

Date of Hearing: April 13, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION
Mike Gipson, Chair

AB 2377 (Soria) – As Amended March 26, 2026

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Personal Income Tax Law and Corporation Tax Law: deductions: accelerated depreciation for new manufacturing operations

SUMMARY: Allows, under the Personal Income Tax (PIT) Law and the Corporation Tax (CT) Law, taxpayers engaged primarily in certain businesses or trades an accelerated depreciation deduction, as specified, for five years. Specifically, **this bill:**

- 1) Provides that, for taxable years beginning on or after January 1, 2027, and before January 1, 2032, a "qualified taxpayer" placing "qualified property" into service in this state during the taxable year is eligible for a depreciation deduction equal to:
 - a) 50% of the adjusted basis of the "qualified property," which is subject to standard depreciation rules in subsequent taxable years; or,
 - b) 100% of the adjusted basis of the "qualified property," if the "qualified property" is placed in service in a "high-need area."
- 2) Requires that the adjusted basis giving rise to this bill's deduction be reduced by the amount of this bill's deduction.
- 3) Defines "high-need area" as a census tract, city, or county, with an annual unemployment rate or poverty rate of at least 150% of the statewide unemployment rate or poverty rate.
- 4) Defines a "qualified property" as:
 - a) Machinery and equipment, including component parts and contrivances, such as belts, shafts, moving parts, and operating structures;
 - b) Equipment or devices used or required to operate, control, regulate, or maintain the machinery, including, but not limited to, computers, data-processing equipment, and computer software, together with all repair and replacement parts with a useful life of one or more years therefor, whether purchased separately or in conjunction with a complete machine, and regardless of whether the machine or component parts are assembled by the "qualified taxpayer" or another party; or,
 - c) Tangible personal property used in pollution control that meets standards established by this state or any local or regional governmental agency within this state.
- 5) Defines a "qualified taxpayer" as a taxpayer primarily engaged in a trade or business described in Codes 3111 to 3399, inclusive, or 541713 to 541715 , inclusive, of the North

American Industry Classification System (NAICS) published by the United States Office of Management and Budget, 2022 edition.

- 6) Requires a qualified taxpayer to place qualified property in service with an adjusted basis of at least \$1,000,000 during the taxable year to qualify for this bill's depreciation deduction.
- 7) Requires a qualified taxpayer to certify under penalty of perjury that qualified property placed in service during the taxable year will be primarily used in the state for at least three years, and requires the Franchise Tax Board (FTB) to prescribe any regulations necessary to recapture any benefit received by a taxpayer pursuant to this bill where the qualified property is subsequently converted to a nonqualifying use or is primarily used out of state prior to the end of the three-year period.
- 8) Provides that, for the purposes of satisfying Revenue and Taxation Code (R&TC) Section 41, the goal of this bill's accelerated depreciation deduction is to improve early year cashflow for businesses, particularly those in economically distressed areas, reduce the effective cost of capital in the state, and strengthen California's competitiveness for new investments in strategic industries. The performance indicators for the Legislature to use in determining the efficacy of this bill's deduction are the number of taxpayers claiming, and the total dollar value of, accelerated depreciation deductions for qualified property.
- 9) Requires the FTB to report no later than March 1, 2029, and annually thereafter, the above performance metrics to the Legislature, in compliance with reporting requirements under existing law.
- 10) Takes immediate effect as a tax levy.
- 11) Repeals this bill's provisions as of January 1, 2032.

EXISTING FEDERAL LAW:

- 1) Defines "gross income" as income from whatever sourced derived, except as specifically excluded. (Internal Revenue Code (IRC) Section 61.)
- 2) Allows as a depreciation deduction a reasonable allowance for the exhaustion or wear and tear of property used in a trade or business, or property held for the production of income. The basis of property for which depreciation is deducted must be reduced by the amount of the deduction. The property must have a limited, useful life of more than one year. Eligible property includes equipment, machinery, vehicles, and buildings, but excludes land. (IRC Section 167.)
- 3) Establishes the modified accelerated cost recovery system (MACRS) that defines the depreciable period for specified assets, the manner in which to depreciate the asset, and when depreciation may begin. Under MACRS, two types of depreciation systems exist, the general depreciation system, and the alternative depreciation system. (IRC Section 168.)
- 4) Allows a special depreciation deduction equal to 100% of the adjusted basis for any qualified production property placed in service during the taxable year, if that property is generally depreciated under the MACRS. A depreciation deduction equal to 100% of the adjusted basis of a property is often called "full expensing." (IRC Section 168(k).)

- 5) Allows a taxpayer to elect to treat the cost of certain property eligible for a depreciation deduction as an expense which is not chargeable to capital account. The aggregate cost that may be treated as an expense is limited to \$2.5 million, with a phase-out threshold of \$4 million. This treatment essentially acts as full expensing. (IRC Section 179.)

