STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Choi	Sponsor:	Bill Number: SB 347
	Related Bills: See Legislative History	Amended: January 15, 2026

SUBJECT

Annual Tax – Partnerships and Limited Liability Companies (LLCs)

SUMMARY

This bill, under the Personal Income Tax Law (PITL), for taxable years beginning on or after January 1, 2026, and before January 1, 2031, would reduce the annual tax for limited partnerships (LPs), limited liability partnerships (LLPs), and LLCs not classified as corporations, from $800 to $600.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

The January 15, 2026, amendments modified the proposed change to the annual tax amount from $200 to $600.

REASON FOR THE BILL

The reason for the bill is to reduce costs for California partnerships and LLCs not classified as corporations.

ANALYSIS

For taxable years beginning on or after January 1, 2026, and before January 1, 2031, this bill would reduce the annual tax for LPs, LLPs, or LLCs not classified as corporations, to $600.

This bill would modify the inoperative date of the exemption from the annual tax for LLCs not classified as corporations, whose owner is a deployed member of the United States (U.S.) Armed Forces, and the business operates at a loss or ceases operation, from taxable years beginning on or after January 1, 2030, to taxable years beginning on or after January 1, 2025.

For purposes of complying with Section 41 of the Revenue and Taxation Code (RTC), this bill would require the FTB to submit an annual report to the Legislature on or before April 1, 2028, and annually thereafter, with the number of partnerships and LLCs that are affected by the act. The Section 41 reporting requirements would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment, and the annual tax reduction would be specifically operative for taxable years beginning on or after January 1, 2026, and before January 1, 2031. The exemption from the annual tax for LLCs not classified as corporations, whose owner is a deployed member of the U.S. Armed Forces, and the business operates at a loss or ceases operation, would be inoperative on January 1, 2025.

Federal/State Law

Federal Law

Federal law does not require payment of an annual tax or minimum franchise tax for LPs, LLPs, LLCs, or corporations.

State Law

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

In general, LPs, LLPs, and LLCs, not classified as corporations, that are organized or qualified to do business, or doing business in this state (whether organized in-state or out-of-state) are subject to an annual tax equal to the $800 minimum franchise tax.

Every corporation that incorporates or qualifies to do 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, and before January 1, 2030, an LLC or corporation that is a small business solely owned by a deployed member of the 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, who was 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

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

This bill requires the FTB to prepare a report on the performance of partnerships or LLCs that are affected by the reduction in the annual tax by April 1, 2028. For a report that contains complete information for the 2026 taxable year, it is recommended that the reporting due date be extended to April 1, 2029. If the reporting due date remains unchanged, the report would include the information available as of six months prior to the report due date, which will exclude those taxpayers filing on extension.

The bill would make the exemption from the annual tax for LLCs not classified as corporations, owned by deployed military members, inoperative on January 1, 2025. If the bill passes in early 2026, the FTB may not have time to update the 2025 taxable year forms and instructions to account for this change before tax filing season begins in early 2026, which could complicate return filing and processing for taxpayers and the FTB.

If this bill is chaptered in late 2026, some taxpayers that timely file their return may need to amend their return to accommodate this new law change, which could lead to increased amended returns and taxpayer confusion. If the author wants to avoid this, the author may wish to extend the inoperative date to taxable years beginning on or after January 1, 2026.

Technical Considerations

The bill reduces the annual tax for LPs, LLPs, or LLCs not classified as corporations for taxable years beginning before January 1, 2031, but does not sunset the requirement that the FTB, for purposes of Section 41 of the RTC, produce an annual report on the performance of partnerships and LLCs subject to the annual tax reduction. To ensure the FTB is not required to produce the report after the annual tax reduction ends, the author may wish to add a sunset date to the Section 41 provisions.

In Section 17935(f), Section 17941(g), and Section 17948(e), replace the words "For each taxable year beginning on…" with "For taxable years beginning on…".

Policy Considerations

This bill would modify the inoperative date of the exemption from the annual tax for LLCs, classified as a partnership, owned by deployed military members from January 1, 2030, to January 1, 2025. The exemption from the minimum franchise tax for LLCs that are classified as corporations and owned by deployed military members (RTC section 23153(i)(1)) would remain inoperative for taxable years beginning on or after January 1, 2030. The bill would treat these LLCs differently. If this is unintended, the author may wish to amend the bill. If this bill is chaptered at the end of 2026, it would modify the taxpayers tax liability for the 2025 tax year after the tax year closed for some taxpayers.

LEGISLATIVE HISTORY

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 Corporation tax Law (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.

AB 91 (Valladares, 2021/2022), under the PITL, would have reduced the annual tax for LPs, LLPs, and LLCs not classified as corporations, that are small businesses or microbusinesses, as defined, from $800 to $400 or $200, respectively. In addition, under the CTL, this bill would have reduced the minimum franchise tax for corporations that are small businesses or microbusinesses, as defined, from $800 to $400 or $200, respectively. AB 91 did not pass out of the Assembly by the constitutional deadline.

AB 632 (Ramos, 2021/2022), similar to this bill, would have reduced the $800 minimum franchise tax for corporations, and, by reference, the annual tax for LPs, LLPs, or LLC's not classified as corporations, based on gross receipts. AB 632 did not pass out of the Assembly by the constitutional deadline.

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 would result in the following revenue loss:

Estimated Revenue Impact of SB 347 as Amended January 15, 2026
Assumed Enactment after June 30, 2026

($ in Millions)

Fiscal Year	Revenue
2026-2027	-$390
2027-2028	-$380
2028-2029	-$390

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.

Revenue Discussion

Based on data from the FTB, it is estimated that approximately 1.6 million LLCs not taxed as corporations, LLPs, and LPs would be impacted by the reduction in the annual tax. For the 2026 taxable year, the estimated revenue loss would be approximately $300 million.

The tax year estimates are converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Committee Report Senate Appropriations, dated January 16, 2026

Support

None received.

Opposition

None received.

ARGUMENTS

None on file.

LEGISLATIVE CONTACT

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