15, 21, 26, 30, and 34 of the bill, under the PITL and the CTL, would create an exclusion from gross income for any amounts received as compensation for damages from the Chiquita Canyon elevated temperature event for taxable years beginning on or after January 1, 2024, and before January 1, 2029. This provision would also, under the Welfare and Institutions Code (WIC), provide that these amounts are not considered income for various means-tested social programs.

Provision No. 7 – Franchise Tax Board (FTB) Court Ordered Debt Collection Program Fee Increase:

Section 16 of the bill, under the Administration of Income and Franchise Tax Law (AFITL), would increase the administrative fee from 15% to 20% that the FTB can charge for collection amounts imposed by a court that are referred to the FTB beginning with the 2025-2026 fiscal year.

Provision No. 8 - Single Sales Factor Apportionment for Financial Institutions:

Section 22 of the bill, under the CTL, would require apportioning trades or businesses deriving income from savings and loan and banking and financial business activities to apportion their business income to California by using the single sales factor formula for taxable years beginning on or after January 1, 2025.

SB 132 would also amend state sales and use tax laws; city and county transactions and use tax laws; and various taxes, fees, surcharges, and excise tax laws in the Revenue and Taxation Code (RTC), as well as amend the WIC.

This is the FTB's first analysis of the bill and only addresses the provisions that impact FTB's programs and operations.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

The June 24, 2025, amendments removed intent language relating to the Budget Act of 2025 and replaced it with the provisions discussed in this analysis.

REASON FOR THE BILL

The reason for the bill is to make various statutory changes relating to implementation of the Budget Act of 2025.

ANALYSIS

Analysis Provision No. 1:

PTE Election and Tax Credit (Sections 5-6, 8, 11, and 17 of the Bill)

PTE Tax Credit (Sections 5-6, 8, and 11 of the Bill)

This provision of the bill would allow a new PTE credit, under the PITL, similar to the PTE credit that was allowed under RTC section 17052.10, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, with the following changes:

- For a qualified taxpayer, who is a partner, shareholder, or member of an electing qualified entity that does not make the required June 15 payment or pays less than the amount due by June 15, the credit would be reduced by an amount equal to 12.5% of the qualified taxpayer's pro rata or distributive share of the amount due on June 15 but not paid.
- Any disallowance of the PTE credit because the claimed amount exceeds the credit determined after any required 12.5% reduction would be treated as a mathematical error appearing on the return.

The PTE credit would be added to the credit ordering rules after the credit allowed for PTE election for the 2025 through 2030 taxable years, would be able to reduce the regular tax below tentative minimum tax, and would not be subject to the $5 million credit limitation for taxable years beginning on or after January 1, 2024, and before January 1, 2027.

The provision would also provide that a qualified taxpayer would be allowed the PTE credit in its taxable year beginning on or after January 1, 2030, and before January 1, 2031, if it is a partner, shareholder, or member of an electing qualified entity that files its return on a fiscal year basis and makes a PTE election for their taxable year beginning on or after January 1, 2031, and before January 1, 2032.

This provision would remain in effect only until December 1, 2032, and as of that date would be repealed.

PTE Tax Credit for Taxable Years Beginning on or After January 1, 2026, and before January 1, 2027 (Section 7 of the Bill)

The provision would allow a qualified taxpayer the PTE credit allowed in its taxable year beginning on or after January 1, 2026, and before January 1, 2027, if it is a partner, shareholder, or member of an electing qualified entity that files its return on a fiscal year basis and makes an election for their taxable year beginning on or after January 1, 2025, and before January 1, 2026.

PTE Election (Section 17 of the Bill)

This provision of the bill would create a new SBRA, under newly created Part 10.4.1 of the RTC, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, to allow a PTE election similar to the prior SBRA that was operative for taxable years beginning before January 1, 2026.

The PTE elective tax authorized by this provision would be due and payable as follows:

- On or before June 15 during the taxable year of the election, an amount equal to, or greater than, either 50% of the elective tax paid for the prior taxable year or $1,000, whichever is greater, and
- On or before the due date of the original return without extension for the taxable year of the election, an amount equal to the amount of the elective tax, less the payment made on or before June 15 of the taxable year.

If no payment is made or if a payment is made that is less than the amount required, a qualified entity would still be able to make the PTE election for that taxable year.

If enacted, Part 10.4.1 would become operative only if the federal limitation on the individual State and Local Tax (SALT) itemized deduction is extended, and Part 10.4.1 would remain in effect only until December 1, 2031, and as of that date would be repealed. If before December 1, 2031, the federal SALT itemized deduction limitation is repealed, this provision would become inoperative for taxable years beginning on or after the January 1 after the federal SALT itemized deduction limitation is repealed, and would be repealed December 1 of that taxable year.

Effective/Operative Date

PTE Election and Tax Credit (Sections 5-6, 8, 11, and 17 of the Bill)

This provision, as part of a bill providing for appropriations related to the Budget Bill, would be effective immediately upon enactment. The new SBRA (Sections 5, 6, 8, 11, and 17) would be specifically operative for taxable years beginning on or after January 1, 2026, and before January 1, 2031.

PTE Tax Credit for Taxable Years Beginning on or After January 1, 2021, and before January 1, 2026 (Section 7 of the Bill)

Section 7 of the bill would be specifically operative for taxable years beginning on or after January 1, 2026, and before January 1, 2027.

Federal/State Law

Federal Law

Federal law, prior to 2018, allowed individuals to deduct certain expenses, such as medical expenses, charitable contributions, interest, and taxes, as itemized deductions. For taxable years beginning on or after January 1, 2018, the Tax Cuts and Jobs Act, changed several itemized deductions, including:

- Suspending both the deduction for miscellaneous itemized deductions and the overall limitation on itemized deductions for high-income taxpayers for taxable years beginning after December 31, 2017, and before January 1, 2026.
- Limiting the total deduction for state and local income, sales, and property taxes to $10,000 ($5,000 if married filing separate). This is commonly referred to as the SALT deduction limitation.