EXISTING STATE LAW:

- 1) Conforms, under the PIT Law, to the MACRS under federal law, as it read on January 1, 2025. (R&TC Section 17024.5.)
- 2) Allows as a depreciation deduction, under the CT Law, a reasonable allowance for the exhaustion or wear and tear of property used in a trade or business, or property held for the production of income. This deduction is mirrored on the federal depreciation deduction but requires the use of the Class Life Asset Depreciation Range (ADR) system. The ADR system is an accounting system established by the Internal Revenue Service and used to determine the "useful life" of depreciable property. Generally, the ADR provides for a longer period of recovery than the MACRS. (R&TC Section 24349.)
- 3) Conforms, with certain modifications, to the federal treatment of certain eligible property as an expense that is not chargeable to capital account authorized under IRC Section 179. (R&TC Section 24356(b).)
- 4) 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 FTB estimates that this bill would result in a revenue loss of \$170 million in the 2026-27 fiscal year (FY), and \$370 million in FYs 2027-28 and 2028-29.

COMMENTS:

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

New industrial developments that create good-paying manufacturing jobs require significant upfront investment in equipment, technology, and facilities. While federal tax law allows businesses to recover those costs relatively quickly, California requires them to spread those deductions out over a much longer period of time. That gap can make it harder for our state, and regions like the Central Valley, to compete for those kinds of investments.

AB 2377 takes a practical step to promote economic development by allowing businesses to recover more of their investment in new manufacturing equipment within the first year. It also puts a stronger emphasis on directing those investments into high-need

communities, so that the benefits of growth are more broadly shared. AB 2377 ensures California remains competitive for the development of advanced manufacturing while expanding access to high-quality jobs in the communities that need them most.

- 2) The Fresno County Economic Development Corporation, writing as sponsors of this bill, state, in part:

While California remains a global leader in advanced manufacturing, the state has experienced a long-term decline in manufacturing employment – from nearly 2 million jobs in 1990 to roughly 1.3 million today – with continued softness in recent years. This underscores the importance of improving the competitiveness of job-generating investment in the state.

AB 2377 is designed to help close the gap in depreciation schedules between federal and state tax law and improve early-year cash flow while also aligning with California's economic blueprint. If enacted, this bill would strengthen California's global competitiveness and encourage new investment in capital-intensive industries such as advanced manufacturing, industrial processing, and clean energy production.

- 3) A number of manufacturing, bio-development, and business advocate organizations, writing in support of this bill, state, in part:

Manufacturing is capital-intensive by nature. Companies must make substantial investments in equipment, technology, and facility upgrades to remain competitive. However, California's current depreciation structure, requiring deductions to be spread over many years, puts the state at a clear disadvantage compared to federal policy and other states that allow for immediate or accelerated cost recovery. This gap reduces early-year cash flow and can ultimately determine whether a project is located in California or elsewhere.

- 4) Committee Staff Comments:

- a) *The One Big Beautiful Bill Act (OBBBA)*: The OBBBA was signed into law on July 4, 2025, and made a number of changes to federal tax law. Among those changes were the permanent enactment of 100% depreciation on certain property and an increase to the full expensing provisions under IRC Section 179.
- b) *California conformity*: California does not automatically conform to federal tax law. Rather, the state conforms to federal tax law provisions as of a certain date, with certain modifications. Last year, the Legislature passed SB 711 (Committee on Revenue and Taxation), Chapter 231, Statutes of 2025, which updated California's reference date to conform to federal law to January 1, 2025. Thus, California does not conform to the expansions of depreciation deductions authorized by the OBBBA.
- c) *NAICS Codes*: The NAICS codes are a series of categories that classify various industry types by activity. The codes are published by the United States Office of Management and Budget and are updated on a five-year basis. The codes qualifying for this bill's bonus depreciation deduction constitute all manufacturing activities (NAICS Codes 3111-3399), research and development in nanotechnology (NAICS Code 541713) or

biotechnology (NAICS Code 541714) and research and development in the physical, engineering, and life sciences (NAICS Code 541715).

- d) *This bill*: As currently drafted, this bill would authorize bonus depreciation for placing qualified property into service if the qualified taxpayer is engaged primarily in specified business activities. The deduction is equal to 50% of the adjusted basis of the qualified property placed into service anywhere in California, and 100% of the adjusted basis of the qualified property if placed into service in a high-need area. This bill would require that the basis of qualified property be reduced by the amount deducted, that the qualified property have an adjusted basis of at least \$1 million, and that the qualified property be used primarily in the state for at least three years.
- e) *New activity or changing the timing of likely activity?* The proponents of this bill state that this bill's deduction would incentivize qualified taxpayers to place certain manufacturing and scientific equipment into service in California by providing an immediate deduction – either the full basis, or 50% of the basis, of the qualified property. The proponents note that the high cost of capital and the time value of money warrant bonus depreciation of this type of property. The time value of money is the concept that one dollar today is more valuable than one dollar in the future. This is for two reasons: the first is inflation, which is self-explanatory; and, the second is that an available dollar now can be used productively to make a return - in other words, that dollar can be invested and ideally start making a profit, immediately.

