


# Tax

# EXPENDITURE REPORT

# 2026-27

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# Introduction

The Department of Finance (Finance) is required to provide a tax expenditure report to the Legislature annually. Chapter 1762, Statutes of 1971, required that a biennial report be submitted to the Legislature. Chapter 268, Statutes of 1984, increased the reporting frequency from once every two years to once a year. Chapter 49, Statutes of 2006, and Chapter 55, Statutes of 2023, require the report to include each of the following:

- A comprehensive list of tax expenditures with an annual cost exceeding $5 million.
- The statutory authority for each provision.
- A description of the legislative intent of each provision, if specified in the enacting legislation.
- The sunset date of each provision.
- The beneficiaries of the provision.
- An estimate of the state and local revenue loss for the current and two subsequent fiscal years.
- For personal income tax expenditures, the number of taxpayers and returns affected for the most recent tax year, and the cost to the state resulting from these personal income tax expenditures categorized by taxpayers' income levels, for which data is readily available.
- For corporation and sales tax expenditures, the number of returns or businesses affected for the most recent year for which data is available.
- A listing of any comparable federal benefit.
- A description of any tax expenditure evaluation or compilation of information completed by any state agency since the last tax expenditure report by Finance.

This report fulfills Finance's statutory requirement pursuant to Government Code Section 13305. The narrative descriptions and revenue estimates for the tax expenditures included in this report are based on state laws for these tax expenditures as of June 30, 2026.

Since the 2023-24 report, this report has included tables for certain personal income and corporation tax expenditures categorized by taxpayers' income level for which data is readily available.

- All tables are for resident taxpayers only and exclude non-resident returns.
- For personal income tax and corporation tax credit tables, the column showing the amount of credit allowed represents the estimated reduction in tax liability for taxpayers within a particular adjusted gross income (AGI) range since each dollar of credit allowed reduces tax liability by a corresponding dollar.
- For tables related to personal income tax deductions and exclusions, the tax impact column represents the estimated reduction in tax liability for taxpayers within a particular AGI range. For tax exclusions and deductions, the tax impact is estimated by calculating how the changes in income due to the claiming of the deduction or exclusion, as reflected in the amount of deductions or exclusions claimed column, will result in changes in tax liability depending on tax rates, use of other deductions and exclusions, and credit usage among taxpayers in a given AGI range.
- The tables are only included for tax expenditures that are readily identifiable on the tax return. Many tax exclusions, for example, do not have accompanying tables because the excluded income is not reported on the tax return.

## Definitions

Section 13305 defines tax expenditure as "a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state." Although this definition is very broad, Finance has interpreted it to mean that aspects of the law that are basic to the tax structure are not tax expenditures. While the term "basic" remains ambiguous, it provides a framework for discussing what is not a tax expenditure.

Because the basic structure of each tax is used as the starting point for determining what constitutes a tax expenditure, elements of the basic tax structure that exempt certain categories of transactions are not considered tax expenditures. For example, the sales tax is imposed on retailers for the privilege of selling tangible personal property at retail. According to its basic definition, California's sales tax does not apply to sales or leases of real property, sales of services, wholesale transactions, or sales of securities and insurance. These exemptions are therefore not considered tax expenditures.

- The net operating loss (NOL) deduction levels the playing field for firms with volatile and steady income and is not considered a tax expenditure for this report. For example, consider two firms: one with a $100 loss in year one and a $300 gain in year two, the second with a $100 gain in each year. Without an NOL deduction, over the two years, the first firm would report $300 in taxable income, while the second would report $200, even though each had $200 net income over the two years.
- Across-the-board tax rate reductions do not represent tax expenditures. Tax expenditures resulting from changes in the rate structure only exist if different sets of rates are applied to a similar base.
- Progressive rate structures do not constitute tax expenditures. The basic structure of California's income tax is progressive. For that reason, applying different tax rates to different income levels is a basic characteristic of the tax and does not constitute a tax expenditure.
- Exemptions or exclusions required by the U.S. Constitution, the California Constitution, or federal laws are generally not considered tax expenditures, even if they would qualify as tax expenditures if adopted by statute. Two exceptions to the general rule that Constitutional prohibitions are not deemed to be tax expenditures are this report's inclusion of the sales tax exemption for candy, which has been prohibited by the California Constitution from being taxed since 1992, and the inclusion of lottery winnings, which has been prohibited from being taxed by the California Constitution since it was passed in 1984.
- Changes in tax law that alter penalties or interest or that accelerate or defer tax payments are generally not considered tax expenditures unless they are very narrowly targeted.
- This report, consistent with the last ten annual reports, does not include apportionment rules as a tax expenditure. The 2015-16 Tax Expenditure Report and previous versions had considered the equal-weighted three-factor formula to be normal tax law. The revenue impact of any of the other three apportionment rules was measured against this normal law. However, now that mandatory single-sales factor apportionment is required for most multi-state businesses and used by the majority of states nationwide, it is considered part of California's basic tax structure. As such, this report does not treat the mandatory single-sales factor as a tax expenditure.
- Since the 2023-24 report, this report has not included Subchapter S Corporations as a tax expenditure on the basis that Subchapter S Corporations are taxed as pass-

through entities, and this taxation is basic to the tax law because it mirrors how S Corporations are taxed in nearly all other states. Unlike most other states that do not apply an entity-level tax, California applies an additional 1.5-percent tax on S Corporations at the entity level. Tax expenditure reports prior to 2023-24 calculated the amount of the tax expenditure by netting the revenue losses under the corporation tax against revenue gains from the pass-through income taxed under the personal income tax.

- The Pass-Through Entity Elective Tax (PTET) is not listed as a tax expenditure. While the PTET is taken as a personal income tax credit, it is fully offset by an elective tax paid by business entities and therefore does not decrease state revenues.

There is no single rule for determining what constitutes an element of the basic tax structure. For this reason, this report may exclude items that are included in other tax expenditure reports prepared by other state agencies and vice versa.

Unless otherwise specified as refundable, all credits discussed in this report are nonrefundable.

### Why Adopt Tax Expenditures

Tax expenditures may be classified into the following two broad groups:

- Those that provide an incentive for a particular type of behavior.
- Those that provide tax relief for taxpayers facing a particular economic hardship.

There are several differences between tax expenditures and direct expenditures (those authorized through the budget process). First, tax expenditures are generally reviewed less frequently than direct expenditures once they are in place. This can offer taxpayers more certainty than if tax expenditures were subject to annual review; however, it can also result in tax expenditures remaining in the tax code when their cost outweighs their social benefits. Secondly, with certain notable exceptions, there is no control over the amount of foregone revenue that results from a tax expenditure once that provision has become part of the tax code.[1] Finally, the vote requirements for tax expenditures and direct expenditures may be different. Tax expenditures that are adopted legislatively (except those adopted as urgency measures) require approval by a simple majority of both houses of the Legislature. A two-thirds vote is required for General Fund appropriations outside the Budget. Additionally, the repeal of a tax expenditure requires a two-thirds majority vote, while direct expenditures can be repealed with a simple majority vote.

## Revenue Estimates

The estimates listed in this report are intended as a general indication of revenue losses from tax expenditure programs. In general, revenue estimates for the Personal Income Tax and Corporation Tax Laws are easier to quantify than those for the Sales and Use Tax Law. Personal income and corporation tax returns contain significant detail regarding different sources of income and types of exemptions, exclusions, deductions, and credits claimed. Thus, tax return data are often available when estimating the fiscal impact of

[1]The California Earned Income Tax Credit is subject to legislative appropriation each year by a simple majority vote to set its adjustment factor for a given year.

various income and corporation tax expenditure programs. In contrast, returns filed by taxpayers under the Sales and Use Tax Law contain little specific information regarding items purchased from individual retailers. For this reason, independent data sources must be used when estimating the revenue impacts of various sales tax expenditure programs, and these estimates can be less accurate than those for the Personal Income Tax and Corporation Tax Laws and can vary considerably depending on the methodology used. Nonetheless, even the revenue estimates for the personal income and corporation tax expenditures can be subject to significant margins of error due to data limitations and the lag in the availability of tax data. For example, the personal income and corporation tax estimates in this report, released in November 2026, are based on data from tax year 2023.

Estimates for any individual tax expenditure in this report do not necessarily reflect the revenue gain that would occur if the tax expenditure were repealed because of tax law interactions and taxpayers' behavioral reactions to changes in tax law. For example, repeal of the Section 529 ScholarShare plans may shift savings into Coverdell education savings accounts with similar tax benefits. As another example, the elimination of the home mortgage interest deduction could lead to lower home prices and a reduction in property tax deductions for income tax purposes. Further, while the report displays the total value of the major identified expenditures within each major tax, these figures are best viewed as a general indication of revenue losses. Since each tax expenditure is measured separately and independently of other tax provisions, the fiscal impact of individual tax expenditures when added together may significantly overstate the fiscal impact to the state if all the tax expenditures were repealed.

Except for the deduction for charitable contributions, the research and development tax credit, like-kind exchanges, life insurance contract proceeds exclusion, and wildfire settlements exclusion, which are reflected in both tables due to significant impacts on both taxes, the revenue loss for tax expenditures that are included in both Corporation and Personal Income Tax Laws are shown under the tax with the greatest revenue loss.

The 2019-20 Budget Act conformed or partially conformed to the following provisions of the Tax Cuts and Jobs Act:

- Small Business Accounting Reform and Simplification
- Limitation on Deduction of Non-Corporate Business Losses
- Limitation on Deduction of Federal Deposit Insurance Corporation Premiums
- Repeal of Technical Termination of Partnerships
- Limit Like-Kind Exchanges to Real Property
- Modification of Limitation on Excessive Employee Remuneration
- Eliminate Net Operating Loss Carrybacks
- Allow Increased Contributions to Achieving a Better Life Experience (ABLE) Accounts
- Allow 529 Plans to Rollover to ABLE Accounts
- Eliminate IRS Section 338 Election

Of the above provisions, only the like-kind exchanges are referenced in this report. The changes to small business accounting and net operating losses accelerate or defer tax collection and, therefore, are not considered tax expenditures. The changes to the ABLE accounts fall below this report's $5 million threshold. The remaining provisions increase state revenue and, therefore, are not tax expenditures.

### Revenue Estimate for the California Earned Income Tax Credit

Based on opinions from the California Office of Tax Appeals in April 2021, taxpayers can consider In-Home Supportive Services (IHSS) payments as "earned income" for the purposes of the California Earned Income Tax Credit (CalEITC) as of May 5, 2021, and it is applicable to any open statute year. By extension, this treatment is also applicable to the state's Young Child Tax Credit (YCTC) and Foster Youth Tax Credit (FYTC). The impact of this change is estimated to be in the range of low tens of millions of dollars per year and is reflected in the estimates for the CalEITC, YCTC, and FYTC.

### State Revenue Losses

As noted in the prior section, the total sum of individual tax expenditures can overstate tax expenditures' actual fiscal impact to the state. Nonetheless, totals are presented here to facilitate comparison to prior reports.

### Personal Income Tax

The personal income tax is a tax levied on an individual's wages, salaries, dividends, interest, and other income. The Personal Income Tax Law includes the vast majority of all tax expenditure programs approved to date. It is estimated that tax expenditures costing over $5 million will reduce 2026-27 Personal Income Tax General Fund revenues by $74.8 billion.

### Sales and Use Tax

The sales and use tax is a tax imposed on the retail sale or the use of tangible personal property in the state by an individual, business, or other entity. The Sales and Use Tax Law contains separately identifiable state General Fund tax expenditures costing over $5 million totaling $15.7 billion in 2026-27. Examples of these tax expenditures include sales tax exemptions for food, prescription medicines, gas, electricity, and water delivered through mains, farm equipment, fuel sold to common carriers, and the competitive program administered by the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA), which awards sales tax exclusion certificates for businesses purchasing certain advanced manufacturing and clean equipment.

### Corporation Tax

The corporation tax is a tax imposed on the profits of a corporation. Fiscal year 2026-27 General Fund tax expenditures costing over $5 million in the corporation category amount to about $5 billion. Examples of these expenditures include provisions for research and development, the film and television tax credit, and the water's-edge election.

The estimate for the cost of the research and development tax credit accounts for the impact of the credit limitations enacted in the 2024 and 2026 Budget Acts. The 2024 Budget Act limited the use of business tax credits to $5 million per taxpayer for tax years 2024 through 2026. Additionally, it allowed taxpayers to elect to convert the amount of tax credits they would have used were it not for the credit limitation to refundable tax credits. Those refundable tax credits are claimed on a schedule over five years, beginning three years after they are generated. For example, refundable tax credits generated in 2024 are claimed from 2027 through 2031. The 2026 Budget Act extended the temporary $5 million credit limitation through 2029 and maintained an identical refundability structure, meaning refundable credits generated in 2027 are claimed from 2030 through 2034. Refundable tax credits generated between the 2024 and 2026 tax

years are exempt from the extended limitation that is in effect from 2027 to 2029. The 2026 Budget Act also enacted a permanent credit limitation that will become effective starting in 2030, limiting credit use to the greater of $5 million or 70 percent of a corporation's tax liability.

### Other Taxes

Remaining tax expenditure programs are estimated to reduce revenues by over $100 million annually. Much of this revenue loss results from aircraft jet fuel used by common carriers and the armed services as well as diesel fuel used by transit districts and schools.

### Local Revenue Losses

Revenue losses to local governments are also shown for the sales and use tax and the property tax. Property taxes are local taxes, but property tax expenditures affect state finance because the size of the state's contribution to education funding can vary based on the total local property taxes collected. Under the school finance law enacted in November 1988 by Proposition 98, the state is required to provide funding to school districts to ensure they meet the minimum funding requirements established by state law. The size of the state's Proposition 98 contribution is determined each year according to a particular test—Test 1, Test 2, or Test 3—based on specified economic and fiscal circumstances in a given year. The operative test is the one that yields the highest funding level each year. Under the Test 2 and Test 3 formulas, the state contribution is affected by the level change in property taxes because the state contributes however much is needed to reach the minimum funding guarantee. However, under Test 1, property taxes allocated to schools and community colleges are not part of the guaranteed funding level formula and instead equal a certain percentage of General Fund revenues.

Local government revenue losses from identifiable property tax exemptions are estimated to be more than $100 million annually, while losses from sales tax expenditures are estimated to be more than $10 billion.

### Unknown Revenue Loss Areas

Certain tax expenditures under Sales and Use Tax and Other Taxes have unknown revenue losses due to a lack of data and difficulty in estimating the extent of their usage. Generally, these types of tax expenditures that have no estimated revenue loss are relatively small and do not result in significant revenue losses.

### Legislative Intent

This report includes the legislative intent of the tax expenditure when that intent was specified in the enacting or amending legislation.

### Other Tax Expenditure Reports

The Franchise Tax Board released the latest version of their report, *California Income Tax Expenditures, Compendium of Individual Provisions: Report for 2020 Tax Year Data,* covering personal income tax and corporation tax expenditures, in November 2023. A copy of this report can be obtained by emailing the Franchise Tax Board at FTBopendata@ftb.ca.gov.

The Franchise Tax Board released the latest version of their report, *California Competes*

*Tax Credit Report*, in March 2026. The report contains data on the amount of California Competes Tax Credits claimed for tax year 2023.