The Internal Revenue Service (IRS) issued Notice 2020-75, dated November 9, 2020, which provides that the Department of Treasury and the IRS intend to issue regulations clarifying that tax payments made at the entity level would not be subject to the SALT deduction limitation applicable to partners and shareholders, who itemize deductions. Specifically, the announcement said the proposed regulations would:

> "…clarify that State and local income taxes imposed on and paid by a partnership or an S corporation on its income are allowed as a deduction by the partnership or S corporation in computing its non-separately stated taxable income or loss for the taxable year of payment, and therefore are not subject to the State and local tax deduction limitation for partners and shareholders who itemize deductions."

The Notice provides that these PTEs can pay the SALT at the entity level, and the tax deduction that flows through to the individual partners and shareholders will not be subject to the individual SALT limitation for itemized deduction purposes.

Effective December 31, 2025, H.R. 1, One Big Beautiful Bill Act (OBBBA), Public Law 119-21, Section 70120, relating to the limitation on individual deductions for certain state and local taxes, etc., made the SALT limitation permanent under Internal Revenue Code (IRC) section 164(b). For taxable years beginning in 2025, the SALT deduction will be limited to $40,000 ($20,000 if married filing separately). For taxable years beginning in 2026, the deduction will be limited to $40,400 ($20,200 if married filing separately). This limitation will increase by 1% annually for taxable years beginning in 2026 and before 2030, and then will be permanently limited to $10,000 ($5,000 if married filing separately) for taxable years beginning in 2030. In addition, the SALT deduction limitation includes a phase out, requiring the SALT deduction limitation to be reduced by 30% of the excess of modified adjusted gross income (MAGI) over the threshold amount. For the 2025 taxable year the threshold amount is $500,000 ($250,000 if married filing separately), and will increase by 1% annually beginning in the 2026 taxable year. The phaseout cannot reduce the SALT deduction to be less than $10,000 ($5,000 if married filing separately) for any taxable year.

State Law

The SBRA, under Part 10.4 of the RTC, for taxable years beginning on or after January 1, 2021, and before January 1, 2026, allows a qualified entity doing business in this state to annually elect to pay an elective tax. For entities required to file a return under Sections 18633 (partnership returns), 18633.5 (limited liability company (LLC) returns), or 18601 (S corporation returns), the elective tax is 9.3% of the qualified net income for the taxable year for which the election is made. The qualified net income of the qualified entity is the sum of the pro rata share or distributive share of income and guaranteed payments subject to tax under the PITL for the taxable year of each qualified taxpayer that consents.

For purposes of the SBRA, a qualified entity means an entity that is taxed as a partnership, an S corporation, or certain disregarded LLCs; and that PTE's partners, members, or shareholders in that taxable year are exclusively corporations as defined under the CTL, or individuals, fiduciaries, estates, or trusts subject to tax under the PITL. A qualified entity cannot be a publicly traded partnership, or an entity permitted or required to be included in a combined reporting group.

The SBRA requires the qualified entity electing to pay the elective tax to, on or before June 15 during the taxable year of the election, make a payment equal to, or greater than, 50% of the elective tax paid in the prior taxable year or $1,000, whichever is greater. If the payment is not timely paid or is underpaid as of June 15, the qualified entity is not able to make the election for that taxable year.

The PITL, under Part 10 of the RTC, provides the PTE credit for a qualified taxpayer, who is an owner of a qualified entity that makes an annual election to pay an additional elective tax authorized by the SBRA. The PTE credit is an amount equal to 9.3% of the qualified taxpayer's guaranteed payments and pro rata or distributive share, as applicable, of the qualified net income subject to the election made by an electing qualified entity.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 132 (Assembly Committee of Budget, 2025/2026), substantially similar to this provision, among other things, would require, under the SBRA and the PITL, would create a new PTE election and credit for taxable years beginning January 1, 2026, and before January 1, 2031. In addition, an election can be made for the taxable year if the June 15 required payment is not made or is less than the amount due, and in that case, the credit would be reduced by 12.5% of the amount of the qualified taxpayer's pro rata or distributive share of the amount due but not paid by June 15. Furthermore, this provision would also provide that a qualified taxpayer would be allowed the PTE credit in its taxable year beginning on or after January 1, 2026, and before January 1, 2027, if it is a partner, shareholder, or member of an electing qualified entity that files its return on a fiscal year basis and makes a PTE election for their taxable year beginning on or after January 1, 2025, and before January 1, 2026. AB 132 was referred to the Senate Budget and Fiscal Review Committee; however, most provisions of the bill were incorporated into SB 132.

SB 1501 (Glazer, 2023/2024) would have, under the SBRA, allowed a qualified entity to elect to pay the PTE elective tax without making the full June 15 prepayment and, under PITL, would have decreased the PTE credit received by the qualified taxpayer for taxable years beginning on or after January 1, 2024, and before January 1, 2026. This bill did not pass out of the Assembly by the constitutional deadline.

SB 113 (Senate Committee on Budget and Fiscal Review, Chapter 3, Statutes of 2022), among other items, modified the definition of "qualified net income" to include guaranteed payments and expanded the definition of a "qualified entity" to allow the PTE's partners, shareholders, or members to include a partnership. In addition, for purposes of the PTE credit, under the PITL, the bill modified the definition of "qualified amount" on which the credit is based to include guaranteed payments and modified a "qualified taxpayer" eligible to claim the credit to include certain disregarded LLCs. The bill also changed the order in which credits are used to offset a tax liability.

SB 851 (Portantino, Chapter 705, Statutes of 2022) under the PITL changed the calculation of the other state tax credit to increase the net tax payable by the allowed PTE credit amount claimed in the same taxable year.

