STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Senate Committee on Budget and Fiscal Review	Sponsor:	Bill Number: SB 180
	Related Bills: See Legislative History	Amended: June 26, 2026

SUBJECT

Taxation Budget Trailer Bill

SUMMARY

This bill would do the following:

Provision No. 1 - California Competes Tax Credit Extension:

Sections 2 and 8 of the bill, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), would extend the existing California Competes Tax Credit (CA Competes Credit) by five years from taxable years beginning before January 1, 2030, to taxable years beginning before January 1, 2035, and extend the repeal date to December 1, 2035. Additionally, the bill would extend the CA Competes Credit allocation periods to fiscal year 2032-33.

Provision No. 2 - 530A Account Conformity:

Sections 3 and 9 of the bill, under the PITL and CTL, for taxable years beginning on or after January 1, 2026, would generally conform to the changes made to federal law by section 70204(a)(2) of Public Law (PL) 119-21, also known as the One Big Beautiful Bill Act (OBBBA), which would allow rollovers from a 530A account, which are savings accounts for individuals younger than 18 years of age, to a Qualified Achieving a Better Life Experience Account (qualified ABLE account (529A account)).

Sections 4, 5, and 6 of the bill, under the PITL, for taxable years beginning on or after January 1, 2026, would conform to Internal Revenue Code (IRC) sections 128, 139J, and 530A, including the changes made by section 70204 of OBBBA, except as otherwise provided.

Provision No. 3 - Annual LLC Tax Reduction for the First Taxable Year:

Section 7 of the bill, under the PITL, for taxable years beginning on or after January 1, 2027, and before January 1, 2030, would reduce the annual tax for Limited Liability Companies (LLCs) not classified as corporations, from $800 to $400 for its first taxable year.

This is the Franchise Tax Board's (FTB) first analysis of the bill and only addresses the provisions that would impact the FTB.

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 26, 2026, amendments removed intent language relating to the Budget Act of 2026 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 2026.

ANALYSIS

Analysis Provision No. 1:

California Competes Tax Credit Extension (Sections 2 and 8 of the Bill)

This provision would, under the PITL and CTL, modify the CA Competes Credit by extending the sunset date five years from taxable years beginning before January 1, 2030, to taxable years beginning before January 1, 2035. Furthermore, the repeal date would also be extended by five years from December 1, 2030, to December 1, 2035.

The provision would also extend the Governor's Office of Business and Economic Development (GO-Biz) allocation period from fiscal year 2027-28 to 2032-33.

Effective/Operative Date

This provision, providing for an appropriation relating to the Budget Bill, would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2030, and before January 1, 2035.

Federal/State Law

Federal and state laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits, hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that may not otherwise be undertaken.

Federal Law

No comparable credit in federal law.

State Law

For taxable years beginning on or after January 1, 2014, and before January 1, 2030, the CA Competes Credit is an income or franchise tax credit available to businesses that come to California or stay and grow in California. CA Competes Credit Agreements are negotiated by GO-Biz and approved by the California Competes Tax Credit Committee (CCTCC), consisting of the State Treasurer, the Director of the Department of Finance (DOF), the Director of GO-Biz, and one appointee each by the Speaker of the Assembly and Senate Committees on Rules

To claim the CA Competes Credit, a taxpayer must enter into a credit agreement with GO-Biz and meet the terms and conditions in the credit agreement. The credit is allocated by taxable year as specified in the credit agreement. As part of the credit agreement, a taxpayer commits to meet and maintain yearly employment and project investment requirements, referred to as “milestones.” If a taxpayer meets the milestones for a taxable year as specified in the credit agreement, then the credit for that year is earned and may be claimed on the tax return. The credit is nonrefundable and any unused credit can be carried over for up to six years.

