STATE OF CALIFORNIA
Franchise Tax Board

Bill Analysis

Author: Caballero	Sponsor:	Bill Number: SB 785
	Related Bills: See Legislative History	Amended: July 7, 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 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 July 7, 2025, amendments made several technical changes and modified the provision relating to the reduction of deductions for amounts included in the computation of the tax credit. The July 7 amendments resolved the implementation consideration discussed in the Franchise Tax Board's (FTB) analysis of the bill as amended May 6, 2025.

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. The credit would be limited to $5,000 per taxable year for each qualifying dependent.

This bill would provide the following definitions:

> "Complex medical conditions" include, but are not limited to, conditions where an individual would be eligible for early and periodic screening, diagnosis, and treatment services, as described in the Welfare and Institutions Code, relating to Medi-Cal benefits.
>
> "Durable medical equipment" has the same meaning as that term is defined in Title 42 of the United States Code, for example, iron lungs, oxygen tents, hospital beds, and wheelchairs.
>
> "Qualified expenditure" means an unreimbursed expense paid or incurred by the taxpayer for the purchase of durable medical equipment for use by a qualifying dependent.
>
> "Qualifying dependent" means a dependent of the taxpayer who has one or more complex medical conditions and is younger than 18 years of age as of the first day of the taxable year.

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

The bill specifies that any deduction otherwise allowed for a qualified expenditure would be reduced by twice the amount of this allowed credit.

This credit would be taken in lieu of any other credit that the qualified taxpayer may otherwise claim with respect to amounts taken into account in calculating the credit allowed by this bill.

This credit would be repealed on December 1, 2031.

The bill, for purposes of complying with the Revenue and Taxation Code (RTC) section 41, would require the FTB to provide a written report to the Legislature no later than July 1, 2028, and annually thereafter, that would include the following information:

- The number of taxpayers that were allowed a credit, and
- The total dollar amount of 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 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

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 547 (Tangipa, 2025/2026), under the PITL, would have allowed 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 did not pass out of the Assembly by the constitutional deadline.

AB 691 (Wallis, 2025/2026), under the PITL, for taxable years beginning on or after January 1, 2025, and before January 1, 2030, would have provided a taxpayer a credit for qualified pet adoption costs and a credit for qualified pet medical expenses paid or incurred. This bill did not pass out of the Assembly by the constitutional deadline.

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 have allowed 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 did not pass out of the Assembly by the constitutional deadline.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB anticipates minimal costs to implement this bill.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of SB 785 as Amended July 07, 2025
Assumed Enactment after June 30, 2025

($ in Millions)

Fiscal Year	Revenue
2025-2026	-$3.2
2026-2027	-$5.7
2027-2028	-$6.1

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

Assembly Committee on Revenue and Taxation, dated July 11, 2025.

Support

Aveanna Healthcare
California Association for Health Services at Home
Maxim Healthcare Services
Pediatric Day Health Care Coalition
Prime Home Health

Opposition

None on file.

ARGUMENTS

Assembly Committee on Revenue and Taxation, dated July 11, 2025.

Proponents

The bill is supported by Maxim Healthcare Services, noting in part:

> As you know, private duty nursing, or PDN, is skilled, in-home nursing care provided to medically fragile children and adults provided under Medi-Cal. PDN care is an alternative to more costly hospital settings and where families overwhelmingly prefer to be. Unfortunately, Medi-Cal rates for PDN in California are some of the lowest in the western half of the United States, putting medically fragile children in the state, many who require ventilators or tracheostomies, at risk.

> Last year, the California legislature and Governor Newsom recognized the importance of PDN and included a 40 percent rate increase in the budget to help keep children out of the hospital and at home with their families. Sadly, the passage of Proposition 35 in November 2024 nullified that increase.
>
> Your legislation recognizes that PDN patients are facing a crisis, and they need support. While our ultimate hope is for a permanent increase to the PDN Medi-Cal reimbursement rate, we support any initiatives that will help provide clinical and financial relief to our patient families[.]

Opponents

None on file.

LEGISLATIVE CONTACT

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