STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Becker, et al.	Sponsor:	Bill Number: SB 254
	Related Bills: See Legislative History	Amended: September 10, 2025

SUBJECT

Energy Tax Credit

SUMMARY

This bill would, under the Government Code (GOV), authorize the California Infrastructure and Economic Development Bank (Bank) within the Governor's Office of Business and Economic Development (Go-Biz), to provide financial assistance for eligible transmission projects.

This bill would, under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), allow a tax credit to qualified taxpayers in an amount equal to 20 percent of the qualified expenditures, related to eligible transmission projects, paid or incurred for taxable years beginning on or after January 1, 2026, and before January 1, 2036.

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 September 10, 2025, amendments deleted the provisions of the bill and added the provisions discussed in this analysis, which include the new credit under PITL and CTL.

REASON FOR THE BILL

The reason for the bill is to incentivize investments in the development of transmission projects for the public benefit to further California's clean energy goals and to reduce or offset ratepayer costs.

ANALYSIS

This bill, under the PITL and CTL, for taxable year beginning on or after January 1, 2026, and before January 1, 2036, would allow a tax credit in an amount equal to 20 percent of the qualified expenditures paid or incurred by a qualified taxpayer during the taxable year, not to exceed $20,000,000 per qualified taxpayer, per taxable year.

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

- "Bank" means the California Infrastructure and Economic Development Bank within GO-Biz and established under the GOV.
- "Eligible transmission project" has the same meaning as defined in GOV section 63049.73, which includes a project receiving financial assistance under the Accelerator Revolving Fund Program approved by the Bank.
- "Qualified expenditures" means costs paid or incurred for planning, design, engineering, permitting, construction, and equipment directly related to the eligible transmission project or qualified wages paid or incurred to employees of a qualified taxpayer that perform services directly related to the eligible transmission project.
- "Qualified taxpayer" means a taxpayer that is a participating party, as defined in GOV section 63049.71, which is any person, company, corporation, association, state, or municipal governmental entity, partnership, firm, or other entity or group of entities, whether organized for profit or not for profit, engaged in business or operations within the state and that applies for financing from the bank in conjunction with a sponsor for the purpose of implementing a project and includes an eligible applicant, as defined in Chapter 1 of Division 50 of the Public Resources Code (PRC), which includes a public agency, local agency, nonprofit organization, special district, joint powers authority, tribe, public utility, local publicly owned utility, or mutual water company.
- "Qualified wages" means wages subject to wage withholding under the Unemployment Insurance Code.

Unused credits could be carried over for eight years, until exhausted.

Any deduction otherwise allowed to the qualified taxpayer for qualified expenditures would be reduced by the amount of qualified expenditures taken into account in calculating the allowed credit.

If the credit allowed by this section is claimed by the qualified taxpayer, the taxpayer would not earn a return on equity for the eligible transmission project, for the portion of the project for which the credit is claimed.

This bill would require Bank to inform the FTB of eligible transmission projects approved for financial assistance and provide any other information the FTB requires to administrate this credit.

This bill, under the PITL and CTL, for taxable years beginning on or after January 1, 2026, and before January 1, 2036, would also allow this credit to reduce the amount of regular tax below the Tentative Minimum Tax (TMT).

This bill would remain in effect until December 1, 2036, and be repealed as of that date.

Effective/Operative Date

As an urgency measure, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2026, and before January 1, 2036.

Federal/State Law

Tax Credits

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 they may not otherwise be undertaken.

There is no comparable credit in federal or state law.

Federal law provides Clean Energy Tax Incentives for each of the following categories:

- Energy Generation and Carbon Capture
    - Production Tax Credit for Electricity from Renewables
    - Clean Electricity Production Tax Credit
    - Investment Tax Credit for Energy Property
    - Clean Electricity Investment Tax Credit
    - Low-Income Communities Bonus Credit
    - Credit for Carbon Oxide Sequestration
    - Zero-Emission Nuclear Power Production Credit
- Manufacturing
    - Advanced Energy Project Credit
    - Advanced Manufacturing Production Credit

- Vehicles
  - Credit for Qualified Commercial Clean Vehicles
  - Alternative Fuel Vehicle Refueling Property Credit
- Fuels
  - Clean Hydrogen Production Tax Credit
  - Clean Fuel Production Credit

Tentative Minimum Tax (TMT)

Under federal law, individuals are subject to the alternative minimum tax (AMT), which is imposed on the amount of the TMT over the regular tax. General business credits allowed for any taxable year are limited to the excess of a taxpayer's net income tax over the greater of: (1) the TMT for the taxable year, or (2) 25 percent of the amount of the taxpayer's net regular tax that exceeds $25,000. In addition, the empowerment zone employment credit, and other specified credits have various rules for limiting the usage of credits.

