SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
2025 - 2026 Regular

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Author:	Dahle		**Tax Levy:**	Yes
Version:	6/03/2026	Amended	**Fiscal:**	Yes
Consultant:	Summers			

PERSONAL INCOME TAX: SENIOR TAX CREDIT: DEPENDENTS: QUALIFYING CHILD

Authorizes a personal income tax credit for seniors 65+ with no earned income, equal to $1,500 per dependent, subject to a phase-out above specified income levels.

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.

Income. Existing federal and state laws provide that gross income includes all income from any source, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded. Existing federal and state laws exclude certain types of income from gross income, such as specified amounts received as gifts or by inheritance, certain compensation for injuries and sickness, qualified scholarships, educational assistance programs, foster care payments, and interest received on certain state or federal obligations, among other things.

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 Personal Income and Corporation Tax are nonrefundable.

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).

Federal personal income tax benefits for seniors. Federal law authorizes several personal income tax benefits for seniors. Specifically, existing federal law authorizes:

Additional below-the-line standard deduction for seniors. In addition to the federal standard deduction, seniors age 65+ and persons who are blind receive an additional standard deduction, the amounts of which are both annually inflation-adjusted.

Prior to 2018, federal law also authorized a personal exemption deduction of $4,050 per exemption (taxpayer, spouse, dependents). The Tax Cuts and Jobs Act (TCJA) of 2017 suspended the personal exemption deduction for taxable years 2018 through 2025 and was scheduled to be reinstated beginning in tax year 2026. However, the personal exemption deduction was permanently suspended by H.R. 1 (Public Law 119-121, commonly known as the "One Big Beautiful Bill Act").

Enhanced senior deduction. Instead of the personal exemption, H.R. 1 authorized, for federal income tax purposes, an enhanced senior deduction of $6,000 per senior aged 65+, for tax years 2025 through 2028. This is available to eligible taxpayers, both itemizers and non-itemizers. The enhanced deduction is phased out at a rate of 6% of income above $75,000 for single filers or $150,000 for married filing jointly (MFJ) filers.

The following chart outlines the authorized amounts for these federal above-the-line deductions:

Filing status	**2026 federal standard deduction amount**	**2026 federal additional standard deduction for those 65+**	**2025-28 federal enhanced deduction***
Single	$16,100	$2,050 (If 65+ or blind), $4,100 (if 65+ and blind)	$6,000 max (If 65+)
Married filing separately	$16,100	$1,650 (If 65+ or blind), $3,300 (if 65+ and blind)	$6,000 max (If 65+)
Head of household	$24,150	$2,050 (If 65+ or blind), $4,100 (if 65+ and blind)	$6,000 max (If 65+)
MFJ/ Surviving spouse	$32,200	$1,650 (If 65+ or blind; per qualifying person), $3,300 (if 65+ and blind; per qualifying person)	$6,000 max (If 65+; per qualifying person)

Credit for persons who are elderly or disabled. Federal law allows a nonrefundable credit for certain taxpayers who are 65+ or retired on permanent and total disability and who receive taxable disability income during the year. The credit is calculated as 15% of a base amount, generally $3,750 to $7,500, depending on filing status and whether one or both spouses qualify. The base amount is reduced by certain nontaxable income (Social Security, pension, annuity, or disability benefits) and by one-half of adjusted gross income (AGI) above specified thresholds. The credit is rarely claimed, with the average amount per return in recent years being under $100.[1]

[1] https://taxpolicycenter.org/sites/default/files/statistics/pdf/elderly_credit_9.pdf

Partial and full exclusion of Social Security Benefits. Social Security benefits, which can be claimed beginning at age 62 for qualified persons, are excluded from federal gross income, except as specified under the Internal Revenue Code (IRC) 86, as follows:

- Below $25,000 single or $32,00 joint, none of the benefits are included in net income.
- Between $25,000 to $34,000 single or $32,000 to $44,000 MFJ, up to 50% is included.
- Above $34,000 single or $44,000 joint, up to 85% may be included.

