

Date of Hearing: April 6, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

AB 1606 (Nguyen) – As Introduced January 20, 2026

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Personal Income Tax Law: Corporation Tax Law: credits: cleanup costs

SUMMARY: Authorizes a credit for five years under the Personal Income Tax (PIT) Law and the Corporation Tax (CT) Law to a "qualified taxpayer" equal to the "qualified cleanup expenses" paid or incurred during the taxable year, as restricted. Specifically, **this bill:**

- 1) Authorizes a credit, under the PIT Law and the CT Law, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, equal to the "qualified clean up expenses" paid or incurred by a "qualified taxpayer" during the taxable year.
- 2) Limits the total amount of credit under the PIT Law to \$20,000.
- 3) Defines "qualified cleanup expenses" as costs directly related to the one-time removal and disposal of unauthorized encampments, illegal dumping, and abandoned property in the state, provided those costs are incurred within 60 days of discovery. Costs must be limited to the following:
 - a) Waste removal and disposal services;
 - b) Sanitization and restoration of property as necessary to restore the property to its pre-encampment condition;
 - c) Security measures installed as a temporary and non-permanent measure directly related to the immediate cleanup, such as temporary fencing or temporary security gates. Ongoing monitoring, surveillance equipment, or security service contracts are ineligible; and,
 - d) Repairs to property caused by damage from encampments or illegal dumping, excluding property improvements or upgrades.
- 4) Provides that the definition of "qualified cleanup expenses," under the PIT Law, includes the installation of passive deterrent measures to prevent re-encampments, such as riprap or other material, excluding permanent construction or new structures.
- 5) Provides that the definition of "qualified cleanup expenses," under the CT Law, includes the installation of measures to prevent re-encampments, such as riprap or other material, excluding permanent construction or new structures.
- 6) Excludes from the definition of "qualified cleanup expenses" ongoing or unrelated maintenance, permanent security systems, construction of new structures, and other capital improvements, and compensation paid to the taxpayer's employees, independent contractors,

or other personnel for services performed in the normal course of employment or lease obligations.

- 7) Defines a "qualified taxpayer" as a business entity, including an individual operating as a sole proprietorship, owning or leasing real property used for commercial purposes in the state impacted by unauthorized encampments, illegal dumping, or abandoned property.
- 8) Requires, upon request by the Franchise Tax Board (FTB), a qualified taxpayer to certify, under penalty of perjury:
 - a) That the expenses were paid or incurred as a direct result of unauthorized encampments, illegal dumping, or abandoned property on the taxpayer's real property and not caused or contributed to by the taxpayer or related parties;
 - b) The real property address associated with the claimed expenses;
 - c) Whether the taxpayer is the property owner or a lessee; and,
 - d) That such expenses meet all of the qualifications under this bill.
- 9) Requires a taxpayer to reduce the amount of deduction otherwise allowed on amounts paid or incurred for qualified cleanup expenses by the amount of this bill's credit allowed to the taxpayer.
- 10) Prohibits a taxpayer from claiming a credit on qualified cleanup expenses for which another taxpayer has also claimed a credit pursuant to this bill. If two or more taxpayers are eligible for the same qualified cleanup expenses, then only the taxpayer who directly incurred and paid for the expenses and retains documentary evidence demonstrating the payment may be allowed the credit.
- 11) Provides that, for the purposes of complying with Revenue and Taxation Code (R&TC) Section 41, this bill's goal is to support businesses, encourage timely action, and ensure properties remain safe and accessible. The Legislature may determine whether this goal is achieved by the number of taxpayers allowed the credit, and the total dollar amount of allowed credits.
- 12) Requires the FTB to report on or before July 1, 2029, and annually thereafter, the credit information listed above to the Legislature, in compliance with existing disclosure requirements.
- 13) Takes immediate effect as a tax levy.
- 14) Provides that this bill becomes inoperative and is repealed on December 1, 2032.