For taxable years beginning on or after January 1, 2018, and before January 1, 2023, the corporate AMT was repealed, and changes were made to the AMT credit provisions. For taxable years beginning on or after January 1, 2023, the 15 percent corporate AMT is imposed on the adjusted financial statement income of large corporations. Large corporations are those with an average annual adjusted financial statement income that exceeds $1 billion.

Current state law provides a general rule that tax credits imposed under the PITL and CTL may not reduce tax below TMT, unless specifically provided otherwise. There are numerous credits listed that are allowed to reduce the tax below the TMT, such as solar energy credits, the college access tax credit, the California competes tax credit, and motion picture credits.

The TMT for individuals is 7 percent, for general corporations is 6.65 percent, and for financial corporations is 8.65 percent of the excess Alternative Minimum Taxable Income of the exemption amount. Corporations with valid S corporation elections are not subject to the AMT. The TMT is compared to the taxpayer's regular tax. For purposes of this comparison, regular tax is defined as the personal income tax, corporation franchise tax, the corporation income tax, or the tax on the unrelated business income of an exempt corporation before the reduction for any credits. If the TMT exceeds the regular tax, the difference is the AMT. Without considering tax credits, the taxpayer is effectively required to pay the higher of the TMT or the regular tax for the taxable year.

Implementation Considerations

None noted.

Technical Considerations

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

For consistency of terminology, the following changes are recommended:

- In Sections 17053.40(b)(2) and 23640(b)(2) replace "Section 63049.73 of the Government Code" with "Section 63049.71(e) of the Government Code."
- In Sections 17053.40(b)(4) and 23640(b)(4) update the referenced subdivision by replacing "subdivision (h) of section 63049.71 of the Government Code" with "subdivision (g) of section 63049.71 of the Government Code."

Policy Considerations

None noted.

LEGISLATIVE HISTORY

SB 175 (Senate Committee on Budget and Fiscal Review, Chapter 42, Statutes of 2024) amongst other items, under the PITL and CTL, for taxable years beginning on or after January 1, 2027, allowed the annual refundable credit to reduce the amount of regular tax below the TMT.

SB 132 (Senate Committee on Budget and Fiscal Review, Chapter 132, Statutes of 2023) amongst other items, under the PITL and CTL, for taxable years beginning on or after January 1, 2025, added the motion picture credit 4.0 to the order of credits allowed to be taken against tax, and allows the motion picture credit 3.0, the credit for certified studio construction project, and the motion picture credit 4.0 to reduce tax below the TMT.

SB 113 (Senate Committee on Budget and Fiscal Review, Chapter 3, Statutes of 2021) amongst other items, under the PITL, allowed the pass-through entity elective tax credit to reduce tax below TMT and made changes to the order of credits allowed to be taken against the net tax. In addition, this bill made other nonsubstantive technical changes.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB anticipates minimal costs to implement this bill.

ECONOMIC IMPACT

Revenue Estimate

To determine the magnitude of the potential impact of this credit to the General Fund, both the frequency of construction and size of the eligible transmission projects would need to be known. Since it is difficult to predict the frequency and size of these projects, the revenue impact to the General Fund is unknown. However, assuming the qualified taxpayer means a participating party as defined in GOV section 63049.71(g), it is estimated that for every $175 million in qualified expenditures the revenue loss would be $9 million.

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 Floor Analysis, dated September 13, 2025.

Support

Juan Munoz-Guevara, Lynwood Councilmember
Victor Preciado, Pomona Councilmember
Victor A Sanchez, Bellflower Councilmember
350 Humboldt
350 Sacramento Legislative Team
Agricultural Energy Consumers Association
Asian Business Association Los Angeles
Asian Business Association Orange County
Asian Pacific American Leadership Foundation
Bay Area Council

BizFed Central Valley
Breathe California of the Bay Area, Golden Gate & Central Coast
California Building Industry Association
California Democratic Party
California Electric Transportation Coalition
California Environmental Voters
California Fire Chiefs Association
California Forward
California Greenworks
California/Hawaii State Conference NAACP
California Large Energy Consumers Association
California Municipal Utilities Association
California Solar & Storage Association
California State Association of Electrical Workers
California State Pipe Trades Council
California Wind Energy Association
Center for Sustainable Energy
Central Coast Taxpayers Association
Chambers of Commerce: Alameda, Atascadero, Buellton, California, California African American, California Asian Pacific, California Hispanic, Carlsbad, Chula Vista, Dana Point, Danville Area, Downey, Garden Grove, Greater Bakersfield, Greater Conejo Valley, Hispanic of San Francisco, Los Angeles Area, North Orange County, Norwalk, Orange County Black, Paradise Ridge, Paramount, Rancho Cordova Area, Redondo Beach, San Clemente, San Diego Regional, Santa Clarita Valley, South Bay Association, South San Luis Obispo County, Walnut Creek, Wilmington, Yorba Linda, and Yuba-Sutter
Chinese American Construction Professionals
Clean Air Task Force
Climate Action California
Climate Action Campaign
Coalition of California Utility Employees
County of San Diego
Fire Districts Association of California
Gateway Chambers Alliance
Independent Energy Producers Association
Inland Empire Economic Partnership
International Brotherhood of Electrical Workers Local 465
International Brotherhood of Electrical Workers Local 1245
Latin Business Association
Lincoln Training Center
Madera County Economic Development Commission
Mariposa County Resource Conservation District
Natural Resources Defense Council
Net-Zero California

