

Date of Hearing: June 15, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

SB 1349 (Gonzalez) – As Amended June 8, 2026

Majority vote.

SENATE VOTE: 30-8

SUBJECT: Taxation: tax expenditures: Legislative Analyst's Office: assessment, report, and recommendation

SUMMARY: Requires the Legislative Analyst's Office (LAO) to comprehensively assess the "major tax expenditures" of the state, write and publish a report on each "major tax expenditure", and make a recommendation to the Legislature based on each report, as specified. Specifically, **this bill:**

1) Contains the following legislative findings and declarations:

- a) California's publicly funded K-14 education system is dependent on state revenues, including personal, corporate, sales, and use taxes;
- b) The Legislature has consistently advanced tax expenditures, including credits and sales and use tax (SUT) exemptions to accomplish market and policy goals. While these expenditures have been put in place with the goal of achieving certain policy objectives, they have the effect of reducing revenue to the General Fund which, in turn, reduces Proposition 98 funding by approximately 40 cents on each dollar;
- c) Given the fact that Proposition 98 was suspended twice during the last recession, and again in 2023-24, thousands of teachers lost jobs, and millions of California's students faced significant reductions in services, the closure of programs, and increases in class size, it is imperative for the Legislature to ensure that California's dollars are spent efficiently, with transparency and oversight to ensure decisions are intentionally created to provide long-term benefits to California;
- d) The California State Auditor released an audit in 2015 on six of the largest tax expenditures in California and found a lack of oversight or evaluation has resulted in insufficient evidence to determine if some tax credits and exemptions are fulfilling their purpose to provide economic benefit to California;
- e) In 2016, the California State Auditor questioned whether some of California's revenue going toward some tax expenditures is being well spent or if these funds could be better allocated to fulfill the same policy objectives or if improvements can be made to make them more effective;

- f) Tax expenditures have been created to provide an economic benefit to California as well as to create incentives to achieve particular goals and outcomes. It is imperative for California to ensure the billions of dollars allocated to these outcomes are being well spent to justify the reductions in critical education and public policy programs;
 - g) California has a number of major tax expenditures that have resulted in over \$1 billion of foregone revenue in the last 10 fiscal years (FYs) which do not have an inoperative date nor a requirement for any metrics of efficacy; and,
 - h) It is the intent of the Legislature to identify opportunities for reduction or repeal of major tax expenditures that are no longer meeting their purpose and to identify any potential savings to taxpayers.
- 2) Defines the term "major tax expenditure" to include all of the following:
- a) The water's-edge election allowed by Revenue and Taxation Code (R&TC) Section 25110;
 - b) The credits relating to increasing research activities allowed by R&TC Sections 17052.12 and 23609;
 - c) The change in cost basis of inherited property pursuant to rules relating to gain or loss from the sale or other disposition of property prescribed in R&TC Sections 18031 and 24911;
 - d) The exclusion from recognition of gain or loss on the exchange of property held for productive use or investment, also known as like-kind exchange, pursuant to the rules prescribed by R&TC Sections 18031 and 18031.5 of the Personal Income Tax (PIT) Law and R&TC Sections 24941 and 24941.5 of the Corporation Tax (CT) Law;
 - e) The deductions relating to accelerated depreciation of research and experimental costs allowed pursuant to rules prescribed by R&TC Sections 17201 and 17201.1; and,
 - f) The special apportionment of business income for qualified cable system operators pursuant to R&TC Section 25136.1.
- 3) Provides that, as part of the comprehensive assessments, the LAO shall identify any savings that the Legislature can realize by reducing or limiting the major tax expenditures.
- 4) Requires the LAO to consider all of the following criteria when finalizing each report:
- a) The extent to which the major tax expenditure is a cost-effective use of resources compared to other options to address the same purpose, intent, or goal;
 - b) An analysis of the major tax expenditure's effect on the General Fund, including Proposition 98;
 - c) An analysis of the major tax expenditure's effect on employment, wages, and the state's economy; and,

- d) Whether opportunities exist to improve the effectiveness of the major tax expenditure in meeting its purpose, intent, or goal, or if no such opportunities exist, whether the Legislature should enact legislation to repeal each major tax expenditure.
- 5) Requires the LAO to complete and publish on its internet website its first report on a major tax expenditure by October 15, 2027, and to complete and publish on its internet website each subsequent report on a major tax expenditure annually thereafter, until January 1, 2032. Each report shall additionally be submitted to the Legislature in compliance with Government Code Section 9795.
- 6) Requires the Senate Committee on Revenue and Taxation and this Committee to hold a joint public hearing on the first report submitted by August 15, 2028, and a joint public hearing on the two most recent reports submitted by each August 15 of the second year of the legislative session thereafter.
- 7) Sunsets this bill's statutory provisions on January 1, 2033.

