



## Bill Analysis

Author: Gonzalez, et al.

Sponsor:

Bill Number: SB 1349

Related Bills: See Legislative  
History

Amended: June 8, 2026, and  
June 17, 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 June 8, 2026, amendments clarified that the definition of “major tax expenditures” includes like-kind exchanges under both the Corporation Tax Law and the Personal Income Tax Law, modified the report due date, added a repeal date, and modified the hearing requirement. These amendments resolved the policy consideration discussed in the FTB analysis of the bill as amended on April 28, 2026.

The June 17, 2026, amendments modified the report due date and added a requirement for agencies to provide relevant anonymized data to the LAO.

### 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 January 1, 2028, and annually in a sequence determined by the LAO thereafter, until the fifth and final report is submitted on January 1, 2032, a report and recommendations on major tax expenditures, as defined, to the Legislature, and to publish the report on its internet website.

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 first report by August 15, 2028, and a joint public hearing on the two most recent reports by each August 15 of the second year of the legislative session thereafter.

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 Sections 18031, 18031.5, 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, including Proposition 98.
- 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.

This bill would require that, to the extent the LAO needs access to taxpayer data and information, the FTB, the California Department of Tax and Fee Administration, and the Employment Development Department provide relevant anonymized taxpayer data and ensure appropriate levels of data security and privacy protections are in place for transferred or sensitive data.

This provision would remain in effect only until January 1, 2033, and as of that date would be repealed.

#### *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*

None noted.

#### 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

The FTB anticipates minimal costs to implement this bill.

#### ECONOMIC IMPACT

##### *Revenue Estimate*

This bill, as amended June 17, 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

Assembly Revenue and Taxation Committee, dated June 12, 2026

*Support*

American Federation of State, County and Municipal Employees AFL-CIO (Co-Sponsor)

California Teachers Association (Co-sponsor)

The Arc of California

California Association of School Business Officials

California Professional Firefighters

California School Boards Association

California School Employees Association, AFL-CIO

California Tax Reform Association

City of Thousand Oaks

Los Angeles Unified School District

SEIU California

UDW/AFSCME Local 3930

*Opposition*

California Chamber of Commerce

California Life Sciences

California Taxpayers Association

## ARGUMENTS

Assembly Revenue and Taxation Committee, dated June 12, 2026

### *Proponents*

This bill is supported by SEIU California, noting part:

This bill requires the Legislative Analyst's Office to comprehensively assess the major tax expenditures, as defined, of the state, write and publish a report on each major tax expenditure, and make a recommendation to the Legislature based on each report.

When tax expenditures reduce the amount of tax collected but do not achieve its public policy objectives, it hurts working people and their families, like the ones SEIU represents. Tax expenditures impact the General Fund that supports critical social safety net programs, as well as Proposition 98 funds – the minimal annual funding level for TK-12 schools and community colleges. This bill will bring transparency and accountability to some of California's most costly tax incentives by creating a process for their analysis and public review.

### *Opponents*

The bill is opposed by the California Taxpayers Association, noting in part:

We are concerned that SB 1349 would create an unnecessary step in state government to report findings relating to critical business tax policies California has adopted to encourage businesses to locate and expand in California, duplicating existing evaluations conducted by the Department of Finance and others. At a time when California's state budget is facing cost pressures, and the Legislature and administration are seeking to minimize new program costs, any duplicative program that creates new costs for an evaluation that already exists is not necessary. While it is meritorious for the state to assess the effectiveness of tax policies and program expenditures, this measure would create significant uncertainty with respect to the future of the state's tax structure and would adversely affect California's ability to retain and attract jobs and investments.

## LEGISLATIVE CONTACT

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