STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Caballero

Sponsor:

Bill Number: SB 785

Related Bills: See Legislative History

Amended: March 25, 2025

SUBJECT

Durable Medical Equipment Tax Credit

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 allow a tax credit, limited to $5,000, for purchases of durable medical equipment.

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 25, 2025, amendments removed nonsubstantive changes relating to the Revenue and Taxation Code and replaced it with the provisions discussed in this analysis.

This is the Franchise Tax Board's (FTB) first analysis of the bill.

REASON FOR THE BILL

The reason for the bill is to provide financial relief by creating a tax credit for durable medical equipment prescribed by a licensed health care provider for use by those under the age of 18 years with complex medical conditions.

ANALYSIS

This bill, under the PITL, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, would allow a tax credit for an amount equal to 50% of the amount paid or incurred by a taxpayer during the taxable year for qualified expenditures, limited to $5,000, per taxable year.

This bill would provide the following definitions:

> "Complex medical conditions" include, but are not limited to, conditions requiring ongoing specialized care under the supervision or care of a licensed health care provider.
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> "Durable medical equipment" means equipment prescribed by a licensed health care provider as defined in the Social Security Act, section 1861(n), including, among other specified equipment, iron lungs, oxygen tents, hospital beds, and wheelchairs used in a patient's home, and is primarily and customarily used to serve a medical purpose.
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> "Qualified expenditure" means an expense paid or incurred by the taxpayer for the purchase of durable medical equipment for use by a dependent, under the age of 18 at the start of the taxable year, with complex medical conditions.

A taxpayer could claim this credit once per dependent per taxable year.

Unused credits may be carried over for eight years until the credit is exhausted.

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

This bill would allow the FTB to prescribe rules, guidelines, procedures, or other guidance to carry out the purposes of this credit.

This credit would be repealed on December 1, 2031.

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

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.

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

Section 41

Under existing state law, legislation that would create a new tax expenditure, which includes a credit, deduction, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, detailed performance indicators and data collection requirement measures to allow the Legislature to evaluate the effectiveness of the tax benefit. Legislation that would create an income exclusion is not required to provide detailed performance indicators and data collection requirement measures if the Legislature determines there is no available data to collect and report.

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.

The bill provides that the credit cannot exceed $5,000 per taxable year, and that the credit would be allowed once per dependent per taxable year. Should the taxpayer have two dependents with varying amounts of qualified expenditures, or if the qualified expenditures of one dependent are, for example, $3,000, and the other dependent's are $8,000, it is unclear how the credit would be limited. The author may wish to amend the bill to clarify the intent if the taxpayer has multiple dependents with qualifying conditions.

Because FTB has general authority to prescribe guidance for tax administration, Section 17052.30(f) is unnecessary. However, if Section 17052.30(f) is not removed, because the bill does not specify otherwise, the FTB would be subject to the rulemaking procedures required under the Administrative Procedure Act (APA) (Government Code section 11340 et seq.). Following APA procedures may delay the immediate implementation of the bill. To prevent delays, it is recommended that the author add a provision exempting the FTB from the APA should prescribing rules, guidelines, or procedures remain in the bill.

Technical Considerations

For clarity and consistency in terminology, in Section 17052.30(c), it is recommended that, "A taxpayer may claim the credit allowed under this section once per dependent per taxable year." be replaced with, "The credit allowed by this section shall not exceed $5,000 per taxable year per dependent."

Policy Considerations

This bill would create a new tax expenditure in the form of a tax credit. As such, this bill is required to include detailed performance indicators and data collection requirement measures to allow the Legislature to evaluate the effectiveness of the tax benefit. The author may wish to amend the bill to include detailed performance indicators and data collection requirement measures to allow the Legislature to evaluate the effectiveness of the tax expenditure.

LEGISLATIVE HISTORY

AB 547 (Tangipa, 2025/2026), under the PITL, would allow taxpayers a credit up to $5,000 for the qualified expenses of in vitro fertilization for taxable years beginning on or after January 1, 2025, and before January 1, 2030. This bill has been placed in the Assembly Revenue and Taxation Committee suspense file.

AB 691 (Wallis, 2025/2026), under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, would provide a taxpayer a credit for qualified pet adoption costs and a credit for qualified pet medical expenses paid or incurred. This bill has been placed in the Assembly Revenue and Taxation Committee suspense file.

AB 1431 (Tangipa, 2025/2026), under the PITL, for each taxable year beginning on or after January 1, 2025, and before January 1, 2032, would allow a tax credit to a qualified taxpayer for moneys paid by an employer for medical services performed in a rural area in the state by the qualified taxpayer and authorized under the qualified taxpayer’s license. This bill has been placed in the Assembly Revenue and Taxation Committee suspense file.

PROGRAM BACKGROUND

None noted.

OTHER STATES’ INFORMATION

None noted.

FISCAL IMPACT

The 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 AB 785 as Amended March 25, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$3.1
2026-2027	-$5.5
2027-2028	-$5.9

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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