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# SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair  
2025 - 2026 Regular

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**Bill No:** AB 2222

**Author:** Ward

**Version:** 6/17/26 Amended

**Consultant:** Summers

**Hearing Date:** 6/24/26

**Tax Levy:** No

**Fiscal:** Yes

***PERSONAL INCOME TAX LAW AND CORPORATION TAX LAW: CREDITS: LOCAL  
NEWS ORGANIZATIONS: BUSINESS EXPENSE DEDUCTION: EXCESSIVE  
EMPLOYEE REMUNERATION***

*Authorizes a refundable credit under the Personal Income Tax and Corporation Tax Laws to local news organizations to hire journalists working in California.*

## **Background**

**Tax expenditures.** California law allows various income tax credits, deductions, exemptions, and exclusions. The Legislature enacts tax incentives to compensate taxpayers for incurring certain expenses, such as child adoption, or to influence certain behavior, such as charitable giving. The Legislature uses tax incentives to encourage taxpayers to do something they would otherwise not do, but for the tax benefit. The Department of Finance is required to publish annually a list of tax expenditures, which currently totals around \$94.2 billion in forgone general fund revenue.

**Conformity.** State law does not automatically conform to changes in federal tax law, except for specific retirement provisions. Instead, the Legislature must affirmatively conform to federal changes, which it can do in two different ways. First, the Legislature can pass an individual tax bill that conforms to a specific federal provision, such as the Regulated Investment Company Modernization Act (AB 1423, Perea, 2011). Second, the Legislature can enact one omnibus bill to provide that state law conforms to federal law as of a specified date. Currently, state law generally conforms to federal tax law as of January 1, 2025 (SB 711, McNerney, 2025).

**IRC 162(m).** Internal Revenue Code (IRC) Section 162(m) disallows a deduction by any publicly held corporation for applicable employee remuneration that is otherwise deductible with respect to any covered employee to the extent that such remuneration for the taxable year exceeds \$1,000,000. In 2017, section 162(m) was amended by section 13601 of the Tax Cuts and Jobs Act (TCJA). Specifically, section 13601 of TCJA amended the definitions of covered employee, publicly held corporation, and applicable employee remuneration in section 162(m). Section 162(m)(3) defines “covered employee.” Specifically, section 162(m)(3) defines the term “covered employee” as an “employee of the taxpayer” if:

- The employee is the principal executive officer (PEO) or principal financial officer (PFO) of the taxpayer at any time during the taxable year, or was acting in such a capacity,
- The total compensation of the employee for the taxable year is required to be reported to shareholders under the Securities Exchange Act of 1934 (Exchange Act) by reason of the employee being among the three highest compensated officers for the taxable year, or

- The individual was a covered employee of the taxpayer (or any predecessor) for any preceding taxable year beginning after December 31, 2016.

Under TCJA, Section 162(m)(3) also contains flush language providing that a covered employee includes any employee of the taxpayer whose total compensation for the taxable year places the individual among the three highest compensated officers for the taxable year (other than any individual who is the PEO or PFO of the taxpayer at any time during the taxable year, or was an individual acting in such a capacity) even if the compensation of the officer is not required to be reported to shareholders under the Exchange Act.

In 2021, section 162(m) was amended by section 9708 of the American Rescue Plan Act of 2021 (ARPA) to expand the definition of covered employee for taxable years to include any employee who is among the five highest compensated employees for the taxable year, other than the PEO or PFO or the three highest compensated executive officers for the taxable year. This amendment is effective for taxable years beginning after December 31, 2026.

In 2025, section 70603 of H.R. 1 (also known as the “One Big Beautiful Bill”) extended the \$1,000,000 deduction limitation of IRC 162(m) to include a controlled-group aggregation rule. If a publicly held corporation is part of a controlled group under IRC Section 414, compensation paid by all controlled-group members to a specified covered employee is aggregated for purposes of the \$1 million limitation, and the allowable deduction is allocated among group members in proportion to the remuneration each member paid. Those amendments apply federally to taxable years beginning after December 31, 2025.

California generally conforms to IRC 162(m) as of the specified date, January 1, 2025, with modifications. Under the current state law, the Revenue and Taxation Code (RTC) conforms to TCJA’s amendments to IRC 162(m)(3), but RTC does not conform to ARPA’s expanded definition of covered employee. Further, because H.R. 1 was enacted after January 1, 2025, California does not conform to the controlled group aggregation rule, absent further legislation.

