

Date of Hearing: April 13, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION
Mike Gipson, Chair

AB 2186 (McKinnor) – As Amended March 16, 2026

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Personal Income Tax Law: exclusions: reparations programs

SUMMARY: Allows, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, a gross income exclusion for reparations benefits or payments, as specified. Specifically, **this bill:**

- 1) Provides, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, that gross income shall not include any "reparations benefit or payment" received by a taxpayer during the taxable year.
- 2) Defines a "reparations benefit or payment" to mean any monetary payment, grant, trust distribution, debt forgiveness, or other financial compensation provided to an individual pursuant to any of the following:
 - a) A statute enacted by the state establishing a reparations program;
 - b) A local government ordinance, resolution, settlement, or program establishing a reparations program; or,
 - c) A federal statute, regulation, settlement, or federally administered reparations program.
- 3) Sunsets the bill's statutory provisions on December 1, 2032.
- 4) Provides that, for purposes of complying with Revenue and Taxation Code (R&TC) Section 41, the Legislature finds and declares the following:
 - a) The purpose of the exclusion is to ensure that reparations payments fulfill their intended purpose by providing meaningful compensation, rather than being partially recaptured and diminished through state income tax; and,
 - b) There is no available data to collect or report with respect to the exclusion provided by this bill.
- 5) Takes immediate effect as a tax levy.

EXISTING LAW:

- 1) Defines gross income under the Personal Income Tax Law, in modified conformity with federal income tax law, as income from whatever source derived, except as specifically excluded. (R&TC Section 17071.)

- 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.)

FISCAL EFFECT: The Franchise Tax Board (FTB) estimates that, for every \$1 million in reparation payments received, and applying an average tax rate of 6.3%, the revenue loss would be approximately \$63,000. As such, Committee Staff estimates that this bill's revenue impact would exceed the Committee's Suspense File threshold.

COMMENTS:

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

AB 2186 ensures that reparations payments provided through state, local, or federal programs are excluded from California personal income tax for taxable years 2027 through 2032. For centuries, descendants of formerly enslaved people and other communities harmed by systemic injustice have been denied economic redress for historic wrongs. Without a statutory exclusion, these payments could be reduced by state taxes, undermining their purpose and sending the wrong message about justice and repair. By explicitly excluding reparations benefits from gross income, AB 2186 guarantees that recipients receive the full value of these payments, provides certainty for tax administration, and affirms the state's commitment to ensuring reparations serve as meaningful compensation.

- 2) This bill is supported by the Western Center on Law and Poverty, which notes:

For centuries, descendants of formerly enslaved people who have been harmed by systemic injustice have also been denied economic security and reparations for historic wrongs. Reparations payments are a critical step toward restoring what was taken, providing financial redress and acknowledging past harms. However, without clear statutory protection these payments could be treated as taxable income in California, reducing the compensation recipients ultimately receive. Subjecting reparations to state income tax would undermine their purpose and diminish the impact of future state, local, and federal programs before funds fully reach the individuals and communities they are intended to support.

By providing clear and enforceable tax treatment, AB 2186 ensures that reparations fulfill their intended purpose by delivering meaningful, undiminished compensation rather than being partially recaptured through state taxation. It protects families from losing compensation to state taxes, provides certainty for tax administration, and affirms California's commitment to ensuring that reparations serve as true repair.

- 3) The FTB has identified the following implementation considerations in its analysis of this bill:
- a) "This bill would exclude income that is otherwise generally includible in gross income. Without such income being reported to FTB as excludable from the payer, this may give rise to disputes with taxpayers. The author may wish to amend the bill to provide a mechanism for the payers of the compensation to report the reparations compensation as excludable income to the FTB."
 - b) "For purposes of Section 41, the bill includes a reporting requirement for the FTB that is not incorporated into the relevant [R&TC] section. For clarity and ease of reference, it is recommended that the bill be amended to include these provisions in the relevant code sections."

4) 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) *What would this bill do?* This bill would, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, exclude from gross income any reparations benefit or payment received by a taxpayer during the taxable year. This bill defines such payments, in turn, to include any monetary payment, grant, trust distribution, debt forgiveness, or other financial compensation provided to an individual via a federal, state, or local government reparations program.

In support of these provisions, the author's office notes:

Under existing California law, gross income is broadly defined to include income from all sources unless specifically excluded. As a result, reparations payments provided through state, local, or federal programs could be treated as taxable income. This would reduce the intended value of those payments and undermine their purpose as compensation for historical harms. AB 2186 addresses this gap by explicitly excluding reparations benefits from gross income, ensuring recipients receive the full intended benefit.

- c) *The Task Force*: AB 3121 (Weber), Chapter 319, Statutes of 2020, established the Task Force to Study and Develop Reparation Proposals for African Americans, with a Special Consideration for African Americans Who are Descendants of Persons Enslaved in the United States (Task Force). The Task Force consisted of nine appointed members, and was charged with, among other things, identifying, compiling, and synthesizing the relevant corpus of evidentiary documentation on the institution of slavery that existed within the United States and the colonies. AB 3121 also required the Task Force to recommend, among other things, the form of compensation that should be awarded, the instrumentalities through which it should be awarded, and who should be eligible for this compensation.

On June 29, 2023, the Task Force issued its final report to the Legislature. As noted by the FTB:

The Task Force proposed several payment models including individualized claims for specific harms, cumulative payments for descendants who resided in California during historically harmful periods, and a down-payment approach to provide initial compensation.

- d) *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, in its current form, complies with R&TC Section 41.

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 includes a five-year sunset date in compliance with Committee policy.

- e) *Suggested technical amendment*: On page 3, in line 1, strike "meaningful," and insert "meaningful".
- f) *Related legislation*:
- i) SB 518 (Weber Pierson), Chapter 586, Statutes of 2025, established the Bureau for Descendants of American Slavery within the Civil Rights Department, as specified.
 - ii) SB 437 (Weber Pierson), Chapter 755, Statutes of 2025, among other things, required the California State University to explore options to determine how to confirm an individual's status as a descendant of an enslaved person, as defined.
- g) *Prior legislation*: AB 3121 (Weber), Chapter 319, Statutes of 2020, established the Task Force.

REGISTERED SUPPORT / OPPOSITION:

Support

Californians for Safety and Justice
Courage California
Friends Committee on Legislation of California
GLIDE
Justice2Jobs Coalition
La Defensa
Rubicon Programs
Western Center on Law and Poverty

Opposition

None on file

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