AB 150 (Assembly Committee on Budget, Chapter 82, Statutes of 2021), among other items, created the SBRA, and for taxable years beginning on or after January 1, 2021, and before January 1, 2026, allows PTEs taxed as a partnership or an S corporation to pay an additional elective tax at the entity level. In addition, under the PITL, AB 150 allows a qualified taxpayer, who is an owner of a qualified entity that makes an annual election to pay an additional elective tax authorized by the bill, a tax credit in an amount equal to 9.3% of the qualified taxpayer's pro rata or distributive share, as applicable, of the qualified net income subject to the election made by an electing qualified entity for taxable years beginning on or after January 1, 2021, and before January 1, 2026.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB anticipates a moderate impact to implement this provision of the bill.

ECONOMIC IMPACT

Revenue Estimate

This provision would result in the following revenue impact:

Estimated Revenue Impact of SB 132 Provision 1 as Amended on June 24, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$500
2026-2027	-$550
2027-2028	-$15

This analysis does not account for changes in employment, personal income, or gross state product that could result from this provision or for the net final payment method of accrual.

Revenue Discussion

Using data from the FTB two estimates were prepared. One for the current revenue impact of the PTE elective tax and related credit including the sunset date of December 31, 2025. The other being the revenue impact of the proposed extension of the elective tax and related credit through the 2030 taxable year. The two estimates are then compared, and the net difference would be the estimated revenue loss of $900 million in the 2026 taxable year.

Under current law, it is estimated approximately $2.7 billion in carryover credit would be available to taxpayers. Of that, it is estimated that about $2.2 billion would be used to offset tax liability in the 2026 taxable year. Under the proposal, it is estimated that approximately $18.8 billion would be paid by taxpayers making the PTE election, generating the related credit. Of that amount, it is estimated $17.6 billion in credit would be used in the year generated. The net difference in the PTE tax paid and the amount of credit allowed in the 2026 taxable year results in an estimated revenue gain of $1.2 billion. The estimated revenue impact under current law is combined with the estimated revenue impact as proposed, including the estimated 12.5% credit reduction for taxpayers who do not make the specified elective tax prepayment. This results in an estimated revenue loss of $1 billion in the 2026 taxable year. The estimated revenue loss transitions to a revenue gain as taxpayers exhaust their existing carryover credits. The revenue gain peaks in taxable year 2030 at $190 million.

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.

Analysis Provision No. 2:

Rehabilitation of Certified Historic Structures Credit (Sections 9 and 18 of the Bill)

Beginning July 1, 2025, this provision, under the PITL, would require amounts set aside under the RCHSC for qualified rehabilitation expenditures for a certified structure that is a qualified residence and qualified rehabilitation expenditures for any other certified historic building not allocated during the 2025 calendar year to be made available within 90 days to taxpayers with qualified rehabilitation expenditures of $1 million or more that submitted applications in that same calendar year. These taxpayers would be eligible to receive an allocation, if the qualified rehabilitation expenditures were for affordable housing projects that did not receive an RCHSC allocation and would have been the next affordable housing project application to receive an award.

Effective/Operative Date

As a provision within a bill providing for appropriations related to the Budget Bill, this provision would be effective immediately upon enactment and specifically operative beginning on July 1, 2025, for any unused allocation set aside by the California Tax Credit Allocation Committee (CTCAC) for the 2025 calendar year.

Federal/State Law

Federal Law

Federal law allows for a rehabilitation credit (also commonly referred to as the historic preservation or historic tax credit) for the rehabilitation of historic buildings. The rehabilitation credit is equal to 20% of qualified rehabilitation expenditures, and is available to individuals, corporations, partners or shareholders or beneficiaries of a PTE such as a partnership, and estates and trusts.

State Law

For taxable years beginning on or after January 1, 2021, and before January 1, 2027, a tax credit is allowed against net tax under the PITL and the CTL for the rehabilitation expenses of certain homes and historic buildings determined in accordance with federal law (IRC section 47), except as follows:

- The 20% general credit for the qualified rehabilitation expenditures of a certified historic structure (other than expenses that qualify for the 25% credit below), and
- The 25% credit for the qualified rehabilitation expenditures of a certified historic structure if that structure meets any of the following conditions:
    - The rehabilitated structure is located on certain federal surplus property, surplus state real property, or on surplus land.
    - The rehabilitated structure includes affordable housing for lower-income households, as defined in Section 50079.5 of the Health and Safety Code.
    - The structure is located in a designated census tract, as defined in RTC section 17053.73(b)(7).
    - The structure is part of a military base reuse authority, established pursuant to Title 7.86 (commencing with Government Code section 67800).
    - The structure is a transit-oriented development that is a higher-density, mixed-use development within a walking distance of one-half mile of a transit station.

Unlike the federal credit;

- The state credit is unavailable for expenditures with respect to a qualified building unless it is a certified historic structure.
- The state credit is allowed for qualified rehabilitation expenditure amounts for an owner-occupied residence if the expenses are determined to rehabilitate the historic character and improve the integrity of the residence in the year of completion. The credit would be allowed for amounts equal to or more than $5,000, but does not exceed $25,000.
- The state credit is $0 unless appropriations are provided in a bill related to the Budget Act.
- Certified historic structure has the same meaning as defined in IRC section 47(c)(3) that is a structure in this state and is listed on the California Register of Historical Resources.

- Qualified rehabilitation expenditure has the same meaning as that term is defined in IRC section 47(c)(2), except that qualified rehabilitation expenditures may include expenditures in connection with the rehabilitation of a building without regard to whether any portion of that building is or is reasonably expected to be a tax-exempt use property.
- Qualified rehabilitation expenditure has the same meaning as that term is defined in IRC section 47(c)(2), and also means rehabilitation expenditures incurred by the taxpayer with respect to a qualified residence for the rehabilitation of the exterior of the building or rehabilitation necessary for the function of that home, including, but not limited to, rehabilitation of electrical, plumbing, or foundation of the qualified residence.

