STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Choi, et al.

Sponsor:

Bill Number: SB 665

Related Bills: See Legislative History

Introduced: February 20, 2025

SUBJECT

Retail Security Measures Tax Credit

SUMMARY

This bill, under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), for taxable years beginning on or after January 1, 2025, and before January 1, 2030, would allow a qualified taxpayer a tax credit for qualified expenditures related to retail theft prevention measures.

RECOMMENDATION

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

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for the bill is to assist California businesses who have taken measures to protect their businesses against retail crime.

ANALYSIS

This bill, under the PITL and CTL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, would allow a tax credit in an amount equal to the qualified expenditures of a qualified taxpayer during the taxable year, not to exceed $10,000.

The bill defines the following terms:

"Qualified expenditure" would mean an expense paid or incurred by the qualified taxpayer that is directly related to retail theft prevention measures that exceed the following:

- For a taxpayer with 25 or fewer employees, $300 at a retail location in the state.
- For a taxpayer with more than 25 employees, $500 at a retail location in the state.

"Qualified taxpayer" would mean a taxpayer that is primarily engaged in a retail trade as described in Codes 441 to 459999 of the North American Industry Classification System published by the United States Office of Management and Budget, 2022 edition.

"Retail theft prevention measures" would include, and not be limited to the following:

- Security officers registered under the Private Security Services Act as provided in Chapter 11.5 of Division 3 of the Business and Professions Code.
- Security cameras.
- Perimeter security lighting.
- Locking or hardening mechanisms.
- Alarm systems.
- Access control systems.
- Exterior license plate reader technology.

The bill specifies that any deduction otherwise allowed, for any amount paid or incurred by the taxpayer upon which the credit is based, must be reduced by the amount of this credit.

This credit would be repealed on December 1, 2030.

For purposes of complying with Section 41, the specific goal of this credit is to support local retailers in their efforts to prevent theft. Detailed performance indicators for the Legislature to use in determining whether the credit meets the goal are as follows:

- The total number of qualified taxpayers that are claiming the credit.
- The total dollar value of credits allowed.

On or before December 1, 2026, and annually thereafter, this bill would require the Franchise Tax Board (FTB) to submit a report to the Legislature detailing the number of taxpayers claiming the credit and the total dollar value of the credits allowed. 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 would be specifically operative for taxable years beginning on or after January 1, 2025, and before January 1, 2030.

Federal/State Law

Existing 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 or hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Current state and federal laws generally allow taxpayers engaged in a trade or business to deduct all expenses that are considered ordinary and necessary in conducting that trade or business.

Currently, there are no federal or state credits comparable to the credit this bill would create.

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 the credit allowed by this bill no later than December 1, 2026, and annually thereafter. If the author's intent is to review a report that contains complete information for the taxable year 2025, it is recommended that the report due date be extended to no earlier than April of 2028. This date allows time for the FTB to complete 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, 2027. 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 2028, to provide complete information for the 2025 taxable year. 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

In Sections 17053.89(b)(1)(A) and (b)(1)(B), replace "taxpayer" with "qualified taxpayer."

Sections 17053.89(d)(2) and 23683(d)(2) provide language, relating to regulations, that is unnecessary. The author may wish to amend this bill to remove this language.

In Sections 17053.89(e)(1)(B) and (e)(2)(A), replace "value" with "amount."

Policy Considerations

This bill does not provide a carryover period. As a result, any unused credit would be lost if the taxpayer is unable to use the entire credit amount in the year claimed. The author may wish to add language to allow a limited carryover period.

LEGISLATIVE HISTORY

AB 976 (Ávila Farías, 2025/2026), under PITL and CTL, for taxable years beginning on or after January 1, 2026, and before January 1, 2028, would allow a credit against taxes to a business in an amount equal to the taxpayer's qualified retail theft prevention measures not to exceed $4,000 per taxable year. AB 976 has been referred to the suspense file in the Assembly Revenue and Taxation Committee.

SB 666 (Choi, et al., 2025/2026), under the PITL, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, would allow a credit against net tax for the purchase and installation of a home security surveillance system. SB 666 has been referred to the Senate Revenue and Taxation Committee.

AB 2219 (Wallis, 2023/2024), under the PITL, would have allowed a credit against net tax for the purchase and installation of a security surveillance system. This bill did not pass out of the Assembly Revenue and Taxation Committee 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 identified.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 665 as Introduced February 20, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$25
2026-2027	-$22
2027-2028	-$17

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 California Employment Development Department and the Small Business Administration, it is estimated that in the 2025 taxable year there would be approximately 70,000 retail businesses with 25 or fewer employees and 4,500 retail businesses with 25 or more employees. Of this amount, it is estimated that 60 percent, or 45,000 qualified businesses would be ready to purchase qualified security equipment over the operative period of this bill. Resulting in an estimated $25 million in credit generated for the 2025 taxable year.

It is estimated that 90 percent, including the S corporation adjustment, or about $22 million, would be earned by taxpayers with sufficient tax liability to offset with the credit. Of that amount, 90 percent, or $20 million, would be claimed in the year generated and the remaining credit would go unused.

To arrive at the offsetting tax effect of the expense deduction that would otherwise be allowed under current law, it is estimated that qualified taxpayers would be able to deduct approximately $36million in qualified expenses. Applying an average tax rate of 7 percent, results in an offsetting revenue gain of $1.8million. The resulting net revenue loss, for the 2025 taxable year, would be $18 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

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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