EXISTING LAW:

- 1) Requires any bill that authorizes a tax expenditure to contain all of the following:
 - a) Specific goals, purposes, and objectives that the tax expenditure will achieve;
 - b) Detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets the goals, purposes, and objectives stated in the bill; and,
 - c) Specified data collection requirements to enable the Legislature to determine whether the tax expenditure is meeting, failing to meet, or exceeding those specific goals, purposes, and objectives. (R&TC Section 41.)
- 2) Requires the Department of Finance (DOF) to provide an annual report to the Legislature on tax expenditures by no later than November 1 of each year. This report must include each of the following:
 - a) A comprehensive list of tax expenditures exceeding \$5,000,000 in annual cost;
 - b) The statutory authority for each credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law;
 - c) A description of the legislative intent for each tax expenditure, if the bill adding or amending the expenditure contains legislative findings and declarations of that intent, or that legislative intent is otherwise expressed or specified by that bill;
 - d) The sunset date of each credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law, if applicable;
 - e) A brief description of the beneficiaries of the credit, deduction, exclusion, exemption, or other tax benefit as provided by state law;

- f) An estimate or range of estimates for the state and local revenue loss for the current FY and the two subsequent FYs;
 - g) For PIT expenditures, the number of taxpayers affected and returns filed, as applicable, and the cost to the state resulting from these PIT expenditures, for which data is readily available;
 - h) For CT and SUT expenditures, the number of returns filed or business entities affected, as applicable, for the most recent tax year for which full year data is available;
 - i) A listing of any comparable federal tax benefit, if any; and,
 - j) A description of any tax expenditure evaluation or compilation of information completed by any state agency since the last report made. (Government Code Section 13305(a).)
- 3) Defines a "tax expenditure" as a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state. (Government Code Section 13305(b).)

FISCAL EFFECT: This bill is keyed non-fiscal.

COMMENTS:

- 1) The author has provided the following statement in support of this bill:

As California navigates a structural budget deficit compounded by the threat of federal HR-1 cuts, we have an obligation to scrutinize every dollar spent. While direct spending is heavily debated each year, the tax expenditures targeted by SB 1349 quietly drain billions from our revenues without any expiration dates or oversight to prove they actually work.

SB 1349 injects much-needed scrutiny into this fiscal vacuum by directing the Legislative Analyst's Office to independently review five tax expenditures to determine whether they are a cost-effective use of resources to achieve their goals, what their effect is on the state's economy and employment, and whether there are opportunities for improvement through reform or repeal. When our state faces impossible choices about what public services to cut, continuing to hand out billions in unexamined tax subsidies is a luxury we simply cannot afford. We must ensure our current tax code is achieving its goals, rather than just shifting the burden onto everyday Californians. By providing a clear, data-driven report, SB 1349 will help ensure that California is investing its resources most effectively.

- 2) This bill is co-sponsored by the California Teachers Association, which notes:

The Department of Finance indicates that in 2025-26 there was a \$94.15 billion loss in revenue to the General Fund from tax expenditures. Every dollar in lost revenue is approximately 40 cents taken from California's classrooms that could have amounted to smaller class sizes, better staffed schools, and more individualized support for students. Additionally, the loss of revenue affects the amount of funding available for critical public services like healthcare, food assistance programs, and affordable childcare services.

SB 1349 (Gonzalez) will require the Legislative Analyst's Office (LAO) to analyze major tax expenditures and include the extent to which it is a cost-effective use of resources and impacts to the General Fund and Proposition 98. The LAO will also identify opportunities to improve the effectiveness of each major tax expenditure and opportunities for cost savings.

At a time when we are faced with a structural deficit, California should examine tax expenditures to ensure that they are achieving their public policy objectives and making the best use of limited public dollars.

3) This bill is supported by SEIU California, which notes the following:

This bill requires the Legislative Analyst's Office to comprehensively assess the major tax expenditures, as defined, of the state, write and publish a report on each major tax expenditure, and make a recommendation to the Legislature based on each report.

