

Date of Hearing: April 27, 2026

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Mike Gipson, Chair

AB 2533 (Tangipa) – As Amended March 25, 2026

SUSPENSE

Majority vote. Tax levy. Fiscal committee.

SUBJECT: Personal income taxes: unemployment insurance: fitness benefit

SUMMARY: Allows, under the Personal Income Tax (PIT) Law, an "above-the-line" deduction for a "qualified fitness benefit" provided by an employer to their employees, as specified, and excludes up to \$600 per year in qualified fitness benefit amounts from wages for purposes of the unemployment insurance tax. Specifically, **this bill:**

- 1) Allows, for taxable years beginning on or after January 1, 2026, a deduction equal to the amount provided by an employer to an employee as a "qualified fitness benefit".
- 2) Defines "qualified fitness benefit" as a uniform stipend amount to all full-time employees for fees or dues for membership in a fitness center, health club, or gym.
- 3) Provides that the deduction applies regardless of whether the benefit is provided through direct payment to a third party or as a reimbursement to the employee upon proof of payment.
- 4) Provides that the deduction does not apply to any of the following:
 - a) Memberships in any club where the primary purpose is social, athletic, or sporting, such as a country club or golf club;
 - b) Expenses for travel, meals, or lodging associated with fitness activities; or,
 - c) A stipend amount for fees or dues for membership in a fitness center, health club, or gym provided to highly compensated employees that exceeds the amount provided to any other full-time employee.
- 5) Finds and declares the following for the purposes of satisfying the requirements of Revenue and Taxation Code (R&TC) Section 41 for the deduction:
 - a) The specific goals, purposes, and objectives of the deduction is to assist California residents in affording the cost of a "qualified fitness benefit," which can increase an employee's tax liability if provided through an employer-sponsored wellness program.
 - b) To measure whether this bill achieves its intended purpose, the performance indicator is the number of taxpayers allowed the deduction.

- c) Requires the Franchise Tax Board (FTB), no later than June 30, 2029, and annually thereafter, to submit a report to the Legislature detailing the number of taxpayers that claimed the deduction for the most recent taxable year.
- 6) Excludes from "wages", for unemployment insurance tax purposes, up to \$600 per year in qualified fitness benefit amounts provided by an employer to an employee that satisfy the requirements of the deduction created by this bill.

EXISTING LAW:

- 1) Conforms generally to federal law, which provides that "gross income" includes all income from whatever source derived unless expressly excluded. (Internal Revenue Code (IRC) Section 61 and R&TC Section 17071.)
- 2) Conforms generally to federal law, which allows businesses to deduct ordinary and necessary costs that are common and appropriate for maintaining a business or trade. Employee compensation, including the costs of wages and benefits, is deductible for businesses. (IRC Section 62(a) and R&TC Sections 17271 and 24343.)
- 3) Conforms, with modifications, to federal law, which excludes from gross income specified fringe benefits, including qualified employee discounts, qualified transportation benefits like the cost of parking and transit passes, and qualified retirement planning services. (IRC Section 132 and R&TC Section 17149.)
- 4) Provides that on-premises gyms and athletic facilities that are operated by the employer and substantially all the use of which is by employees of the employer, their spouses, and their dependent children do not create taxable income for the employer or employees. (IRC Section 132(j)(4).)
- 5) Does not conform to federal law provisions relating to health savings accounts (HSAs). (IRC Section 223 and R&TC Section 17215.4.)
- 6) Allows an itemized deduction for medical and dental expenses that exceed 7.5% of a taxpayer's adjusted gross income (AGI). (R&TC Sections 17201 and 17241.)

FISCAL EFFECT: The FTB estimates that this bill would result in General Fund revenue losses of \$85 million in fiscal year (FY) 2026-27, \$55 million in FY 2027-28, and \$55 million in FY 2028-29.

COMMENTS:

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

California is facing rising healthcare costs driven in large part by preventable chronic disease and physical inactivity. Yet under current law, we tax employer-provided fitness benefits as income, effectively discouraging the very behaviors that would improve public health and reduce long-term costs.

AB 2533 corrects this misalignment by removing the tax penalty on wellness. It encourages employers to invest in their workforce and makes fitness more accessible to

working Californians, particularly those who may not otherwise be able to afford it. This is not a mandate, but a targeted incentive that supports prevention, improves productivity, and reduces strain on our healthcare system. Simply put, California should not be taxing people for trying to stay healthy.

- 2) This bill is sponsored by the Health and Fitness Association, which notes, in part:

This bill makes fitness memberships and classes more affordable by letting employees deduct employer-provided fitness benefits from their taxable income—thereby lowering the after-tax cost of those expenses. Public health research consistently shows that affordability is a primary determinant of participation in physical activity and nutrition-related services. In an environment where economic forecasters continue to emphasize lingering inflationary pressure, now is the time to decrease the cost of services that reduce long-term healthcare spending and prevent chronic disease. Policy choices that reduce barriers to prevention during periods of economic strain decrease medical costs and improve population health outcomes.