**Credits.** Tax credits reduce the amount of tax owed by a taxpayer on a dollar-for-dollar basis. Credit amounts that exceed the taxpayer’s current tax year liability can either be refunded to the taxpayer or carried forward to reduce tax in future years. However, except for the Earned Income Tax Credit, the Young Child Tax Credit, the Foster Youth Tax Credit, and the Motion Picture and Television Production Credit, all credits against California PIT and Corporation Tax (CT) Laws are nonrefundable.

**Credit Limitation.** In 2024, the Legislature limited the total of all business credits, with some exceptions, including credit carry forwards, to \$5,000,000 in the 2024, 2025, and 2026 taxable years, unless the Director of Finance determines that General Fund money over the multiyear forecast is sufficient *without* the revenue impact of the net operating loss suspension and credit limitation (SB 167 and SB 175, Committee on Budget & Fiscal Review). Taxpayers can make an irrevocable election to receive an annual refundable credit claimed in future tax years for business credits equal to credit amounts not claimed due to the limitation.

In his 2026-27 May Revision to the Governor’s Budget, Governor Newsom proposed to permanently limit tax credit use to \$5 million or 50% of liability, whichever is greater, effective in the 2027 taxable year and thereafter. This week, the Legislature approved SB 122 (Committee on Budget & Fiscal Review), which extends the current temporary limitation while maintaining

the refundable credit election until the 2030 taxable year, with some modifications, after which time credits are limited to 75% of liability or \$5 million, whichever is greater.

**Decline of local journalism.** Daily newspaper circulation in the United States hovered between 60 million and 64 million for the 1970s and 1980s, but then began to fall sharply in the 1990s.<sup>1</sup> According to Northwestern's 2025 State of Local News report, almost 40% of all local U.S. newspapers have vanished since 2005, and more than 130 papers shut down in the prior year alone. The report also found that about 50 million Americans now have limited or no access to a reliable source of local news.<sup>2</sup>

Northwestern also found that newspaper employment has fallen by more than three-quarters since 2005 and that 39 states have fewer than 1,000 journalists remaining. Additionally, Pew found that U.S. newspaper newsroom employment fell 57% between 2008 and 2020, from roughly 71,000 jobs to 31,000 jobs.<sup>3</sup>

Coinciding with the decrease in print newspaper circulation, advertising has also declined.<sup>4</sup> Publicly traded U.S. print media firms experienced an average annual decrease of 9% in print advertising revenue between 2010 and 2017. Although digital advertising revenue accounts for an increasingly large share of total advertising revenue, it remains relatively small compared with print advertising revenue for publicly traded U.S. print media firms.

Because the median annual wage for reporters and journalists exceeds \$60,000 before benefits and overhead, many local news organizations lack the financial capacity to hire or retain the journalists needed to provide original local reporting.<sup>5</sup>

The Rebuild Local News wants to authorize income tax credits to help local news organizations hire journalists working in California and offset the cost by conforming to recent changes made by Congress to expand IRC 162(m).

### **Proposed Law**

Assembly Bill 2222 enacts both a credit for taxpayers employing qualified journalists and conforms to changes made by Congress to IRC 162(m).

**Qualified journalism credit.** The measure also authorizes, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, a refundable credit under the PIT and CT Laws to a local news organization, equal to:

- \$20,000 for each of the first five qualifying journalists employed by the taxpayer,
- \$15,000 for each subsequent qualifying journalist employed by the taxpayer,
- \$15,000 for each qualifying journalist in a "new journalism position," as defined, and
- \$7,500 for each qualifying part-time journalist.

The bill also specifies that for a local news organization to be eligible for the credit, it must:

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<sup>1</sup> <https://www.pewresearch.org/journalism/fact-sheet/newspapers/>

<sup>2</sup> <https://localnewsinitiative.northwestern.edu/projects/state-of-local-news/2025/report/>

<sup>3</sup> <https://www.pewresearch.org/short-reads/2021/07/13/u-s-newsroom-employment-has-fallen-26-since-2008/>

<sup>4</sup> [https://www.csulb.edu/sites/default/files/document/19-118\\_c8363c6a-6de4-45b7-8736-8da819b644ec.pdf](https://www.csulb.edu/sites/default/files/document/19-118_c8363c6a-6de4-45b7-8736-8da819b644ec.pdf)