Federal credits for taxpayers with children and other refundable credits. Existing federal law also authorizes several tax credits for taxpayers with children, including:

- Federal Child Tax Credit: Up to $2,200 per qualifying child and partially refundable.
- Child and Dependent Care Tax Credit (CDCTC): Nonrefundable credit, generally up to $3,000 for one dependent or $6,000 for two or more, for care expenses paid so parents can work. It requires earned income and is based on a percentage of care expenses.
- Earned Income Tax Credit (EITC): Income-based refundable credit tied to earned income. For tax year 2025, the maximum credit for taxpayers with no children under age 19 is $649. For taxpayers with children under age 19, the maximum is between $4,328 and $8,04. These credit amounts are phased out above certain income levels.

Federal income exclusion for foster care payments. IRC 61 provided that gross income means income from whatever source derived, including compensation for services. IRC 131 authorizes a gross income exclusion for qualified foster care payments, which is defined as either (1) a payment made pursuant to a state foster care program paid to the foster care provider caring for a qualified foster individual in the foster care provider's home, or (2) a difficulty of care payment. A qualified foster individual means any individual who is living in a foster family home in which the individual was placed by a state agency or a qualified foster care placement agency licensed or certified for the foster care program of the state. A difficulty of care payment is compensation to a foster care provider for the additional care required because the qualified foster individual has a physical, mental, or emotional handicap.

IRC definition of child dependents of a taxpayer. IRC 152(c) includes in the definition of dependent a "qualifying child," which means an individual who:

- Is a child of the taxpayer or a descendant of such a child; or a brother, sister, stepbrother, or stepsister of the taxpayer or a descendant of any such relative.
- Has the same principal place of abode as the taxpayer for more than one-half of the taxable year.
- Is younger than the taxpayer claiming such individual as a qualifying child and is either
    - under the age of 19 or a student under the age of 24 as of the close of such calendar year; or
    - permanently and totally disabled at any time during such calendar year.
- Has not provided over one-half of his or her own support for the calendar year.

State personal income tax benefits for seniors. California departs from federal law regarding tax benefits for seniors in several ways. While seniors 65+ are authorized a standard deduction of $5,706 single or $11,412 joint in tax year 2025, California does not conform to, or have a standalone analog to, the federal additional or enhanced deductions. However, California does have a standalone personal exemption credit with enhanced amounts for seniors 65+.

Personal-exemption tax credit. State law provides various "personal-exemption" tax credits, including a personal exemption credit and exemption credits for dependents, blind persons, and individuals 65 or older. For tax year 2025, the authorized amounts for the credit are as follows:

Exemption Type	Number of Exemptions	Exemption Amount
Personal Exemption	One exemption for themselves, and one for a spouse, if MFJ:	$153
Senior	One additional exemption if 65 or older, and one for a spouse 65 or older, if MFJ:	$153
Blind	One additional exemption if visually impaired and one for a visually impaired spouse:	$153
Dependent	One exemption for each qualifying dependent:	$475

For taxable year 2025, the exemption credits are reduced by $6 ($12 if MFJ) for each $1,250 ($2,500 if MFJ) of AGI that exceeds $252,203 if single or married filing separately, $504,411 if MFJ, or $378,310 if filing as head of household.

Senior head of household credit. California's Senior Head of Household Credit is a nonrefundable personal income tax credit for taxpayers age 65+ who qualified as head of household for at least one of the prior two taxable years and whose qualifying person died during that two-year period. For 2025, if the taxpayer's AGI does not exceed $98,652, the taxpayer is allowed a credit equal to 2% of taxable income, capped at $1,860.

Full exclusion of Social Security Benefits. Social Security benefits are fully excluded from California's personal income tax.

State credits for taxpayers with children and other refundable credits. Existing state law also authorizes several tax credits for taxpayers with children, including:

- *Child adoption costs credit*, which provides a max credit amount of up to $2,500 for 50% of the cost incurred if the taxpayer adopted a child in California.
- *California CDCTC*, the amount of which is based on a percentage of the federal *CDCTC* and is totally phased out for income above $100,000.
- *California Earned Income Tax Credit (CalEITC)*, which provides a max credit amount of $3,756 for tax year 2025, for households earning less than $32,900 per year. Taxpayers without at least $1 of earned income would not qualify for CalEITC.
- *Young Child Tax Credit (YCTC)*, which provides a max credit amount of $1,189 per taxpayer in tax year 2025. To qualify, the taxpayer must have a qualifying child under 6 years old at the end of the tax year and qualify for CalEITC. However, if the taxpayer has negative net earned income, they can still qualify, even if they do not meet CalEITC's earned income requirement.

