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# SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW

Senator John Laird, Chair

2025 - 2026 Regular

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<b>Bill No:</b>	AB 122	<b>Hearing Date:</b>	June 15, 2026
<b>Author:</b>	Committee on Budget		
<b>Version:</b>	June 12, 2026 as amended		
<b>Urgency:</b>	No	<b>Fiscal:</b>	No
<b>Consultant:</b>	Elisa Wynne		

**Subject:** Revenues

**Summary:** This bill is a revenue trailer bill for the 2026-27 Budget. This bill contains various statutory changes necessary to implement the Budget Act of 2026.

**Proposed Law:** This bill:

- 1) Extends Sales and Use taxes to the sale of electronically delivered pre-written software, commencing January 1, 2027.
  - a. Specifically, extends sales and use taxes on “tangible personal property” as defined in law to include digital products, except as provided, prewritten computer software transferred on tangible storage media, transferred electronically, or accessed remotely.
  - b. Prohibits a purchaser or retailer of a digital product that is transferred electronically or accessed remotely from entering into any form of agreement that would result, directly or indirectly, in the payment, transfer, diversion, or rebate of any tax revenue resulting from the imposition of a sales and use tax on digital products.
- 2) Extends temporary business tax credit cap for three additional years.
  - a. Business tax credits claimed under the Personal Income Tax Law and the Corporate Tax Law may not exceed \$5 million for each of taxable years 2024, 2025, and 2026. This bill extends those provisions for an additional three years, through tax year 2029.
  - b. For each of the 2027, 2028, and 2029 taxable years, this bill allows a taxpayer to make an irrevocable annual election to receive a refundable tax credit in the amount of the credit over the \$5 million cap.
  - c. Businesses who make the election can claim an annual refundable credit amount, beginning the third taxable year after the election is made, equal to 20 percent of the qualified credits that would have otherwise been available to the taxpayer but for the limitation.
- 3) Establishes a permanent business tax credit limitation commencing with the 2030 tax year.

- a. Limits business tax credit usage to \$5 million per company per year or 70 percent of a company's tax liability, whichever is greater.
  - b. Refundable credits generated under the limitations in 2024 through 2026 may continue to be claimed in addition to the credit cap and refundable credits generated under the limitations in 2027 through 2029 may be claimed in addition to the credit cap beginning in the 2030 tax year.
- 4) Establishes a 100 percent tax on settlement fund payments received by taxpayers during the taxable years 2026 through 2029 from the Anti-Weaponization Fund established by the federal Department of Justice and other specified funds resulting from legal action as detailed in the bill.
  - 5) Reduces the annual minimum franchise tax for Limited Liability Companies, Limited partnerships, and limited liability partnerships from \$800 to \$400 for the first year of operation, during the 2027 through 2029 tax years.
  - 6) Appropriates \$750,000 from the General Fund to the California Department of Tax and Fee Administration for the purposes of administering the changes to the sales and use tax to include pre-written software as detailed in this bill.

**Fiscal Effect:** The provisions of this bill result in a net General Fund benefit of approximately \$1.4 billion for the 2026-27 fiscal year.

- The extension of sales and use tax to pre-written software is estimated to increase General Fund revenues by \$450 million in 2026-27 and by \$900 million annually thereafter. This proposal is also estimated to increase revenues for local jurisdictions by \$560 million in 2026-27 (one-half year) and by \$1.1 billion per year thereafter.
- The reduction of the annual minimum franchise tax is estimated to reduce General Fund revenue by \$100 million for each of 2027, 2028, and 2029.
- The temporary business tax credit cap is estimated to increase General Fund revenues by \$1 billion in 2026-27, \$3.3 billion in 2027-28 and growing to over \$4.5 billion through 2029.
- State operations costs related to implementation of the sales and use tax changes are \$750,000 in 2026-27.

**Support:** None on file.

**Opposed:** None on file.