When tax expenditures reduce the amount of tax collected but do not achieve its public policy objectives, it hurts working people and their families, like the ones SEIU represents. Tax expenditures impact the General Fund that supports critical social safety net programs, as well as Proposition 98 funds – the minimal annual funding level for TK-12 schools and community colleges. This bill will bring transparency and accountability to some of California's most costly tax incentives by creating a process for their analysis and public review.

4) This bill is opposed by the California Chamber of Commerce, which notes:

While it is meritorious for the state to assess the effectiveness of tax policies and program expenditures, this measure would create significant uncertainty with respect to the future of the state's tax structure and would adversely affect California's ability to retain and attract jobs and investments. The threat of repealing tax incentives, given our state's already high cost of doing business, poses a significant barrier to jobs, investment, and the state's long-term economic growth. For example, the state's film and television production tax credit helps mitigate California's high costs, improving California's ability to keep this important industry's jobs and investments from being lured to other states. This credit would cease to be effective if the state signaled that it could be repealed prior to its scheduled sunset date based on subjective evaluation standards. Businesses engage in long-term planning, and a stable tax structure is an important factor for convincing them to stay in California.

5) Committee Staff Comments:

- a) *What is a "tax expenditure"?* Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. In the late 1960s, U.S. Treasury officials began arguing that these features of the tax law should be referred to as "expenditures" since they are generally enacted to accomplish some governmental purpose and there is a determinable cost associated with each (in the form of foregone revenues).

As the DOF notes in its annual Tax Expenditure Report, there are several key differences between tax expenditures and direct expenditures. First, tax expenditures are typically

reviewed less frequently than direct expenditures. Second, there is generally no control over the amount of revenue losses associated with any given tax expenditure. Finally, it should also be noted that, once enacted, it takes a two-thirds vote to rescind an existing tax expenditure absent a sunset date. This effectively results in a "one-way ratchet" whereby tax expenditures can be conferred by majority vote, but cannot be rescinded, irrespective of their efficacy or cost, without a supermajority vote.

- b) *What would this bill do?* This bill seeks to establish a process for the state to systematically review some of its largest tax expenditures. This bill would require the LAO to comprehensively assess a set of "major tax expenditures", and to make a recommendation to the Legislature based on each report. The LAO is charged with, among other things, identifying any savings that the Legislature can realize by reducing or limiting these specific tax expenditure programs. The LAO would be required to complete and publish its first report by October 15, 2027, and to complete and publish each subsequent report annually thereafter, until January 1, 2032. Finally, this bill would require the Senate Committee on Revenue and Taxation and this Committee to hold a joint public hearing on the first report by August 15, 2028, and a joint public hearing on the two most recent LAO reports by each August 15 of the second year of the legislative session thereafter. This bill's statutory provisions would thereafter sunset on January 1, 2033.
- c) *The targeted tax expenditures:* This bill identifies six major tax expenditures for review, ranging from the water's-edge election available to multinational taxpayers under the CT Law to the state's research credit allowed under R&TC Sections 17052.12 and 23609. Given this bill's stipulated schedule and sunset date, however, it appears the LAO would only have time to prepare a report on five of the six listed major tax expenditures. Committee staff is informed that the author wishes to grant LAO discretion regarding which five tax expenditures to report on, as well as the sequence of their assessment. To avoid confusion or ambiguity, however, the Committee and author may wish to make this discretion specific in the statutory language of the bill itself.
- d) *Will additional reports and hearings be helpful?* Members and legislative staff receive a significant number of reports each year, many mandated by statute. California's "Agency Reports" website lists 489 state agencies with reporting obligations. By way of example, the California Department of Tax and Fee Administration is charged with reporting on issues as wide-ranging as hazardous waste facilities to the total dollar amount of exemptions taken under the state's partial SUT exemption for manufacturing equipment. The state also prepares reports specifically examining the state's tax expenditure programs. Most notably, the DOF already prepares an annual report that comprehensively lists all tax expenditures exceeding \$5 million in annual cost.

