Date of Hearing: April 13, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION
Mike Gipson, Chair

AB 2205 (Quirk-Silva) – As Amended March 18, 2026

Majority vote. Tax Levy. Fiscal committee.

SUBJECT: Personal Income Tax Law: Corporation Tax Law: New Employment Credit

SUMMARY: Extends, under the Personal Income Tax (PIT) Law and Corporation Tax (CT) Law the operation of the New Employment Credit (NEC) by five years. Specifically, **this bill**:

1) Extends the sunset date from taxable years beginning before January 1, 2026, to taxable years beginning before January 1, 2031, and extends the repeal date to December 1, 2034.

2) Extends the exemption from the designated census tract or economic development area requirements for taxpayers in specified industries, who self-certify and provide verification, as specified, by five years to taxable years beginning before January 1, 2031.

3) Finds and declares the following for the purposes of satisfying the requirements of Revenue and Taxation Code (R&TC) Section 41:

   a) The specific goal of the credit is to create new job opportunities for those workers facing barriers to employment including, but not limited to, those with criminal history and veterans.

   b) To measure whether this bill achieves its intended purpose, the Franchise Tax Board (FTB) shall prepare a written report to the Legislature by March 1, 2030, including the following information:

      i) The number of taxpayers receiving the credit;

      ii) The average credit amount on tax returns claiming the credit; and,

      iii) The number of employees hired during the most recent taxable year, to the extent data is available.

EXISTING FEDERAL LAW:

1) Provided the Work Opportunity Tax Credit (WOTC), which allowed employers to claim a tax credit for hiring workers that are "members of targeted groups", which included individuals who have been convicted of a felony under state or federal law and were hired within one year of either the individual's conviction or release from prison. The credit amount was calculated as a percentage of the eligible employee's wages during the first year of the eligible employee's employment, up to a statutory maximum, which depended on the worker's specific characteristics. (Internal Revenue Code (IRC) Section 51(a).)

2) Provides the empowerment zone employment credit, which provides a wage credit of up to $3,000 per year for each qualified zone employee hired by an eligible business. The credit is calculated as 20% of the first $15,000 in wages paid to each eligible employee each year. The business must be located within a designated Empowerment Zone, as designated by the Departments of Housing and Urban Development (HUD) and Agriculture (USDA). Additionally, the employee for whom the credit is claimed must also reside within the Empowerment Zone. Both full-time and part-time employees qualify, provided they work at least 90 days during the year for which the credit is claimed. (IRC Section 1396.)

EXISTING STATE LAW:

1) Established the NEC, under the PIT Law and CT Law, which allowed a credit for taxable years beginning on or after January 1, 2014, and before January 1, 2026, to a "qualified taxpayer" that did all of the following:

   a) Hired a "qualified full-time employee";

   b) Received a credit reservation for that employee;

   c) Paid "qualified wages" for work performed by that employee in a designated census tract or economic development area, unless otherwise specified; and,

   d) Reported the credit on a timely filed original return. (R&TC Sections 17053.73 and 23626.)

2) Defined a "qualified taxpayer" as a person or entity engaged in a trade or business within a designated census tract or economic development area that, during the taxable year, paid or incurred "qualified wages", unless otherwise provided.

3) Defined a "qualified full-time employee" as an individual, unless otherwise specified, that met the following requirements:

   a) Performed at least 50% of their services for the qualified taxpayer during the taxable year in a designated census tract or economic development area;

   b) Received starting wages that were at least 150% of minimum wage;

   c) Was paid "qualified wages" for not less than an average of 35 hours per week or 40 hours per week if they were a salaried employee; and,

   d) Satisfied at least one of the following conditions at the time of hire:

      i) Was unemployed for the six months immediately preceding employment with the qualified taxpayer;

      ii) Was a veteran who separated from service in the Armed Forces of the United States within the 12 months preceding commencement of employment with the qualified taxpayer;

      iii) Received the Federal Earned Income Tax Credit (EITC) in the previous taxable year;

iv) Was an ex-offender previously convicted of a felony; or,

v) Was receiving either CalWORKs or county general assistance.

4) Defined "qualified wages" as wages that are the portion of wages paid or incurred by the qualified taxpayer during the taxable year to each qualified full-time employee that exceeds 150% of minimum wage but not 350% of the minimum wage.

5) Defined a "designated census tract" as a census tract within the state that was determined by the Department of Finance to have a civilian unemployment rate within the top 25% of all census tracts within the state and had a poverty rate within the top 25% of all census tracts within the state.

6) Defined an "economic development area" as either a former enterprise zone or a local agency military base recovery area, as specified.

7) Provided that, unless the taxpayer was a "small business", qualified taxpayers shall not include any of the following:

   a) Employers that provide temporary help services, as described in Code 561320 of the North American Industry Classification System (NAICS) published by the United States Office of Management and Budget, 2012 edition;

   b) Employers that provide retail trade services, as described in NAICS Sector 44-45;

   c) Employers that are primarily engaged in providing food services, as described in NAICS Codes 711110, 722511, 722513, 722514, or 722515; or,

   d) Employers that are primarily engaged in casino, casino hotel, and alcoholic beverage establishments as described in NAICS Codes 713210, 721120, or 722410.

8) Defined a "small business" as a trade or business that had aggregate gross receipts, minus returns and allowances reportable to this state, of less than $2 million during the previous taxable year.

9) Prohibited employers engaged in sexually oriented businesses from claiming the NEC.

10) Exempted, for taxable years beginning on or after January 1, 2023, and before January 1, 2026, taxpayers engaged in the following industries from the designated census tract or economic development area requirements and reduced the qualifying wage floor:

   a) Semiconductor manufacturing or research and development that has applied, or intends to apply, for funding under the federal Creating Helpful Incentives to Product Semiconductors (CHIPS) Act of 2022 (NAICS Code category 3344);

   b) Electric airplane manufacturing that has received a sales and use tax exclusion as an electric vertical takeoff and landing (eVTOL) manufacturer (NAICS Code category 3364);

   c) Lithium production as defined under the California Lithium Extraction Tax Law (NAICS Codes 212390 or 325180); and,

   d) Lithium battery manufacturing where at least 50% of the primary business involves manufacturing lithium batteries (NAICS Code 335910).

11) Requires the FTB to maintain a searchable database on its website reporting the name of the person or entity claiming the credit, the total amount of credit claimed, and the number of new jobs created.

12) Establishes the Homeless Hiring Tax Credit (HHTC), under the PIT Law and CT Law, which allows a credit for taxable years beginning on or after January 1, 2022, and before January 1, 2027, to a qualified taxpayer that hires an "eligible individual", which is a person that meets both of the following criteria:

   a) The person is homeless or has received supportive services from a homeless services provider, as designated by a local continuum of care or a community-based service provider that is connected to the local coordinated entry system or to a local Homeless Management Information System, on the date of the hire or anytime during the 180-day period immediately before the hire; and,

   b) The person has been issued a certification by a continuum of care or a community-based service provider that is connected to the local coordinated entry system or to a local Homeless Management Information System and that certificate has not expired. (R&TC Sections 17053.80 and 23629.)

FISCAL EFFECT: The FTB estimates that this bill will result in a revenue loss of approximately $1.4 million in fiscal year (FY) 2026-27, $3 million in FY 2027-28, and $4.2 million in FY 2028-29.

COMMENTS:

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

> California's New Employment Credit has helped direct job creation and investment into communities that need it most and has been a cornerstone of job creation and economic development since 2014. To sustain its impact, we should act swiftly to bring back the NEC and ensure continued growth in high-need areas. AB 2205 reinstates the credit so businesses can continue expanding their workforce and supporting economic opportunity in underserved communities.

2) This bill is sponsored by Carrazco, LLP, which notes:

> Many of the businesses we represent operate within Designated Geographic Areas (DGAs), regions specifically identified as most in need of economic development. The NEC has played a critical role in enabling these businesses to grow responsibly by incentivizing the hiring of individuals from harder-to-employ populations. In our experience, this credit does not just support hiring, it allows employers to create new positions, invest in workforce training, and provide long-term opportunities to individuals who might otherwise face barriers to employment. Without the continuation of the NEC, many of our clients would be forced to reconsider expansion plans, limit hiring, or scale back investments in employee development. These impacts would be felt most acutely in the very communities the program is designed to support.