The Franchise Tax Board released the latest version of their report, *California Earned Income and Young Child Tax Credit Report*, in September 2026. The report contains data for tax year 2024 on the number and dollar amount of CalEITC claims, as well as the characteristics of claimants and an estimate of the number of families lifted out of deep poverty.

The Franchise Tax Board released its report, *Minimum Tax and Annual Tax Exemption for Deployed Military*, in January 2026. The report contains data on the numbers of returns filed for tax year 2023 that qualified for the exemption and the number of those businesses that closed during that year.

The Franchise Tax Board released the latest version of their report, *New Employment Credit Report*, in March 2026. The report contains data on the number and dollar amount of credits claimed and identifies options for increasing claims in future years.

The Franchise Tax Board released the latest version of their report, *Donated Fresh Fruits and Vegetables Credit Report*, in December 2025. The report contains data on the number of returns claiming the credit and the amount of those credits, as well as the value of the fruit and vegetables donated, through tax year 2024.

The California Department of Tax and Fee Administration released the latest version of its Publication 61 *Sales and Use Taxes: Exemptions and Exclusions* in October 2024. The report contains a summary of all exemptions and exclusions under the sales and use tax law as of publication and provides an estimate of foregone revenue.

The Legislative Analyst's Office released a report, *the Annual Report on Tax Exemptions for Medicinal Cannabis*, in June 2026, which contains data related to the amount of medicinal cannabis products donated, number of medicinal cannabis patients served, and amount of tax revenue foregone in 2025 as a result of Chapter 837 of 2019 (SB 34).

The California Film Commission released a report, the *Film and Television Tax Credit Program: Progress Report*, in December 2023. The report includes an assessment of the tax credit program and data from fiscal year 2023-24 related to production expenditures, television series that relocated to California, and productions that unsuccessfully applied for tax credits and did filming out of state.

The California Tax Credit Allocation Committee released a report, the 2025 Annual Report to the Legislature. The report covers federal and state low-income housing tax credits, including the number of credits allocated and the number of housing units those credits will help develop.

The California Alternative Energy and Advanced Transportation Financing Authority released a report, the *2025 Annual Report to the California State Legislature*, in March 2026. Among other topics, the report provided information on the Sales and Use Tax Exclusion Program for Manufacturers, including data on applications and awards from the program's inception through 2024.

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## Major Identifiable Tax Expenditures of $5 Million or More
**(Dollars in Millions)**

**Personal Income Tax**

| | State General Fund Revenue Loss | | | | |
|---|---|---|---|---|---|
| **Provision** | **2024-25/e** | **2025-26/e** | **2026-27/e** | **2027-28/e** | **2028-29/e** |
| Employer- Sponsored Retirement Plan Contributions and Earnings Exclusion | $15,000 | $16,000 | $17,000 | $19,000 | $ 20,000 |
| Employer Contributions to Accident and Health Plans Exclusion | 10,000 | 10,000 | 11,000 | 12,000 | 12,000 |
| Social Security Benefits Exclusion[1] | 5,500 | 5,500 | 5,500 | 6,000 | 6,500 |
| Basis Step-Up on Inherited Property | 4,900 | 5,500 | 5,500 | 6,000 | 6,000 |
| Capital Gains on Sale of a Principal Residence Exclusion | 4,100 | 4,700 | 5,500 | 5,500 | 6,000 |
| Charitable Contribution Deduction | 3,500 | 3,600 | 3,700 | 3,800 | 3,900 |
| Home Mortgage Interest Deduction | 3,500 | 3,500 | 3,400 | 3,400 | 3,400 |
| Real Estate, Personal Property, and Other Taxes Deduction | 3,230 | 3,340 | 3,550 | 3,750 | 3,960 |
| Benefits Provided Under Cafeteria Plans Exclusion | 2,600 | 2,700 | 2,800 | 3,000 | 3,100 |
| Dependent Exemption Credit in Excess of Personal Exemption Credit | 2,000 | 2,100 | 2,200 | 2,300 | 2,400 |
| Head-of-Household and Qualifying Surviving Spouse Filing Status | 1,800 | 1,900 | 2,000 | 2,100 | 2,200 |
| Contributions to Individual Retirement Accounts Deduction | 1,500 | 1,600 | 1,700 | 1,800 | 1,800 |
| Like-Kind Exchanges | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 |
| Employee Business and Miscellaneous Expenses Deduction | 1,100 | 1,100 | 1,200 | 1,200 | 1,300 |
| California Earned Income Tax Credit (CalEITC) | 950 | 950 | 1,000 | 1,100 | 1,100 |
| Life Insurance Contract Proceeds Exclusion | 750 | 800 | 800 | 850 | 850 |
| Self-Employed Retirement Plans Deduction | 550 | 550 | 550 | 600 | 600 |

[1] Some recipients of Social Security are not required to report this income on their federal tax returns. The number of returns reported here is the number of Californians with Social Security income that was reported on their federal tax return.

## Major Identifiable Tax Expenditures of $5 Million or More
**(Dollars in Millions)**

**Personal Income Tax (continued)**

| Provision | State General Fund Revenue Loss | | | | |
|---|---|---|---|---|---|
| | 2024-25/e | 2025-26/e | 2026-27/e | 2027-28/e | 2028-29/e |
| Medical and Dental Expenses Deduction | $550 | $550 | $550 | $550 | $550 |
| Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) Program Exclusions[2] | 524 | 247 | 0 | 0 | 0 |
| Meals and Lodging Furnished by Non-Military Employers Exclusion | 500 | 500 | 500 | 500 | 550 |
| Senior Citizens Exemption Credit | 490 | 500 | 550 | 550 | 600 |
| Miscellaneous Fringe Benefits Exclusion | 450 | 460 | 480 | 500 | 500 |
| Young Child Tax Credit | 420 | 420 | 440 | 460 | 480 |
| Transportation-Related Fringe Benefits Exclusion | 390 | 400 | 420 | 440 | 450 |
| Self-Employed Health Insurance Premium Deduction | 370 | 380 | 390 | 390 | 400 |
| Employee Stock Ownership Plans | 240 | 300 | 350 | 400 | 450 |
| Unemployment Compensation and Paid Family Leave Benefits Exclusion | 240 | 250 | 250 | 250 | 240 |
| Scholarship/Fellowship Income Exclusion | 230 | 240 | 240 | 250 | 260 |
| Income Earned on Section 529 (Scholarshare) Plans Exclusion | 230 | 230 | 240 | 250 | 250 |
| Employer Contributions to Life Insurance Plans Exclusion | 210 | 230 | 240 | 260 | 270 |
| Research and Development Credit[2] | 180 | 190 | 210 | 230 | 230 |
| Renters' Credit | 150 | 160 | 420 | 650 | 650 |
| State Lottery Winnings Exclusion | 120 | 95 | 95 | 100 | 100 |
| Student Loan Interest Deduction | 110 | 110 | 110 | 120 | 120 |
| Income for In-Home Supportive Services or Waiver Personal Care Services Providers' Wages Exclusion | 100 | 110 | 120 | 130 | 140 |

[2] This item includes corporate tax amounts.

## Major Identifiable Tax Expenditures of $5 Million or More
**(Dollars in Millions)**

**Personal Income Tax (continued)**

| | State General Fund Revenue Loss | | | | |
|---|---|---|---|---|---|
| **Provision** | **2024-25/e** | **2025-26/e** | **2026-27/e** | **2027-28/e** | **2028-29/e** |
| Resident Spouse Share of Non-resident Military Pay Exclusion | $100 | $100 | $110 | $110 | $120 |
| Employee Child Care Benefits Exclusion | 100 | 100 | 100 | 110 | 110 |
| Compensation for Injuries or Sickness Exclusion | 90 | 95 | 95 | 95 | 95 |
| Employer-Provided Educational Assistance Exclusion | 55 | 60 | 60 | 55 | 55 |
| Casualty Loss Deduction | 50 | 50 | 48 | 49 | 50 |
| Housing for Clergy Exclusion | 45 | 47 | 49 | 50 | 55 |
| Restaurant Revitalization Fund Grant Exclusion | 38 | 12 | 0 | 0 | 0 |
| Foster Care Payments Exclusion | 23 | 25 | 26 | 26 | 26 |
| Wildfire Settlement Income Exclusion | 22 | 9 | 13 | 6 | 0 |
| Limited Partnerships Investment Source Rules | 21 | 21 | 22 | 22 | 23 |
| Shuttered Venue Operator Grant Exclusion | 20 | 6 | 0 | 0 | 0 |
| Moving Expense Deduction | 13 | 13 | 12 | 12 | 12 |
| Coverdell Education Savings Accounts Earnings Exclusion | 13 | 13 | 10 | 9 | 9 |
| Child and Dependent Care Credit | 12 | 12 | 12 | 11 | 11 |
| Foster Youth Earned Income Tax Credit | 6 | 6 | 6 | 6 | 6 |
| New Employment Credit[2] | 5 | 5 | 5 | 4 | 4 |
| Military Retirement Pay Exclusion | 0 | 130 | 85 | 85 | 85 |
| **Personal Income Tax Total** | **$68,297** | **$71,116** | **$74,858** | **$80,280** | **$83,211** |

[2] This item includes corporate tax amounts.

## Major Identifiable Tax Expenditures of $5 Million or More
**(Dollars in Millions)**

**Corporation Tax**

| | State General Fund Revenue Loss | | | | |
|---|---|---|---|---|---|
| **Provision** | **2024-25/e** | **2025-26/e** | **2026-27/e** | **2027-28/e** | **2028-29/e** |
| Water's-Edge Election | $1,700 | $1,800 | $1,800 | $1,700 | $1,700 |
| Research and Development Credit | 1,700 | 1,100 | 1,200 | 1,900 | 2,800 |
| Low-Income Housing Credit[1] | 314 | 389 | 399 | 389 | 388 |
| Cable Companies Apportionment Exclusion[2] | 270 | 290 | 280 | 260 | 250 |
| Tax-Exempt Status for Qualifying Nonprofit and Charitable Corporations | 170 | 180 | 180 | 190 | 190 |
| Like-Kind Exchanges | 130 | 130 | 130 | 130 | 140 |
| Credit Union Treatment | 120 | 130 | 150 | 180 | 200 |
| Charitable Contribution Deduction | 100 | 100 | 100 | 90 | 90 |
| Accelerated Depreciation of Research and Experimental Costs[1] | 87 | 112 | 123 | 123 | 123 |
| Enterprise Zones and Similar Areas Tax Incentives[3] | 67 | 50 | 37 | 25 | 18 |
| Employee Stock Ownership Plans | 65 | 70 | 80 | 90 | 95 |
| First-Year Minimum Franchise Tax Exemption for Corporations | 65 | 65 | 100 | 140 | 150 |
| Life Insurance Contract Proceeds Exclusion | 55 | 65 | 75 | 85 | 85 |
| Film and Television Tax Credit[1] | 29 | 100 | 315 | 560 | 673 |
| California Competes Credit[1] | 29 | 28 | 31 | 36 | 38 |
| Wildfire Settlement Income Exclusion | 15 | 6 | 9 | 4 | Minor |
| Expensing of Timber Growing Costs[4] | 9 | 10 | 12 | 13 | 13 |
| New Advanced Strategic Aircraft Hiring Credit | * | * | * | * | * |
| State Historic Rehabilitation Tax Credit/[1] | * | * | * | * | * |
| First-Year Minimum Tax Exemption for Limited Liability Companies (LLCs), Limited Partnerships (LPs), and Limited Liability Partnerships (LLPs) | - | - | 25 | 100 | 100 |
| **Corporation Tax Total** | **$4,925** | **$4,625** | **$5,046** | **$6,015** | **$7,053** |

[1] This item includes personal income tax amounts.
[2] Estimated revenue impact of the cable company exclusion is based on available data and various assumptions. Any changes to the assumptions would effect the estimated impact.
[3] The Enterprise Zone credit was repealed as of January 1, 2014. Qualified workers hired prior to January 1, 2014, continued to generate credits through the 2018 taxable year. Taxpayers may continue to claim carryover credit through the 2028 taxable year. However, the carryover period for any credit that is not allowed due to the application of the business tax credit limitation shall be increased by the number of taxable years the credit or any portion thereof was not allowed. This item includes personal income tax amounts.
[4] This item includes personal income tax amounts, but the PIT is minor.
* Due to state privacy rules the amount cannot be disclosed.

## Major Identifiable Tax Expenditures of $5 Million or More in State Impact
### (Dollars in Millions)

**Sales and Use Taxes**

| | 2024-25 | | 2025-26 | | 2026-27 | | 2027-28 | | 2028-29 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Provision** | **State General Fund** | **Local[1]** | **State General Fund** | **Local[1]** | **State General Fund** | **Local[1]** | **State General Fund** | **Local[1]** | **State General Fund** | **Local[1]** |
| Food Products Exemption | $5,166 | $6,397 | $5,270 | $6,526 | $5,448 | $6,746 | $5,568 | $6,895 | $5,721 | $7,085 |
| Gas, Electricity, and Water Exemption | 3,630 | 4,495 | 3,704 | 4,586 | 3,828 | 4,741 | 3,913 | 4,845 | 4,021 | 4,979 |
| Prescription Medicine Exemption | 2,617 | 3,240 | 2,670 | 3,306 | 2,759 | 3,417 | 2,820 | 3,493 | 2,898 | 3,589 |
| Animal Life, Feed, Seeds, Plants, Fertilizer, Drugs, Medicines Exemption | 1,031 | 1,277 | 1,052 | 1,303 | 1,088 | 1,347 | 1,112 | 1,377 | 1,142 | 1,415 |
| Candy, Confectionery, Snack Foods, and Bottled Water Exemption | 680 | 842 | 694 | 859 | 717 | 888 | 733 | 908 | 753 | 933 |
| Manufacturing and R&D Equipment Exemption[2,3] | 476 | 0 | 509 | 0 | 531 | 0 | 553 | 0 | 567 | 0 |
| Meals Furnished by Institutions Exemption | 248 | 307 | 253 | 313 | 261 | 323 | 267 | 330 | 274 | 340 |
| Farm Equipment and Machinery Exemption | 178 | 48 | 181 | 49 | 188 | 51 | 192 | 52 | 197 | 53 |
| Fuel Sold to Common Carriers Exemption | 143 | 177 | 146 | 181 | 151 | 187 | 154 | 191 | 158 | 196 |
| Professional Health Services Exemption | 103 | 127 | 105 | 130 | 109 | 134 | 111 | 137 | 114 | 141 |
| Rentals of Linen Supplies Exemption | 98 | 121 | 100 | 124 | 103 | 128 | 105 | 131 | 108 | 134 |
| Film and Television Tax Credit (Sales Tax Portion Only)[3] | 69 | 19 | 14 | 4 | 17 | 5 | 27 | 7 | 41 | 11 |
| Diesel Fuel Used in Farming and Processing Exemption[3] | 46 | 12 | 47 | 13 | 49 | 13 | 50 | 13 | 51 | 14 |
| Food Sold Through Vending Machines | 44 | 55 | 45 | 56 | 47 | 58 | 48 | 59 | 49 | 61 |
| Children's Diapers Exemption | 39 | 48 | 40 | 49 | 41 | 51 | 42 | 52 | 43 | 53 |
| California Alternative Energy Exemption | 37 | 27 | 37 | 27 | 37 | 27 | 39 | 29 | 38 | 28 |
| Medicine Administered by Veterinarians Exemption | 37 | 46 | 38 | 47 | 39 | 48 | 40 | 49 | 41 | 51 |
| Custom Computer Programs Exemption | 24 | 30 | 25 | 31 | 26 | 33 | 27 | 33 | 28 | 34 |

[1] Rate includes the 2011 Realignment 1.0625 percent,1991 Local Revenue Fund 0.50 percent, Local Public Safety Fund 0.50 percent, Local Bradley Burns 1.25 percent, and the average county add-on of 1.45 percent.