- 3) This bill is supported by the Peace Officers Research Association of California (PORAC), which notes, in part:

Encouraging access to fitness programs can help improve overall health, reduce stress, and support workforce readiness. For public safety professionals, maintaining physical fitness is an essential part of the job. Providing additional support for fitness-related expenses can help promote healthier lifestyles and contribute to long-term well-being. AB 2533 offers a straightforward approach to incentivizing these benefits and supports both employees and employers in prioritizing health.

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

Many employers already provide wellness and fitness benefits, which are deductible as a business expense. For those instances that qualify as medical expenses, they are non-taxable, while other benefits such as gym memberships are taxable to the employee. Additionally, this legislation will also complicate the state code, since no such provisions exist in federal law.

- 5) Committee Staff Comments:

- a) *What problem does this bill seek to address?* The author and sponsor argue that California faces significant economic and public health costs associated with physical inactivity, including billions of dollars in annual medical expenses and lost productivity. Further, they argue that inactive individuals incur higher healthcare costs, and employers experience measurable losses due to absenteeism and chronic disease. Supporters note that the Center for Disease Control (CDC) has identified inactivity and obesity as major drivers of chronic disease and rising healthcare costs, with obesity alone accounting for an estimated \$173 billion in annual medical spending nationwide.¹

¹ *About Adult Obesity*, Division of Nutrition, Physical Activity, and Obesity – Centers for Disease Control and Prevention. <https://www.cdc.gov/obesity/php/about/>, accessed March 31, 2026.

According to the California Community Obesity Profiles web application maintained by the California Department of Public Health (CDPH), roughly 29% of Californians were obese in 2022-23 and this was negatively correlated with income, meaning lower earning individuals were more likely to be obese.² In that same time period, it was estimated that just over 27% of California adults were diagnosed with high blood pressure, just over 11% of California adults were diagnosed with diabetes, and just under 7% of California adults were diagnosed with coronary heart disease. Additionally, in 2016-17, CDPH estimated that roughly 38% of California adults walked regularly for transportation, fun, or exercise.

- b) *What does this bill do?* This bill seeks to increase access to fitness facilities by allowing employees, starting January 1, 2026, to deduct any amounts they receive from their employer for qualified fitness benefits on their personal income taxes. As an above-the-line deduction, this benefit would be available to all taxpayers, regardless of whether they itemize or take the standard deduction on their California income tax return. Additionally, this bill provides that up to \$600 in qualified fitness benefits are excluded from the wage base used to calculate unemployment insurance taxes.

To qualify, the qualified fitness benefit must be provided uniformly to all full-time employees and does not include memberships in any club where the primary purpose is social, athletic, or sporting, such as country clubs or golf clubs. Expenses for travel, meals, or lodging associated with fitness activities do not qualify for the deduction created by this bill. Finally, the deduction created by this bill would apply to fitness benefits provided through a direct payment to a third party or as reimbursement to the employee upon proof of payment. In other words, the deduction would apply even if the employer purchased gym memberships directly from a fitness center or reimbursed employees after they made the purchase themselves.

- c) *Existing tax treatment of employer-provided benefits:* Many employers offer "cafeteria plans", which allow employees to reduce their taxable income while providing access to other benefits chosen by the employee. These benefits can include retirement savings (sometimes with an employer match up to a certain percentage), group term life insurance, disability insurance, adoption assistance, and contributions to flexible spending accounts (FSAs) or HSAs.

FSAs and HSAs are tax-advantaged savings accounts that help offset the high price of healthcare by allowing individuals to pay for some medical expenses with pretax dollars. Both FSAs and HSAs allow savers to contribute pre-tax dollars to reduce their taxable income, have annual contribution limits, and can only be used for approved health-related expenses. Unlike FSAs, however, HSAs are only available when combined with a high-deductible health plan. In 2026, a high-deductible health plan is defined as one with a deductible of \$1,700 or higher for self-coverage or \$3,400 or higher for family coverage (up from \$1,650 for self-coverage or \$3,300 for family coverage in 2025). Notably,

² *Obesity Web App*, "Nutrition and Physical Activity Branch – California Department of Public Health (updated September 29, 2025). <https://www.cdph.ca.gov/Programs/CCDHP/DCDIC/NEOPB/Pages/SNAPedCountyProfileDashboard.aspx>.

California does not conform to federal provisions relating to HSAs.

- d) *Fringe benefits*: A fringe benefit is a form of pay for the performance of services and is generally included in an employee's gross income, unless an exception applies. Fringe benefits are subject to income tax withholding and employment taxes.³ Examples of fringe benefits include cars and flights on aircraft that the employer provides, free or discounted commercial flights, vacations, discounts on property or services, memberships in country clubs or other social clubs, and tickets to entertainment or sporting events. In general, the amount the employer must include is the amount by which the fair market value of the benefits is more than the sum of what the employee paid for it plus any amount that the law excludes. There are other special rules that employers and employees may use to value certain fringe benefits.

Under existing law relating to fringe benefits, employers that operate on-site gyms and athletic facilities that are used by their employees and their employees' families do not incur taxable income for their business, their employees, or their employees' families. In other words, employers that provide access to on-site fitness facilities do not have to calculate and include the fair market value of that access as a fringe benefit.