Upon approval of the tax credit agreement by the CCTCC, GO-Biz informs the FTB of the terms and conditions of the written agreement. The FTB reviews the books and records of taxpayers allocated a CA Competes Credit to ensure the taxpayer complies with the terms and conditions of the written agreement. If the FTB determines that a possible breach of the agreement has occurred, GO-Biz is provided with detailed information regarding the basis of the possible breach, which may lead to requiring the taxpayer to recapture the credit.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

SB 1120 (McNerney, 2025/26) would, under the PITL and CTL, extend the CA Competes Credit through taxable years beginning before January 1, 2035, and would allow a taxpayer in a strategic industry to elect to make their CA Competes Credit refundable for taxable years beginning on or after January 1, 2026, and before January 1, 2035. The bill would also require the GO-Biz to inform the FTB if a taxpayer in a strategic industry has made an election for the credit to be refundable and would extend the GO-Biz credit allocation period to fiscal year 2032-33. SB 1120 did not pass out of the Senate by the required deadline.

AB 194 (Assembly Committee on Budget, Chapter 55, Statutes of 2022) among other provisions, Sections 7 and 14 of the bill, under PITL and CTL, extended the CA Competes Tax Credit allocations through the 2027-2028 fiscal year, added additional factors for GO-Biz to consider when allocating the CA Competes Credit, and made other non-substantive changes.

PROGRAM BACKGROUND

Upon approval of the CA Competes Credit Agreement by the CCTCC, GO-Biz informs the FTB of the terms and conditions of the written agreement. The FTB reviews the books and records of taxpayers allocated a CA Competes Credit to ensure that the taxpayer complies with the terms and conditions of the written agreement. If the FTB determines that a possible breach of the agreement has occurred, GO-Biz is provided with detailed information regarding the basis of the possible breach.

If a taxpayer fails to satisfy the terms of their written CA Competes Credit Agreement, GO-Biz is required to notify the FTB of the amount of the CA Competes Credit to be recaptured from the taxpayer. Any recapture is treated as a mathematical error appearing on the return and is added to the tax otherwise due by the taxpayer for the taxable year in which the CCTCC's recapture determination occurs.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

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

Revenue Discussion

The amount and timing of the tax credit is subject to the agreement between Go-Biz and the taxpayer. Staff defers to the DOF for the estimated revenue loss for this credit.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

Analysis Provision No. 2:

530A Account Conformity (Sections 3, 4, 5, 6 and 9 of the Bill)

530A Accounts (Section 6 of the Bill)

This provision, under the PITL, for taxable years beginning on or after January 1, 2026, would generally conform to IRC section 530A, which are savings accounts for individuals younger than 18 years of age, as added by section 70204 of the OBBBA, except as follows:

- The amount of the additional tax imposed under IRC section 530A(d)(2), relating to tax treatment of allowable distributions, as applicable for federal income tax purposes for the same taxable year, shall be computed using a rate of 2.5% in lieu of the rate provided in that section.
- IRC section 530A(d)(5)(C), relating to distributions of excess contributions, shall not apply.
- IRC section 530A(g), relating to trustee selection, shall not apply.
- A copy of the report required to be filed with the Secretary of the Treasury under IRC section 530A(i), relating to reports, shall be filed with the FTB at the same time and in the same manner as specified in that section.

530A Account Rollovers to Qualified ABLE Accounts (Sections 3 and 9 of the Bill)

This provision would, under the PITL and CTL, for taxable years beginning on or after January 1, 2026, conform to the changes made to federal law by section 70204(a)(2) of the OBBBA, which would allow rollovers from a 530A account to a qualified ABLE account.

530A Account Contributions (Sections 4 and 5 of the Bill)

This provision, under the PITL, for taxable years beginning on or after January 1, 2026, would conform to the gross income exclusions under IRC sections 128, relating to employer contributions, and 139J, relating to general contributions, for specified contributions to IRC section 530A accounts.

Effective/Operative Date

This provision, providing for an appropriation relating to the Budget Bill, would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2026.