[2] Includes the expansion from Chapter 137, Statutes of 2017 (AB 398); does not account for annual backfill from the Greenhouse Gas Reduction Fund which began in 2018-19.

[3] Exempted rates include the 3.9375-percent General Fund Rate and the 1.0625-percent Local Revenue Fund 2011 rate.

## Major Identifiable Tax Expenditures of $5 Million or More in State Impact
**(Dollars in Millions)**

**Sales and Use Taxes (continued)**

| Provision | 2024-25 | | 2025-26 | | 2026-27 | | 2027-28 | | 2028-29 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | State General Fund | Local[1] | State General Fund | Local[1] | State General Fund | Local[1] | State General Fund | Local[1] | State General Fund | Local[1] |
| Fuel Sold to Water Common Carriers Exemption | $24 | $34 | $24 | $35 | $25 | $37 | $25 | $37 | $26 | $38 |
| Wheelchairs, Clutches, Canes, and Walkers Exemption | 23 | 29 | 24 | 29 | 24 | 30 | 25 | 31 | 26 | 32 |
| Blood Storage Units Exemption | 23 | 29 | 23 | 29 | 24 | 30 | 25 | 31 | 25 | 32 |
| Printed Advertising Exemption | 22 | 27 | 23 | 28 | 23 | 29 | 24 | 29 | 24 | 30 |
| Subscription Periodicals Exemption | 20 | 24 | 20 | 25 | 21 | 26 | 21 | 26 | 22 | 27 |
| Purchases Made With CalFresh Benefits | 18 | 22 | 18 | 22 | 18 | 22 | 18 | 22 | 18 | 22 |
| Bad Debt Sales Tax Deduction | 17 | 21 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Oxygen Delivery Systems Exemption | 15 | 18 | 15 | 19 | 16 | 19 | 16 | 20 | 16 | 20 |
| Menstrual Products Exemption | 12 | 15 | 13 | 16 | 13 | 16 | 13 | 17 | 14 | 17 |
| Carbon Dioxide | 10 | 13 | 11 | 13 | 11 | 14 | 11 | 14 | 12 | 14 |
| Tele-Production and Post-Production Equipment Exemption[3] | 8 | 2 | 8 | 2 | 8 | 2 | 8 | 2 | 8 | 2 |
| Nonreturnable and Cargo Containers Exemption | 6 | 7 | 6 | 7 | 6 | 8 | 6 | 8 | 6 | 8 |
| Mailing Lists Exemption | 5 | 6 | 5 | 6 | 5 | 7 | 5 | 7 | 6 | 7 |
| Clean Cars 4 All Exemption | 5 | 0 | 6 | 0 | 6 | 0 | 6 | 0 | 6 | 0 |
| Breast Pumps and Related Supplies Exemption | 5 | 6 | 5 | 6 | 5 | 6 | 5 | 6 | 5 | 6 |
| New Mobile Homes Exemption | 4 | 6 | 5 | 6 | 5 | 6 | 5 | 6 | 5 | 6 |
| Leases of Motion Picture and TV Tapes Exemption[4] | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Organic Products and Waste Byproduct Fuel Exemption[4] | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| **Sales and Use Taxes Total** | **$14,882** | **$17,527** | **$15,132** | **$17,846** | **$15,648** | **$18,446** | **$16,013** | **$18,856** | **$16,464** | **$19,377** |

[3] Exempted rates include the 3.9375-percent General Fund Rate and the 1.0625-percent Local Revenue Fund 2011 rate.

[4] Unknown losses.

| Major Identifiable Tax Expenditures of $5 Million or More<br>(Dollars in Millions) | | | | | |
|---|---|---|---|---|---|
| **Fuel Taxes** | | | | | |
| | **State Special Fund Revenue Loss** | | | | |
| **Provision** | **2024-25** | **2025-26** | **2026-27** | **2027-28** | **2028-29** |
| Aircraft jet fuel used by common carriers and military | $30 | $30 | $30 | $30 | $30 |
| Fuel used by transit districts and schools | $16 | $17 | $17 | $18 | $18 |
| **Fuel Taxes Total** | **$46** | **$46** | **$47** | **$48** | **$48** |

| Major Identifiable Tax Expenditures of $5 Million or More in State Impact (Dollars in Millions) | | | | | |
|---|---|---|---|---|---|
| **Property Tax** | | | | | |
| | Local Revenue Loss | | | | |
| **Provision** | **2024-25** | **2025-26** | **2026-27** | **2027-28** | **2028-29** |
| Computer programs[1] | - | - | - | - | - |
| Fixtures excluded on the supplemental roll[2] | - | - | - | - | - |

[1]Unknown, but more than $100 million per year.
[2] Unknown, but in the low tens of millions of dollars per year.

# Personal Income Tax

## Employer-Sponsored Retirement Plan Contributions and Earnings Exclusion

***Description:***
Employer contributions to employer-sponsored retirement plans, including defined benefit and defined contribution plans, are generally excluded from an employee's income, subject to annual limits. This includes employer contributions and certain employee contributions made on a pre-tax basis, such as contributions to a 401(k) plan. Earnings on amounts held in these plans also generally are not taxed until distributed. Taxable amounts generally are included in income when distributed from the plan.

***Statutory Authority:***
Revenue and Taxation Code Section 17501, which conforms to Internal Revenue Code Sections 401-403, 415, and 457

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
California generally conforms to federal law in not taxing employer contributions to or earnings in employer-sponsored retirement plans until distributed.

## Employer Contributions to Accident and Health Plans Exclusion

***Description***:
Employer contributions to provide accident and health benefits are excluded from the income of an employee. Employer-provided health coverage generally is excluded from an employee's income. Amounts paid or reimbursed by an employer-provided health plan for qualifying medical care also generally are excluded. The exclusion includes employer-paid health insurance premiums and certain qualified long-term care insurance premiums.

***Statutory Authority:***
Revenue and Taxation Code Sections 17131 and 17131.4, which conform to Internal Revenue Code Sections 105 and 106

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Social Security Benefits Exclusion

***Description:***
Social Security and Tier 1 railroad retirement benefits are excluded from income.

***Statutory Authority:***
Revenue and Taxation Code Section 17087

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For 2023, 2.3 million tax returns representing 3.6 million taxpayers claimed this exclusion.

***Tax Exclusion Usage Details for Tax Year 2023:***

| Social Security Benefits Exclusion | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction (Thousands)** | **Number of Taxpayers (Thousands)** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction (Millions)** |
| **Less than $10,000** | 33 | 46 | $268 | $3 |
| **$10,000 to $19,999** | 173 | 225 | $618 | $1 |
| **$20,000 to $49,999** | 750 | 1068 | $10,067 | $264 |
| **$50,000 to $99,999** | 664 | 1051 | $17,132 | $965 |
| **$100,000 to $199,999** | 465 | 798 | $13,356 | $1,116 |
| **$200,000 to $499,999** | 201 | 353 | $6,675 | $622 |
| **$500,000 to $999,999** | 37 | 65 | $1,401 | $141 |
| **More than $999,999** | 21 | 36 | $846 | $101 |
| **Total** | 2,343 | 3,641 | $50,363 | $3,213 |

***Comparable Federal Benefit:***
Federal law may tax up to 85 percent of Social Security and Tier 1 railroad retirement benefits, depending on the recipient's income.

## Basis Step-Up on Inherited Property

***Description:***
The basis of property acquired from a deceased person generally is adjusted to its fair market value on the date of death. As a result, appreciation that occurred before death generally is not taxed as a capital gain if the recipient later sells the property. The adjustment may increase or decrease the property's basis.

***Statutory Authority:***
Revenue and Taxation Code Section 18031, which conforms to Internal Revenue Code Section 1014

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Capital Gains on Sale of a Principal Residence Exclusion

***Description:***
An individual generally may exclude up to $250,000 of gain from the sale of a principal residence, or up to $500,000 on a joint return. The taxpayer generally must have owned and used the home as a principal residence for at least two of the five years before the sale and may not have used the exclusion for another sale during the prior two years.

***Statutory Authority:***
Revenue and Taxation Code Sections 17131 and 17152, which conform to Internal Revenue Code Section 121

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Charitable Contribution Deduction

***Description:***
Taxpayers may deduct cash and certain noncash contributions to qualifying nonprofit or governmental organizations. Individuals generally must itemize to claim the California deduction. Depending on the type of contribution and recipient, the deduction is limited to a percentage of adjusted gross income and may not exceed 50 percent. For corporations, the limit generally is 10 percent of net income. Excess contributions generally may be carried forward for up to five years.

***Statutory Authority:***
Revenue and Taxation Code Section 17201, which conforms to Internal Revenue Code Section 170, as modified by Revenue and Taxation Code Sections 17250.1, 17250.2,17275.5, and 17275.6, and Revenue and Taxation Code Section 24357-24359.1

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals and incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 4.7 million personal income tax returns representing 7.4 million taxpayers claimed this deduction. This deduction was also claimed on 172,377 corporation tax returns.

***Personal Income Tax Deduction Usage Details for Tax Year 2023:***

| Charitable Contribution Deduction (PIT) | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction (Thousands)** | **Number of Taxpayers (Thousands)** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction (Millions)** |
| **Less than $10,000** | 98 | 128 | $222 | $0.5 |
| **$10,000 to $19,999** | 130 | 165 | $251 | $0.0 |
| **$20,000 to $49,999** | 597 | 793 | $1,552 | $16 |
| **$50,000 to $99,999** | 1,118 | 1,582 | $3,794 | $151 |
| **$100,000 to $199,999** | 1,433 | 2,328 | $6,364 | $494 |
| **$200,000 to $499,999** | 982 | 1,774 | $6,580 | $635 |
| **$500,000 to $999,999** | 226 | 420 | $3,041 | $298 |
| **More than $999,999** | 107 | 196 | $15,758 | $1,612 |
| **Total** | 4,691 | 7,386 | $37,562 | $3,205 |

***Comparable Federal Benefit:***
California partially conforms to federal law. For tax years beginning in 2026, federal law permits a limited deduction for some nonitemizers, applies a 0.5-percent adjusted-gross-income floor to itemized charitable deductions, and applies a 1-percent taxable-income floor to corporate charitable deductions. California does not conform to those federal changes and retains a 50-percent adjusted gross income limit for certain contributions while federal law allows 60 percent.

## Home Mortgage Interest Deduction

***Description:***
Individuals who itemize may deduct interest on debt used to buy, build, or substantially improve a principal residence and one other residence. California generally applies a $1-million limit to acquisition debt and also allows interest on up to $100,000 of home-equity debt. The limits are one-half of those amounts for married taxpayers filing separately.

***Statutory Authority:***
Revenue and Taxation Code Section 17201, which conforms to Internal Revenue Code Section 163

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 4.3 million returns representing 7.1 million taxpayers claimed this deduction.

***Tax Deduction Usage Details for Tax Year 2023:***

| Home Mortgage Interest Deduction | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction (Thousands)** | **Number of Taxpayers (Thousands)** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction* (Millions)** |
| **Less than $10,000** | 121 | 172 | $1,382 | $0.4 |
| **$10,000 to $19,999** | 103 | 143 | $941 | $0.3 |
| **$20,000 to $49,999** | 464 | 668 | $4,483 | $34 |
| **$50,000 to $99,999** | 988 | 1,454 | $10,294 | $374 |
| **$100,000 to $199,999** | 1,389 | 2,314 | $17,568 | $1,248 |
| **$200,000 to $499,999** | 972 | 1,783 | $16,677 | $1,462 |
| **$500,000 to $999,999** | 219 | 412 | $4,854 | $391 |
| **More than $999,999** | 88 | 164 | $2,087 | $97 |
| **Total** | 4,344 | 7,110 | $58,286 | $3,608 |

***Comparable Federal Benefit:***
California partially conforms to federal law. Federal law permanently limits qualifying acquisition debt to $750,000 for debt incurred after December 15, 2017, and generally does not allow interest on home-equity debt unless the debt is used

to buy, build, or substantially improve the home securing the loan. Beginning in 2026, federal law again treats qualifying mortgage insurance premiums as deductible home mortgage interest. California does not conform to these federal changes.

## Real Estate, Personal Property, and Other Taxes Deduction

***Description:***
Individuals who itemize may deduct qualifying real property taxes and value-based personal property taxes, such as the value-based portion of the vehicle license fee. California also allows a deduction for qualifying foreign real property taxes.

***Statutory Authority:***
Revenue and Taxation Code Section 17201, which conforms to Internal Revenue Code Section 164, as modified by Revenue and Taxation Code Section 17220

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 5.1 million returns representing 8.3 million taxpayers claimed the real property tax deduction and 4.1 million returns representing 6.4 million taxpayers claimed the personal property and other taxes deduction.

***Tax Deduction Usage Details for Tax Year 2023:***

| Real Property Tax Deduction | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction (Thousands)** | **Number of Taxpayers (Thousands)** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction (Millions)** |
| **Less than $10,000** | 158 | 222 | $1,063 | $0.4 |
| **$10,000 to $19,999** | 147 | 203 | $728 | $0.1 |
| **$20,000 to $49,999** | 611 | 877 | $15,277 | $23 |
| **$50,000 to $99,999** | 1,171 | 1,733 | $7,353 | $253 |
| **$100,000 to $199,999** | 1,574 | 2,616 | $11,019 | $781 |
| **$200,000 to $499,999** | 1,088 | 1,987 | $12,070 | $1,033 |
| **$500,000 to $999,999** | 250 | 466 | $5,441 | $428 |
| **More than $999,999** | 112 | 205 | $4,155 | $225 |
| **Total** | 5,110 | 8,310 | $57,106 | $2,744 |

| Personal Property and Other Taxes Deduction | | | | |
|---|---|---|---|---|
| Adjusted Gross Income Class | Returns Reporting Deduction (Thousands) | Number of Taxpayers (Thousands) | Amount of Deduction Claimed (Millions) | Tax Impact of Deduction (Millions) |
| **Less than $10,000** | 116 | 152 | $68 | $0.0 |
| **$10,000 to $19,999** | 125 | 159 | $63 | $0.0 |
| **$20,000 to $49,999** | 539 | 715 | $389 | $3 |
| **$50,000 to $99,999** | 1,008 | 1,414 | $879 | $29 |
| **$100,000 to $199,999** | 1,263 | 2,055 | $1,556 | $108 |
| **$200,000 to $499,999** | 815 | 1,486 | $694 | $59 |
| **$500,000 to $999,999** | 165 | 311 | $146 | $12 |
| **More than $999,999** | 62 | 116 | $126 | $9 |
| **Total** | 4,094 | 6,407 | $3,921 | $219 |

***Comparable Federal Benefit:***
California does not conform to the federal cap on the itemized deduction for state and local taxes. The federal cap was $10,000 for tax years 2018 through 2024. The federal cap is $40,000 in 2025, phases down to $10,000 for taxpayers with modified adjusted gross income between $500,000 and $600,000, and increases by 1 percent annually through 2029. It returns to $10,000 in 2030. Each amount is one-half for married taxpayers filing separately.