Earned income refers to money received from working, such as wages, salaries, self-employment income, bonuses, commissions, and tips. Non-earned income refers to income that is not derived from active work or services performed, such as capital gains, interest income, dividends, rental income, inheritance, retirement pay, disability pay, and Social Security benefits.

State income exclusion for foster care payments. California conforms to the federal deduction for foster care payments authorized by IRC 131. Therefore, for personal income tax purposes, taxpayers can exclude IRC 131 qualified foster care payments from gross income if they are paid by a state or local government or a licensed child placement agency.

State conformity to the IRC definition of child dependents of a taxpayer. California conforms to many definitions of the IRC to reduce taxpayer confusion and aid in the administration of state tax programs, including the definition of dependent and qualifying child.

Seniors caring for minor children. According to the most recent U.S. Census Bureau data, approximately 2.3 million grandparents are responsible for caring for grandchildren under 18, of whom 1.1 million are over 60, and 63% are female.[2] In California, approximately 230,000 grandparents are responsible for caring for grandchildren under 18, of whom half are caring for children under 5. Of that figure, approximately 120,000 are over 60 the age and 61% are female.[3]

An aging population and income. According to the U.S. Census Bureau, as of 2024, there are roughly 61.2 million people in the US ages 65+, representing 18% of the overall population.[4] In 2004, that figure was only 12%. By 2025, the number of Americans ages 65 and older is projected to increase to 82 million by 2050, representing 23% of the population.[5] Additionally, in 2024, half of older adults received less than $33,310 from all sources, and half of all older households earned less than $56,680.[6] Further, only 20% of older adults have earned income. For the remaining 80% of people age 65 and older who are fully retired, the median income was $26,770. Additionally, U.S. Census Bureau researchers have found that about 14% of Americans 65 and older rely on Social Security for 90% or more of their income, 22% for 75% or more, and 42% for 50% or more.[7]

As a result, seniors living on fixed incomes from retirement or Social Security do not, in most cases, have sufficient earned income to qualify for the CalEITC or YCTC.

The California Senior Legislature wants to authorize a personal income tax credit for seniors 65+ with dependents and no earned income to address the gap left by the earned income tax credit and reduce the financial burden of raising dependent children.

Proposed Law

Senate Bill 1096 authorizes, for tax years 2026 through 2030, a personal income tax credit for seniors 65+ with no earned income, equal to $1,500 per qualified dependent in the taxpayer's return who is a qualifying child, as defined in IRC 152(c), and for whom the taxpayer for that taxable year has not received a qualified foster care payment, as defined in IRC 131. The bill specifies that the allowed credit shall be reduced by 6% of the amount that exceeds the taxpayer's federal AGI of $150,000 if filing jointly or $75,000 for all other filers.

[2] https://data.census.gov/table/ACSDT5YSPT2021.B10056
[3] https://data.census.gov/table/ACSDT5YSPT2021.B10056?g=040XX00US06
[4] https://www.census.gov/newsroom/press-releases/2025/older-adults-outnumber-children.html
[5] https://www.prb.org/resource/fact-sheet-aging-in-the-united-states/
[6] https://pensionrights.org/resource/income-of-todays-older-adults
[7] https://www.investopedia.com/how-many-people-rely-mostly-on-social-security-in-retirement-11954297

The bill also authorizes excess credit to be carried forward seven years and contains legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code.

State Revenue Impact

According to the Franchise Tax Board (FTB), the 2/12/2026 version of SB 1096 would result in revenue losses of $36 million in FY 2026-27, $24 million in FY 2027-28, and $24 million in 2028-29. The 6/3/2026 version of this bill is expected to reduce the estimated revenue loss.