<sup>5</sup> <https://www.bls.gov/ooh/media-and-communication/reporters-correspondents-and-broadcast-news-analysts.htm>

- Be organized in California, or legally registered to conduct business within California, for at least 12 months prior to the start of the taxable year;
- Operate a qualifying digital news outlet, qualifying broadcast station, or qualifying print publication, as defined;
- Publicly disclose all of its beneficial owners, or its board of directors if the taxpayer is a nonprofit entity, on its internet website or in its publication;
- Carries active media liability insurance coverage continuously for the taxable year;
- Maintain and publicly display an editorial policy for error correction and clarification that includes an accessible process for reporting errors and complaints; and,
- Not be controlled, either directly or indirectly, by:
  - A political action committee (PAC) or political organizations (like PACs, Super PACs, and campaign committees) described in IRC 527;
  - An organization that is exempt from federal income taxation pursuant to IRC 501(c)(4), which is the IRC designation for social welfare organizations and local employee associations.

The bill also provides that to be considered a “Qualifying journalist,” the individual must:

- Reside in California;
- Be employed by a local news organization on a full-time basis of at least 30 hours per week for more than 26 weeks with annual income of \$35,000 or more for the taxable year; and
- Have primary job duties that occur in California.

For a “Qualifying part-time journalist,” the individual needs only to be employed by a local news organization on a part-time basis of at least 20 hours per week, but less than 30 hours per week, for more than 26 weeks, with an annual income of no less than \$25,000 for the taxable year.

The bill also provides that the credits do not reduce tax liability owed under the tentative minimum tax, makes other technical and conforming changes, and contains legislative findings and declarations to comply with Section 41 of the RTC.

**Conformity.** AB 2222 also conforms state law to changes made to federal law by ARPA and H.R. 1 to IRC 162(m), which further limit the deductibility of remuneration paid to covered employees of a controlled group in excess of \$1 million.

### **State Revenue Impact**

According to the Franchise Tax Board (FTB), AB 2222 would result in General Fund revenue losses of \$24 million in Fiscal Year (FY) 2026-27, \$55 million in FY 2027-28, and \$55 million in FY 2028-29.

### **Comments**

1. **Purpose of the bill.** According to the author, “Local journalism plays an essential role in strengthening democracy and civic engagement by ensuring communities have access to reliable information about local government, schools, and public safety. Yet across the country and in California, local news organizations are facing unprecedented financial challenges that have led

to widespread newsroom closures and a dramatic decline in the number of journalists covering local communities. AB 2222 provides targeted relief to local news organizations by creating a refundable tax credit tied directly to the employment of journalists. By helping offset the cost of retaining and hiring reporters, photographers, editors, and other newsroom staff, this bill aims to stabilize local news outlets and encourage greater investment in original reporting that serves California communities. Supporting local journalism means supporting informed communities, stronger civic participation, and greater transparency in government. AB 2222 represents a practical step to help sustain the journalists who provide Californians with the trusted local reporting they depend on every day.”

2. “Windfall” or “but for” tax benefit? Tax expenditures produce two different outcomes. The first outcome is a “windfall,” in which the tax expenditure rewards behavior that would have occurred even without the tax benefit. The second outcome is a “but for tax benefit,” where a particular activity would not have occurred without the incentive created by the tax expenditure. Here, the credit serves as a “but for” tax benefit because the bill provides an incentive to local news organizations that are struggling to maintain or grow local journalist employment. However, because the base credit is available to journalists already employed by the taxpayer, some portion of the credit may amount to a windfall for positions the taxpayer would have retained regardless of the credit. On balance, this credit serves primarily as a “but for” tax benefit to the extent it helps local news organizations preserve or add journalist positions.

3. Revenue loss. Existing tax law provides various credits, deductions, exclusions, and exemptions for certain taxpayers. By authorizing a credit against personal income tax, AB 2222 will result in the State General Fund receiving less revenue. As a result, the state will have to reduce spending or increase taxes to offset the loss. Additionally, because Proposition 98 establishes a minimum funding guarantee for K-14 education in California, which generally represents roughly 40% of the state’s General Fund revenues, every dollar of General Fund loss results in approximately 40 cents less of funding for K-14 education.