Federal/State Law

Existing state and federal laws provide for qualified tuition programs, also known as IRC 529 accounts as well as ABLE accounts, known as IRC 529A accounts. Both are tax-favored savings programs. An IRC section 529 plan account is a tax-advantaged investment vehicle in the United States designed to encourage saving for the future higher education expenses of a designated beneficiary. An ABLE account is a tax-advantaged investment vehicle in the United States designed to encourage saving for the account beneficiary's qualified disability expenses.

ABLE Accounts

Federal law, under the provisions of the OBBBA, makes permanent the increased contribution limitation to ABLE accounts under certain circumstances, which was set to expire under the Tax Cuts and Jobs Act (PL 115-97, Section 11024(a)), for contributions made before January 1, 2026. While the general overall limitation on contributions (the per-donee annual gift tax exclusion ($19,000 for 2025)) remains the same, the limitation is increased with respect to contributions made by the designated beneficiary of the ABLE account. After the overall limitation on contributions is reached, an ABLE account's designated beneficiary may contribute an additional amount, up to the lesser of:

- The Federal poverty line for a one-person household; or
- The individual's compensation for the taxable year.

The OBBBA also modified the cash contribution annual inflation calculation to require the cost-of-living base year calculation to begin one year earlier, replacing the 1997 starting year with 1996.

Current state law conforms to IRC sections 529 and 529A, as of the "specified date" of January 1, 2025, with modifications, for example the early withdrawal penalty for state purposes is modified to 2.5%.

Federal Law

530A Accounts

Under current federal law, the OBBBA established a new type of individual retirement account called a "530A account." A 530A account is defined as an IRA (individual retirement account) under IRC section 408(a), however, it is not designated as a Roth IRA. It is specifically designed for eligible individuals, who have not reached age 18 by the end of the calendar year and possess a valid Social Security Number. The account must be invested in recognized mutual funds or stock exchange funds.

Contributions to a 530A account are capped at $5,000 per year until the eligible individual turns 18, with a cost-of-living adjustment beginning after 2027. No tax deduction is allowed for contributions made before the eligible individual turns 18. If the account holder passes away before turning 18, the account status changes, and the value of the account must be included in the beneficiary's or estate's income for that year.

Withdrawals from a 530A account are permitted starting January 1 of the calendar year the individual turns 18. Excess contributions can be withdrawn earlier without being taxed as income, but any earnings on those excess contributions are subject to a 100% tax. Nonqualified withdrawals are treated as ordinary income and subject to regular income tax plus a 10% penalty if taken before the individual turns 18, unless the funds are rolled over into a qualified ABLE account or another 530A account for the same beneficiary.

Employers may contribute up to $2,500 per year (adjusted for inflation) to an employee's 530A account on behalf of an eligible individual, and these contributions are not counted toward the employee's income or the $5,000 annual limit. Similarly, tax-exempt organizations can make contributions to 530A accounts for eligible individuals or classes of individuals, and these contributions would not count towards the $5,000 limitation.

State Law

No comparable provision in state law.

Implementation Considerations

None noted.

Technical Considerations

To prevent chaptering conflicts, the author may wish to amend the bill to add double-jointing language with SB 1436 (Senate Committee on Revenue and Taxation, 2025/2026), which also amends Sections 17140.4 and 23711.4 relating to 530A rollovers to qualified ABLE accounts, ensuring that both bills' amendments remain operative if enacted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

SB 1436 (Senate Committee on Revenue and Taxation, 2025/2026) would, under the PITL and CTL for taxable years beginning on or after January 1, 2026, conform to the federal law relating to ABLE accounts, specifically increasing the limitation on contributions to ABLE accounts, allowing a designated beneficiary to increase their contribution and applying a modified calculation for the cash contribution inflation adjustment. SB 1436 is currently in the Assembly Appropriations Committee.