In addition, the following apply:

- No deduction is allowed for that expense for which this credit is allowed, and if a credit is allowed with respect to property, the basis of that property would be reduced by the amount of the credit.
- Any unused credits could be carried over for up to eight years.
- The credit could reduce the regular tax plus the tax relating to the separate tax on lump-sum distributions, below tentative minimum tax for taxpayers subject to the PITL and the CTL.
- IRC section 47(c)(1)(B)(ii), relating to special rules for rehabilitation that may be expected to be completed in phases, would not apply.
- The recapture provisions described in IRC section 50(a) would apply when the property (or interest in the property) is sold within the recapture period, which for the federal historic credits is five years from the date the property is placed in service. The recapture risk decreases each year by 20%.
- The credit provisions would remain in effect regardless of the expiration or repeal of IRC section 47, relating to the federal rehabilitation credit.

Unlike the federal credit, the entire amount of credit generated can be claimed in the year the building is placed in service.

The credit is in effect only until December 1, 2027, and as of that date is repealed.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 132 (Assembly Committee of Budget, 2025/2026), substantially similar to this Provision, among other things, under the PITL, beginning July 1, 2025, would require amounts set aside for certain qualified rehabilitation expenditures under the RCHSC not allocated during the 2025 calendar year to be made available within 90 days to taxpayers with qualified rehabilitation expenditures of $1 million or more and that did not receive an allocation of the credit would have been the next affordable housing project application to receive an award, and would have been the next affordable housing project application to receive an award. AB 132 was referred to the Senate Budget and Fiscal Review Committee; however, most provisions of the bill were incorporated into SB 132.

AB 1265 (Haney, 2025/2026), under the PITL and CTL, would extend and increase the RCHSC for another four years, for taxable years beginning on or after January 1, 2027, and beginning before January 1, 2031. The bill would also extend the Legislative Analyst Office's collaboration with the CTCAC and the Office of Historic Preservation (OHP) to review the effectiveness of the credit. AB 1265 is in the Assembly committee process, but it did not pass to the Senate.

AB 150 (Assembly Committee on Budget, Chapter 82, Statutes of 2021), among other things, extended the operative date of the RCHSC under the PITL and the CTL to taxable years beginning before January 1, 2027. In addition, the bill extended the collaboration period related to the effectiveness of the RCHSC between the specified parties to January 1, 2027, and added specific goals and performance metrics intended for the RCHSC provisions to accomplish.

SB 451 (Atkins, Chapter 703, Statutes of 2019) created the RCHSC that, under the PITL and the CTL, is available for allocation, upon appropriations, by the CTCAC for calendar years 2021 through 2026.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

This provision of the bill would not significantly impact FTB's costs.

ECONOMIC IMPACT

Revenue Estimate

This provision would result in the following revenue loss:

Estimated Revenue Impact of SB 132 Provision 2 as Amended June 24, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$0.8
2026-2027	-$2.0
2027-2028	-$2.4

This analysis does not account for changes in employment, personal income, or gross state product that could result from this provision or for the net final payment method of accrual.

Revenue Discussion

This provision would, beginning July 1, 2025, direct any unallocated historic rehabilitation tax credits from the 2025 calendar year, plus any amount of unallocated tax credits from the prior year, to be made available within 90 days to applicants with qualified rehabilitation expenditures of $1 million or more for affordable housing projects that were eligible for but did not receive a previous tax credit award.

Using data from the FTB, the CTCAC, and the OHP, two estimates were prepared. One using the current law requirements to set aside $10 million in tax credit allocations for projects within the specified rehabilitation expenditures limits. A second would allow the CTCAC to take any unallocated amounts that were set aside and allocate them to projects with expenditures of $1 million or more. The two estimates are then compared, and the net difference would be the estimated revenue loss from proposed amendments.

Under current law, it is estimated that approximately $6.8 million in credit would be used by taxpayers to offset income tax liability in the 2025 taxable year. Under the proposal, it is estimated that approximately $7.1 million in credit would be used by taxpayers. The net difference between credit allowed under current law and proposed law results in an additional revenue loss of about $300,000 in the 2025 taxable year. The estimate revenue loss would continue to increase annually until the 2028 taxable year where it would peak at $2.7 million.

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.

Analysis Provision No. 3:

Film Credit 4.0 (Sections 10 and 19 of this Bill)

This provision would increase the aggregate amount of credits that may be allocated annually by the CFC from $330 million to $750 million for the 2025-2026 fiscal year through the 2029-2030 fiscal year.

Effective/Operative Date

This provision, as part of a bill providing for appropriation related to the Budget Bill, would be effective immediately upon enactment and specifically operative for fiscal years 2025-2026 through 2029-2030.

Federal/State Law

Federal Law

No comparable credit in federal law.

State Law

For taxable years beginning on or after January 1, 2025, for Motion Picture Credit 4.0, state law allows qualified taxpayers a tax credit in an amount equal to the applicable percentage of the qualified expenditures for the production of a qualified motion picture in California. Credit amounts are allocated and certified by the CFC. No credit is allowed for any otherwise qualified expenditures to the extent that another Motion Picture Credit has been claimed for the same expenditures.

For Motion Picture Credit 4.0, this credit, under the PITL and CTL, allows a qualified taxpayer an option to make a one-time irrevocable election to receive a refundable tax credit. The qualified taxpayer would apply the credit against the tax liability in the first year and evenly distribute 90% of the remaining credit amount equally over the first year and the subsequent four taxable years.

The credit allowed to a qualified taxpayer is limited to the amount specified in the credit certification issued by the CFC.

Except for the refundable credit, the aggregate amount of the credits that may be allocated by the CFC is $330 million for the 2025-2026 fiscal year and for each fiscal year thereafter through and including the 2029-2030 fiscal year. Furthermore, the CFC may on or after July 1, 2030, allocate any previously allocated, but not certified credit amounts, to credits available for allocation.