EXISTING LAW:

- 1) Authorizes various credits to encourage certain desirable behavior, or to offset costs to certain taxpayers. (Internal Revenue Code (IRC) Section 21 *et. seq.* and R&TC Sections 17052 *et. seq.* and 23608 *et. seq.*)

- 2) Allows a deduction on amounts paid or incurred as ordinary and necessary business expenses, with certain modifications under California tax law. (IRC Section 162 and R&TC Sections 17042.5(b) and 24343.)
- 3) Requires that any proposed tax expenditure under the PIT Law or CT Law stipulate:
 - a) Specific goals, purposes, and objectives that the tax expenditure must meet;
 - b) Detailed performance indicators for the Legislature to determine whether the tax expenditure meets its stated goal, purpose, and objective; and,
 - c) Data collection requirements to enable the Legislature to receive the detailed performance indicators in order to determine the efficacy of the tax expenditure. (R&TC Section 41.)

FISCAL EFFECT: The FTB estimates a revenue loss of \$7.2 million in the 2026-27 fiscal year (FY), \$16 million in FY 2027-28, and \$17 million in FY 2028-29.

COMMENTS:

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

As someone who grew up in South Sacramento and now represents Sacramento and Elk Grove, I've seen firsthand how vital our small businesses and local property owners are to the health of our communities. Many of these businesses and small property owners, particularly those who own and operate neighborhood shopping centers, are family-run, immigrant-owned, and minority-owned. They are the backbone of our local economy, working hard every day to serve their customers and provide for their families.

Lately, I've been hearing directly from small business owners and property owners in Little Saigon, along Stockton Boulevard, and across my district who are struggling to keep up with the growing costs of cleaning up unauthorized encampments, vandalism, and illegal dumping on their properties. Many of these shopping centers are neighborhood anchors, but they're now spending thousands of dollars, not once, but repeatedly on cleanups, repairs, and security just to stay open and safe.

These are costs that small businesses and small property owners shouldn't have to shoulder alone. I introduced AB 1606 to provide real relief. A tax credit that helps them recover these expenses and continue contributing to the vibrancy and economic stability of our communities. This bill is about supporting the small businesses and property owners who are too often overlooked, making sure they have the resources they need to keep their doors open, keep people safe, and keep our neighborhoods strong.

- 2) The California Chamber of Commerce, writing in support of this bill, states, in part:

Unauthorized encampments and illegal dumping have created serious challenges for many property owners and small businesses across the state. In addition to creating health and safety concerns, these situations impose significant financial burdens on businesses that must quickly remediate waste, repair damage, and restore their properties.

The proposed credit would help offset these costs and encourage prompt cleanup, which benefits surrounding neighborhoods, customers, and local communities.

AB 1606 supports businesses that take responsibility for restoring their properties after illegal dumping or unwanted encampments and would allow businesses to install preventative measures to ensure the property remains accessible and inviting to customers. Encouraging timely remediation can prevent environmental hazards, reduce public health risks, and improve the overall condition of commercial corridors throughout the state.

3) The California Tax Reform Association, writing in opposition to this bill, states, in part:

We write in respectful opposition to AB 1606.

One hundred percent credits represent a direct payment from the state, rather than an incentive, and have virtually no precedent in tax policy. For businesses facing clean-up costs, they can deduct these costs as part of the cost of doing business, and such costs should be enhanced by the local government which has budgets for dealing with homelessness.

4) Committee Staff Comments:

- a) *Constitutionality of restrictions on the unhoused*: In *Martin v. City of Boise*, 902 F.3d 1031 (9th Cir. 2018), the United States Court of Appeals for the Ninth Circuit held that the City of Boise had violated the Eighth Amendment's prohibition on cruel and unusual punishment by imposing criminal sanctions against homeless individuals for sleeping outdoors on public property when no alternative shelter was available. The suit was brought after the city had cited the plaintiffs with violating the city's Camping Ordinance, Disorderly Conduct Ordinance, or both. While the city did have three shelters available to unhoused individuals, these shelters were either over-subscribed or were owned by faith-based organizations requiring observance of certain religious practices and customs by those utilizing the shelter. Thus, the Ninth Circuit reasoned that "'so long as there is a greater number of homeless individuals in [a jurisdiction] than the number of available beds [in shelters],' the jurisdiction cannot prosecute homeless individuals for 'involuntarily sitting, lying, and sleeping in public.'"