3) This bill is supported by the California Manufacturers and Technology Association (CMTA), which notes, in part:

   The expiration of the NEC at the end of 2025 eliminated one of California's most effective and targeted tools for driving job creation and private investment in high-need areas. AB 2205 provides a timely and necessary solution by reinstating this proven program, ensuring continuity and certainty for employers. California's high cost of doing business continues to challenge manufacturers' ability to expand and compete. The NEC directly offsets hiring costs, enabling manufacturers to create full-time, quality jobs while reinvesting in operations and workforce development. Without it, many employers face difficult decisions about whether to grow in California or shift investment elsewhere.

4) This bill is opposed by the California Teachers Association, which notes, in part:

   In fiscal year 2025-26, the Department of Finance estimated a $94 billion dollar loss in general fund revenue due to existing tax expenditures. This is revenue that would have otherwise gone to the General Fund, of which approximately 40% would have gone toward the Proposition 98 minimum guarantee. Once tax credits are passed with a simple majority, it takes a two-thirds vote of the Legislature to repeal them. While we understand that some of these bills are well intended, CTA does not support this approach, as it would reduce overall funding for education. CTA believes Proposition 98 should be protected from reductions through the creation of new or expanding existing tax expenditures.

5) 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) *Federal WOTC overview*: The WOTC, which expired in 2025 and has not yet been extended by Congress, provided a federal tax credit to employers that hired workers with certain personal characteristics, including qualified ex-felons, veterans, recipients of certain public benefits, individuals with a disability receiving vocational rehabilitation

services, or other specified populations.[1] A qualified ex-felon, for purposes of the WOTC, was an individual who had been convicted of a felony under state or federal law and had a hiring date within one year of either the individual's conviction or release from prison. Employers of all sizes qualified for the WOTC.

The WOTC was designed to incentivize the hiring of employees with certain characteristics by subsidizing a portion of the qualified worker's wage. In an ideal situation, if an employer has a choice between hiring two identical applicants, one of whom is eligible for the WOTC and one of whom is not, the employer may opt to hire the WOTC-eligible applicant because employing that worker will have a lower after-tax cost. The credit was structured to provide an advantage to workers from the WOTC target groups seeking employment; it was not designed to stimulate the creation of new jobs.

c) *WOTC mechanics*: An individual's eligibility for the WOTC was determined by state workforce agencies, which also processed WOTC certifications. In California, this entity was the Employment Development Department (EDD). A jobseeker that belonged to one of the eligible groups could obtain a conditional certification form via their local workforce development board or other relevant public agency that provides assistance to jobseekers. Using this conditional certification, the jobseeker could then use their status as a WOTC-eligible employee when applying for jobs, potentially giving them an advantage over other applicants. Alternatively, an employer could complete and submit forms to the state's WOTC coordinator. In either scenario, the IRS Form 8850 must have been submitted within 28 days after the eligible hire began work. Some employers make all new hires complete this form as part of their new hire paperwork so they retain the option to file credit claims later for qualifying employees.

   States then verified that an individual was a member of a covered group and notified the employer that the application had been certified. Once a new hire was certified, the employer could claim the WOTC as part of the General Business Credit. If an employer did not have tax liability in the tax year that the WOTC-eligible worker was hired, the credit from the WOTC—as part of the General Business Credit—could be carried back up to one year or carried forward up to 20 years before expiring. For most target groups, the maximum wages that were eligible for the WOTC was $6,000. Assuming the eligible employee worked at least 400 hours and the employer claimed the full 40% credit, the maximum credit for most eligible workers was $2,400.

d) *Was the WOTC working*? Researchers with the Brookings Institute have summarized decades of research and criticized the WOTC for failing to deliver sustained economic benefits for disadvantaged workers, stating:

> Employers cannot screen applicants for WOTC eligibility in the hiring process. Employers are typically not allowed or are reluctant to ask applicants about criminal records or benefit receipt, since doing so can expose them to discrimination lawsuits. As a result, the credit does not influence who gets hired.

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[1] *The Work Opportunity Tax Credit*, Congressional Research Service (September 25, 2018). https://sgp.fas.org/crs/misc/R43729.pdf.

