



Bill Analysis

Author: Gonzalez and
M. González

Sponsor:

Bill Number: SB 1349

Related Bills: See Legislative
History

Amended: April 28, 2026

SUBJECT

Legislative Analyst's Office (LAO): Assessment, Report and Recommendation for Tax Expenditures

SUMMARY

This bill would, under the Revenue and Taxation Code (RTC), require the LAO to assess specific major tax expenditures and to make recommendations to the Legislature regarding those expenditures. This bill would be effective and operative January 1, 2027.

This analysis only addresses the provisions of the bill that would impact the Franchise Tax Board's (FTB) programs or 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 April 28, 2026, amendments modified the report due date, replaced the general definition of "major tax expenditure" with a specific list of tax expenditures, and removed the sunset provision of the original report.

REASON FOR THE BILL

The reason for the bill is to create a mechanism to **review some of California's largest** tax expenditures to identify savings by reducing or repealing expenditures that no longer meet their purpose.

ANALYSIS

This bill would require the LAO to provide by October 15, 2027, 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 Revenue and Taxation, the Assembly Committee on Budget, and the Assembly Committee on Revenue and Taxation, and to publish the report on its internet website.

Upon receipt of the report, the Senate Committee on Revenue and Taxation and the Assembly Committee on Revenue and Taxation would be required to hold a joint public hearing on the report by August 15 of the second year of the legislative session.

The LAO would be required to identify any savings that the Legislature can realize by reducing or limiting the major tax expenditures.

“Major tax expenditures” would include the following:

- The water’s edge election allowed by Section 25110.
- The credits relating to increasing research activities allowed by Sections 17052.12 and 23609.
- The change in cost basis of inherited property pursuant to rules relating to gain or loss from the sale or other disposition of property described in Sections 18031 and 24911.
- The exclusion from recognition of gain or loss on the exchange of property held for productive use or investment, also known as like-kind exchange, pursuant to the rules prescribed by Section 24941 and Section 24941.5.
- The deductions relating to accelerated depreciation of research and experimental costs allowed pursuant to rules prescribed by Sections 17201 and 17201.1.
- The special apportionment of business income for qualified cable system operators pursuant to Section 25136.1.

The LAO would consider the following criteria when finalizing the report:

- 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.

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

None noted.

Policy Considerations

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

This bill identifies like-kind exchanges, under the Corporation Tax Law (CTL), as a major tax expenditure. California also conforms to like-kind exchanges (Internal Revenue Code Section 1031) under the Personal Income Tax Law (PITL), RTC sections 18301 and 18301.5. The author may wish to clarify whether the intended review should include CTL, PITL, or both.

LEGISLATIVE HISTORY

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

SB 468 (Jackson, et al., 2019/2020), under the RTC, would have established 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. 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 956 (Jackon, 2019/2020), under the RTC, would have established the CERTB 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 was held in the Assembly without further action.

PROGRAM BACKGROUND

The FTB provides the LAO with statistical summaries of Personal Income Tax and Business Entities Tax to support revenue estimating activities. These summaries do not include taxpayer identifying information. When needed for legislative analysis, LAO may also receive information from FTB, but only the specific information necessary for their analysis.

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 amended on April 28, 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

Senate Committee on Appropriations, dated May 1, 2026

Support

None on file.

Opposition

None on file.

ARGUMENTS

Senate Committee on Appropriations, dated May 1, 2026

Proponents

None on file.

Opponents

None on file.

LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov