

Date of Hearing: March 16, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

AB 1698 (Alanis) – As Amended March 9, 2026

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Personal Income Tax Law: Corporation Tax Law: credits: food handler card

SUMMARY: Allows a credit under both the Personal Income Tax (PIT) Law and the Corporation Tax (CT) Law equal to all costs incurred by a "qualified taxpayer" in obtaining legally required food handler cards for their employees. Specifically, **this bill:**

- 1) Allows, for taxable years beginning on or after January 1, 2026, and before January 1, 2029, a credit equal to any expense paid or incurred by a "qualified taxpayer" for an employee obtaining a food handler card in compliance with Health and Safety Code (H&SC) Section 113948.
- 2) Caps the credit at \$250 per taxpayer per taxable year.
- 3) Defines a "qualified taxpayer" as a taxpayer that has less than 50 employees and all the taxpayer's employees are in compliance with H&SC Section 113948.
- 4) Authorizes the Franchise Tax Board (FTB) to prescribe regulations that are necessary or appropriate to carry out the purposes of this bill.
- 5) Provides that for purposes of complying with Revenue and Taxation Code (R&TC) Section 41, the Legislature finds and declares the purpose of this tax expenditure is to offset the costs of small businesses paying for their employees to get food handler cards.
- 6) Takes immediate effect as a tax levy.
- 7) Sunsets the credits' statutory provisions on December 1, 2030.

EXISTING LAW:

- 1) Allows various tax credits under the PIT Law and CT Law. These credits are generally designed to encourage socially beneficial behavior or to provide relief to taxpayers that incur specified expenses. (R&TC Section 17041 *et seq.* and R&TC Section 23608 *et seq.*)
- 2) Requires any bill that authorizes a tax expenditure to contain all of the following:
 - a) Specific goals, purposes, and objectives that the tax expenditure will achieve;
 - b) Detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets the goals, purposes, and objectives stated in the bill; and,

- c) Specified data collection requirements to enable the Legislature to determine whether the tax expenditure is meeting, failing to meet, or exceeding those specific goals, purposes, and objectives. (R&TC Section 41.)
- 3) Requires, subject to certain exceptions, a food handler hired on or after June 1, 2011, to obtain a food handler card within 30 days after the date of hire. Additionally, each food handler must maintain a valid food handler card for the duration of the food handler's employment as a food handler. (H&SC Section 113948(a).)

FISCAL EFFECT: The FTB estimates that this bill would result in General Fund revenue losses of \$7.1 million in fiscal year (FY) 2026-27, \$5 million in FY 2027-28, and \$2.2 million in FY 2028-29.

COMMENTS:

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

AB 1698 is a common-sense bill that would relieve the financial burden that SB 476 (2023) placed on small-scale restaurants. At a time when businesses are struggling to keep doors open, this bill would help subsidize some of the costs these restaurants are paying each year to comply with state law.

- 2) This bill is opposed by the California Tax Reform Association, which notes:

A one hundred percent tax credit represents a direct payment by the state, with virtually no precedent in state tax policy. The costs for food-handling certification are fully deductible as business expenses, as are compliance with other health and safety regulations as well as other regulatory costs. As recently mandated by the legislature, these are a necessary cost of doing business, and therefore a credit in any form would have no incentive effect. If the state wants to reimburse business owners for the cost of recent regulation, it should do so through the budget.

- 3) Committee Staff Comments:

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

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

- b) *California Retail Food Code*: Subject to certain exceptions, any food handler hired on or after June 1, 2011, must obtain a food handler card within 30 days of being hired. (H&SC Section 113948(a).) Each food handler must maintain a valid food handler card for the duration of their employment as a food handler, and the card is valid for three years from the date of issuance, regardless of whether the food handler changes employment during that period. (*Id.*) A food handler card may only be issued upon an employee successfully completing a food handler training course and examination meeting specified requirements. (H&SC Section 113948(b).) The course and examination are designed to be completed within approximately two and one-half hours. (*Id.*) Finally, the restaurant employer must consider the time it takes for an employee to complete the training and examination as compensable "hours worked", for which the employer shall pay, and the employer must relieve an employee of all other work duties while the employee is taking the training course and examination. (H&SC Section 113948(i).)
- c) *What would this bill do?* This bill would allow a credit under both the PIT Law and CT Law equal to any expense paid or incurred by a qualified taxpayer for an employee obtaining a food handler card in compliance with state law. This bill defines a qualified taxpayer as one with fewer than 50 employees who are all in compliance with the food handler card law. The credit, in turn, would be capped at \$250 per taxpayer per taxable year.

In support of the proposed credit, the author's office notes:

Current law requires food facility employers to pay for all costs related to obtaining or renewing a food handler certification. Current law also requires that employers pay their staff for the time it takes to complete the certification. The starting price for a food handler card in California is \$7.95 per employee, and each card expires after three years. Considering it takes about 90-120 minutes to complete a food handler certification, each employer is expected to pay upwards of \$33 per each new employee to comply with this law.

For smaller restaurants, this policy can be very expensive, especially when employee turnover rates are high. Providing a tax credit for food facilities with less than 50 employees who are also in compliance with this code section would help subsidize the costs of paying for each employee's food handler card.