This points to a puzzle: If the credit has no effect on hiring, why is it so expensive? Who is benefitting from $2 billion per year in tax credits?

The answer is that certain large firms—especially in fast food, retail, and temporary staffing—regularly hire lots of workers for low-wage jobs, and in the process, hire WOTC qualifying workers totally by accident. Enactment of the WOTC credit gave them an incentive to comb through the files of these routine hires, collecting the lucrative subsidy after the fact.

As a result, nearly all WOTC benefits (97%) go to corporations for workers who would have been employed even without the credit. And the benefits are highly concentrated: In Wisconsin, half of all credits went to just 48 large corporations, even though those firms accounted for only a small share of total hiring in the state.

In short, the credit does little to expand opportunity. The average WOTC-certified worker earns about $9 an hour, and the median job lasts less than a year. There is no evidence that the credit improves retention, raises wages, or reduces reliance on public benefits. Meanwhile, a handful of firms receive a tax savings worth millions of dollars.[2]

e) *California's NEC*: In 2013, the Legislature enacted AB 93 (Committee on Budget), Chapter 69, Statutes of 2013, and SB 90 (Galgiani), Chapter 70, Statutes of 2013, which reformed California's economic development policies by eliminating enterprise zones and other geographically targeted economic development areas. Enacted with the abuse of previous tax incentives in mind, the NEC contained much more stringent requirements for taxpayers to qualify.[3] Qualified full-time employees included many of the same categories included under the Enterprise Zone Hiring Credit: previously unemployed persons, veterans, ex-offenders, and low-income families with children.

The table below displays NEC return and credit data:

Tax Year	Number of Returns	Estimated NEC Amounts Claimed	Total Credits Allowed
2019	403	$3,511,994	$3,582,380
2020	380	$4,231,745	$4,393,560
2021	331	$5,401,737	$4,887,582

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[2] Looney, *The soon-to-expire Work Opportunity Tax Credit has not been working*, Brookings Institute (December 10, 2025). https://www.brookings.edu/articles/the-soon-to-expire-work-opportunity-tax-credit-has-not-been-working/.
[3] *Implementation and Effectiveness of California's New Employment Credit*, California State Senate Committee on Governance and Finance (March 8, 2023). https://sgf.senate.ca.gov/sites/sgf.senate.ca.gov/files/background_-_final_with_letterhead.pdf.
* Not all timely 2024 tax returns had been processed prior to publishing the most recent report.

2022	352	$3,602,406	$3,520,759
2023	232	$3,494,682	$3,992,483
2024*	208	n/a	$4,730,165

Source: FTB Annual New Employment Credit Reports, 2021-26.

Eligible employees were required to work at least an average of 35 hours per week and meet other specified requirements. To claim the credit, taxpayers had to receive a tentative credit reservation from the FTB for each qualified full-time employee within 30 days from the date of hire and certify each qualified employee annually. Additionally, state law set the amount of credit at 35% of qualified wages, on wages paid between 150% and 350% of minimum wage, with the top and bottom wage range increasing over time due to increases in the minimum wage rate. However, taxpayers must also have had a net increase in their total number of full-time employees working in California compared to their base year based on annual full-time equivalents to claim the credit.

When the Legislature enacted the NEC in AB 93 and SB 90, revenue estimates projected taxpayers would claim $22 million in NECs in the 2014 taxable year and $69 million in the 2015 taxable year. However, final valid claims were $340,822 in year 2014 (2% of the initial estimate) and $693,323 in 2015 (1% of the initial estimate).[3] Over these first two tax years the credit was available, at least 1,829 taxpayers claimed the credit, but the FTB determined that 83% of the claims were invalid.

f) *NEC expansion*: In 2023, Governor Newsom's January budget proposed expanding the availability of the NEC by eliminating the geographic restrictions for qualifying semiconductor manufacturing and research and development firms. SB 131 (Committee on Budget and Fiscal Review), Chapter 55, Statutes of 2023, exempted taxpayers engaged in semiconductor, electric airplane, lithium production, and lithium battery manufacturing, as described in specified NAICS codes, from the designated census tract or economic development area requirements for taxable years beginning on or after January 1, 2023 and before January 1, 2026. Additionally, SB 131 reduced the qualifying wage floor from 150% of minimum wage to the portion of wages that exceeded 100% of minimum wage.

g) *Barriers to claiming the NEC*: The Legislative Analyst's Office has reported that the low amount of credits claimed suggests that the credit has been challenging or unappealing for businesses to use and cites the credits' high-wage threshold, small credit amount, complexity, uncertainty, and interaction with other credits as contributing to low participation. Another restriction that may have hindered use is that taxpayers had to demonstrate an overall increase in employment as compared to a base year, meaning that a company must have continually increased their workforce year over year. A new business that is rapidly expanding can easily meet this target, but more established firms are less likely to continuously increase employment.

