STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Grayson

Sponsor:

Bill Number: SB 587

Related Bills: See Legislative History

Amended: March 24, 2025

SUBJECT

Credit for Local Portion of Sales Tax Reimbursement or Use Tax Paid for Manufacturing and Research and Development (R&D) Equipment

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), allow taxpayers an income tax credit equal to the non-exempt portion of sales tax reimbursement or use taxes paid during the taxable year on the purchase of, or the storage, use, or other consumption in this state, of certain qualified tangible personal property (TPP), related to manufacturing, R&D, or the generation and production of electrical power for taxable years beginning on or after January 1, 2026, and before January 1, 2031.

RECOMMENDATION

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

SUMMARY OF AMENDMENTS

The March 24, 2025, amendments replaced nonsubstantaive changes relating to the research credit and replaced it with the provisions discussed in this analysis.

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

REASON FOR THE BILL

The reason for the bill is to incentivize growth in manufacturing and R&D in California.

ANALYSIS

For taxable years beginning on or after January 1, 2026, and before January 1, 2031, this bill would, under the PITL and the CTL, allow a taxpayer a credit against net tax in an amount equal to sales tax reimbursement or use taxes paid on certain gross receipts during the taxable year for the following sales and use taxes that would be exempt under Revenue and Taxation Code (RTC) section 6377.1 but for RTC section 6377.1(d):

- Sales and use taxes levied by a county, city, or district under either the Bradley-Burns Uniform Local Sales and Use Tax Law or the Transactions and Use Tax Law.
- Sales and use taxes that are credited to the Local Revenue Fund, the Local Revenue Fund 2011, or the Local Public Safety Fund.

The credit would be applicable only for the sales tax reimbursement or the use taxes paid on gross receipts for qualified TPP used for specified purposes including manufacturing, R&D, maintenance of TPP used for manufacturing and R&D, and TPP used in electric power generation or production or electric power storage and distribution, and other purposes.

This bill would, by reference to Section 6377.1, incorporate that section's definitions.

In addition, the bill provides that a deduction for an amount upon which the credit is based would be reduced by the amount of the credit.

Any unused credit could be carried over for up to 9 years, until exhausted.

The credit could only be claimed on a timely filed original return of a taxpayer.

A credit, or a credit carryover, would not be allowed and the taxpayer would be required to file an amended return if a credit was claimed, with respect to qualified TPP if within one year from the date of purchase the TPP was:

- Removed from California,
- Converted from an exempt use under Section 6377.1(a) to some other use not qualifying for exemption, or
- Used in a manner not qualifying for exemption.

This bill would allow the FTB to request any information necessary for the administration of this credit from the California Department of Tax and Fee administration (CDTFA) and allow CDTFA to provide information to the FTB in a form and manner agreed upon by the CDTFA and the FTB, regarding the exemption claimed pursuant to Section 6377.1.

The FTB would be allowed to prescribe rules, guidelines, procedures, or other guidance to implement this bill. The Administrative Procedures Act would not apply to rules, guidelines, or procedures prescribed by FTB for this bill. The FTB would also be allowed to adopt regulations necessary or appropriate to implement this bill, including regulations to prevent improper claims from being filed.

The bill includes, for purposes of complying with Section 41, the Legislature's findings and declarations that are:

- The goal, purpose, and objective of this credit is to encourage new and continued investment in California in the areas of manufacturing and R&D.
- Detailed performance indicators for Legislature to use in determining whether the credit meets that goal, purpose, and objective are as follows:
    - The total dollar amount of tax credits allowed.
    - The number of taxpayers that are allowed a credit.

This bill would require the FTB, on or before December 1, 2031, to provide to the Legislature a report on the total dollar amount of credits allowed and the number of taxpayers allowed the credit.

The Section 41 reporting requirements would be treated as an exception to the general prohibition against disclosure of confidential taxpayer information.

This credit would be in effect only until December 1, 2031, and as of that date would be repealed.

Effective/Operative Date

As a tax levy, 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, 2031.

Federal/State Law

Federal Law

No comparable provision in federal law.

State Law

Under RTC section 6377.1, a partial sales and use tax exemption is allowed for qualified TPP used primarily in one of the following activities:

- Any stage of the manufacturing, processing, refining, fabricating, or recycling process.
- R&D.
- To maintain, repair, measure, or test any qualified TPP used for manufacturing and R&D.
- The generation or production, storage or distribution of electric power.
- For use by a contractor purchasing that property for use in the performance of a construction contract for a qualified person, provided that the qualified person will use the resulting improvement to real property as an integral part of the manufacturing, processing, refining, fabricating, or recycling process, the generation or production, storage or distribution, of electric power, or as a research or storage facility for use in connection with those processes.
- A qualified person is someone who is engaged primarily in the business of manufacturing or electric power generation or distribution.

The exemption is limited to $200 million in qualified TPP purchases annually.

However, the partial exemption does not currently apply with respect to the following sales and use taxes:

- Sales and use taxes levied by a county, city, or district under either the Bradley-Burns Uniform Local Sales and Use Tax Law or the Transactions and Use Tax Law.
- Sales and use taxes that are credited to the Local Revenue Fund, the Local Revenue Fund 2011, or the Local Public Safety Fund.

Implementation Considerations

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 would require the FTB to prepare a report on the performance of the credit allowed by this bill on or before December 1, 2031. If the author’s intent is to review a report that contains complete information for the 2026 through 2030 taxable years, it is recommended that the reporting due date be extended to no earlier than April of 2033. This date would allow time for the FTB to complete the processing of both personal income tax returns and corporation returns that file on a fiscal year basis. Corporate filers that file on extension may file as late as October 15, 2032, for the 2030 taxable year. The FTB needs approximately six months to complete return processing and to compile the needed data to prepare a report. As a result, it is recommended that the reporting due date be no earlier than April of 2033 to provide complete information for the 2026 through 2030 taxable years. If the reporting due date remains unchanged, the report would include the information available as of six months prior to the date the report is due.

Technical Considerations

For consistency of terminology, in Sections 17053.90(a) and 23623(a), replace, “For each taxable year beginning on or after January 1, 2026,…” with “For taxable years beginning on or after January 1, 2026,…”

Sections 17053.90(h)(2) and 23623(h)(2) provide language, relating to regulations, that is unnecessary. The author may wish to amend this bill to remove this language.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 52 (Grayson, 2023/2024), similar to this bill, would have, under the PITL and the CTL, allowed taxpayers an income tax credit for the non-exempt portion of sales tax reimbursement or use taxes paid during the taxable year on the sale of, or the storage, use, or other consumption in this state of certain qualified TPP, related to manufacturing, R&D, or the generation and production of electrical power. This bill was vetoed by Governor Newsom noting:

> As a strong supporter of California's innovation economy and manufacturing sector, I agree with the intent of this bill. California offers many powerful incentives to encourage new and continued investment in the areas of manufacturing, research, and development. However, by enacting a new tax credit, this bill would have a significant impact on the state general fund, and should be considered in the annual budget process.
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> In partnership with the Legislature this year, my Administration has enacted a balanced budget that avoids deep program cuts to vital services and protected investments in education, health care, climate, public safety, housing, and social service programs that millions of Californians rely on. It is important to remain disciplined when considering bills with significant fiscal implications that are not included in the budget, such as this measure.

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 587 as Amended on March 24, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$50
2026-2027	-$210
2027-2028	-$330

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

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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