- d) *Implementation and policy considerations identified by the FTB*: The FTB notes the following implementation and policy considerations in its analysis of this bill:
- i) "This bill uses the undefined phrase, e.g., 'any expense paid or incurred by a qualified taxpayer for an employee obtaining a food handler card.' Absent a definition of expenses paid or incurred by the qualified taxpayer, this phrase could be broadly interpreted and may lead to taxpayer confusion."
- ii) "[This] bill also provides that the credit would be allowed 'for an employee' and that 'all' of the taxpayer's employees must be in compliance with the [H&SC]. 'All' employees could include employees not handling food. The bill also defines 'qualified taxpayer' to mean a taxpayer that has less than 50 employees, but does not specify whether that

- includes both part-time and full-time employees. The author may want to amend the bill to clarify."
- iii) "A 'qualified taxpayer' is defined in terms of a taxpayer, not a business. Under both the [PIT Law] and the [CT Law], a single taxpayer may operate multiple businesses that could each have less than 50 employees, but cumulatively the taxpayer would have greater than 50 employees and thus be ineligible for the credit. If this is contrary to the author's intent, the author may wish to amend the bill."
- iv) "This bill does not provide a carryover period. As a result, any unused credit would be lost if the taxpayer is unable to use the entire credit amount in the year claimed. The author may wish to add language to allow a limited carryover period, generally five to eight years."
- e) *Subsidizing compliance with existing law:* As noted above, existing law generally requires any food handler hired on or after June 1, 2011, to obtain a food handler card within 30 days of being hired. This bill, in turn, would provide a tax credit for small restaurant owners to offset the costs of complying with this law.

Tax expenditures, be they credits, deductions, or exemptions, are generally enacted for one of two reasons. First, they may be enacted to encourage taxpayers to engage in socially beneficial activity the taxpayer may not undertake absent a financial incentive. An example of this would be the state's film tax credit, which subsidizes the cost of filming in California to encourage in-state production. Second, tax expenditures may be designed to defray the cost of certain voluntary but beneficial activities. For example, the state provides a tax credit of up to \$2,500 for costs associated with certain adoptions. (See R&TC Section 17052.25.) No one would argue that a \$2,500 credit is going to impact a parent's decision to welcome a new child into their home. Rather, the credit is designed to offset certain costs associated with a well-intentioned and socially beneficial act.

The tax expenditure proposed by this bill, however, falls into a third category by directly subsidizing compliance with existing law. While the desire to reduce cost pressures faced by small restaurant owners is understandable, this does raise certain policy implications that the Committee may wish to consider. Namely, when the Legislature enacts a law designed to promote a social good, there are often associated costs – be they for employers, consumers, or society at large. The Legislature is almost always made aware of these costs by interested parties but may choose to enact a law because the social benefits outweigh the attendant costs. If the Legislature begins subsidizing compliance with these laws via the tax code, some may contend it undermines the purpose of having a mandatory law. It may also set a precedent with no real limiting principle. For example, if the state imposes a higher minimum wage, should it establish a credit for employers faced with higher labor costs? If the state prohibits the use of a potentially dangerous chemical in manufacturing, should it subsidize the costs borne by businesses to purchase safer alternatives?

- f) *Double dipping:* Restaurant owners may already deduct costs deemed ordinary and necessary in carrying out their business, such as employee wages. Under this bill, a restaurant owner would be able to claim both a deduction and a credit for the same costs. The state, as a matter of public policy, does not generally allow multiple tax benefits for

the same item of expense. As such, the author may wish to consider amendments expressly disallowing a business deduction for any expense used to calculate the credit.

- g) *Committee's tax expenditure policy:* Both R&TC Section 41 and Committee policy require any tax expenditure bill to outline specific goals, purposes, and objectives that the tax expenditure will achieve, along with detailed performance indicators for the Legislature to use when measuring whether the tax expenditure meets those stated goals, purposes, and objectives. A tax expenditure bill will not be eligible for a Committee vote unless it has complied with these requirements. This bill states that the credit is designed to offset the costs of small businesses paying for their employees to get food handler cards. The bill, however, provides no performance indicators for measuring this goal.

In addition to the R&TC Section 41 requirements, this Committee's policy also requires that all tax expenditure proposals contain an appropriate sunset provision to be eligible for a vote. According to this policy, an "appropriate sunset provision" means five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" means ten years. This bill, as recently amended, includes a three-year sunset date in compliance with Committee policy.

- f) *Suggested technical amendments:*

- i) On page 2, in line 6, after "incurred", insert "during the taxable year"; and,
- ii) On page 2, in line 27, after "incurred", insert "during the taxable year".

- g) *Related legislation:*

- i) AB 244 would have allowed a credit under both the PIT Law and the CT Law equal to \$1,000 for each registered apprentice employed for at least 6 months by a qualified taxpayer, not to exceed 100 registered apprentices per taxable year per qualified taxpayer. AB 244 defined a "qualified taxpayer", in turn, as a fast food restaurant operator that owns fewer than 50 stores and elects to participate in a specified apprenticeship program. AB 244 was never heard by the Assembly Committee on Labor and Employment and was returned to the Chief Clerk.
- ii) AB 895 (Rubio) would have allowed a credit under both the PIT Law and the CT Law to qualified taxpayers, defined to mean certain fast food restaurant franchisees or independent operators, in the amount of \$12,000 per qualified fast food restaurant. AB 895 was held on this Committee's Suspense File.

- h) *Previous legislation:*

- i) SB 476 (Limón), Chapter 610, Statutes of 2023, among other things required employers to consider the time that it takes for an employee to complete a food handler training and examination as compensable "hours worked". SB 476 also required employers to relieve the employee of all other work duties while the employee is taking the training course and examination. Finally, SB 476 prohibited employers from conditioning employment on the applicant or employee having an existing food handler card.

- ii) SB 602 (Padilla), Chapter 309, Statutes of 2010, among other things required food handlers hired after June 1, 2011, to obtain a food handler card within 30 days of their date of hire. Additionally, SB 602 required each food handler to maintain a valid food handler card for the duration of their employment as a food handler.

REGISTERED SUPPORT / OPPOSITION:**Support**

None on file

Opposition

California Tax Reform Association

Analysis Prepared by: M. David Ruff / REV. & TAX. / (916) 319-2098