- e) *Deductions and income limitations*: A deduction is generally more valuable to higher income taxpayers because the "value" of a deduction varies with the marginal tax rate (or tax bracket) of the taxpayer. For example, an individual taxpayer in a 10% tax bracket would receive a tax benefit of \$10 on a \$100 deduction. In contrast, a taxpayer in a 25% tax bracket would save \$25 in taxes for every \$100 deducted from gross income. Thus, assuming the same level of above-the-line deductions, higher-income taxpayers, presumably with a greater ability to pay taxes, receive a greater tax benefit from such deductions than lower income taxpayers.
- f) *An incentive or a reward?* Typically, tax expenditures are provided prospectively as a matter of legislative grace to encourage taxpayers to behave in ways they might not absent a financial incentive. This expenditure, in turn, is intended to encourage employers to provide their employees with fitness benefits and begins providing this deduction for taxable years beginning on January 1, 2026. Tax expenditures with retroactive application, however, cannot incentivize past behavior that has already occurred. If this is contrary to the author's intent, the bill should be amended to remove the retroactive application and provide the deduction prospectively for taxable years beginning on or after January 1, 2027.
- g) *Policy considerations*:
- i) *Appropriately targeted?* As discussed above, deductions provide greater tax benefits as one's tax liability increases. Additionally, higher income taxpayers also likely have a greater ability to pay for fitness and wellness expenses. The Committee may wish to consider whether this deduction would primarily benefit those who struggle to

³ *Employee Benefits – Fringe Benefits*, Internal Revenue Service. <https://www.irs.gov/businesses/small-businesses-self-employed/employee-benefits>, accessed April 1, 2026.

afford fitness expenses, and the author may wish to consider restricting availability of the deduction based on a taxpayer's income.

- ii) *Multiple tax benefits*: Employers can already deduct employee compensation – including wages and other benefits – as an ordinary and necessary expense. Additionally, on-site gyms for employees are not considered a taxable fringe benefit. This Committee may wish to consider the merits of providing multiple tax benefits for similar activities when those forgone revenues could be spent directly on public health and wellness programs.
- iii) *Following through*: This bill seeks to increase access to gyms and fitness facilities; however, it should be noted that nothing in this bill ensures that employees actually use the facilities for physical activity and exercise. Every year, hitting the gym is one of the most common New Year's resolutions; and among Americans who included health, fitness, or exercise-related goals in their New Year's resolutions for 2025, 55% of respondents said they fully achieved those goals.⁴ Roughly one-half of all fitness beginners, however, quit within six months and approximately 80% of people abandon New Year's fitness resolution goals by February 15.⁵ Finally, if an employee is not paying for the gym membership themselves, they may feel like they do not have "skin in the game" or that they do not "need to get their money's worth." The Committee may wish to consider whether improving access to fitness facilities will automatically result in improved health outcomes.
- h) *Committee's tax expenditure policy*: This bill complies with R&TC Section 41 because it outlines 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 have an appropriate sunset provision to be eligible for a vote. Sunsets are required because eliminating a tax expenditure generally requires a two-thirds 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, does not comply with the Committee's policy on sunset dates because the deduction is indefinitely allowed for taxable years beginning on or after January 1, 2026. As such this bill is not eligible for a vote in its current form.

- i) *Technical considerations*:

⁴ *Americans Plan to Invest \$60 Billion in Health and Fitness in 2026*, Health and Fitness Association (December 22, 2025). <https://www.healthandfitness.org/americans-plan-to-invest-60-billion-in-health-and-fitness-in-2026/>.

⁵ Flannigan, *100 Gym Membership Statistics (2026): Numbers That Matter*, GymDesk (February 18, 2026). <https://gymdesk.com/blog/gym-membership-statistics>.

- i) *Limit deduction to \$600*: As currently drafted, up to \$600 in fitness benefits are excluded from the definition of wages for unemployment insurance tax purposes, but the income tax deduction is unlimited.
- ii) *Primary purpose*: Memberships in any club where the "primary purpose" is social, athletic, or sporting are not eligible for the deduction created by this bill. However, many fitness facilities offer features such as workspaces, cafes, and lounges. Without specific metrics or definitions to determine the "primary purpose" of a club, this phrase could be interpreted broadly and may lead to taxpayer confusion and administrative difficulty.
- iii) *Ensuring consistent terminology*: This bill provides that the deduction applies regardless of whether the benefit is "provided through" a direct payment to a third party or as a reimbursement to the employee upon proof of payment. This phrasing does not clearly identify the employer as the party providing the qualified fitness benefit, does not use the defined term "qualified fitness benefit", and may be read broadly enough to include payments made by entities other than the employer.

REGISTERED SUPPORT / OPPOSITION:**Support**

National Health and Fitness Association
Peace Officers Research Association of California (PORAC)
SFV Alliance
The Perfect Step

Opposition

California Teachers Association
California Tax Reform Association
CFT – a Union of Educators & Classified Professionals, AFT, AFL-CIO

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