## Benefits Provided Under Cafeteria Plans Exclusion

***Description:***
The value of benefits received from an employer-sponsored cafeteria plan is not subject to tax. Cafeteria plans allow employees to choose between cash pay and qualified benefits, such as health insurance premiums and flexible spending accounts for medical and dependent care costs. Pay used for these benefits is not taxed up to certain annual limits. Pay taken as cash is taxed.

***Statutory Authority:***
Revenue and Taxation Code Sections 17131, which conforms to Internal Revenue Code Section 125, as modified by Revenue and Taxation Code Section 17131.5

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision partially conforms to federal law. Federal law allows employee contributions to a health savings account through a cafeteria plan, while California does not. Beginning in 2026, federal law also raised the annual limit on tax-free dependent care benefits from $5,000 to $7,500. California did not conform and kept the $5,000 limit.

## Dependent Exemption Credit in Excess of Personal Exemption Credit

***Description:***
Nonrefundable personal exemption credits are allowed for taxpayers and their dependents. The credit for each dependent is more than three times the credit for the taxpayer or the taxpayer's spouse or registered domestic partner.

***Statutory Authority:***
Revenue and Taxation Code Sections 17054, 17054.1, 17056, and 17733

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
In 2023, 6.2 million tax returns representing 9.6 million taxpayers claimed this credit.

***Tax Credit Usage Details for Tax Year 2023:***

| Dependent Exemption Credit in Excess of the Personal Exemption Credit | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Allowing Credit (Thousands)** | **Taxpayers Allowed Credit (Thousands)** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Credit (Millions)** |
| **Less than $10,000** | 429 | 620 | $166 | $132 |
| **$10,000 to $19,999** | 567 | 695 | $253 | $201 |
| **$20,000 to $49,999** | 1,551 | 2,008 | $670 | $532 |
| **$50,000 to $99,999** | 1,509 | 2,224 | $591 | $470 |
| **$100,000 to $199,999** | 1,201 | 2,119 | $400 | $318 |
| **$200,000 to $499,999** | 742 | 1,418 | $224 | $178 |
| **$500,000 to $999,999** | 174 | 337 | $52 | $41 |
| **More than $999,999** | 74 | 141 | $23 | $18 |
| **Total** | 6,246 | 9,562 | $2,379 | $1,891 |

***Comparable Federal Benefit:***
Federal law does not provide a personal exemption credit. It permanently sets the personal exemption deduction at zero and provides separate credits for qualifying children and other dependents. The maximum child tax credit is $2,200 per qualifying child for 2025 and is indexed for inflation beginning in 2026; the credit for other dependents is $500 beginning in 2025 and is not indexed to inflation.

## Head-of-Household and Qualifying Surviving Spouse Filing Status

***Description:***
Unmarried taxpayers who maintain a home for a qualifying relative may file as head-of-household, which provides a more favorable tax rate schedule and a larger standard deduction than the single or married filing separately filing statuses. A surviving spouse or registered domestic partner who has not remarried may use the joint-return tax rates, standard deduction, and personal exemption credit for the two years after the spouse's or partner's death if the taxpayer maintains a home for a dependent child and meets the other requirements.

***Statutory Authority:***
Revenue and Taxation Code Sections 117041, 17042, 17045, 17056, 17073.5, and 18521. Sections 17042 and 17046 conform to the federal definitions in Internal Revenue Code Section 2

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 2.4 million returns representing 2.4 million taxpayers used the head-of-household or qualifying surviving spouse filing status.

***Filing Status Details for Tax Year 2023:***

| Head-of-Household and Qualifying Surviving Spouse Filing Statuses | | | |
|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Status (Thousands)** | **Resident Taxpayer Count (Thousands)** | **Tax Impact of Status (Millions)** |
| **Less than $10,000** | 137 | 137 | $0.0 |
| **$10,000 to $19,999** | 308 | 308 | $0.0 |
| **$20,000 to $49,999** | 939 | 939 | $75 |
| **$50,000 to $99,999** | 726 | 726 | $866 |
| **$100,000 to $199,999** | 265 | 265 | $552 |
| **$200,000 to $499,999** | 58 | 58 | $145 |
| **$500,000 to $999,999** | 8 | 8 | $46 |
| **More than $999,999** | 4 | 4 | $29 |
| **Total** | 2,445 | 2,445 | $1,714 |

***Comparable Federal Benefit:***
Federal law provides comparable head-of-household and qualifying-surviving-spouse filing statuses. California applies its own rate schedules and also extends these filing statuses to qualifying registered domestic partners.

## Contributions to Individual Retirement Accounts Deduction

***Description:***
Taxpayers with taxable compensation may deduct qualifying contributions to a traditional individual retirement account, subject to annual limits and income-based restrictions. Earnings in the account generally are not taxed until distributed.

***Statutory Authority:***
Revenue and Taxation Code Sections 17201and 17501, which conform to Internal Revenue Code Sections 219, 408, and 408A, as modified by Revenue and Taxation Code Sections 17203, 17507, and 17508

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision generally conforms to federal law.

## Like-Kind Exchanges

***Description:***
Gain or loss generally is deferred when real property held for business or investment is exchanged solely for like-kind real property. If the taxpayer also receives money or property that is not like-kind, gain is recognized up to the value of that money or property, but a loss is not recognized.

***Statutory Authority:***
Revenue and Taxation Code Sections 18031 and 24941, which conform to Internal Revenue Code Section 1031

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals, incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Employee Business and Miscellaneous Expenses Deduction

***Description:***
Individuals may deduct certain unreimbursed employee expenses, expenses for producing income, and other qualifying costs as miscellaneous itemized deductions. Only the portion of the total above 2 percent of federal adjusted gross income is deductible. Qualifying meal and entertainment expenses generally are subject to a 50-percent limit.

***Statutory Authority:***
Revenue and Taxation Code Sections 17072, 17076, and 17201, which conform to Internal Revenue Code Sections 62(a), 67, 162, and 274, as modified by Revenue and Taxation Code Section 17201.1

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 1.4 million returns representing 2.1 million taxpayers claimed this deduction.

***Tax Deduction Usage Details for Tax Year 2023:***

| Employee Business and Miscellaneous Expense Deduction | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction (Thousands)** | **Number of Taxpayers (Thousands)** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction (Millions)** |
| **Less than $10,000** | 84 | 111 | $567 | $0.5 |
| **$10,000 to $19,999** | 49 | 60 | $183 | $0.3 |
| **$20,000 to $49,999** | 199 | 241 | $1,419 | $16 |
| **$50,000 to $99,999** | 368 | 484 | $3,213 | $101 |
| **$100,000 to $199,999** | 432 | 673 | $4,569 | $249 |
| **$200,000 to $499,999** | 219 | 387 | $3,925 | $209 |
| **$500,000 to $999,999** | 37 | 67 | $2,057 | $84 |
| **More than $999,999** | 26 | 47 | $6,402 | $327 |
| **Total** | 1,414 | 2,069 | $22,335 | $986 |

***Comparable Federal Benefit:***
Federal law permanently disallows miscellaneous itemized deductions. California does not conform and continues to allow these deductions, subject to California's

rules and limits.

## California Earned Income Tax Credit (CalEITC)

***Description:***
Workers with earned income below an annually adjusted limit may claim a refundable California Earned Income Tax Credit. The credit amount depends on earned income and the number of qualifying children. Eligible taxpayers may claim the credit using either a Social Security number or an Individual Taxpayer Identification Number. A taxpayer generally must be 18 or older to qualify for the credit. The credit matches a specified percent, referred to as the adjustment factor, of the taxpayer's calculated federal earned income tax credit. The adjustment factor is set each year in the annual budget act and would be zero if no adjustment factor is specified. For tax years 2015 through 2025, the adjustment factor was set at 85 percent and the estimates in this report assume an 85-percent adjustment factor in subsequent years.

***Statutory Authority:***
Revenue and Taxation Code Section 17052

***Sunset Date:***
None

***Legislative Intent:***
To expand the credit to benefit a broader section of working poor Californians.

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 3.3 million tax returns representing 3.7 million taxpayers were allowed the credit.

*Tax Credit Usage Details for Tax Year 2023*

| California Earned Income Tax Credit | | | |
|---|---|---|---|
| **Adjusted Gross Income Class*** | **Returns Allowing Credit (Thousands)** | **Taxpayers Allowed Credit (Thousands)** | **Amount of Credit Allowed (Millions)** |
| **Less than or equal to $0** | 26 | 33 | $7 |
| **$1 to $5,000** | 404 | 437 | $112 |
| **$5,001 to $10,000** | 477 | 529 | $277 |
| **$10,001 to $15,000** | 605 | 677 | $273 |
| **$15,001 to $20,000** | 628 | 709 | $156 |
| **$20,001 to $25,000** | 578 | 654 | $81 |
| **$25,001 to $30,000** | 524 | 593 | $31 |
| **More than $30,000** | 99 | 113 | $4 |
| **Total** | 3,341 | 3,744 | $941 |

***Comparable Federal Benefit:***
Federal law provides a refundable earned income tax credit with different credit amounts and income limits. A taxpayer without a qualifying child generally must be aged 25 through 64, and each person used to qualify for the federal credit must have a valid Social Security number. The federal credit does not accept an Individual Taxpayer Identification Number.

## Life Insurance Contract Proceeds Exclusion

***Description:***
Life insurance amounts paid because the insured person died are generally excluded from the beneficiary's income. Benefits paid early to an insured person who is terminally or chronically ill and certain survivor benefits paid to families of public safety officers killed in the line of duty are also excluded.

***Statutory Authority:***
Revenue and Taxation Code Section 17131, which conforms to Internal Revenue Code Section 101, as modified by Revenue and Taxation Code Sections 17132.5 and 24305

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision generally conforms to federal law.

## Self-Employed Retirement Plans Deduction

***Description:***
Self-employed persons may deduct contributions up to annual limits to a self-employed retirement plan, such as a solo 401(k). Investment earnings in the plan are not taxed until withdrawn.

***Statutory Authority:***
Revenue and Taxation Code Section 17501, which conforms to Internal Revenue Code Sections 401, 402, 404, 408, and
415, as modified by Revenue and Taxation Code Sections 17203 and 17507

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Self-employed individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 144,048 tax returns representing 247,865 taxpayers claimed this deduction.

***Tax Deduction Usage Details for Tax Year 2023:***

| Self-Employed Retirement Plans Deduction | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction (Thousands)** | **Number of Taxpayers (Thousands)** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction (Millions)** |
| **Less than $10,000** | 2 | 2 | $29 | $0.0 |
| **$10,000 to $19,999** | 2 | 2 | $15 | $0.2 |
| **$20,000 to $49,999** | 7 | 9 | $61 | $2 |
| **$50,000 to $99,999** | 17 | 24 | $264 | $19 |
| **$100,000 to $199,999** | 29 | 49 | $616 | $57 |
| **$200,000 to $499,999** | 51 | 93 | $1,712 | $174 |
| **$500,000 to $999,999** | 23 | 43 | $1,161 | $133 |
| **More than $999,999** | 14 | 27 | $1,077 | $140 |
| **Total** | 144 | 248 | $4,932 | $524 |

***Comparable Federal Benefit:***
This provision generally conforms to federal law.

## Medical and Dental Expenses Deduction

***Description:***
Taxpayers may take an itemized deduction for qualified medical and dental expenses incurred on behalf of the taxpayer, the taxpayer's spouse, and/or the taxpayer's dependents. Only unreimbursed expenditures that exceed 7.5 percent of federal adjusted gross income are deductible.

***Statutory Authority:***
Revenue and Taxation Code Section 17201, which conforms to Internal Revenue Code Section 213

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 1.4 million returns representing 2.1 million taxpayers claimed this deduction.

***Tax Deduction Usage Details for Tax Year 2023:***

| Medical and Dental Expense Deduction | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction (Thousands)** | **Number of Taxpayers (Thousands)** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction (Millions)** |
| **Less than $10,000** | 200 | 265 | $1,418 | $0.2 |
| **$10,000 to $19,999** | 188 | 247 | $892 | $0.0 |
| **$20,000 to $49,999** | 395 | 568 | $3,355 | $20 |
| **$50,000 to $99,999** | 349 | 517 | $4,010 | $115 |
| **$100,000 to $199,999** | 235 | 391 | $3,790 | $230 |
| **$200,000 to $499,999** | 63 | 111 | $1,835 | $126 |
| **$500,000 to $999,999** | 5 | 8 | $345 | $18 |
| **More than $999,999** | 1 | 2 | $180 | $10 |
| **Total** | 1,434 | 2,109 | $15,825 | $519 |

***Comparable Federal Benefit:***
This provision generally conforms to federal law.

## Paycheck Protection Program & Economic Injury Disaster Loan Program Exclusions

***Description:***
Eligible businesses may exclude forgiven federal Paycheck Protection Program loans and Economic Injury Disaster Loan advance grants from taxable income and may deduct eligible expenses paid with those amounts. The expense deduction is generally not available to publicly traded companies or businesses that did not have the required 25-percent reduction in gross receipts.

***Statutory Authority:***
Revenue and Taxation Code Sections 17131.8 and 24308.6

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Non-public companies with a minimum 25-percent sales reduction year-over-year in one quarter of calendar year 2020.

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
California generally conforms to the federal exclusion and expense deduction, but disallows the expense deduction for publicly traded companies and businesses that did not have the required 25-percent reduction in gross receipts.

## Meals and Lodging Furnished by Non-Military Employers Exclusion

***Description:***
Meals furnished by an employer on its business premises for the employer's convenience generally are excluded from the employee's income. Employer-provided lodging generally is excluded when it is on the employer's business premises, is furnished for the employer's convenience, and must be accepted as a condition of employment.

***Statutory Authority:***
Revenue and Taxation Code Section 17131, which conforms to Internal Revenue Code Section 119

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision generally conforms to federal law.

## Senior Citizens Exemption Credit

***Description:***
Individuals over the age of 65 are eligible for an additional personal exemption credit.

***Statutory Authority:***
Revenue and Taxation Code Sections 17054 and 17054.1

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 3.5 million returns representing 5.3 million taxpayers were allowed this credit.