Subsequently, unhoused individuals in violation of laws that restrict encampments on public property brought a suit against the City of Grant Pass in Oregon, relying on the precedent set in *Martin v. City of Boise* (2018). There, the district court held, and the Ninth Circuit Court of Appeals affirmed, that the laws restricting these encampments were a violation of the precedent established in *Martin*. The Ninth Circuit's ruling was appealed to the United States Supreme Court (Court), which was granted *certiorari*. The Court overturned the Ninth Circuit's holding and, thereby, the precedent in *Martin*. The Court opined in *City of Grants Pass v. Johnson*, 603 U.S. 520 (2024) that the *Martin* precedent deprived local jurisdictions and states of the capability to implement policies designed to address homelessness, noting that jurisdictions may not be able to determine who is "involuntarily" homeless. Additionally, the Court found that the precedent in *Martin* was overly broad, noting that determining what camping materials are considered "necessary to protect...from the elements" could vary based on the climate of the city, or

the time of year, and may not be limited to a blanket and pillow, creating an unbound prohibition on local jurisdictions and states.

- b) *Proposition 98*: In 1988, California voters approved Proposition 98 (Prop. 98), which guarantees a certain level of educational funding for schools and community colleges based on certain calculations that vary with General Fund revenues and changes in per capita personal income. Three types of calculations, or tests, are stipulated in the law, and these tests impact the overall amount of revenue reserved for schools in any given year. In Test 1 years, the amount guaranteed under Prop. 98 is approximately 40% of General Fund revenues. Thus, any one dollar of General Fund revenue lost corresponds to a \$0.40 decrease in the Prop. 98 guarantee¹. According to the Legislative Analyst's Office (LAO), Test 1 remains operative for the 2026-27 FY².
- c) *This bill*: As currently drafted, this bill provides a 100% tax credit for qualified cleanup expenses paid or incurred by a qualified taxpayer.

While this bill does provide a maximum amount of available credit in a given taxable year under the PIT Law provisions, no corresponding cap is imposed under the CT Law provisions. Additionally, this bill provides different definitions for a qualified cleanup expense. Under the PIT Law provisions, this bill includes the installation of "passive deterrent measures" to prevent re-encampment. The CT Law provisions, however, define a qualified cleanup expense to include the installation of "measures" to prevent re-encampments. If this bill's incongruent treatment across PIT Law and CT Law provisions is contrary to the author's intent, this bill should be amended.

In its current form, this bill would authorize a 100% tax credit, meaning the taxpayer bears no cost burden for eligible expenses. Generally, enacted tax credits reimburse some fraction of the costs paid or incurred by a taxpayer, rather than the entire amount. Absent some incidence of the eligible costs falling on the taxpayer, a credit functions as a direct subsidy, like a grant. This "skin in the game" requirement ensures taxpayers act responsibly when paying or incurring expenses that will be reimbursed by public dollars. The Committee may wish to consider limiting this bill's credit to a certain percentage of qualified cleanup expenses.

This bill does not contemplate a carryover period for its proposed credit. Generally, tax credits include a carryover period, as taxpayers predominantly utilize their credit amounts within five to eight years of earning the credit. The Committee may wish to specify a carryover period.

Finally, while this bill does provide that the amount of deduction otherwise allowed for qualified cleanup expenses must be reduced by the amount of the credit received, this bill does not consider other sources of reimbursement on amounts qualifying for the credit. Some costs that qualify for this bill's credit likely qualify for reimbursement pursuant to an insurance claim. As such, the author and Committee may wish to consider amending this bill such that expenses are eligible to the extent they are unreimbursed.