On July 1, 2030, if the CFC determines that credits allocated remain unused and have not been added to credit amounts available for allocation under a successor section or sections, the CFC may continue to make allocations of the unused credits until such time as the unused credits are fully utilized.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 132 (Assembly Committee of Budget, 2025/2026), substantially similar to this provision, among other things, would increase the aggregate amount of credits that may be allocated annually by the CFC from $330 million to $750 million for the 2025-2026 fiscal year through the 2029-2030 fiscal year. AB 132 was referred to the Senate Budget and Fiscal Review Committee; however, most provisions of the bill were incorporated into SB 132.

AB 1138 (Zbur, et al., Chapter 27, Statutes of 2025), under the PITL and CTL, for purposes of the Motion Picture Credit 3.0 and 4.0, modified the definitions of "independent film," "qualified motion picture," and "qualified taxpayer," modified the credit percentage amounts allowed for a qualified motion picture, and for the purposes of a certified studio construction project, modified qualified taxpayer requirement. This bill also removed the requirement that a credit exceed the qualified taxpayer's tax liability in order to assign any portion of the credit. Additionally, this bill, under CTL, for purposes of the Motion Picture Credit 1.0 and 2.0, allows credit assignment by a disregarded single member LLC for credits assigned and claimed on a timely filed tax return filed with the FTB on or before January 1, 2025.

SB 863 (Assembly Committee on Revenue and Taxation, 2025/2026), under the CTL, would clarify the operative date for the credit assignment of the Motion Picture Credit 3.0 by a disregarded single member limited liability company (SMLLC) to an affiliated corporation for credits that were assigned and claimed on a timely filed tax return for taxable years beginning on or before January 1, 2025. SB 863 has passed both chambers and is currently enrolled.

SB 132 (Senate Committee on Budget and Fiscal Review, Chapter 56, Statutes of 2023) allowed a new Motion Picture Credit 4.0 for taxable years beginning on or after January 1, 2025, to a qualified taxpayer for qualified expenditures to produce a qualified motion picture in California. In addition, a qualified taxpayer could make a one-time irrevocable election in the first taxable year to be paid a refund at a discounted rate, spread equally over 5 years. This bill also, for Motion Picture Credit 3.0, revised the definitions of "recurring television series" and "diversity plan," increased the certification period for a certified studio construction project to 5 years, and made other nonsubstantive changes.

SB 144 (Portantino, et al., Chapter 114, Statutes of 2021) amended the existing motion picture credit under the PITL and CTL, to provide for an additional credit for expenditures related to the production of a qualified motion picture at a certified studio construction project. This bill also added new provisions relating to the certification procedures of a project that are administered by the CFC.

SB 871 (Senate Committee on Budget and Fiscal Review, Chapter 54, Statutes of 2018), under the PITL and CTL, allowed a new Motion Picture Credit 3.0 for taxable years beginning on or after January 1, 2020, to a qualified taxpayer for qualified expenditures to produce a qualified motion picture that is a certified studio construction project in California.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB anticipates minimal costs to implement this provision of the bill.

ECONOMIC IMPACT

Revenue Estimate

In accordance with the bill provisions, staff defers to the Department of Finance (DOF) for the revenue impact of this provision.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

Analysis Provision No. 4:

Gross Income Exclusions: Uniformed Services Retirement Pay & Survivor Benefit Plan Payments (Sections 12, 13, and 28 of the Bill)

This provision would, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, exclude from gross income retirement pay received by a qualified taxpayer during the taxable year, not to exceed $20,000, from the federal government for service in the uniformed services.

For the retirement pay income exclusion, the provision defines the following terms:

"Qualified taxpayer" would mean a taxpayer that satisfies either of the following:

- A surviving spouse or spouses filing a joint return with adjusted gross income, as required to be shown on the federal tax return for the same taxable year, not to exceed $250,000.
- Any other individual with adjusted gross income, as required to be shown on the federal tax return for the same taxable year, not to exceed $125,000.

"Uniformed services" would mean the Armed Forces of the U.S., the Army National Guard and the Air National Guard when engaged in active duty for training, inactive duty training, or full-time National Guard duty, the commissioned corps of the U.S. Public Health Service, and the National Oceanic and Atmospheric Administration Commissioned Officer Corps.

This provision would also, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, exclude from gross income annuity payments received by a qualified taxpayer during the taxable year, not to exceed $20,000, from a U.S. Department of Defense Survivor Benefit Plan.

For the annuity payment income exclusion, the provision defines the following terms:

- "Qualified taxpayer" would mean the surviving spouse or other named beneficiary of a plan who satisfies either of the following:
- A surviving spouse or spouses filing a joint return with adjusted gross income, as required to be shown on the federal tax return for the same taxable year, not to exceed $250,000. Any other individual with adjusted gross income, as required to be shown on the federal tax return for the same taxable year, not to exceed $125,000.
- "United States Department of Defense Survivor Benefit Plan" would mean a survivor benefit plan established pursuant to Sections 1447 through 1455 of Title 10 of the U.S. Code.

For purposes of complying with Section 41of the RTC, the goal of the exclusion is to provide relief to families who have suffered the loss of a loved one, loss of income, and who are managing on a portion of that original income. The Legislature would find and declare that there is no available data to collect or report with respect to the exclusions.

Both income exclusions would remain in effect until December 1, 2030, and would be repealed as of that date.

Effective/Operative Date

This provision, as part of a bill providing for appropriation related to the Budget Bill, would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2025, and before January 1, 2030.

Federal/State Law

Existing federal and state laws provide that gross income includes all income from whatever source derived, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded. In addition, certain types of income are excluded from gross income, such as amounts received as a gift or inheritance, certain compensation for injuries and sickness, qualified scholarships, educational assistance programs, foster care payments, and interest received on certain state or federal obligations. Under existing federal law, members of the uniformed services may elect to reduce their retirement pay to provide an annuity to their survivors.

Under federal and state tax laws, the reduction is excluded from gross income, however, certain annuities paid to survivors are included in the survivors' gross income for tax purposes.