It should also be noted that this Committee has held multiple informational hearings on the state's tax expenditure programs. The most recent such hearing was held on February 22, 2023. As such, the Committee may wish to assess whether additional reporting on the state's tax expenditure programs would be beneficial to the policymaking process. On one hand, it is fair to note that a report and hearing focused on California's conformity to federal like-kind exchange rules may prove useful. It is less clear to Committee staff whether the same can be said for a hearing on the state's water's-edge election, given that this Committee just held a comprehensive joint hearing with the Senate on this topic in

February of this year. This, of course, raises the larger question of whether legislative committees should have discretion to focus their limited time and resources on subjects their leadership considers worthy of review or whether such hearings – and their subject matter – should be dictated by statute.

- e) *LAO constraints*: This bill tasks the LAO with reviewing the identified major tax expenditures and reporting its findings to the Legislature. The LAO enjoys a stellar reputation for thoughtful and nonpartisan analysis. That being said, the LAO only has limited resources, which would be impacted by the extra workload necessitated by this bill. Specifically, LAO staff notes:

SB 1349 represents a significant increase in workload for our office and adds to the list of 11 reports on tax and economic topics we are required by current law to deliver over the next 4 years. While we likely can absorb the additional workload from SB 1349 with our existing staffing, adding this work to our regular work on the budget, revenue forecasting, and initiative and ballot measures will result in a very diminished capacity to serve the Legislature in other capacities, such as fulfilling member requests, providing technical assistance, and carrying out independent research. SB 1349 likely would fully saturate our office's existing capacity to perform tax expenditure analyses for the foreseeable future, meaning any future legislation that would give our office new reporting requirements would need to come with additional resources and staffing for our office. Due to Proposition 140, those additional resources would need to be taken from somewhere else in the Legislature's budget.

To this end, the Committee may wish to consider whether it would be beneficial to delay the due date of the LAO's first report to provide the office with additional lead-time.

- f) *Data sharing*: To provide meaningful reports, the LAO will almost certainly require information from the state's relevant tax administering agencies. As such, the Committee may wish to consider amendment language authorizing data sharing.
- g) *Prior legislation*:
- i) AB 545 (Quirk), of the 2021-22 Legislative Session, would have requested the Regents of the University of California to perform a comprehensive assessment of major tax expenditures, as defined. AB 545 (Quirk) was held by the Senate Committee on Appropriations.
 - ii) SB 468 (Jackson), of the 2019-20 Legislative Session, would have established in state government the California Tax Expenditure Review Board as an independent advisory body to comprehensively assess major tax expenditures, as defined. Governor Newsom vetoed SB 468 (Jackson), noting the following in his veto message:

I am returning Senate Bill 468 without my signature.

The bill creates the California Tax Expenditure Review Board to comprehensively assess specified major tax expenditures and make recommendations to the Legislature.

I support greater transparency with respect to tax credits, exemptions, and other expenditures and believe these items should be scrutinized periodically to justify their overall cost to the state's revenue base. However, creating a new board to accomplish that goal is unnecessary. The Department of Finance is currently required to publish tax expenditure reports and existing law requires new income tax expenditures to specify goals, performance indicators, and data collection requirements.

For these reasons, I am returning this bill without my signature.

- h) *Late breaking amendments:* To address some of the administrative considerations identified above, the author has agreed to accept amendments to do the following:
- i) Require the LAO to complete and publish its first of five reports on a major tax expenditure by January 1, 2028 (instead of October 15, 2027), and to complete and publish each subsequent report on a major tax expenditure annually thereafter, in a sequence of its choosing, until January 1, 2032, when its fifth and final report is due; and,
 - ii) Include data sharing authorization along the following lines:

To the extent that the Legislative Analyst's Office needs access to taxpayer data and information, the Franchise Tax Board, the California Department of Tax and Fee Administration, and the Employment Development Department shall ensure relevant anonymized taxpayer data is made available and shall ensure appropriate levels of data security and privacy protections are in place for transferred or sensitive data.

REGISTERED SUPPORT / OPPOSITION:

Support

American Federation of State, County and Municipal Employees, AFL-CIO (Co-sponsor)
 California Teachers Association (Co-sponsor)
 The Arc of California
 California Association of School Business Officials
 California Professional Firefighters
 California School Boards Association
 California School Employees Association, AFL-CIO
 California Tax Reform Association
 City of Thousand Oaks
 Los Angeles Unified School District
 SEIU California
 UDW/AFSCME Local 3930

Opposition

California Chamber of Commerce
 California Life Sciences

California Taxpayers Association

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