



Bill Analysis

Author: Gonzalez

Sponsor:

Bill Number: SB 1349

Related Bills: See Legislative
History

Introduced: February 20, 2026

SUBJECT

California Tax Expenditure Review Board

SUMMARY

This bill would, under the Revenue and Taxation Code (RTC), establish the California Tax Expenditure Review Board (CTERB) as an independent advisory body to comprehensively assess major tax expenditures meeting specified criteria and to make recommendations to the Legislature regarding those expenditures.

This analysis is limited to the provisions that affect the department.

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 create a mechanism for the review of some of California's largest tax expenditures.

ANALYSIS

California Tax Expenditure Review Board (CTERB)

This bill would establish the CTERB and require the CTERB to provide by January 1, 2029, a report and recommendations on major tax expenditures, as defined, to the Legislature, the Senate Committee on Budget and Fiscal Review, the Senate Committee on Governance and Finance (SG&F), the Assembly Committee on Budget, and the Assembly Committee on Revenue and Taxation (AR&T), and to post the report on its internet website. Upon receipt of the report, the SG&F and the AR&T would be required to hold a joint public hearing on the report by August 15 of the second year of the legislative session.

The CTERB would be composed of five members as follows:

- The Controller, or the Controller's designee.
- The Legislative Analyst, or the Legislative Analyst's designee.
- The California State Auditor, or the California State Auditor's designee.
- The Director of Finance, or the Director of Finance's designee.
- An individual designated by the Secretary of Government Operations, who possesses expertise regarding tax administration and the tax expenditures administered by the Franchise Tax Board (FTB) and the California Department of Tax and Fee Administration (CDTFA).

This bill would designate the Controller as the CTERB chair, specify requirements applicable to CTERB's members and public meetings, and allow the CTERB to create advisory committees that include members of the public.

Report

For purposes of the required report and requested comprehensive assessment from the Legislative Analyst Office (LAO), major tax expenditures would mean, a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state that has resulted in forgone revenue equal to or greater than one billion dollars (\$1,000,000,000) in total over the previous 10 fiscal years. Also, as of January 1, 2027, major tax expenditures would lack a repeal or inoperative date or a requirement to report on the effectiveness of the tax expenditure.

The definition of major tax expenditures would specifically exclude tax expenditures allowed only under the Personal Income Tax Law (PITL), exclusions for public safety officer death benefits, exclusions for annuities, exclusions for life insurance receipts or payments made by reason of death of the insured, exemptions from taxation of exempt organizations, deductions for charitable donations allowed under the PITL or Corporate Tax Law, and tax expenditures that have a requirement to report metrics of efficacy.

To determine a schedule for the comprehensive assessment of major tax expenditures, the CTERB would be required to hold an open public meeting by October 1, 2027, to consider information provided by the public.

By January 31, 2028, the CTERB would be required to meet to finalize the schedule for comprehensive assessments of major tax expenditures and consider the following:

- The impact to the General Fund.
- CTERB's assessment of whether modifying or repealing major tax expenditures would provide the most positive impacts on the General Fund with the least negative economic, social, or environmental impacts.
- LAO's ability to complete each comprehensive assessment of the major tax expenditure timely.

The CTERB would be required to set a deadline for LAO to complete its comprehensive assessment of major tax expenditures. CTERB would have the ability to modify the deadline by vote, for reasonable cause. LAO would be required to complete the comprehensive assessment of major tax expenditures, and submit the assessment by the specified deadline. Any other state agency would be required to assist LAO, to the maximum degree practicable.