***Tax Credit Usage Details for Tax Year 2023:***

| Senior Citizens Exemption Credit | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Allowing Credit (Thousands)** | **Taxpayers Allowed Credit (Thousands)** | **Amount of Credit Allowed (Millions)** | **Tax Impact of Credit (Millions)** |
| **Less than $10,000** | 526 | 734 | $98 | $62 |
| **$10,000 to $19,999** | 345 | 464 | $62 | $39 |
| **$20,000 to $49,999** | 871 | 1,236 | $164 | $104 |
| **$50,000 to $99,999** | 802 | 1,224 | $158 | $100 |
| **$100,000 to $199,999** | 593 | 990 | $124 | $79 |
| **$200,000 to $499,999** | 281 | 495 | $60 | $38 |
| **$500,000 to $999,999** | 56 | 98 | $12 | $8 |
| **More than $999,999** | 33 | 58 | $7 | $5 |
| **Total** | 3,507 | 5,299 | $685 | $435 |

***Comparable Federal Benefit:***
Federal law does not provide a comparable credit. It provides a larger standard deduction for taxpayers age 65 or older. In addition, for tax years 2025 through 2028, federal law allows a separate deduction of up to $6,000 for each qualifying person age 65 or older, subject to an income-based phaseout.

## Miscellaneous Fringe Benefits Exclusion

***Description:***
Certain employer-provided fringe benefits are excluded from an employee's income. Examples include no-additional-cost services such as standby flights for airline employees, qualifying employee discounts, business use of employer-provided property such as a company car, qualifying employee achievement awards, small or infrequent benefits, and use of an employer's on-premises athletic facility.

***Statutory Authority:***
Revenue and Taxation Code Section 17131, which partially conforms to Internal Revenue Code Section 132

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
California generally conforms to federal law. However, California does not conform to federal restrictions enacted in 2017 that prevent cash, gift cards, and certain other property from qualifying as tax-free employee achievement awards.

## Young Child Tax Credit

***Description:***
A family that qualifies for the California Earned Income Tax Credit and has a child under age 6 may claim a refundable Young Child Tax Credit. The maximum credit is adjusted annually for inflation. Taxpayers with no earned income or a net loss from self-employment also may qualify, subject to the program's other requirements.

***Statutory Authority:***
Revenue and Taxation Code Section 17052.1

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 398,059 tax returns representing 474,246 taxpayers were allowed the YCTC.

***Tax Credit Usage Details for Tax Year 2023:***

| Young Child Tax Credit | | | |
|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Allowing Credit (Thousands)** | **Taxpayers Allowed Credit (Thousands)** | **Amount of Credit Allowed (Millions)** |
| **Less than or equal to $0** | 6 | 8 | $7 |
| **$1 to $5,000** | 25 | 29 | $28 |
| **$5,001 to $10,000** | 50 | 57 | $56 |
| **$10,001 to $15,000** | 82 | 95 | $92 |
| **$15,001 to $20,000** | 88 | 105 | $98 |
| **$20,001 to $25,000** | 73 | 89 | $81 |
| **$25,001 to $30,000** | 61 | 77 | $48 |
| **Greater than $30,000** | 12 | 15 | $4 |
| **Total** | 398 | 474 | $413 |

**Comparable Federal Benefit:**
None

## Transportation-Related Fringe Benefits Exclusion

***Description:***
Employees may exclude from income the value of certain commuting benefits provided by their employer. Benefits for ridesharing in California, such as carpools, vanpools, transit passes, and bicycling to work, are excluded with no dollar limit. Parking that is not part of a ridesharing arrangement is excluded up to a monthly limit that is adjusted each year for inflation.

***Statutory Authority:***
Revenue and Taxation Code Section 17131, which partially conforms to Internal Revenue Code Section 132, and Revenue and Taxation Code Sections 17090, 17149, and 17149.1

***Sunset Date:***
None

***Legislative Intent:***
This exclusion was intended to encourage ridesharing and transit use.

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
Federal law provides a similar exclusion but does not cover carpools and caps the exclusion for vanpools and transit passes. Federal law also eliminated the exclusion for bicycle commuting in 2018.

## Self-Employed Health Insurance Premium Deduction

***Description:***
Self-employed individuals are allowed to deduct the cost of premiums paid for health insurance for themselves and their families. The deduction is limited to the taxpayer's net income earned from the trade or business for which the plan was established. This deduction can be taken regardless of whether the taxpayer itemizes their deductions.

***Statutory Authority:***
Revenue and Taxation Code Section 17201, which conforms to Internal Revenue Code Section 162, as modified by Revenue and Taxation Code Sections 17203 and 17273

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
In 2023, 465,316 returns representing 743,606 taxpayers claimed this deduction.

***Tax Deduction Usage Details for Tax Year 2023:***

| Self-Employed Health Insurance Premium Deduction | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction (Thousands)** | **Number of Taxpayers (Thousands)** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction (Millions)** |
| **Less than $10,000** | 31 | 40 | $137 | $0.5 |
| **$10,000 to $19,999** | 25 | 32 | $89 | $0.5 |
| **$20,000 to $49,999** | 79 | 111 | $344 | $7 |
| **$50,000 to $99,999** | 91 | 141 | $576 | $29 |
| **$100,000 to $199,999** | 96 | 162 | $885 | $74 |
| **$200,000 to $499,999** | 88 | 155 | $1,221 | $119 |
| **$500,000 to $999,999** | 33 | 60 | $592 | $64 |
| **More than $999,999** | 23 | 43 | $510 | $64 |
| **Total** | **465** | **744** | **$4,355** | **$358** |

***Comparable Federal Benefit:***
This provision generally conforms to federal law.

## Unemployment Compensation and Paid Family Leave Benefits Exclusion

***Description:***
Unemployment compensation received under federal or state law and benefits received through California's Paid Family Leave program are excluded from tax.

***Statutory Authority:***
Revenue and Taxation Code Section 17083

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
In 2023, 1 million returns representing 1.5 million taxpayers claimed this exclusion.

***Tax Exclusion Usage Details for Tax Year 2023:***

| Unemployment Compensation Benefits Exclusion | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction (Thousands)** | **Number of Taxpayers (Thousands)** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction* (Millions)** |
| **Less than $10,000** | 96 | 110 | $623 | $0.2 |
| **$10,000 to $19,999** | 134 | 156 | $799 | $3 |
| **$20,000 to $49,999** | 301 | 379 | $1,847 | $38 |
| **$50,000 to $99,999** | 224 | 340 | $1,280 | $59 |
| **$100,000 to $199,999** | 161 | 284 | $1,047 | $85 |
| **$200,000 to $499,999** | 84 | 161 | $643 | $60 |
| **$500,000 to $999,999** | 15 | 29 | $125 | $12 |
| **More than $999,999** | 3 | 6 | $27 | $3 |
| **Total** | 1,020 | 1,464 | $6,391 | $261 |

***Comparable Federal Benefit:***
No comparable federal benefit. Unemployment compensation and benefits received through California's Paid Family Leave program generally are taxable for federal income tax purposes.

## Scholarship/Fellowship Income Exclusion

***Description:***
A degree candidate may exclude qualifying scholarships and fellowships used for tuition, required fees, books, supplies, and equipment. Amounts used for room and board or paid for required services generally are taxable.

***Statutory Authority:***
Revenue and Taxation Code Section 17131, which conforms to Internal Revenue Code Section 117

***Sunset Date:***
None

***Legislative Intent:***
Not specified

**Beneficiaries:**
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Income Earned on Section 529 (ScholarShare) Plans Exclusion

***Description:***
Earnings in a Section 529 education savings account, including California's ScholarShare 529 plan, generally are not taxed while held in the account. Distributions are also excluded when used for qualifying education expenses.

***Statutory Authority:***
Revenue and Taxation Code Section 17140, which conforms to Internal Revenue Code Section 529

***Sunset Date:***
None

***Legislative Intent:***
This provision was intended to encourage taxpayers to invest in future higher education expenses to make the attainment of higher education possible for the greatest number Californians.

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
California partially conforms to federal law. California recognizes qualifying higher-education expenses, certain registered-apprenticeship expenses, and up to $10,000 of qualifying student-loan repayments. California does not conform to federal rules for Section 529-to-Roth Individual Retirement Account (IRA) rollovers or to the expanded federal rules for elementary and secondary school expenses and postsecondary credentialing expenses enacted in 2025.

## Employer Contributions to Life Insurance Plans Exclusion

***Description:***
An employer's contribution to an employee's group term life insurance policy is excluded from the employee's gross income for the first $50,000 of coverage.

***Statutory Authority:***
Revenue and Taxation Code Section 17081, which conforms to Internal Revenue Code Section 79

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Renters' Credit

***Description:***
Low-income individuals who rent their principal residence are eligible for a credit of $60 if they are single, or $120 if married filing jointly or a head-of-household. To be eligible, the taxpayer's income cannot exceed specified levels.

***Statutory Authority:***
Revenue and Taxation Code Section 17053.5

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 2 million returns representing 2.3 million taxpayers were allowed this credit.

***Tax Credit Usage Details for Tax Year 2023:***

| Renter's Credit | | | |
|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Allowing Credit (Thousands)** | **Taxpayers Allowed Credit Thousands)** | **Amount of Credit Allowed (Millions)** |
| **Less than $10,000** | 16 | 16 | $0.4 |
| **$10,000 to $19,999** | 104 | 104 | $3 |
| **$20,000 to $49,999** | 1,335 | 1,377 | $81 |
| **$50,000 to $99,999** | 554 | 829 | $60 |
| **More than $99,999** | 12 | 21 | $1 |
| **Total** | 2,020 | 2,347 | $147 |

***Comparable Federal Benefit:***
None

## State Lottery Winnings Exclusion

***Description:***
Winnings from the California State Lottery are exempt from tax.

***Statutory Authority:***
Government Code Section 8880.68

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 20,300 returns representing 30,600 taxpayers claimed this exclusion.

***Tax Exclusion Usage Details for Tax Year 2023:***

| California Lottery Winnings Exclusion | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction** | **Number of Taxpayers** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction* (Millions)** |
| **Less than $10,000** | 1,900 | 2,600 | $98 | $6 |
| **$10,000 to $19,999** | 1,500 | 2,100 | $38 | $3 |
| **$20,000 to $49,999** | 5,100 | 6,800 | $106 | $9 |
| **$50,000 to $99,999** | 5,900 | 9,000 | $74 | $6 |
| **$100,000 to $199,999** | 4,200 | 7,300 | $71 | $7 |
| **$200,000 to $499,999** | 1,400 | 2,400 | $173 | $20 |
| **$500,000 to $999,999** | 100 | 200 | $9 | $1 |
| **More than $999,999** | 100 | 100 | $1,002 | $123 |
| **Total** | 20,300 | 30,600 | $1,568 | $175 |

***Comparable Federal Benefit:***
None

## Student Loan Interest Deduction

***Description:***
Taxpayers may deduct interest paid on qualified education loans up to a maximum of $2,500. This deduction is phased out based on the taxpayer's modified adjusted gross income, adjusted annually for inflation.

***Statutory Authority:***
Revenue and Taxation Code Section 17204, which conforms to Internal Revenue Code Section 221

***Sunset Date:***
None

***Legislative Intent:***
The intent of this provision was to make higher education expenses more affordable.

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
In 2023, 499,613 tax returns representing 687,172 taxpayers claimed this deduction.

***Tax Deduction Usage Details for Tax Year 2023:***

| Student Loan Interest Deduction | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction (Thousands)** | **Number of Taxpayers (Thousands)** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction (Millions)** |
| **Less than $10,000** | 21 | 24 | $19 | $2 |
| **$10,000 to $19,999** | 24 | 27 | $20 | $2 |
| **$20,000 to $49,999** | 114 | 125 | $82 | $8 |
| **$50,000 to $99,999** | 216 | 262 | $134 | $13 |
| **More than $99,999** | 125 | 250 | $92 | $9 |
| **Total** | 500 | 687 | $346 | $33 |

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Income for In-Home Supportive Services or Waiver Personal Care Services Providers' Wages Exclusion

***Description:***
Wages received by In-Home Supportive Services or Waiver Personal Care Services providers who live in the same home as the recipient of those services are excluded from gross income for tax purposes.

***Statutory Authority:***
Revenue and Taxation Code Section 17131, which conforms to Internal Revenue Code Section 131

***Sunset Date:***
None

***Legislative Intent:***
None

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Resident Spouse Share of Non-resident Military Pay Exclusion

***Description:***
Under California's community property law, half of a married couple's earnings generally belong to each spouse. When a service member whose permanent home is in another state is married to a California resident, the resident spouse's half of the service member's military pay is excluded from California income.

***Statutory Authority:***
Revenue and Taxation Code Section 17140.5

***Sunset Date:***
None

***Legislative Intent:***
This provision was intended to ease administration and provide tax relief to military personnel.

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 63,507 returns claimed this exclusion.

***Comparable Federal Benefit:***
This issue is only relevant to state taxation.

## Employee Child Care Benefits Exclusion

***Description:***
Employees may exclude child and dependent care benefits provided by an employer, including amounts provided through a dependent-care flexible spending arrangement. The California exclusion generally is limited to the lowest of $5,000 per year, the employee's earned income, or the spouse's earned income. The dollar limit is $2,500 for a married taxpayer filing separately.

***Statutory Authority:***
Revenue and Taxation Code Section 17131, which conforms to Internal Revenue Code Section 129

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conformed to federal law prior to January 1, 2026. Beginning in tax year 2026, federal law increases the annual limit to $7,500, or $3,750 for a married taxpayer filing separately. California does not conform to those increased limits.

## Compensation for Injuries or Sickness Exclusion

***Description:***
Taxpayers may exclude qualifying workers' compensation and certain payments received because of personal physical injury or sickness. The exclusion may apply to certain accident or health insurance benefits and to compensatory damages for physical injury or sickness, but generally does not apply to punitive damages.

***Statutory Authority:***
Revenue and Taxation Code Section 17131, which conforms to Internal Revenue Code Section 104

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Employer-Provided Educational Assistance Exclusion

***Description:***
Employees may exclude up to $5,250 per year of qualifying educational assistance paid or provided by an employer. Qualifying assistance may include tuition, fees, books, supplies, and equipment.

***Statutory Authority:***
Revenue and Taxation Code Section 17151

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
Federal law provides a comparable exclusion and permanently includes qualifying employer payments of an employee's student loans. Federal law also begins indexing the $5,250 limit after 2026. California does not conform to the student-loan provision or to the later federal indexing change.

## Casualty Loss Deduction

***Description:***
Taxpayers who itemize may deduct uncompensated personal losses caused by sudden or unexpected events, such as fires, floods, storms, earthquakes, theft, or vandalism. Each loss generally must exceed $100, and the total is deductible only to the extent it exceeds 10 percent of federal adjusted gross income.

***Statutory Authority:***
Revenue and Taxation Code Section 17201, which conforms to Internal Revenue Code Section 165, as modified by Revenue and Taxation Code Section 17204

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals, incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
For 2023, 3,440 tax returns representing 4,868 taxpayers claimed this deduction.

***Comparable Federal Benefit:***
This provision conforms to federal law with modifications. Since 2018, federal law has allowed personal and casualty and theft losses only from federally declared disasters, and H.R. 1 made that restriction permanent while adding certain state-declared disasters beginning in 2020. California also does not conform to temporary federal rules enacted for federal disasters occurring from 2017 through mid-2025, which allowed taxpayers to deduct those losses without itemizing and without the 10-percent threshold.

## Housing for Clergy Exclusion

***Description:***
A member of the clergy may exclude either the rental value of a home furnished as part of compensation or a housing allowance used to rent or provide a home. For state-employed clergy, California limits an excluded allowance up to 50 percent of gross salary.

