THIRD READING

Bill No: AB 2222
Author: Ward (D) and Wicks (D), et al.
Amended: 8/21/26 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 outlets: business expense deduction: excessive employee remuneration

SOURCE: Rebuild Local News

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

Senate Floor Amendments of 8/21/26 (1) Add cross-references to new paragraphs added to the tentative minimum tax (TMT) under the Corporate Tax Law; and (2) Make technical amendments replacing “local news organizations” with “local news outlets.”

Senate Floor Amendments of 8/20/26 (1) Add the measure’s credit onto the list of credits that can reduce tax below the Tentative Minimum Tax under both the

Personal Income and Corporation Taxes; (2) Add the measure's credit into provisions of law that set the order in which taxpayers can claim credits; (3) Add a definition for "annualized wages, salary or passthrough income;" (4) Set a deadline of January 1, 2028, for the Franchise Tax Board (FTB) to issue guidance for nonprofit organizations to claim the credit; (5) Clarify the administration of the credit for nonprofit organizations by stating that the credit can reduce the tax imposed on unrelated business taxable income; and (6) Make additional technical and conforming changes.

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 (TCJA, Section 13601).

6) For taxable years beginning after December 31, 2026, the expanded definition of a covered employee applies to the five highest paid employees (American Rescue Plan Act of 2021 (ARPA), Section 9708).

7) Establishes an Alternative Minimum Tax (AMT) calculation, which is owed on the excess amount of TMT that is greater than the regular tax owed by the taxpayer. The AMT exists to ensure that taxpayers cannot significantly reduce their tax liability in the regular system. The TMT is calculated with fewer deductions than the regular tax.

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) Conforms, with modification, to IRC 55-59, pertaining to the AMT and TMT.

6) Prohibits, generally, taxpayers from using tax credits against the Personal Income and Corporation Taxes to reduce their tax liability under the tentative minimum tax; a part of the alternative minimum tax. However, the Legislature has allowed several credits to do so, such as the Motion Picture Production Credit 4.0 and the elective refundable credit for the business credit limitation.

7) Requires credits allowed against the net tax under the Personal Income Tax to be applied in a specified order, including applying credits that reduce the regular tax below the TMT.

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

9) 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): the expanded definition of covered employee enacted by ARPA, and the controlled group aggregation rule enacted by OBBBA.

2) Adds the refundable credit for local news outlets to the list of tax credits that can reduce tax below TMT.

3) Places its credit at the end of the list set within state law establishing the order in which taxpayers can claim credit under the Personal Income Tax.

4) 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 outlet, 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 journalists.

   b) $15,000 for each qualifying journalist continuously employed on a full-time basis in excess of five journalists 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 outlet 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) Is 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 "taxpayer," for the purposes of the credit under the Corporations Tax Law, to include tax exempt organizations.

g) 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.

h) 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.

i) Defines "annualized wages, salary or passthrough income" to mean the wages, salary, or passthrough income paid to or earned by the individual for qualifying employment during the taxable year, divided by the number of weeks of that employment during the taxable year, multiplied by 52.

j) Authorizes the credit, under the Corporations Tax Law, to be applied against any tax liabilities that may be owed by an exempt organization for their unrelated business tax income and specifies that the excess credit shall be refunded to the taxpayer.

k) Requires, by January 1, 2028, the FTB to issue guidance on the administration and enforcement of the credit for tax exempt organizations, including the form and manner in which those organizations shall claim the credit and receive a refund for excess credit.

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

m) Defines additional terms.

5) Makes other technical and conforming changes.

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 8/24/26)

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 8/24/26)

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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