Comments

1. Purpose of the bill. According to the author, "More than sixty-five thousand grandparents in California are over age 65, living on fixed incomes while raising grandchildren. These grandparents step up during family crises which include parental substance abuse (the most common factor), incarceration, death, and mental health issues. The lack of targeted financial relief for this vulnerable population leaves many struggling to provide adequate care while maintaining their own well-being. By targeting seniors with no earned income, this bill ensures that support reaches those most likely to be on fixed incomes and unable to increase their earnings to cover basic expenses such as housing, food, and healthcare."

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 underlying behavior SB 1096 addresses, seniors caring for dependent children, is already occurring at significant levels due to familial necessity. As a result, the credit may not meaningfully induce new caregiving behavior. Thus, this is largely a "windfall" tax benefit because it provides financial relief for an activity that would generally occur regardless of the credit. However, to the extent that the credit reduces financial strain, it may enable low-income seniors who rely primarily on fixed income sources, such as Social Security, to purchase household necessities that might otherwise have been forgone. Additionally, the bill excludes credit eligibility when a foster care payment has been paid for the care of that dependent, which is excluded from income tax on a state and federal level, thereby preventing a double tax benefit and double-dipping on government-provided financial assistance. On balance, this credit serves primarily as a "windfall" tax benefit because it functions more as financial support than as a behavioral incentive to encourage caregiving.

3. Revenue loss. Existing tax law provides various credits, deductions, exclusions, and exemptions for certain taxpayers. By authorizing a credit against personal income tax, SB 1096 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 seniors with dependents with no earned income, why should it not allow other income tax credits for similarly situated taxpayers without earned income, such as persons who are disabled? This may lead to a slippery slope in which more income tax credits are authorized for increasingly broad categories of taxpayers, thereby eroding the income tax base and General Fund revenues.

5. Equity. SB 1096 targets a narrow population, taxpayers age 65 and older with dependents but no earned income, who are largely excluded from existing credits tied to earned income, such as the CalEITC and YCTC. SB 1096 fills that gap by directly targeting seniors with dependents and no earned income. Proponents of this bill state that SB 1096 would provide the greatest financial relief to those with fixed incomes from social security, disability, or retirement. However, the bill does not specify these income types as a priority. Additionally, this would be the first personal income tax credit to explicitly recognize the financial burden of caregiving by non-workers and provide support without a work requirement. This represents a distinct policy outcome compared to existing credits like the CalEITC, YCTC, and CDCTC, which are designed to help parents enter and remain in the workforce.

6. Who benefits? California's progressive income tax rate system means households with lower income levels often cannot utilize full credit amounts, unless they are refundable. As a result, households with the most need often do not benefit from nonrefundable credits. However, existing refundable credits, such as the Earned Income Tax Credit and the Young Child Tax Credit, have had lower-than-expected take-up rates. The Committee may wish to consider whether grants or other forms of direct payments would produce a more equitable outcome.

7. Section 41. Section 41 of the Revenue and Taxation Code 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, SB 1096 states that the specific goal of this credit is to provide assistance to retired senior taxpayers who are caring for dependents while the cost of living continues to rise. To aid the Legislature in determining whether this act meets the goals, purposes, and objectives, SB 1096 directs the FTB to report to the Legislature, on or before July 1, 2032, the average amount of the credit allowed by a qualified taxpayer and the number of taxpayers allowed the credit.

8. Related legislation. SB 1249 (Richardson), which would authorize an above-the-line deduction for elderly seniors for tax years 2026 through 2030, equal to $3,000, subject to a phase-out above specified income levels, passed in the Senate Revenue and Taxation Committee's May 6th hearing on a 7 - 0 vote. The bill is now pending in the Assembly Revenue and Taxation Committee.

9. Reconsideration. On May 6th, the Senate Revenue and Taxation Committee considered the 2/13/2026 version of SB 1096, which failed passage on a 1 - 1 vote and was granted reconsideration. The author subsequently amended the bill by:

- Including an AGI limitation by phasing out the credit for taxpayers with a federal AGI greater than $150,000 if filing jointly or $75,000 for all other filers.
- Excluding credit eligibility for dependents for whom a foster care payment has been paid.
- Authorizing excess credit to be carried forward seven years.
- Making other technical and conforming changes.

The Committee is hearing the bill at its June 10th hearing as amended.

Support and Opposition (6/5/26)

Support: California Senior Legislature (Sponsor)

Opposition: California Teachers Association

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