***Statutory Authority:***
Revenue and Taxation Code Sections 17131, which conforms to Internal Revenue Code Section 107, as modified by Revenue and Taxation Code Section 17131.6

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
Federal law provides a similar exclusion. Unlike California, federal law limits an excluded housing allowance to the home's fair rental value, including furnishings and related costs such as utilities.

## Restaurant Revitalization Fund Grant Exclusion

***Description:***
Restaurant Revitalization Fund grants are excluded from income for state tax purposes. The Restaurant Revitalization Fund was a federal program that distributed grants in April and May of 2021 to restaurants financially disadvantaged by the COVID-19 Pandemic.

***Statutory Authority:***
Revenue and Taxation Code Sections 17158.2 and 24308.2

***Sunset Date:***
Not specified

***Legislative Intent:***
Not specified

***Beneficiaries:***
Incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Foster Care Payments Exclusion

***Description:***
Qualified foster care payments from a state or local government or a qualifying placement agency are excluded from income. The exclusion also may cover supplemental difficulty-of-care payments for providing additional care to a foster individual who has a physical, mental, or emotional disability. The foster individual generally must live in the provider's home.

***Statutory Authority:***
Revenue and Taxation Code Section 17131, which conforms to Internal Revenue Code Section 131

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Wildfire Settlement Income Exclusion

***Description:***
Taxpayers may exclude from gross income settlement payments related to wildfires for tax years 2021 through 2029.

***Statutory Authority:***
Revenue and Taxation Code Sections 17138.5 and 17138.6

***Sunset Date:***
January 1, 2030

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
Federal tax law allows a similar tax exclusion for wildfire settlement payments for tax years 2020 through 2025.

## Limited Partnerships Investment Source Rules

***Description:***
Interest, dividends, and gains or losses from some investment securities of a qualified investment partnership generally are not treated as California-source income for nonresident partners whose only California connection is through the partnership's investment activities and in-state investment professionals.

***Statutory Authority:***
Revenue and Taxation Code Section 17955

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This issue is only relevant to state taxation.

## Shuttered Venue Operator Grant Exclusion

***Description:***
Federal Shuttered Venue Operator Grants are excluded from California taxable income. Eligible expenses paid with grant proceeds generally remain deductible, but the California expense deduction is not available to publicly traded companies or taxpayers that did not have the required 25-percent reduction in gross receipts.

***Statutory Authority:***
Revenue and Taxation Code Sections 17158.3 and 24308.3

***Sunset Date:***
Not specified

***Legislative Intent:***
None

***Beneficiaries:***
Incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law, except that California does not allow the exclusion for publicly traded companies or taxpayers that did not have the required 25-percent reduction in gross receipts.

## Moving Expense Deduction

***Description:***
An above-the-line deduction is allowed for certain unreimbursed moving expenses that are required to start a new job. The deduction is limited to the cost of transportation of household goods and personal effects, and travel (including lodging, but not meals) to the new residence.

***Statutory Authority:***
Revenue and Taxation Code Sections 17072 and 17201, which conform to Internal Revenue Code Sections 62(a) and 217, as modified by Revenue and Taxation Code Section 17201.1

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
For 2023, 80,100 tax returns representing 104,300 taxpayers claimed this deduction.

***Tax Deduction Usage Details for Tax Year 2023:***

| Moving Expense Deduction | | | | |
|---|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Reporting Deduction** | **Number of Taxpayers** | **Amount of Deduction Claimed (Millions)** | **Tax Impact of Deduction (Millions)** |
| **Less than $10,000** | 17,000 | 20,900 | $125 | $0.1 |
| **$10,000 to $19,999** | 7,700 | 9,500 | $30 | $0.1 |
| **$20,000 to $49,999** | 19,900 | 24,700 | $73 | $1 |
| **$50,000 to $99,999** | 18,500 | 23,200 | $82 | $4 |
| **$100,000 to $199,999** | 11,900 | 17,500 | $79 | $4 |
| **$200,000 to $499,999** | 4,500 | 7,300 | $34 | $2 |
| **$500,000 to $999,999** | 600 | 1,000 | $5 | $0.4 |
| **More Than $999,999** | 100 | 200 | $2 | $0.1 |
| **Total** | 80,100 | 104,300 | $431 | $13 |

***Comparable Federal Benefit:***
Federal law permanently disallows the moving expense deduction for most taxpayers. It remains available for certain active-duty members of the Armed Forces who move under military orders and, beginning in 2026, for certain members of the intelligence community. California does not conform to these federal

restrictions and continues to allow the broader deduction.

## Coverdell Education Savings Accounts Earnings Exclusion

***Description:***
Earnings in a Coverdell Education Savings Account generally are not taxed while held in the account. Distributions are also excluded when used for qualifying elementary, secondary, or higher-education expenses. Contributions to the account are not deductible.

***Statutory Authority:***
Revenue and Taxation Code Section 23712, which conforms to Internal Revenue Code Section 530

***Sunset Date:***
None

***Legislative Intent:***
This provision was intended to encourage taxpayers to invest in future higher education expenses to make the attainment of higher education possible for the greatest number of Californians.

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Child and Dependent Care Credit

***Description:***
A credit is allowed for a portion of qualifying child or dependent care expenses paid for the purpose of allowing the taxpayer to be gainfully employed. The credit is a percentage of a parallel federal credit. The percentage decreases as income increases and is eliminated for taxpayers with adjusted gross income greater than $100,000. Chapter 14, Statutes of 2011 (SB 86) repealed the refundable portion of the Child and Dependent Care credit, effective January 1, 2011.

***Statutory Authority:***
Revenue and Taxation Code Section 17052.6, which generally conforms to Internal Revenue Code Section 21

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
In 2023, 79,539 returns representing 101,092 taxpayers claimed this credit.

***Credit Usage Details for Tax Year 2023:***

| Child and Dependent Care Credit | | | |
|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Allowing Credit** | **Taxpayers Allowing Credit** | **Amount of Credit Allowed (Millions)** |
| **Less than $10,000** | 38 | 46 | $0.0 |
| **$10,000 to $19,999** | 63 | 80 | $0.0 |
| **$20,000 to $49,999** | 2,772 | 2,883 | $0.5 |
| **$50,000 to $99,999** | 75,476 | 96,115 | $13.7 |
| **$100,000 to $199,999** | 1,105 | 1,810 | $0.3 |
| **$200,000 to $499,999** | 68 | 125 | $0.0 |
| **More than $500,000** | 17 | 33 | $0.0 |
| **Total** | 79,539 | 101,092 | $14.5 |

***Comparable Federal Benefit:***
Federal law provides a comparable credit but does not impose California's $100,000 income cutoff. Beginning in 2026, the maximum federal credit rate is 50 percent, with the rate declining as income increases. California does not conform to that federal rate change.

## Foster Youth Earned Income Tax Credit

***Description:***
Eligible former foster youth ages 18 through 25 who qualify for the California Earned Income Tax Credit and were in foster care at age 13 or older may claim a refundable Foster Youth Tax Credit. The maximum credit is adjusted annually for inflation.

***Statutory Authority:***
Revenue and Taxation Code Sections 17052.2 and 19551.4

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
In tax year 2023, 5,582 returns representing 5,693 taxpayers claimed this credit.

***Credit Usage Details for Tax Year 2023:***

| Foster Youth Tax Credit | | | |
|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Allowing Credit** | **Taxpayers Allowing Credit** | **Amount of Credit Allowed (Millions)** |
| **Less than or equal to $0** | 32 | 34 | $0 |
| **$1 to $5,000** | 1,212 | 1,227 | $1.4 |
| **$5,001 to $10,000** | 1,103 | 1,121 | $1.2 |
| **$10,001 to $15,000** | 1,024 | 1,040 | $1.1 |
| **$15,001 to $20,000** | 893 | 913 | $1.0 |
| **$20,001 to $25,000** | 709 | 728 | $0.8 |
| **$25,001 to $30,000** | 540 | 560 | $0.4 |
| **More than $30,000** | 69 | 70 | $0 |
| **Total** | 5,582 | 5,693 | $6.0 |

***Comparable Federal Benefit:***
None

## New Employment Credit

***Description:***
Employers who obtain a tentative credit reservation may claim a credit worth 35 percent of a qualified full-time employee's wages between 150 percent and 350 percent of their minimum wage. Qualification for the credit is also subject to geographic restrictions and employee characteristics. This credit was expanded for tax years 2023 through 2025 for certain companies, including semiconductor companies that have or intend to apply for CHIPS Act funding, manufacturers of electric airplanes, lithium producers, and manufacturers of lithium batteries. These companies are not subject to geographic restrictions and are allowed to calculate the credit beginning at 100 percent of qualifying wages. The credit is operative for tax years 2014 to 2025.

***Statutory Authority:***
Revenue and Taxation Code Sections 17053.73 and 23626

***Sunset Date:*** January 1, 2026

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals, incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
For 2023, 159 tax returns representing 266 taxpayers were allowed this credit.

***Comparable Federal Benefit:***
None.

## Military Retirement Pay Exclusion

***Description:***
For tax years 2025 through 2029, qualifying taxpayers may exclude up to $20,000 of retirement pay for service in the uniformed services or qualifying annuity payments under a United States Department of Defense Survivor Benefit Plan. The exclusion is available when federal adjusted gross income does not exceed $125,000 for an individual or head-of-household filer or $250,000 for a surviving spouse or joint filer.

***Statutory Authority:***
Revenue and Taxation Code Sections 17132.9 and 17132.10

***Sunset Date:***
January 1, 2030

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals.

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
None

# Corporation Tax

## Water's-Edge Election

***Description:***
A unitary multinational business may elect to calculate California income using a water's-edge combined report instead of a worldwide combined report. The water's-edge group generally includes United States corporations, the United States activities of foreign corporations, and specified foreign entities or income. Once made, the election generally must remain in effect for seven years.

***Statutory Authority:***
Revenue and Taxation Code Sections 25110-25113

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Corporations

***Number of Taxpayers/Number of Returns:***
For 2023, 21,283 returns elected the water's-edge method.

***Tax Expenditure Usage Details for Tax Year 2023:***
Not available

***Comparable Federal Benefit:***
None. Federal law does not use combined reporting or divide income among states.

## Research and Development Credit

***Description:***
Businesses may claim a credit equal to 15 percent of qualifying California research expenses above a base amount. Corporations also may claim a credit equal to 24 percent of qualifying basic-research payments. Beginning in 2025, taxpayers may instead elect a modified alternative simplified credit equal to 3 percent of qualifying expenses above the specified base, or 1.3 percent when the taxpayer has no qualifying expenses in any of the prior three years.

***Statutory Authority:***
Revenue and Taxation Code Sections 17052.12 and 23609, which partially conform to Internal Revenue Code Section 41

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
For 2023, 18,122 personal income tax returns representing 33,117 personal income taxpayers claimed this credit. In addition, 4,947 corporation tax returns were allowed this credit.

***Personal Income Tax Credit Usage Details for Tax Year 2023:***

| Research and Development Credit: Personal Income Tax | | | |
|---|---|---|---|
| **Adjusted Gross Income Class** | **Returns Allowing Credit** | **Taxpayers Allowed Credit** | **Amount of Credit Allowed (Millions)** |
| **Less than $50,000** | 2,233 | 4,045 | $0.5 |
| **$50,000 to $99,999** | 3,760 | 6,902 | $2 |
| **$100,000 to $199,999** | 3,937 | 7,247 | $4 |
| **$200,000 to $499,999** | 2,803 | 5,074 | $15 |
| **$500,000 to 999,999** | 2,145 | 3,938 | $23 |
| **More than $999,999** | 3,244 | 5,911 | $125 |
| **Total** | 18,122 | 33,117 | $168 |

***Corporation Tax Credit Usage Details for Tax Year 2023:***

| Research and Development Credit Allowed by Size of Gross Receipts: Corporation | | | | |
|---|---|---|---|---|
| | Returns with Credit | | Percent of Total | |
| Size of Gross Receipts | Returns Allowing Credit | Amount of Credit Allowed (Millions) | Percent of Total Returns | Percent of Total Credit Allowed |
| **Not Known** | 312 | $89 | 6.3% | 1.8% |
| **Less than $1 million** | 393 | $2 | 7.9% | 0.0% |
| **$1 million to $5 million** | 1,123 | $9 | 22.7% | 0.2% |
| **$5 million to $25 million** | 1,376 | $27 | 27.8% | 0.6% |
| **$25 million to $100 million** | 710 | $34 | 14.4% | 0.7% |
| **$100 million to $1 billion** | 565 | $97 | 11.4% | 2.0% |
| **$1 billion to $10 billion** | 351 | $884 | 7.1% | 18.2% |
| **More than $10 billion** | 117 | $3,723 | 2.4% | 76.5% |
| **Total** | 4,947 | $4,866 | 100.0% | 100.0% |

***Comparable Federal Benefit:***

California partially conforms to the federal research credit. Beginning in 2025, California permits a modified version of the federal alternative simplified credit and no longer permits the former alternative incremental credit. California uses different credit rates and generally limits qualifying research to research conducted in California.

## Low-Income Housing Credit

***Description:***
A tax credit is available for part of the cost of investing in qualifying low-income rental housing. The California Tax Credit Allocation Committee awards limited credits to developers, who may exchange them with investors for project financing. Most projects receiving the California credit also must receive the federal low-income housing credit. State law permits an additional $500 million of credits when authorized in the Budget Act. The 2020 Budget Act through 2026 Budget Act each provided that authorization.

***Statutory Authority:***
Revenue and Taxation Code Sections 12206, 17058 and 23610.5, which partially conform to Internal Revenue Code Section 42

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals, unincorporated and incorporated businesses

***Number of Taxpayers/Number of Returns:***
For 2023, 668 personal income tax returns and 35 corporation tax returns claimed this credit.

***Tax Credit Usage Details for Tax Year 2023:***
Not available

***Comparable Federal Benefit:***
Federal law provides a similar credit claimed over 10 years. California's credit is generally claimed over 4 years and is subject to a separate allocation limit.

## Cable Companies Apportionment Exclusion

***Description:***
Under Proposition 39, qualifying cable companies that spend at least $250 million in California each year are allowed to lower their tax liability by excluding 50 percent of their California receipts from TV, internet, and phone services from the numerator of their California apportionment formula.

***Statutory Authority***
Revenue and Taxation Code Section 25136.1

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Cable companies

***Number of Taxpayers/Number of Returns:***
In 2023, 24 returns claimed this exclusion.

***Tax Exclusion Usage Details for Tax Year 2023:***
Not available

***Comparable Federal Benefit:***
None

## Tax-Exempt Status for Qualifying Nonprofit and Charitable Corporations

***Description:***
Qualifying nonprofit and charitable organizations may apply for exemption from California corporation franchise and income taxes. Income from activities unrelated to an exempt purpose generally remains taxable.

***Statutory Authority:***
Revenue and Taxation Code Section 23701

***Sunset Date:***
None

***Legislative Intent:***
Provide tax relief to nonprofit, charitable, and qualified membership organizations.

***Beneficiaries:***
Nonprofit Corporations

***Number of Taxpayers/Number of Returns:***
In 2023, 209,615 returns claimed this exemption.

***Tax Expenditure Usage Details for Tax Year 2023:***
Not available

***Comparable Federal Benefit:***
Federal law provides comparable income-tax exemptions for qualifying organizations under Internal Revenue Code Section 501.