4. Precedent. If the Legislature allows an income tax credit for employing journalists at local news organizations, why should it not allow other income tax credits for industries facing economic disruption, declining revenues, or reduced public access, such as nurses and child care workers? This may lead to a slippery slope in which more income tax credits are authorized for industry-specific payroll costs, thereby eroding the income tax base and reducing General Fund revenues.

5. Equity. A decline in local journalism may disproportionately affect communities that already have limited access to reliable, locally relevant information, including low-income communities, rural communities, communities of color, immigrant communities, or communities that are predominantly non-English-speaking. Local news organizations often provide information about public safety, local government, schools, housing, and elections that other media outlets may not cover. By providing a refundable credit to qualified local news organizations that employ journalists, AB 2222 may help preserve or expand local reporting in underserved communities. However, the bill does not require that the credit be targeted to news organizations serving underserved communities. The Committee may wish to consider whether additional requirements to improve hiring and local reporting in underserved communities would improve the bill’s equitable outcomes.

6. Best way? The provisions of AB 2222 allowing not-for-profit entities to claim the credit appear to have little or no practical effect. The bill establishes an income tax credit, but not-for-profit entities are generally exempt from California income taxes and therefore do not have an income tax liability against which to apply the credit. Unless the bill creates a separate payment mechanism for exempt organizations, a not-for-profit local news organization would receive no direct tax benefit from being made eligible for the credit.

7. Section 41. Section 41 of the RTC requires any bill enacting a new tax expenditure to contain, among other things, specific goals, purposes, and objectives that the tax expenditure will achieve and detailed performance indicators, along with data collection and reporting requirements (SB 1335, Leno, 2014). A bill that would authorize a new gross income exclusion is exempt from the requirement that the bill contain detailed performance indicators and data collection reporting if the Legislature determines there is no available data to collect and report (AB 3289, Committee on Revenue and Taxation, 2024). To satisfy these requirements, AB 2222 states that the goal of the credits is to provide financial relief to local news media outlets that are struggling to maintain or grow local journalist employment. The performance indicators for the Legislature determine whether the credits are achieving the stated goal, which shall be the number of taxpayers allowed a credit and the total dollar value of credits allowed. To aid the Legislature in determining whether this act meets the goals, purposes, and objectives, AB 2222 directs the FTB to submit a report to the Legislature listing the:

- Local news organizations allowed a credit,
- Amount of credits awarded to each qualified taxpayer,
- Total number of qualifying journalists whose positions were supported by the credits,
- Geographic distribution of credits by county within the state, and
- Total dollar amount of credits allowed.

AB 2222 further directs FTB to publish a version of the report described on their website, while ensuring that any proprietary financial information remains confidential.

8. Committee amendments. The Committee could amend AB 2222 in the following ways:

- Clarify that a “Qualified taxpayer” means a person or entity engaged in a trade or business within California that owns or operates a local news organization.
- Clarify that a sole proprietor who is doing qualifying local news journalism in the State is eligible for this credit.
- Clarify that a qualifying journal that resides in the state means a resident of this state, as defined in RTC 17014.
- Clarify that a newspaper of general circulation adjudicated by a California court has the same meaning as understood in Government Code 6008.
- Revise the Section 41 findings and declarations by:
  - Specifying that the performance indicators shall be the total number of taxpayers allowed the credit, the total dollar value of credits allowed, and the average dollar amount per qualified taxpayer.
  - Removing the requirement that FTB annually submit to the Legislature a report containing specified taxpayer information and instead requiring that FTB submit a report with aggregate data specified in the performance indicators.
  - Requiring FTB to report to the Legislature regarding how they would administer and enforce a refundable tax credit for nonprofit organizations 501(c)3s, including

important considerations raised by this approach for 501(c)3s that may receive a refundable credit.

- Make technical and conforming changes.

**Assembly Actions**

Assembly Revenue & Taxation Committee:	5-2
Assembly Appropriations Committee:	12-2
Assembly Floor:	63-10

**Support and Opposition** (6/18/2026)

Support: Rebuild Local News (Sponsor)  
Asian American Journalists Association, Los Angeles  
California Broadcasters Association  
California Independent News Alliance  
CSU Journalism Chairs  
Latino Media Collaborative  
Media Alliance  
Media Guild of the West, Newsguild-CWA Local 39213  
Pacific Media Workers Guild (The Newsguild-Communications Workers of America Local 39521)  
SAG-AFTRA  
The Ark

Opposition: None received.

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