New California Coalition
Northern California Power Agency
Northern Santa Barbara County United Way
Orange County Business Council
Orange County Taxpayers Association
Orange County United Way
Pacific Community Fund
Pacific Gas and Electric
Peninsula Clean Energy
Public Advocates Office
Rising Sun Strategies
San Diego Gas and Electric
San Diego North Economic Development Council
San Gabriel Valley Civic Alliance
San Gabriel Valley Conservation and Service Corps
San Gabriel Valley Economic Partnership
Santa Barbara County Coalition of Labor, Agriculture and Business
Santa Barbara County Econ Alliance
Santa Barbara County Taxpayers Association
Santa Ynez Band of Chumash Indians
Silicon Valley Clean Energy
Silicon Valley Leadership Group
South County Economic Development Council
South Orange County Economic Coalition
Southeast Community Development Corporation
Southern California Edison
Southern California Leadership Council
Southern California Public Power Authority
Southern California Service Corps
Sustainable Works
The Climate Center
The Climate Reality Project, Silicon Valley
The Utility Reform Network
Tuolumne County Alliance for Resources and Environment
Union of Concerned Scientists
Valley Clean Air Now
Ventura County Coalition of Labor Agriculture and Business
Ventura County Taxpayers Association
Veterans in Business Network
Village Solutions Foundation
West Ventura County Business Alliance
Western States Council Sheet Metal, Air, Rail and Transportation
Yuba-Sutter Economic Development Corporation
Two Individual

Opposition

California Farm Bureau Federation
California Large Energy Consumers Association
California State Association of Counties
County of Fresno
Environmental Working Group
League of California Cities
Rural County Representatives of California
The Utility Wildfire Survivor Coalition
Underground Service Alert of Southern California
Several Individual

ARGUMENTS

Senate Floor Analysis, dated September 13, 2025.

Arguments in Support

A coalition of organizations, including The Utility Reform Network, Natural Resources Defense Council, California Environmental Voters, Union of Concerned Scientists, and others, state:

> California faces an electricity affordability crisis. In just one decade, Pacific Gas and Electric rates increased 104%, Southern California Edison rates jumped 83%, and SDG&E bills rose 71%. Without legislative action, electricity bills will continue climbing, placing even greater financial strain on low- and middle income families. 85% of voters say it's important for their representatives to do everything possible to lower electricity bills this year. SB 254 adopts multiple key measures to reduce electricity bills: Public financing of transmission, securitization, and cost effective wildfire mitigation.
>
> SB 254 also establishes a wildfire fund replenishment mechanism. California's Wildfire Fund could be wiped out entirely by claims from the 2025 Eaton fire. Under this legislation, utility shareholders will contribute 50% of the cost of replenishing the fund, and utility customers will cover the other half. This mechanism will ensure utilities maintain financial stability to continue serving customers.
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> The sentiments to replenish the Wildfire Fund has also been shared by numerous wildfire survivors from Southern California who lost homes and property in the January 2025 Eaton Fire.

Arguments in Opposition

The California State Association of Counties, League of California Cities, and Rural County Representatives of California oppose measures in the bill that expand the AB 205 "Opt-in" permitting program at the CEC for certain clean energy projects. They state:

> SB 254 strengthens the CEC's ability to ignore local laws, regulations, and objections of the community in which the project will be located. SB 254 repeals provisions of PRC section 25545.8 that require the CEC to ensure projects conform with public safety standards, air and water quality standards, and other applicable local, regional, state, and federal standards, ordinances, or laws.

The Utility Wildfire Survivor Coalition, representing survivors of the Northern California wildfires that pre-date the Wildfire Fund, express concerns that the bill does not include addressing claims from wildfire victims from the 2015-2018 fires in the service territory of PG&E. They state: We MUST NOT push aside our commitments to Northern California fire victims while we look to support Southern California fire victims, our utilities and our utility investors. We must ensure that this bill provides EQUITABLE relief for all utility-caused wildfire survivors including those in Northern California that still suffer awaiting their full compensation.

The Underground Service Alert of Southern California expresses concerns with the provisions requiring the California Underground Safety Board to develop two regulations and authorizes property owners that do not own or operate underground utilities to be notified of proposed excavations which they say "pose significant operational problems for DigAlert."

LEGISLATIVE CONTACT

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