¹ *Proposition 98 and K-12 Education, The 2026-27 Budget*, Legislative Analyst's Office (February 4, 2026). <https://lao.ca.gov/Publications/Report/5110>, accessed March 2026.

² *Ibid.*

- d) *Aligning language with intent:* The author notes, in background material provided to this Committee, that since the Court's "decision in *City of Grants Pass v. Johnson*, local governments have expanded enforcement of no-camping ordinances on public property. As enforcement has increased, encampments have shifted onto private commercial property, particularly in urban corridors and downtown business districts." The author's office has not, however, provided any evidence to substantiate the claim that unhoused individuals are encamping on private property at greater rates than prior to the decision. Additionally, the author and supporters note the impact of encampments to small businesses, and emphasize this bill's relief to those entities. This bill does not, however, limit the definition of a qualified taxpayer to small businesses or businesses with certain income amounts, thereby allowing any sized business to earn the proposed credit. If the author's intent is to benefit a certain type of business, then this bill should be amended to reflect that intent.
- e) *FTB analysis:* In its analysis of this bill, the FTB notes as an implementation consideration that "this bill uses undefined terms and phrases, e.g. "business entity," "unauthorized encampments," "illegal dumping," and "abandoned property." The absence of definitions could lead to taxpayer confusion. For clarity, the author may wish to amend this bill to define those terms."

Additionally, the FTB notes the following technical considerations:

- i) [On Page 6, lines 26 and 27] replace the phrase "taxpayer's real property not caused or contributed to" with "taxpayer's real property and were not caused or contributed to";
 - ii) Remove proposed R&TC Sections 17053.7(g) and 23688(g) as this language is unnecessary and could lead to taxpayer confusion. Generally, qualified expenses are claimed by a taxpayer that paid or incurred the expenses during the taxable year; and,
 - iii) This bill uses the terms "qualified taxpayer" and "taxpayer" interchangeably. For clarity, the author should amend the bill to exclusively use "qualified taxpayer".
- f) *What is a "tax expenditure"?* Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. In the late 1960s, United States 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 of them (in the form of forgone revenues). This bill would authorize a new tax credit under the PIT Law and CT Law, thereby constituting a tax expenditure.
- g) *Committee's tax expenditure policy:* SB 1335 (Leno), Chapter 845, Statutes of 2014, added R&TC Section 41, which recognized that the Legislature should apply the same level of review used for government spending programs to tax credits introduced on or after January 1, 2015. AB 263 (Burke), Chapter 743, Statutes of 2019, extended the requirements in R&TC Section 41 to all tax expenditure measures under the PIT Law, the CT Law, and the Sales and Use Tax Law introduced on or after January 1, 2020.

A tax expenditure proposal must outline specific goals, purposes, and objectives that the tax expenditure will achieve, along with detailed performance indicators for the

Legislature to use when measuring whether the tax expenditure meets those stated goals, purposes, and objectives. In addition to the R&TC Section 41 requirements, this Committee's policy also requires that all tax expenditure proposals contain an appropriate sunset provision to be eligible for a vote³. Sunsets are required because eliminating a tax expenditure generally requires a 2/3rd vote. These requirements must be satisfied before a bill can receive a vote in this Committee. This bill contains an appropriate five-year sunset, and complies with the requirements of R&TC Section 41.

- h) *Related legislation:* AB 1435 (Nguyen) was substantively similar to this bill. AB 1435 was held on this Committee's Suspense File.

REGISTERED SUPPORT / OPPOSITION:

Support

Building Owners and Managers Association of California
California Apartment Association
California Business Properties Association
California Business Roundtable
California Chamber of Commerce
California Retailers Association
Institute of Real Estate Management, The
NAIOP California
NFIB California
Orange County Business Council
United Chamber Advocacy Network

Opposition

California Tax Reform Association
California Federation of Teachers

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³ An "appropriate sunset provision" shall mean five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" shall mean 10 years.