Under existing state law, 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. Legislation that would create an income exclusion is not required to provide detailed performance indicators and data collection requirement measures if the Legislature determines there is no available data to collect and report.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 53 (Ramos, Pacheco et al., 2025/2026) would have, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, exclude from gross income retirement pay received for service in the uniformed services and annuity payments received from a Survivor Benefit Plan. This bill did not pass out of the Senate by the required deadline.

AB 132 (Assembly Committee of Budget, 2025/2026), substantially similar to this provision, among other things, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, exclude from gross income retirement pay received by a qualified taxpayer during the taxable year, not to exceed $20,000, from the federal government for service in the uniformed services. AB 132 was referred to the Senate Budget and Fiscal Review Committee; however, most provisions of the bill were incorporated into SB 132.

SB 1 (Seyarto et al., 2025/2026) would have, under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2035, excluded from gross income retirement pay received for service in the uniformed services and annuity payments received from a Survivor Benefit Plan. This bill did not pass out of the Senate by the deadline.

AB 46 (Ramos, et al., 2023/2024), would have under the PITL, excluded from gross income retirement pay received for service in the uniformed services and annuity payments received from a Survivor Benefit Plan. AB 46 did not pass out of the Senate by the constitutional deadline.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB anticipates minimal costs to implement this provision of the bill.

ECONOMIC IMPACT

Revenue Estimate

In accordance with the bill provisions, staff defers to DOF for the revenue impact of this provision.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

Analysis Provision No. 5:

Gross Income Exclusion for Wildfire Settlements (Sections 14, 20, 29, and 33 of the Bill)

This provision, under the PITL and CTL, would provide that for taxable years beginning on or after January 1, 2021, and before January 1, 2030, gross income would not include any qualified amounts received by a qualified taxpayer in the taxable year.

For purposes of this provision, the following definitions would apply:

“Qualified amount,” means any amount received from a settlement entity by a qualified taxpayer in connection with a wildfire in California.

“Qualified taxpayer” would mean any of the following:

- Any taxpayer that owns real property located in an area damaged by a wildfire that paid or incurred expenses, and received amounts from a settlement entity, arising out of or pursuant to the wildfire.
- And taxpayer that has a place of business within an area damaged by a wildfire that paid or incurred expenses, and received amounts from a settlement entity, arising out of or pursuant to the wildfire.
- For PITL only, any taxpayer who resides within an area damaged by a wildfire who paid or incurred expenses, and received amounts from a settlement entity, arising out of or pursuant to the wildfire.

“Settlement Entity” would mean the entity, approved by a class action settlement administrator, making the settlement payment to a qualified taxpayer.

Upon request by the FTB or the qualified taxpayer, the settlement entity would be required to provide documentation of the settlement payments in the form and manner prescribed by the FTB. The qualified taxpayer would be required to provide all necessary information in the form and manner prescribed by the FTB upon request.

This provision specifies that this act is necessary for the public purpose of preventing undue hardship to taxpayers who reside, or used to reside, in a part of California devastated by wildfires, which constitutes a public purpose and is not a prohibited gift of public funds within the meaning of Section 6 of Article XVI of the California Constitution.

For purposes of complying with Section 41of the RTC, the goal, purpose and objective of the exclusion is to provide relief to individuals who have suffered injury, loss, inconvenience, and expenses resulting from wildfires. The Legislature finds and declares that there is no available data to collect or report with respect to the exclusion.

The exclusion would be repealed by its own terms on December 1, 2030.

Effective/Operative Date

This provision, as part of a bill providing for appropriation relating to the Budget Bill, would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2021, and before January 1, 2030.

Federal/State Law

Federal Law

Federal and state laws provide that gross income includes all income from whatever source derived, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded. Types of income currently excluded include amounts received as a gift or inheritance, certain compensation for injuries and sickness, educational assistance programs, foster care payments, interest received on certain state or federal obligations, and qualified scholarships.

Existing federal law, IRC section 139, provides a general exclusion that gross income does not include any amount an individual receives as a qualified disaster relief payment. A qualified disaster relief payment means amounts paid to, or for the benefit of, an individual for several purposes, including to:

- Reimburse or pay reasonable and necessary personal, family, living, or funeral expenses the individual incurred because of a qualified disaster; or
- Reimburse or pay reasonable and necessary expenses the individual incurred for the repair or rehabilitation of a personal residence or repair or replacement of its contents, to the extent that the need for such repair, rehabilitation, or replacement is attributable to a qualified disaster.

For any federally declared disaster, an individual may exclude from income a valid disaster relief payment, which includes any amount the individual receives for purposes listed above.

The Federal Disaster Tax Relief Act of 2023 provides an exclusion from gross income for qualified wildfire relief payments received by or on behalf of an individual as compensation for losses, expenses, or damages (including compensation for additional living expenses, lost wages (other than compensation for lost wages paid by the employer which would have otherwise paid such wages), personal injury, death, or emotional distress) incurred as a result of a "qualified wildfire disaster." A qualified wildfire disaster is defined as a federally declared disaster, declared after December 31, 2014, as a result of any forest or range fire. A federally declared disaster, as defined in IRC section 165(i)(5)(A), is any disaster the President of the U.S. determines assistance from the federal government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act is warranted. (The Federal Emergency Management Agency's website, www.fema.gov, provides the listing of federally declared disasters.) The gross income exclusion applies to qualified wildfire relief payments received during taxable years beginning after December 31, 2019, and before January 1, 2026, but only to the extent the losses, expenses, or damages compensated by such payment are not compensated for by insurance or otherwise.

A qualified disaster includes any federally declared disaster, as defined in IRC section 165(i). A federally declared disaster is any disaster the President of the U.S. determines assistance from the federal government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act is warranted.

State Law

California generally conforms to IRC section 139, as described above. California also specifically allows an exclusion from gross income for:

- Settlement payments received from the Fire Victims Trust.
- Settlement payments received from Southern California Edison for claims relating to the 2017 Thomas Fire or the 2018 Woolsey Fire.
- Settlement payments received from Pacific Gas and Electric Company or its subsidiary for claims in connection with the 2019 Kincade Fire or the 2020 Zogg Fire.
- Payments received from the California Wildfire Mitigation Financial Assistance Program.