AB 1076 (Addis, Chapter 722, Statutes of 2025) required the FTB to revise individual and fiduciary tax form instructions to inform taxpayers that they can request a direct deposit of a portion of an income tax refund into the California ABLE Program Trust beginning January 1, 2026. Additionally, under the Welfare and Institutions Code, this bill amended a provision related to the power and authority of the California ABLE Act Board who administers the California ABLE Program Trust.

AB 339 (Irwin, Chapter 324, Statutes of 2023) beginning January 1, 2026, revises the definition of "eligible individual" under the Qualified ABLE Program by increasing the age limit for when an eligible individual's blindness or disability occurred to 46 years of age to conform with the federal ABLE Act.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

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

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

Analysis Provision No. 3:

Annual Tax Reduction (Section 7 of the Bill)

This provision would, under the PITL, reduce the annual tax from $800 to $400 for an LLC not classified as a corporation, required to file a return for taxable years beginning on or after January 1, 2027, and before January 1, 2030, for its first taxable 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 taxable years beginning on or after January 1, 2027, and before January 1, 2030, for taxable years in which any budget measure appropriates one dollar ($1) or more to the FTB for administration of the reduction.

Federal/State Law

Federal Law

Federal law does not require payment of an annual tax or minimum tax for Limited Partnerships (LPs), LLCs, and Limited Liability Partnerships (LLPs), or corporations.

State Law

Unless specifically exempted by statute, every corporation or LLC classified as a corporation that is organized, qualified to conduct business, or doing business in this state (whether organized in-state or out-of-state), is subject to the annual or minimum franchise tax of $800.

Every corporation that incorporates or qualifies to conduct business in this state on or after January 1, 2000, is exempt from the minimum franchise tax for its first taxable year. This exemption is inapplicable to a corporation that reorganizes solely for the purpose of avoiding payment of its minimum franchise tax.

For taxable years beginning on or after January 1, 2020, an LLC or corporation that is a small business solely owned by a deployed member of the United States (U.S.) Armed Forces is not subject to the annual tax or minimum franchise tax for any taxable year that the owner is deployed and the LLC or corporation operates at a loss or ceases operation.

In addition, every LP, LLP, and LLC not classified as a corporation that organized, registered, or filed with the California Secretary of State on or after January 1, 2021, and before January 1, 2024, was exempt from the annual tax for its first taxable year.

Under RTC section 41, legislation that would create a new tax expenditure, which includes a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the tax benefit.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

SB 122 (Senate Committee on Budget and Fiscal Review, Chapter 23, Statutes of 2026), under the PITL, for taxable years beginning on or after January 1, 2027, and before January 1, 2030, reduced the annual tax for LPs, LLCs not classified as corporations, and LLPs from $800 to $400 for its first taxable year.

SB 347 (Choi, 2025-2026), under the PITL, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, would reduce the annual tax for LPs, LLPs, and LLCs not classified as corporations, from $800 to $600. SB 347 did not pass out of the Senate by the required deadline.

AB 85 (Assembly Committee on Budget, Chapter 8, Statutes of 2020), under the PITL, provided a first-year exemption from the annual tax for LPs, LLPs, and LLCs not classified as corporations.

AB 308 (Muratsuchi, Chapter 421, Statutes of 2019), under the PITL and the CTL, allowed an exemption from the annual tax or the minimum franchise tax for certain small business LLCs and corporations that are solely owned by a deployed member of the U.S. Armed Forces, and the LLC or corporation operates at a loss or ceases to operate, for taxable years beginning on or after January 1, 2020.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

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

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS (All Provisions)

None noted.

SUPPORT/OPPOSITION (All Provisions)

Senate Floor Analysis, dated July 8, 2026

Support

None on file.

Opposition

None on file.

ARGUMENTS (All Provisions)

Senate Floor Analysis, dated July 8, 2026

Proponents

None on file.

Opponents

None on file.

LEGISLATIVE CONTACT

FTBLegislativeServices@ftb.ca.gov