SENATE RULES COMMITTEE AB 2222

Office of Senate Floor Analyses

(916) 651-4171

THIRD READING

Bill No: AB 2222

Author: Ward (D) and Wicks (D), et al.

Amended: 6/29/26 in Senate

Vote: 27

SENATE REVENUE AND TAXATION COMMITTEE: 4-0, 6/24/26

AYES: McNerney, Ashby, Becker, Grayson

NO VOTE RECORDED: Alvarado-Gil

SENATE APPROPRIATIONS COMMITTEE: 5-2, 8/13/26

AYES: Cervantes, Cabaldon, Grayson, Richardson, Wahab

NOES: Seyarto, Dahle

ASSEMBLY FLOOR: 63-10, 5/27/26 - See last page for vote

SUBJECT: Personal Income Tax Law and Corporation Tax Law: credits: local news organizations: business expense deduction: excessive employee remuneration

SOURCE: Rebuild Local News

DIGEST: This bill (1) authorizes a refundable credit under the Personal Income and Corporation Taxes for local news organizations to hire journalists working in California; and (2) conforms to recent federal changes to the Internal Revenue Code (IRC) Section 162(m), relating to the deductibility of certain excessive employee remuneration.

ANALYSIS:

Existing federal law:

1) Allows, pursuant to IRC 162, a deduction for the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered.

2) Disallows, pursuant to IRC Section 162(m), 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 million.

3) Applies a controlled-group aggregation rule to the IRC 162(m) deduction limitation, for taxable years beginning after December 31, 2025, as follows (One Big Beautiful Bill Act (OBBBA) of 2025, Section 70603):

   a) If a publicly held corporation is part of a controlled group under IRC 414, compensation paid by all controlled-group members to a specified covered employee is aggregated for purposes of the $1 million limitation.

   b) The allowable deduction is allocated among group members in proportion to the remuneration each member paid.

4) Defines a "covered employee," for the purposes of IRC 162, as an "employee of the taxpayer" if such employee meets one of the following criteria (Tax Cuts and Jobs Act of 2017 (TCJA), Section 13601):

   a) 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;

   b) 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;

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

5) Expands the definition of a covered employee to include 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 (American Rescue Plan Act of 2021 (ARPA), Section 9708);

6) For taxable years beginning after December 31, 2026, the expanded definition of a covered employee applies to the five highest paid employees.

Existing state law:

1) Does not automatically conform to changes made by Congress to the Internal Revenue Code, except for changes to pension and retirement programs; instead, the Legislature must affirmatively conform state law to federal to ensure consistent treatment for the same items.

2) Conforms to the IRC as of January 1, 2025, with modifications (SB 711, McNerney, Chapter 231, Statutes of 2055).

3) Conforms to IRC 162(m) as of the specified date, January 1, 2025, with modifications.

4) Does not conform to the expanded definition of covered employee or the controlled group aggregation rule in ARPA and OBBBA.

5) Allows various income tax credits and deductions, as well as sales and use tax exemptions.

6) Limits the total of all business credits, including credit carry forwards, to $5 million or 50% of liability, whichever is greater, commencing in the 2024 taxable year and ending before the 2030 taxable year, after which limits credits to $5 million or 75% of liability, whichever is greater, with some exceptions (SB 167, Committee on Budget & Fiscal Review, Chapter 34, Statutes of 2024 and SB 122, Committee on Budget & Fiscal Review, Chapter 23, Statutes of 2026). 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.

This bill:

1) Conforms state tax law to two recent federal changes made to IRC 162(m):

    a) The expanded definition of covered employee enacted by ARPA; and

    b) The controlled group aggregation rule enacted by OBBBA.

2) Authorizes, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, a refundable credit under the Personal Income and Corporation Taxes to a local news organization, equal to:

   a) $20,000 for each qualifying journalist continuously employed on a full-time basis, as defined, by the qualified taxpayer, not to exceed five qualifying journalists.

   b) $15,000 for each qualifying journalist continuously employed on a full-time basis in excess of five employed by the qualified taxpayer.

   c) An additional $15,000 for each qualifying journalist employed on a full-time basis in a new journalism position.

   d) An additional $7,500 for each qualifying part-time journalist employed on a part-time basis by the qualified taxpayer.

   e) Defines "Qualified Taxpayer" to mean a person or entity engaged in a trade or business within California that owns or operates a local news organization that satisfies all of the following:

      i) Is organized in this state, or legally registered to conduct business within this state, for at least 12 months prior to the start of the taxable year.

      ii) Operates a qualifying digital news outlet, qualifying broadcast station, or qualifying print publication, as defined;

      iii) Publicly discloses 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;

      iv) Carries active media liability insurance coverage for the taxable year;

      v) Maintains and publicly displays an editorial policy for error correction and clarification that includes an accessible process for reporting errors and complaints; and

      vi) Not controlled, either directly or indirectly, by a political action committee or political organizations described in IRC 527; or tax exempt pursuant to IRC 501(c)(4).

   f) Defines "on a full-time basis" as employed by, or is the sole proprietor of, a qualified taxpayer on a full-time basis of at least 30 hours per week for more than 26 weeks, with annualized wages, salary, or passthrough income of no less than $35,000 during the taxable year.

g) Defines "on a part-time basis" as employed by a qualified taxpayer for at least 20 hours per week but less than 30 hours per week for more than 26 weeks, with annualized wages or salary of no less than $25,000 during the taxable year.

h) Contains legislative findings and declarations to comply with Section 41 of the Revenue & Taxation Code.

i) Defines additional terms.

3) Makes other technical and conforming changes.

Background

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. 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.

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.

Coinciding with the decrease in print newspaper circulation, advertising has also declined. 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.

FISCAL EFFECT: Appropriation: Yes Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee, the Franchise Tax Board (FTB) estimates that this bill would result in General Fund revenue increases of $9.9 million in 2026-27, $15 million in 2027-28, and $23 million in 2028-29. FTB would incur administrative costs of $434,000 in 2027-28, and minor amounts annually thereafter, to implement the provisions of the bill (General Fund, see Staff Comments).

SUPPORT: (Verified 8/14/2026)

Rebuild Local News (Source)
Asian American Journalists Association, Los Angeles
California Broadcasters Association
California Independent News Alliance
California Newspaper Publishers Association
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: (Verified 8/14/2026)

California Business Roundtable
California Chamber of Commerce
California Fuels and Convenience Alliance
California Taxpayers Association
Council on State Taxation
Family Business Association of California
Greater High Desert Chamber of Commerce
Greater San Fernando Valley Chamber of Commerce
Solano County Taxpayers Association

ARGUMENTS IN SUPPORT: 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."

ARGUMENTS IN OPPOSITION: According to the California Chamber of Commerce, "AB 2222 seeks to further conform California law to the federal limitations under Internal Revenue Code Section 162(m) related to governing the deductibility of executive compensation by publicly traded corporations. While CalChamber has no concerns with the development of the journalism tax credit provisions, we have significant concerns with increasing businesses' tax liabilities to fund the new tax credit… While AB 2222 increases conformity with current federal law, it does so by expanding the executive compensation deduction limitation, resulting in permanently nondeductible compensation for affected businesses. These prohibited deductions generally cannot be recovered in future tax years, increasing a business' taxable income without accounting for commonly used compensation arrangements. Executive compensation structures often involve stock-based compensation, deferred compensation arrangements, and multi-year performance incentives. Companies remain obligated to pay compensation that has been agreed upon via multi-year contracts, yet AB 2222 would permanently deny a corresponding tax deduction. This increases the cost of operating in California and reduces resources available for further investments, workforce expansion, and research and development."

ASSEMBLY FLOOR: 63-10, 5/27/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Connolly, Davies, Elhawary, Fong, Gabriel, Gallagher, Garcia, Gipson, Mark González, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NOES: DeMaio, Dixon, Ellis, Flora, Jeff Gonzalez, Hoover, Johnson, Macedo, Patterson, Sanchez

NO VOTE RECORDED: Castillo, Chen, Hadwick, Lackey, Celeste Rodriguez, Ta, Tangipa

Prepared by: Haley Summers / REV. & TAX. / (916) 651-4117
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