Under existing state law, 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. 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

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 132 (Assembly Committee of Budget, 2025/2026), substantially similar to this provision, among other things, under the PITL and the CTL, for taxable years beginning on or after January 1, 2021, and before January 1, 2030, would allow a gross income exclusion to a qualified taxpayer who received qualified amounts from a settlement entity in connection with a wildfire in California. AB 132 was referred to the Senate Budget and Fiscal Review Committee; however, most provisions of the bill were incorporated into SB 132.

AB 755 (Tangipa, 2025/2026), under the PITL and CTL, for taxable years beginning on or after January 1, 2025, and before January 1, 2035, would have excluded from gross income, qualified income received by a qualified taxpayer in a qualified taxable year, not to exceed $300,000. AB 755 did not pass out of the Assembly by the deadline.

SB 268 (Choi, et al., 2025/2026), under the PITL and CTL, for taxable years beginning on or after January 1, 2025, would have provided a qualified taxpayer an exclusion from gross income for qualified amounts received from a settlement entity to replace property damaged or destroyed in a natural disaster or accident or human-caused event declared a state of emergency by the Governor. SB 268 did not pass out of the Senate by the deadline.

SB 159 (Senate Committee on Budget, Chapter 112, Statutes of 2025), under the PITL and CTL, clarifies that the qualified amount and qualified taxpayer relate to qualified wildfire disasters, adds a definition of a qualified wildfire disaster, and modifies the definition of the settlement entity to mean any entity making settlement payments of a qualified amount to the qualified taxpayer for the gross income exclusion for taxable years beginning on or after January 1, 2021, and before January 1, 2030.

SB 131 (Committee on Budget and Fiscal Review, Chapter 55, Statutes of 2023), under the PITL and CTL, among other things, provides an exclusion from gross income for amounts received for settlement payments as a result of the 2019 Kincade Fire and 2020 Zogg fire for taxable years beginning on or after January 1, 2020, and before January 1, 2028.

SB 264 (Niello, Chapter 285, Statutes of 2023), under the PITL and CTL, for taxable years beginning on or after January 1, 2014, and before January 1, 2029, extended the sunset date for the deduction for disaster losses sustained in Governor-declared state of emergency areas.

AB 1249 (Gallagher, Chapter 749, Statutes of 2022), under the PITL and CTL, for taxable years beginning before, on, or after the effective date of the act and repealed on January 1, 2028, provides an exclusion from gross income for amounts received in settlement under the order of the U.S. Bankruptcy Court for the Northern District of California dated June 20, 2020, case number 19-30088, docket number 8053.

SB 1246 (Stern, Chapter 841, Statutes of 2022), under the PITL and CTL, for taxable years beginning before January 1, 2027, provides an exclusion from gross income for amounts received from Southern California Edison in settlement for claims relating to the 2017 Thomas Fire or the 2018 Woolsey Fire and allow refunds of tax previously paid on those amounts.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB anticipates minimal costs to implement this provision of the bill.

ECONOMIC IMPACT

Revenue Estimate

In accordance with the bill provisions, staff defers to DOF for the revenue impact of this provision.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

Analysis Provision No. 6:

Gross Income Exclusion: Chiquita Canyon Elevated Temperature Landfill Event (Sections 15, 21, 26, 30, and 34 of the Bill)

This provision would, for taxable years beginning on or after January 1, 2024, and before January 1, 2029, under the PITL and CTL, provide an exclusion from gross income for Chiquita Canyon elevated temperature landfill event payments received by a taxpayer.

The provision defines the following terms:

- "Chiquita Canyon elevated temperature landfill event" is the elevated temperature landfill event that began on May 1, 2022, that occurred beneath the Chiquita Canyon Landfill in the County of Los Angeles.
- "Chiquita Canyon elevated temperature landfill event payment" is an amount received by a taxpayer on or after March 1, 2024, as compensation for loss, damages, expenses, relocation, suffering, loss in real property value, closing costs with respect to real property, including realtor commissions, or inconvenience, including access to real property, resulting from the Chiquita Canyon elevated temperature event, if the amount was provided by either of the following:
  - A federal, state, or local government agency.
  - Waste Connections, Inc., any subsidiary, insurer, or agent of Waste Connections, Inc., or any person related to Waster Connections, Inc.

In addition, this provision would require the payor to provide to the FTB, upon request, documentation of the Chiquita Canyon elevated temperature landfill event payment amount in the form and manner requested by the FTB.

Under the WIC, the payments made under this provision would not be considered income or resources for purposes of determining eligibility for benefits, or the amount of benefits, under a means-tested program or guaranteed income payment program.

Effective/Operative Date

This provision, included within a bill providing for appropriations related to the Budget Bill, would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2024, and before January 1, 2029, for payments received by a taxpayer on or after March 1, 2024.

Federal/State Law

Federal and state laws provide that gross income includes all income from whatever source derived, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded. Types of income currently excluded include amounts received as a gift or inheritance, certain compensation for injuries and sickness, educational assistance programs, foster care payments, interest received on certain state or federal obligations, and qualified scholarships.

Under existing state law, 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 requirements 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 requirements performance measures if the Legislature determines there is no available data to collect and report.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 27 (Schiavo, et al., 2025/2026), similar to this provision, under the PITL and CTL, would create an exclusion from gross income for any amounts received from the Chiquita Canyon elevated temperature event for taxable years beginning on or after January 1, 2024, and before January 1, 2029. AB 27 was re-referred to the Senate Committee on Appropriations.

AB 132 (Assembly Committee of Budget, 2025/2026), substantially similar to this provision, among other things, under the PITL and the CTL, would create an exclusion from gross income for any amounts received as compensation for damages from the Chiquita Canyon elevated temperature event for taxable years beginning on or after January 1, 2024, and before January 1, 2029. This provision would also, under the WIC, provide that these amounts are not considered income for various means-tested social programs. AB 132 was referred to the Senate Budget and Fiscal Review Committee; however, most provisions of the bill were incorporated into SB 132.