The CTERB would be required to determine the scope of each comprehensive assessment, which includes to the extent possible, but not limited to the following:

- A description of the legislative intent of each tax expenditure, as specified.
- A brief description of the beneficiaries of the tax expenditure, as provided by state law.
- The number of returns filed, or business entities affected, as applicable, for the most recent tax year for which full year data is available.
- A listing of any comparable federal tax benefit, if any.
- A description of any recent prior tax expenditure evaluation or compilation of information completed by any state agency.
- The economic, social, or any other benefits of the tax expenditure to the State of California.
- The total net loss of General Fund moneys resulting from the tax expenditure, along with its effect on funding for other General Fund programs.
- The total decrease in General Fund tax revenue resulting from the tax expenditure, as required for Proposition 98 calculations under Section 8(b) of Article XVI of the California Constitution, and its effect on funding for educational programs.
- Potential environmental impacts, if any, of the tax expenditure.
- A long-term analysis comparing the actual versus intended beneficiaries of the tax expenditure, along with its impact on the business climate and market conditions.
- Jobs created by the tax expenditure including the following information:
 - Whether the jobs created were short- or long-term positions, along with the average salary and provided benefits.
 - The number of jobs lost or reduced in areas impacted by the tax expenditure, or whether jobs were shifted to other sectors.
 - The data above would need to include aggregated data on gender demographics, age, race and ethnicity on the jobs created by the tax expenditure.

The CTERB would be required to post the comprehensive assessment on its internet website once it is received from LAO. Additionally, the CTERB would be required to meet in public at least 14 days, and no later than two months from the date the comprehensive assessment is posted on their internet website for the purpose of voting to make recommendations to the Legislature regarding the major tax expenditures. The votes of three members would be required to make a recommendation to the Legislature. Recommendations would be subject to enactment by the Legislature. The CTERB would be required to consider information provided by the public in response to the comprehensive assessment before making the recommendation.

The CTERB would also be required to include at a minimum the following in the recommendation to the Legislature:

- How cost-effective the major tax expenditure is compared to alternative ways of achieving the same purpose, intent or goal.
- An analysis of the major tax expenditure's effect on the General Fund.
- An analysis of the effect on employment, wages, and the state's economy.
- Whether opportunities exist to improve the effectiveness of the major tax expenditure in meeting its purpose or if no improvement opportunities exist, whether the Legislature should repeal the expenditure.

The CTERB would be required to provide a completed report to the Legislature, as well as the Senate Committee on Budget and Fiscal Review, the SG&F, the Assembly Committee on Budget, and the AR&T, on all their recommendations and completed assessments as it relates to the major tax expenditures, by the LAO by January 1, 2029.

The provisions of this bill would become inoperative on the date that is six months after the required joint public hearing by the SG&F and the AR&T and be repealed on the following January 1.

Effective/Operative Date

This bill would be effective and operative January 1, 2027.

Federal/State Law

Current state law provides that information collected from income tax returns is considered confidential and, unless specifically available for other uses, must be used only to administer the income tax laws. The FTB may disclose taxpayer information only in limited circumstances and only to specific agencies as authorized by law. Improper disclosure of federal tax information is punishable as a felony, and improper disclosure of state tax information is punishable as a misdemeanor.

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

None noted.

Technical Considerations

The FTB has identified the following technical consideration and is available to work with the author's office to resolve this and other considerations that may be identified.

Throughout the bill, replace "Senate Committee on Governance and Finance" with "Senate Committee on Revenue and Taxation".

Policy Considerations

None noted.

LEGISLATIVE HISTORY

SB 956 (Jackon, 2019/2020), similar to this bill, would have established the CTERB as an independent advisory body to comprehensively assess major tax expenditures meeting specified criteria and to make recommendations to the Legislature regarding those expenditures. SB 956 did not pass out of the Assembly Revenue and Taxation Committee.

SB 468 (Jackson, et al., 2019/2020), similar to this bill, would have established the CTERB as an independent advisory body to comprehensively assess major tax expenditures meeting specified criteria and to make recommendations to the Legislature regarding those expenditures. SB 468 was vetoed by the governor whose veto message stated, "I support greater transparency with respect to tax credits, exemptions, and other expenditures and believe these items should be scrutinized periodically to justify their overall cost to the state's revenue base. However, creating a new board to accomplish that goal is unnecessary. The Department of Finance is currently required to publish tax expenditure reports and existing law requires new income tax expenditures to specify goals, performance indicators, and data collection requirements."

SB 1335 (Leno, Chapter 845, Statutes of 2014) required new tax credit legislation to include specific goals, purposes, objectives, and performance measures.

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 as introduced on February 20, 2026, would not impact the computation of state income or franchise tax.

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.

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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