## Credit Union Treatment

***Description:***
State-chartered credit unions are exempt from the state's corporation franchise and income taxes. Because credit unions are member-owned cooperatives, income from doing business with their members generally would not be taxed even without this exemption. This exemption goes further by also exempting most income earned by nonmembers, such as ATM fees charged to nonmembers and some investment income.

***Statutory Authority:***
Revenue and Taxation Code Sections 23153 and 23701y

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Non-profit cooperative associations

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
Federal law also exempts credit unions from income tax.

## Accelerated Depreciation of Research and Experimental Costs

***Description:***
Research and experimental expenditures may be deducted immediately in the taxable year that the expense occurred rather than over multiple years.

***Statutory Authority:***
Revenue and Taxation Code Sections 17201, 17201.1, and 24365, which apply Internal Revenue Code Section 174 as it read on January 1, 2015.

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
Through 2021, this provision conformed to federal law. From 2022 through 2024, federal law required businesses to spread the deduction over 5 years, or 15 years for research done outside of the United States. Beginning in 2025, federal law again allows an immediate deduction but still requires the 15-year period for research done outside of the United States. California did not conform to any of these changes and continues to allow an immediate deduction for research costs regardless of where the research is done.

## Enterprise Zones and Similar Areas Tax Incentives

***Description**:*
Several tax incentives were available for certain types of expenditures or income earned in economically depressed areas of the state. These include areas designated as Enterprise Zones (EZs), Local Agency Military Base Recovery Areas (LAMBRAs), Targeted Tax Areas (TTAs), and Manufacturing Enhancement Areas (MEAs). Employers in these areas may be allowed a credit for a portion of the wages paid to qualified individuals. Employers may be eligible for a credit for the amount of sales and use taxes paid on certain purchases of machinery or parts. Employees in these designated areas may be eligible for an income tax credit of five percent of their qualified wages. Taxpayers may exclude the net interest from certain investments or loans to businesses in economically distressed areas. Businesses in designated areas are allowed to expense part of the costs of business equipment beyond normal expensing limits.

***Statutory Authority:***
Chapter 12.8 of the Government Code, and Revenue and Taxation Code Sections 17053.33 17053.34, 17053.45, 17053.46, 17053.47, 17053.7, 17053.74, 17053.75, 17268, 17276.2, 23612.2, 23622.7, 23622.8, 23633, 23634, 23645, and 23646

***Sunset Date:***
January 1, 2014

***Legislative Intent:***
These provisions were intended to help attract business and industry to the state, and more specifically to selected areas meeting various criteria, to help retain and expand existing state business and industry, and to create increased job opportunities for all Californians.

***Beneficiaries:***
Individuals, incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
In 2023, 1,257 personal income tax returns and 1,882 corporation tax returns were allowed these tax credits.

***Tax Credit Usage Details for Tax Year 2023:***
Not available.

***Comparable Federal Benefit:***
These former state incentives do not conform to federal law. Federal law provides separate benefits for qualifying investments in opportunity zones and makes a revised opportunity-zone program permanent beginning with new designations effective in 2027.

***Repeal of Enterprise Zones Provisions:***
Chapter 69, Statutes of 2013, repealed provisions allowing for Enterprise Zones and similar development areas, effective January 1, 2014, although credits may still be

carried forward and utilized for up to 10 years. The Enterprise Zone (and similar areas) program has been replaced, for taxable years beginning on or after January 1, 2014. The new economic development program includes a hiring credit in high poverty areas, a sales tax exemption for manufacturing equipment, and a credit (California Competes Credit) awarded on a competitive basis to businesses that attract or retain jobs in the state.

## Employee Stock Ownership Plans

***Description:***
An employer generally may deduct qualifying dividends paid on stock held by an Employee Stock Ownership Plan (ESOP) when the dividends are paid to participants or used to repay plan debt. A taxpayer also may defer gain on a qualifying sale of employer stock to an ESOP if the ESOP owns at least 30 percent of the company after the sale and the owner reinvests the proceeds in stocks or bonds of other U.S. companies within a set period. Beginning in 2028, owners of S Corporation stock may also defer gain on sales to an ESOP, but only on up to 10 percent of the sale proceeds.

***Statutory Authority:***
Revenue and Taxation Code Section 24601, which conforms to Internal Revenue Code Sections 404, and Revenue and Taxation Code Section 1842, which partially conforms to Revenue and Taxation Code Section 1042

***Sunset Date:***
None

***Legislative Intent:***
This provision was intended to broaden employee ownership of California businesses, as well as prevent undue recordkeeping burdens and costs of compliance by being out of conformity with federal law.

***Beneficiaries:***
Incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision generally conforms to federal law, except that California does not allow the deferral for sales of stock in agricultural refiners and processors to eligible farm cooperatives.

## First-Year Minimum Franchise Tax Exemption for Corporations

***Description:***
Corporations generally pay an $800 minimum franchise tax but are not subject to that minimum tax in their first taxable year.

***Statutory Authority:***
Revenue and Taxation Code Section 23153

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Tax Exemption Usage Details for Tax Year 2023:***
Not available

***Comparable Federal Benefit:***
None

## Film and Television Tax Credit

***Description:***
The California Film and Television Tax Credit is awarded competitively to taxpayers producing an eligible motion picture in, or relocating an eligible television series to, California. The California Film Commission allocates and certifies the credits. Annual allocations are $750 million for fiscal years 2025-26 through 2029-30. Credits under that program may be elected as refundable against corporation or personal income taxes at 95 percent of the unused amount, paid over two years, or offset against sales taxes. A separate cumulative $150 million is available through 2031-32 for productions filmed at qualifying newly constructed soundstages.

***Statutory Authority:***
Revenue and Taxation Code Sections 17053.85, 17053.95, 17053.98, 17053.98.1, 23685, 23695, 23698, 29698.1, 6902.5

***Sunset Date:***
Fiscal year 2029-30 is the final allocation year for the current film and television credit program. Soundstage credit allocations may continue through fiscal year 2031-32. Depending on the program, unused credits generally may be carried forward for 9 to 15 years.

***Legislative Intent:***
Not specified.

***Beneficiaries:***
Corporations and Individuals

***Number of Taxpayers/Number of Returns:***
In 2024-25, 10 taxpayers claimed a credit against sales taxes. In tax year 2023, the 11 personal income taxpayers claimed the credit, while the number of corporation taxpayers claiming the credit is not available.

***Comparable Federal Benefit:***
None

## California Competes Credit

***Description:***
The California Competes Tax Credit is awarded competitively to businesses that agree to meet specified employment, investment, and other commitments in California. The amount available is $180 million annually for fiscal years 2022-23 through 2032-33, subject to statutory adjustments and any amounts carried over from prior years.

***Statutory Authority:***
Revenue and Taxation Code Sections 17059.2 and 23689

***Sunset Date:***
December 1, 2035

***Legislative Intent:***
To attract and retain high-value employers in the state by allowing businesses to publicly apply for tax credits on the basis of job creation and retention standards.

***Beneficiaries:***
Incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
For the 2023 tax year, 144 personal income tax returns and 74 corporation tax returns claimed this credit.

***Personal Income Tax Credit Usage Details for Tax Year 2023:***

| California Competes Credit: PIT | | | |
|---|---|---|---|
| Adjusted Gross Income Class | Returns Allowing Credit | Taxpayers Allowed Credit | Amount of Credit Allowed (Millions) |
| **Less than $49,999** | 20 | 31 | $0 |
| **$50,000 to $99,999** | 17 | 27 | $0 |
| **$100,000 to $199,999** | 15 | 30 | $0.1 |
| **$200,000 to $499,999** | 25 | 44 | $0.3 |
| **$500,000 to $999,999** | 27 | 50 | $0.7 |
| **More than $1,000,000** | 40 | 71 | $5.1 |
| **Total** | 144 | 253 | $6.2 |

| California Competes Credit: Corporation | | | | |
|---|---|---|---|---|
| | Returns with Credit | | Percent of Total | |
| Size of Gross Receipts | Returns Allowing Credit | Amount of Credit Allowed (Millions) | Percent of Total Returns | Percent of Total Credit Allowed |
| **Less than $1 million** | 17 | $1.8 | 23.0% | 4.8% |
| **$1 million to $5 million** | 12 | $0 | 16.2% | 0.1% |
| **$5 million to $100 million** | 19 | $0.4 | 25.7% | 1.1% |
| **$100 million to $1 Billion** | 13 | $3.5 | 17.6% | 9.1% |
| **More than $1 Billion** | 13 | $32.8 | 17.6% | 84.9% |
| **Total** | 74 | $38.6 | 100% | 100% |

## Expensing of Timber Growing Costs

***Description:***
Timber growers can deduct the yearly costs of maintaining and growing their timber, such as brush and pest control, fertilizing, and thinning, in the year they incur them, rather than amortizing over multiple years.

***Statutory Authority:***
Revenue and Taxation Code Sections 17201, 24343, and 24422.3, which conform to Internal Revenue Code Sections 162 and 263A

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## New Advanced Strategic Aircraft Hiring Credit

***Description:***
A qualifying aerospace company involved in manufacturing a specified advanced strategic aircraft may claim a credit equal to 17.5 percent of wages paid to qualifying full-time employees, subject to statewide and taxpayer-specific limits.

***Statutory Authority:***
Revenue and Taxation Code Section 23636

***Sunset Date:***
December 1, 2031

***Legislative Intent:***
Not specified

***Beneficiaries:***
Corporations

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
None

## State Historic Rehabilitation Tax Credit

***Description:***
Taxpayers may receive a credit equal to 20 percent of qualifying costs to rehabilitate a certified historic structure or a qualifying owner-occupied residence. Certain projects qualify for a 25-percent credit. The program applies to tax years 2021 through 2026, and up to $50 million of credits may be allocated annually when authorized in the Budget Act.

***Statutory Authority:***
Revenue and Taxation Code Sections 17053.91 and 23691

***Sunset Date:***
January 1, 2027

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals, unincorporated and incorporated businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
Federal law provides a 20-percent credit for qualifying rehabilitation costs of certified historic income-producing buildings. The federal credit is claimed over five years and does not apply to owner-occupied residences.

## First-Year Minimum Tax Exemption for Limited Liability Companies (LLCs), Limited Partnerships (LPs), and Limited Liability Partnerships (LLPs)

***Description:***
Limited liability companies, limited partnerships, and limited liability partnerships generally pay an $800 annual tax. These entities were exempt from the annual tax for tax years 2021, 2022, and 2023, and pay a reduced rate of $400 in their first year for tax years 2027, 2028, and 2029.

***Statutory Authority:***
Revenue and Taxation Code Sections 17935, 17941, and 17948

***Sunset Date:***
January 1, 2030

***Legislative Intent:***
Not specified

***Beneficiaries:***
Incorporated and unincorporated businesses

***Number of Taxpayers/Number of Returns:***
For tax year 2022, 300,281 LLCs, 4,272 LPs, and 387 LLPs claimed the exemption.

***Comparable Federal Benefit:***
None

# Sales Tax

## Food Products Exemption

***Description:***
Sales and use taxes generally do not apply to food for human consumption. The exemption does not apply to meals served by a retailer on or off the retailer's premises; food prepared and sold in a heated condition by a restaurant or other retailer, except separately priced bakery goods and beverages other than bouillon, consommé, or soup; food served for consumption using seller-provided eating facilities; food ordinarily sold for immediate consumption near parking provided primarily for customers; or food sold for consumption where admission is charged, except at national and state parks and monuments, marinas, campgrounds, and recreational vehicle parks; medicines, cough drops, mineral oils; tobacco products; pet foods; liquids, powders, tablets, or pills described as "food/dietary supplements/adjuncts;" or supplements designed to remedy specific dietary deficiencies in vitamins, proteins, minerals, or calories.

***Statutory Authority:***
Revenue and Taxation Code Section 6359

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Gas, Electricity, and Water Exemption

***Description:***
Sales and use taxes do not apply to gas, electricity, water, steam, geothermal steam, brines, or heat delivered through mains, lines, pipes, or to qualifying waste energy from cogeneration. The exemption also applies to liquefied petroleum gas delivered into a tank holding at least 30 gallons for household use at a primary residence not served by gas mains or pipes, or for use by a qualifying person in producing and harvesting agricultural products. Bulk water sold in quantities of at least 50 gallons for household use at a residence not served by mains, lines, or pipes is also exempt.

***Statutory Authority:***
Revenue and Taxation Code Section 6353

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals and businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Prescription Medicine Exemption

***Description:***
Sales and use taxes generally do not apply to medicines, or any substances or preparation intended for use by internal or external application to the human body, prescribed for treating a person and dispensed by a pharmacist, or to medicines furnished or purchased for patient treatment by specified licensed providers, health facilities, government medical facilities, and clinics. The exemption also covers specified items treated as medicines, including sutures, permanently implanted devices such as bone screws, bone pins, and pacemakers, qualifying orthotic and prosthetic devices, artificial limbs, eyes, insulin and insulin syringes, and physician-ordered hemodialysis products. It generally does not cover bandages, splints, medical equipment, alcohol, or auditory, ophthalmic, ocular, and dental devices, unless a specific statutory exclusion applies.

***Statutory Authority:***
Revenue and Taxation Code Sections 6369 and 6369.1

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Animal Life, Feed, Seeds, Plants, Fertilizer, Drugs, and Medicines Exemption

***Description:***
Sales and use taxes do not apply to any form of animal life whose products are ordinarily used as food for human consumption. This exemption also covers feed used to support animal life when the supported animals or resulting products are ordinarily food for people or sold in the regular course of business. Seeds, plants, and fertilizer, which are applied to the land to facilitate the growth of food, are also exempt. Drugs, medicines, and oxygen used mainly to prevent or control disease in food-producing animals also qualify for the exemption.

***Statutory Authority***:
Revenue and Taxation Code Section 6358

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals and businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Candy, Confectionery, Snack Foods, and Bottled Water Exemption

***Description:***
Candy, gum, confectionery, snack foods, and bottled water are exempt from tax.

***Statutory Authority:***
Revenue and Taxation Code Section 6359

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Manufacturing and Research and Development Equipment Exemption

***Description:***
From July 1, 2014 through June 30, 2030, qualifying manufacturers, research and development businesses, and certain electric-power businesses may claim a partial exemption from the 3.9375-percent General Fund rate on qualifying equipment purchases and leases. The property must be used primarily in manufacturing or research and development activities.

***Statutory Authority:***
Revenue and Taxation Code Section 6377.1

***Sunset Date:***
July 1, 2030

***Legislative Intent:***
To make California more competitive in attracting new businesses to the state, and to bring California in line with the 48 other states that exempt manufacturing equipment from sales and use tax.

***Beneficiaries:***
Individuals and businesses

***Number of Taxpayers/Number of Returns:***
In 2024-25, 24,058 returns claimed this exemption.

***Comparable Federal Benefit:***
There is no federal sales tax.

## Meals Furnished by Institutions Exemption

***Description:***
Sales and use taxes do not apply to meals and food furnished or served to students by qualifying schools and school-related organizations, or to meals and food furnished or served to and consumed by residents or patients of specific health, community care, residential care, senior housing, alcohol recovery, and drug treatment facilities.