SB 113 (Senate Committee on Budget and Fiscal Review, Chapter 3, Statutes of 2022) made several amendments and technical changes to existing state law related to state assistance to taxpayers impacted by the COVID-19 pandemic, including a gross income exclusion from the California Arrearage Payment Program (CAPP) which provided and exclusion for utility payment assistance received under the CAPP.

AB 81 (Ting, Chapter 5, Statutes of 2021) made several clarifying amendments and technical changes to existing state law related to state assistance to individuals impacted by the COVID-19 pandemic, including the State Rental Assistance Program, which includes provisions exempting rent forgiveness and certain rental assistance payments from gross income for purposes of the PITL.

SB 91 (Senate Committee on Budget and Fiscal Review, Chapter 2, Statutes of 2021) provides a gross income exclusion for certain rental assistance received under the State Rental Assistance Program and the federal Consolidated Appropriations Act (CAA).

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB anticipates minimal costs to implement this provision of the bill.

ECONOMIC IMPACT

Revenue Estimate

In accordance with the bill provisions, staff defers to DOF for the revenue impact of this provision.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

Analysis Provision No. 7:

FTB Court Ordered Debt Collection Program Fee Increase (Section 16 of the Bill)

This provision, under the AFITL, would increase the upper limit of the administrative fee that the FTB could charge for collection amounts imposed by a court that are referred to the FTB from 15% to 20% of the amount collected, beginning with the 2025-2026 fiscal year.

Effective/Operative Date

This provision would be effective immediately upon enactment, and specifically operative for fiscal years beginning on or after fiscal year 2025-2026.

Federal/State Law

Federal Law

No provision comparable in federal law.

State Law

Current state law authorizes the FTB to use administrative collection tools to collect delinquent tax and nontax debt liabilities. Collection actions include, but are not limited to, attaching bank accounts and garnishing wages.

FTB's Court Ordered Debt Collection Program is authorized under RTC sections 19280-19282. Under this program, the FTB collects the following types of fees:

- Court appointed counsel costs
- Court fines and fees
- Juvenile offenses
- Probation
- Vehicle Code violations
- Victims Restitutions

Amounts collected are deposited into the Court Collection Account in the General Fund, less costs incurred by the FTB in administering the program. FTB's costs to administer the program may not exceed 15% of the amount collected, beginning with the 1997-1998 fiscal year and each fiscal year thereafter.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 132 (Assembly Committee of Budget, 2025/2026), substantially similar to this provision, among other things, under the AFITL, would increase the administrative fee from 15% to 20% that the FTB can charge for collection amounts imposed by a court that are referred to the FTB beginning with the 2025-2026 fiscal year. AB 132 was referred to the Senate Budget and Fiscal Review Committee; however, most provisions of the bill were incorporated into SB 132.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

This provision of the bill would not significantly impact FTB's costs.

ECONOMIC IMPACT

Revenue Estimate

This provision as amended June 24, 2025, does not change the way income or franchise tax is calculated under the RTC.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

Analysis Provision No. 8:

Single Sales Factor Apportionment for Financial Institutions (Section 22 of the Bill)

This provision would, under the CTL, modify the definition of a "qualified business activity" to remove business activities that would no longer be required to apportion business income to California using the three-factor formula. For taxable years beginning on or after January 1, 2025, a trade or business deriving more than 50% of its gross business receipts from savings and loan or banking and financial business activities would no longer apportion its income to California using the three-factor formula but instead would be required to use the single sales factor.

Effective/Operative Date

This provision, as part of a bill providing for appropriation related to the Budget Bill, would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2025.

Federal/State Law

Federal Law

No comparable provision in federal law.

State Law

Under California law, corporations deriving income from sources both within and outside California are required to measure their tax liability by reference to their income derived from or attributable to sources within California. To determine the portion of total income that is attributable to California, the apportionment and allocation method is used.

In addition, under California law, all affiliated U.S. and foreign entities comprising a single trade or business are viewed for certain purposes as a whole called a "unitary group." The business income of all the affiliates that comprise a unitary group is apportioned and reported to California on a single report known as the "combined report." The apportionment method only applies when a corporation operating in California derives income from sources both within and outside California. The apportionment method does not apply to a corporation operating wholly within California. In addition, a corporation would only be required to file in a "combined report" if it is unitary with another corporation, and at least one of the unitary corporations derives income from sources both within and outside California.

The apportionment method uses a formula to calculate the amount of a unitary group's total income that was generated from the unitary group's activities in California. This formula is comprised of a single sales factor that measures the activity of a unitary group in the state. There is an exception for qualified business activities in agriculture, extraction, savings and loans, and banking or financial. The apportionment formula for these businesses is comprised of three components that measure the activity of the unitary group in the state: property, payroll, and single-weighted sales. The unitary group's California business income is then apportioned among the members that are taxable in California. Each member retains a separate tax identity and liability.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 132 (Assembly Committee of Budget, 2025/2026), substantially similar to this provision, among other things, under the CTL, would require apportioning trades or businesses deriving income from savings and loan and banking and financial business activities to apportion their business income to California by using the single sales factor formula for taxable years beginning on or after January 1, 2025. AB 132 would also amend state sales and use tax laws; city and county transactions and use tax laws; and various taxes, fees, surcharges, and excise tax laws in the RTC, as well as amend the WIC. AB 132 was referred to the Senate Budget and Fiscal Review Committee; however, most provisions of the bill were incorporated into SB 132.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB anticipates minimal costs to implement this provision of the bill.

ECONOMIC IMPACT

Revenue Estimate

In accordance with the bill provisions, staff defers to DOF for the revenue impact of this provision.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS (All Provisions)

None noted.

SUPPORT/OPPOSITION (All Provisions)

None on file.

ARGUMENTS (All Provisions)

None on file.

LEGISLATIVE CONTACT

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