Critics of bonus depreciation question the validity of bonus depreciation acting as an incentive. According to the Congressional Research Service (CRS), "Critics say that the [bonus depreciation] has mainly led firms to move forward the timing of planned investments, which is to say that the [bonus depreciation] has mostly been taken for investments that would have been made without it, producing windfall tax gains for these firms."¹ While the CRS does not weigh the validity of this critique, it appears to be a valid one. Generally, businesses will make decisions that maximize profit. Thus, when choosing where to site additional equipment that the business intends to operate for an extended period for income producing purposes, the business will choose an activity, equipment, and location that maximizes that profit. Bonus depreciation accelerates the recouping of cost by allowing depreciation deductions sooner and over a shorter period. Unlike a credit or deduction for normal expenses that provide ongoing tax benefits every taxable year, bonus depreciation provides those benefits in a more immediate manner. In other words, critics contend that bonus depreciation, and especially full expensing, simply alter the point at which an investment decision is made, rather than incentivize new activity that would not occur absent the depreciation deduction.

- f) *Subsidizing compliance with existing law*: Existing law establishes that it is a policy of California to achieve net zero greenhouse gas emissions by 2045, in addition to certain intermediary targets. This bill would authorize bonus depreciation for the installation of certain property, including tangible personal property used in pollution control. This bill

¹ Gary Guenther, *The Section 179 and Section 168(k) Expensing Allowances: Current Law, Economic Effects, and Selected Policy Issues*, CRS (updated February 7, 2024), <https://www.congress.gov/crs-product/RL31852>, accessed March 2026.

would, therefore, subsidize compliance with existing law, though to what degree Committee staff cannot determine.

Generally, when the Legislature enacts a law to support a societal good, there are often attendant costs. The Legislature is almost always made aware of these costs, but may determine that the wider benefits outweigh the costs. If the Legislature begins subsidizing compliance with these laws via the tax code, some may contend it undermines the purpose of having a mandatory law and may set a precedent with no limiting principle. For example, if California bans the manufacturing of certain chemicals, should the state reimburse those impacted producers for the associated loss?

- g) *Additional considerations:* The author may wish to address the following additional considerations:
- i) This bill currently provides that the "standard depreciation rules" apply in the taxable years following the taxable year in which the qualified property is placed in service. The author may wish to clarify how to apply those rules to avoid taxpayer confusion;
 - ii) This bill defines a "high-need area" as a census tract, city, or county with an annual unemployment or poverty rate at certain levels. This bill does not specify when this condition must occur. Is it the taxable year in which the qualified property was placed in service? Is it all the taxable years during this bill's eligible period? The author may wish to amend this bill to clarify;
 - iii) This bill requires the FTB to prescribe regulations necessary to recapture benefits received by a taxpayer if the qualified property is used in a nonqualifying manner. The FTB already has this authority generally and the author may wish to amend this bill to remove this requirement;
 - iv) This bill would apply to tangible personal property used in pollution control that meets certain standards. The FTB staff lack expertise with these requirements, and it is unclear how the FTB would verify the eligibility of this equipment. The author may wish to provide for a certifying third-party.
 - v) This bill specifies a repeal date of January 1, 2032, but applies this bill's provisions to taxable years beginning before January 1, 2032. Generally, repeal date provisions reference the December 1st in the taxable year following the last eligible taxable year. The author may wish to amend this bill to change the repeal date to December 1, 2032.
 - vi) This bill requires that a qualified taxpayer certify under penalty of perjury that qualified property placed in service during the taxable year is used primarily in California for three years, despite this not being a requirement under the definition of a qualified taxpayer or qualified property. The author may wish to amend this bill to include that requirement in the definition of a qualified taxpayer or qualified property to avoid confusion.
- h) *What is a "tax expenditure"?* Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. In the late 1960s, United

States 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 of them (in the form of forgone revenues). This bill would authorize bonus depreciation for placing in service qualified property, thereby constituting a tax expenditure.

- i) *Committee's tax expenditure policy:* SB 1335 (Leno), Chapter 845, Statutes of 2014, added R&TC Section 41, which recognized that the Legislature should apply the same level of review used for government spending programs to tax credits introduced on or after January 1, 2015. AB 263 (Burke), Chapter 743, Statutes of 2019, extended the requirements in R&TC Section 41 to all tax expenditure measures under the PIT Law, the CT Law, and the Sales and Use Tax Law introduced on or after January 1, 2020.

A tax expenditure proposal must 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. 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 vote². Sunsets are required because eliminating a tax expenditure generally requires a 2/3rd vote. These requirements must be satisfied before a bill can receive a vote in this Committee. This bill contains a five-year sunset, and complies with the requirements of R&TC Section 41.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association for Local Economic Development
California Chamber of Commerce
California Life Sciences Association
California Manufacturers and Technology Association
Fresno Chamber of Commerce
Fresno County Economic Development Corporation
San Joaquin Valley Manufacturing Alliance

Opposition

None on file

Analysis Prepared by: Harrison Bowlby / REV. & TAX. / (916) 319-2098

² An "appropriate sunset provision" shall mean five years, except in the case of a tax expenditure measure providing relief to California veterans, in which case "appropriate sunset provision" shall mean 10 years.