***Statutory Authority:***
Revenue and Taxation Code Sections 6363 and 6363.6

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals and businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Farm Equipment and Machinery Exemption

***Description:***
Sales of farm equipment, machinery, and their parts are exempt from the 5-percent state sales and use tax rate (General Fund plus Local Revenue Fund 2011) when purchased by a qualifying agricultural business or by a person who uses the equipment to assist that business.

***Statutory Authority:***
Revenue and Taxation Code Section 6356.5

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
In 2023-24, 10,965 returns claimed this exemption.

***Comparable Federal Benefit:***
There is no federal sales tax.

## Fuel Sold to Common Carriers Exemption

***Description:***
Sales and use taxes do not apply to fuel and petroleum products delivered directly into an aircraft operated commercially by a common carrier for immediate consumption or transportation on a flight whose destination is outside of the United States. The air common carrier must give the seller a valid exemption certificate.

***Statutory Authority:***
Revenue and Taxation Code Section 6357.5

***Sunset Date:***
None

***Legislative Intent:***
This provision was intended to allow domestic fuel producers to compete equally with foreign producers, who are exempt under federal law from state sales taxes on airline fuel used in international travel.

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Professional Health Services Exemption

***Description:***
Specified licensed health professionals are treated as consumers, rather than retailers, of certain property they furnish while providing professional services. These provisions cover specified ophthalmic materials and replacement contact lenses; vitamins, minerals, dietary supplements, and orthotic devices furnished by chiropractors; prosthetic materials and inlays furnished by podiatrists; hearing aids furnished by licensed dispensers; and materials used to produce diagnostic X-rays or photographs. Tax generally applies when the professional purchases the qualifying property, rather than when it is furnished to the patient.

***Statutory Authority:***
Revenue and Taxation Code Sections 6018, 6018.4, 6018.5, 6018.7, and 6020

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Rentals of Linen Supplies Exemption

***Description:***
A qualifying lease of linen supplies or similar articles is not treated as a taxable sale when recurring laundering or cleaning is an essential part of the lease agreement. The lessor is treated as the consumer and generally pays tax when purchasing the items.

***Statutory Authority:***
Revenue and Taxation Code Sections 6006 and 6010

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses and individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Diesel Fuel Used in Farming and Processing Exemption

***Description:***
Diesel fuel used in farming activities or food processing is exempt from 5 percentage points of the state sales and use tax rate (General Fund plus Local Revenue Fund 2011). Farming activities include transporting and delivering farm products to market.

***Statutory Authority:***
Revenue and Taxation Code Section 6357.1

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
In 2024-25, 650 returns claimed this exemption.

***Comparable Federal Benefit:***
There is no federal sales tax.

## Children's Diapers Exemption

***Description:***
Sales and use taxes do not apply to diapers designed, manufactured, processed, fabricated, or packaged for use by infants, toddlers, and children.

***Statutory Authority:***
Revenue and Taxation Code Section 6363.9

***Sunset Date:***
None

***Legislative Intent:***
To promote public health by increasing the affordability of, and expanding access to, diapers.

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## California Alternative Energy Exclusion

***Description:***
The California Alternative Energy and Advanced Transportation Authority (CAEATFA) may award a sales and use tax exclusion for tangible personal property that is used in a qualifying project involving recycled feedstock, advanced manufacturing, advanced transportation technologies, alternative-source products, components, or systems to applicants through its sales tax exclusion program. For recycled-feedstock projects, at least 50 percent of the property's use must be for qualifying processing or reuse; other qualifying property must be used in California for specified design, manufacturing, production, or assembly activities. The total amount available for allocation to approved projects each year generally may not exceed $100 million in a calendar year. Beginning January 1, 2026, an applicant that, together with its parent corporation and subsidiaries, employs at least 500 people must certify that it and its contractors will meet specified wage, benefit, training, and worker-voice requirements. Beginning in 2026, qualifying alternative-source projects include electrical generation facilities that use nuclear fusion technology.

***Statutory Authority:***
Revenue and Taxation Code Section 6010.8 and Public Resources Code Sections 26003 and 26011.8

***Sunset Date:***
The CAEATFA sales and use tax exclusion program sunsets on January 1, 2028.

***Legislative Intent:***
To create California-based jobs and to reduce greenhouse gas emissions, air and water pollution, and energy consumption.

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Medicine Administered by Veterinarians Exemption

***Description:***
Licensed veterinarians are treated as consumers, rather than retailers, of the drugs and medicines they use or furnish in the course of providing professional services. Tax generally applies when the veterinarian purchases those items, rather than when the items are furnished to an animal. Drugs and medicines include substances and preparations intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease in animals and could be in the form of pills, capsules, tablets, liquids, injections, ointments, vaccines, intravenous fluids, and medicated soaps. It does not include vitamins, shampoos, pet foods, prescription diet foods, or flea powders or sprays.

***Statutory Authority:***
Revenue and Taxation Code Section 6018.1

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Custom Computer Programs Exemption

***Description:***
The transfer of custom computer programs, other than a basic operational program, and separate charges for custom modifications to existing prewritten programs are excluded from the definition of "sale." Therefore, these computer programs are not subject to sales and use tax even if delivered on a physical medium. Computer programs are deemed custom if they are made to the specifications of a specific purchaser and when work building the software begins after the customer has ordered it from the retailer.

***Statutory Authority:***
Revenue and Taxation Code Section 6010.9

***Sunset Date:***
None

***Legislative Intent:***
The Legislature declares sales and service of custom computer programs are service transactions and therefore exempt from sales and use tax.

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Fuel Sold to Water Common Carriers Exemption

***Description:***
Sales of fuel and petroleum products to a water common carrier are exempt from sales tax when the fuel is delivered directly into a vessel for immediate shipment outside California and is consumed in the carrier's business after the vessel reaches its first out-of-state destination. The carrier must give the seller a valid exemption certificate.

***Statutory Authority:***
Revenue and Taxation Code Section 6385

***Sunset Date:***
January 1, 2029

***Legislative Intent:***
To ensure fueling will continue to be a robust economic activity in the state and to adhere to tax policy and rationale of first substantial use occurring out of state.

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Wheelchairs, Crutches, Canes, and Walkers Exemption

***Description:***
Wheelchairs, crutches, canes, quad canes, white canes used by the legally blind, walkers, and replacement parts for these devices, when sold to an individual for personal use as directed by a physician, are not subject to sales and use tax.

***Statutory Authority:***
Revenue and Taxation Code Section 6369.2

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Blood Storage Units Exemption

***Description:***
Containers used to collect or store human blood, plasma, blood products, or blood derivatives, including any disposable tubing, filters, grommets, and needles sold along with the bags and held in a blood bank for medical purposes, are not subject to sales and use tax.

***Statutory Authority:***
Revenue and Taxation Code Section 6364.5

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals and businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Printed Advertising Exemption

***Description:***
Sales and use taxes do not apply to catalogs, letters, circulars, brochures, and pamphlets that consist substantially of printed sales messages for goods or services when the material is printed to the purchaser's special order; the seller, its agent, or a mailing house delivers it by mail or common carrier; and it is delivered at no cost to another person who becomes its owner.

***Statutory Authority:***
Revenue and Taxation Code Section 6379.5

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Subscription Periodicals Exemption

***Description:***
Sales and use taxes do not apply to qualifying periodicals sold by subscription and delivered by mail or common carrier, or to property that becomes an ingredient or component of those periodicals. A qualifying periodical is published at stated intervals at least 4 but not more than 60 times per year and contains news or information of interest to the public or a particular group. Printed sales messages, shopping guides, and other publications in which advertising exceeds 90 percent of the printed area in more than half of the issues during a 12-month period do not qualify.

***Statutory Authority:***
Revenue and Taxation Code Section 6362.7

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals and businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Bad Debt Sales Tax Deduction

***Description:***
Retailers may deduct sales and use tax attributable to customer accounts that are found worthless and written off for income tax purposes or, if the account holder does not file income tax returns, under generally accepted accounting principles. If an account is later collected, tax applies to the amount collected. For accounts written off on or after January 1, 2025, retailers' lenders and affiliates may no longer claim this deduction.

***Statutory Authority:***
Revenue and Taxation Code Sections 6055 and 6203.5

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Oxygen Delivery Systems Exemption

***Description:***
Medical oxygen delivery systems, including, but not limited to, liquid oxygen containers, high-pressure cylinders, and regulators, when sold, leased, or rented to an individual as directed by a physician, are not subject to sales and use tax.

***Statutory Authority:***
Revenue and Taxation Code Section 6369.5

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Menstrual Products Exemption

***Description:***
Sales and use taxes do not apply to tampons, menstrual cups, menstrual sponges, and sanitary napkins that are primarily designed and labeled for menstrual hygiene use.

***Statutory Authority:***
Revenue and Taxation Code Section 6363.10

***Sunset Date:***
None

***Legislative Intent:***
To promote public health by increasing the affordability and access to menstrual hygiene products.

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Carbon Dioxide Exemption

***Description:***
Sales and use tax does not apply to sales of carbon dioxide used or employed in packing and shipping or transporting fruits and vegetables for human consumption if those fruits and vegetables are not sold to the final consumer in a package containing the carbon dioxide.

***Statutory Authority:***
Revenue and Taxation Code Section 6359.8

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Tele-Production and Post-Production Equipment Exemption

***Description:***
Equipment purchased by a business that mainly provides tele-production or post-production services for film and video, such as editing, dubbing, captioning, special effects, and animation, is exempt from 5 percentage points of the sales and use tax rate if the equipment is used at least 50 percent of the time in that work.

***Statutory Authority:***
Revenue and Taxation Code Section 6378

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
In 2024-25, 1087 returns claimed this exemption.

***Comparable Federal Benefit:***
There is no federal sales tax.

## Nonreturnable and Cargo Containers Exemption

***Description:***
Sales and use tax does not apply to nonreturnable containers sold without contents to persons who fill the container and sell the contents together with the container, containers when sold with the container's contents if the sales price of the contents is not required to be included in the measure of sales taxes, returnable containers when sold in connection with a retail sale of the contents, containers sold to purchasers who place food products in the container for shipment to sell later.

***Statutory Authority:***
Revenue and Taxation Code Section 6364

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Mailing Lists Exemption

***Description:***
Sales and use taxes do not apply to a mailing list when the contract restricts the purchaser to one use. A mailing list may include names, addresses, and related information provided in written, printed, magnetic-tape, or similar form for use in sending material by mail.

***Statutory Authority:***
Revenue and Taxation Code Section 6379.8

***Sunset Date:***
None

***Legislative Intent:***
Not available

***Beneficiaries:***
Businesses and individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Clean Cars 4 All Exemption

***Description:***
The sale or lease of an eligible zero-emission or near-zero-emission vehicle is exempt from the 3.975-percent General Fund portion of sales and use tax for approved participants in the Clean Cars 4 All Program meeting certain income restrictions, including household income at or below 300 percent of the Federal Poverty Level and residence in participating air districts or through the Driving Clean Assistance Program.

***Statutory Authority:***
Revenue and Taxation Code Section 6398.2

***Sunset Date:***
None

***Legislative Intent:***
Not available

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Breast Pumps and Related Supplies Exemption

***Description:***
From April 1, 2024, through March 31, 2029, sales and use taxes do not apply to qualifying breast pumps, breast-pump collection and storage supplies, breast-pump kits, and breast pads. Certain carrying accessories, cleaning supplies, clothing, and topical products do not qualify when sold separately.

***Statutory Authority:***
Revenue and Taxation Code Section 6370.2

***Sunset Date:***
April 1, 2029

***Legislative Intent:***
To promote public health by increasing the affordability of breast pumps and related supplies.

***Beneficiaries:***
Individuals

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## New Mobilehomes Exemption

***Description:***
For qualifying new mobilehomes installed as residences and thereafter subject to property tax, the measure of sales and use tax is 75 percent of the mobilehome's sales price to the retailer, with 25 percent excluded. The retailer generally is treated as the consumer, so the resident's purchase is not separately taxed. A later sale of a used mobilehome whose initial retail sale qualified for this treatment is exempt.

***Statutory Authority:***
Revenue and Taxation Code Sections 6012.8 and 6012.9

***Sunset Date:***
None

***Legislative Intent:***
Not available

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Leases of Motion Picture and Television Films and Tapes Exemption

***Description:***
Leases of motion pictures, animated motion pictures, and television films and tapes are not treated as taxable sales; the lessor is treated as the consumer of the property. The exclusion does not apply to video cassettes, videotapes, or video discs leased for private use when the customer does not obtain the right to license, broadcast, exhibit, or reproduce them.

***Statutory Authority:***
Revenue and Taxation Code Sections 6006 and 6010.6

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

## Fuel from Organic Products and Waste Byproducts Exemption

***Description:***
Sales and use taxes do not apply to organic products grown expressly for fuel, or to waste byproducts from agricultural, forestry, municipal-refuse, or manufacturing operations that are used in an industrial facility instead of oil, natural gas, or coal. The exemption also applies to the use of still gas produced during the refining of purchased crude oil.

***Statutory Authority:***
Revenue and Taxation Code Section 6358.1

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Individuals and businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
There is no federal sales tax.

# Fuel Taxes

## Aircraft Jet Fuel Used by Common Carriers and Military Exemption

***Description:***
Air common carriers engaged in transporting persons or property for compensation under certification of public necessity by the state, national, or any foreign government, persons engaged constructing or reconstructing aircraft, and the United States armed forces are exempt from the tax on aircraft jet fuel.

***Statutory Authority:***
Revenue and Taxation Code Section 7389

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses and U.S. government

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
This provision conforms to federal law.

## Fuel Used by Transit Districts and Schools Exemption

***Description:***
Diesel fuel purchased by certain public transit agencies, school districts, and common carriers is taxed at a reduced rate of 1 cent per gallon.

***Statutory Authority:***
Revenue and Taxation Code Sections 8655, 60039, and 60502.2

***Sunset Date:***
None

***Legislative Intent:***
To provide relief from the payment of use fuel tax for local transit operators and ensure that the funds accrued to such operators shall be used for the improvement of their transit operations and to aid in providing better transit service to and from places of employment.

***Beneficiaries:***
Government agencies and businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
Federal law exempts these sales.

# Property Tax

## Computer Programs Exemption

***Description:***
Computer programs other than basic operational programs, which are necessary for the fundamental functioning of the computer, are exempt from tax. The storage media for the programs are, however, taxable.

***Statutory Authority:***
Revenue and Taxation Code 995

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
None

## Fixtures Excluded from the Supplemental Roll Exemption

***Description:***
Fixtures that are valued as a separate appraisal unit from the structure on the property are exempt from supplemental property tax assessment. Fixtures are personal property, such as equipment that are affixed to and incorporated into real property.

***Statutory Authority:***
Revenue and Taxation Code Sections 75.5 and 75.15

***Sunset Date:***
None

***Legislative Intent:***
Not specified

***Beneficiaries:***
Businesses

***Number of Taxpayers/Number of Returns:***
Not available

***Comparable Federal Benefit:***
None




# Tax

# EXPENDITURE REPORT

## 2026-27