Additionally, the statute required that the employer and employees be located in areas that are designated to have the highest unemployment and poverty levels but only

allowed employers to generate credits when paying workers more than 150% of minimum wage. However, census tracts where businesses pay residents high wages are less likely to have high unemployment and poverty rates.

h) *Homeless Hiring Tax Credit*: The HHTC is available for taxable years beginning January 1, 2022, through December 31, 2026. Employers may receive a tax credit of $2,500 to $10,000 for each eligible employee based on the actual hours worked in the taxable year. Employers may claim up to $30,000 of credit per taxable year. To be eligible, the employee must be certified by a certifying organization. Employers must make a tentative credit reservation with the FTB to claim the credit. A total of $30 million of credit is available annually.

   According to the FTB's March 2025 HHTC report, just 10 taxpayers applied for reservations in the 2023 taxable year, representing a total of $113,333 in credit reservations. However, the amount of credits actually allowed on 2023 tax year returns cannot be disclosed due to state privacy rules because the number of taxpayers claiming the credit was fewer than 10. The FTB's January 2024 report was also unable to provide any data regarding the number of returns claiming the credit and the amount of credits allowed due to state privacy rules. Thus, fewer than 10 taxpayers have actually claimed the HHTC in each taxable year it has been available.

i) *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. In its current form, this bill states that the goal of the credits is to create new job opportunities for those workers facing barriers to employment including, but not limited to, those with criminal history and veterans. To measure whether this bill achieves its intended purpose, the FTB is required to prepare and submit a written report to the Legislature by March 1, 2030, detailing the number of taxpayers receiving the credit, the average credit amount on tax returns claiming the credit and, the number of employees hired during the most recent taxable year, to the extent data is available.

   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 currently drafted, complies with the Committee's policy on sunset dates.

j) *Related legislation*: AB 1565 (Ta) would allow businesses with fewer than five employees a credit, under the PIT Law and the CT Law, equal to 40% of the wages paid to an employee who has previously been convicted of a felony and is hired within one-year of release from incarceration, as specified. AB 1565 is currently pending on this Committee's Suspense File.

k) *Prior legislation*:

i) AB 2294 (Schiavo), of the 2023-24 Legislative Session, would have expanded the NEC by eliminating the requirement that the new employment be located within a designated census tract or economic development area, lowering the floor for qualifying wages, and removing prohibitions on food service, temporary help, and retail businesses. AB 2294 was not heard by this Committee.

ii) SB 131 (Committee on Budget and Fiscal Review), Chapter 55, Statutes of 2023, exempted taxpayers engaged in semiconductor, electric airplane, lithium production, and lithium battery manufacturing, as described in specified NAICS codes, from the designated census tract or economic development area requirements and reduced the qualifying wage floor for taxable years beginning on or after January 1, 2023 and before January 1, 2026.

iii) SB 1349 (Caballero), of the 2021-22 Legislative Session, would have modified the NEC to remove the requirement that work be performed in a designated census tract or economic development area, removed all requirements relating to those designated areas, expanded the definition of a qualified full-time employee, added Section 41 language, and make other technical nonsubstantive changes. SB 1349 was held on the Assembly Appropriations Committee's Suspense File.

iv) AB 2035 (Villapudua), of the 2021-22 Legislative Session, was substantially similar to SB 1349. AB 2035 did not pass out of this Committee by the constitutional deadline.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association for Local Economic Development (CALED)
California Chamber of Commerce
California Manufacturers and Technology Association
Carrazco, LLP

Opposition

California Teachers Association

Analysis Prepared by: Wesley Whitaker / REV. & TAX. / (916) 319-2098