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# SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair  
2025 - 2026 Regular

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**Bill No:** SB 1102  
**Author:** Dahle  
**Version:** 2/13/26  
**Consultant:** Summers

**Hearing Date:** 4/22/26  
**Tax Levy:** No  
**Fiscal:** Yes

## ***PERSONAL INCOME TAX LAW: CREDIT: NURSES***

*Authorizes a personal income tax credit for tax years beginning in 2027, in an unspecified amount, for licensed nurses working for at least six months in a rural health facility.*

### **Background**

**Tax expenditures.** California law allows various income tax credits, deductions, exemptions, and exclusions. The Legislature enacts such 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 credit. The Department of Finance is required to annually publish a list of tax expenditures, which currently total around \$94.2 billion per year.

**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.

**Recruitment demand and retention of nurses.** The national demand for nurses remains high, despite investments made in the education and training of new nurses. The U.S. Bureau of Labor Statistics projects about 189,100 registered nurse (RN) openings per year from 2024 to 2034, while the Bureau of Health Workforce (BHW) projects a national RN shortage of 8% in 2028 and 3% in 2038.<sup>1</sup> Nonmetro areas are projected to have a higher RN shortage: 11% in 2038, and 24% in 2028. The demand for licensed practical and vocational nurses is also projected to grow faster than supply, resulting in a projected shortage of 245,950 LPNs by 2038. California has the

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<sup>1</sup> <https://www.bls.gov/ooh/healthcare/registered-nurses.html>; <https://bhw.hrsa.gov/sites/default/files/bureau-health-workforce/data-research/nursing-projections-factsheet.pdf>

highest projected shortage of full-time registered nurses: 84,750 by 2038, representing a 22% shortage. However, roughly 20% of nurses with active California licenses who lived in California were not working in nursing jobs in 2022. California nurses reported workplace conditions that contribute to their attrition, such as a lack of institutional support, patient substance use disorders, and workplace violence.<sup>2</sup>

**Rural retention.** BHW projects that by 2038, the RN shortage will be 11% in nonmetropolitan areas, versus 2% in metropolitan areas.<sup>3</sup> When staffing is initially thin, each resignation hits harder, increasing instability in scheduling and leading to burnout among the nurses who remain. Additionally, rural staffing can be less attractive because of isolation, limited resources, and fewer professional opportunities.<sup>4</sup> Additionally, other factors such as childcare/eldercare, commute length, schedule/hours, pay/benefits, and manager/administration are relevant to work decisions. Those are exactly the categories that tend to be harder to fix in rural labor markets.

The author wants to increase recruitment and long-term retention of licensed nurses in rural and frontier California by authorizing a personal income tax credit.

### **Proposed Law**

Senate Bill 1102 authorizes a refundable personal income tax credit for tax years beginning in 2027, in an unspecified amount, for nurses licensed under the Business and Professions Code working for at least six months in a rural health facility. The measure defines “Rural health facility” to mean:

- A rural general acute care hospital, as defined in Section 1250 of the Health and Safety Code; or
- A health care facility located in an area federally designated as a health professional shortage area, medically underserved area, or medically underserved population, including, but not limited to, a critical access hospital or a rural health clinic.

The bill also makes legislative findings and declarations to comply with the requirements of Section 41 of the Revenue & Taxation Code.

### **State Revenue Impact**

Pending.

### **Comments**

1. **Purpose of the bill.** According to the author, “California’s rural communities continue to face severe health care workforce shortages, especially among licensed nurses. These shortages lead to reduced access to care, longer wait times, and increased strain on already fragile rural health systems. SB 1102 provides a targeted solution by creating a tax credit for licensed nurses who work in rural health facilities. This incentive is designed to improve recruitment and long-term retention in areas that are federally designated as health professional shortage areas and

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<sup>2</sup> <https://rn.ca.gov/pdfs/forms/survey2022.pdf>

<sup>3</sup> <https://bhw.hrsa.gov/data-research/projecting-health-workforce-supply-demand>

<sup>4</sup> <https://www.ruralhealth.us/nationalruralhealth/media/documents/advocacy/nrha-policy-brief-workforce-retention-factors-final-3-7-25.pdf>

medically underserved communities. By strengthening the rural nursing workforce, this bill will help stabilize staffing, reduce turnover, and improve continuity of care for patients in rural and frontier California. Access to quality health care should not depend on where you live. This bill is a practical step toward closing that gap.”

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, SB 1102 may serve as a windfall to nurses who would have accepted or remained in rural positions absent the credit, particularly those already motivated by professional, geographic, or compensation considerations. However, this credit may serve as a “but for” tax benefit if it materially increases the financial attractiveness for nurses to work in rural areas. On balance, the credit may not be a strong enough incentive to retain nurses who face enormous systemic challenges as nurses in rural medicine and may therefore primarily serve as a “windfall” tax benefit.

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 1102 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 in funding for K-14 education.

4. Precedent. If the Legislature allows a credit for rural registered nurses, why should it not allow personal income credits for all registered nurses, other worthy professions, or other rural health care workers, like nursing assistants, physical therapists, pharmacy technicians, or dental assistants? This may lead to a slippery slope in which more credits are authorized for other professions, thereby eroding the income tax base and reducing general fund revenues. While California offered a teacher retention credit in the 2000s, the committee may wish to consider the precedent set by authorizing a fixed credit amount for working in the profession. The committee may also wish to consider whether a cost-based credit proportional to costs incurred in working in rural medicine would be more effective, such as transportation costs to rural hospitals or the cost of continuing education and professional development.

5. Equity. SB 1102 seeks to improve healthcare access for residents of rural communities, who are more likely to face longer travel times, have fewer provider options, and experience greater care delays. The bill’s own stated goals are to increase recruitment and long-term retention of nurses in rural and frontier California, stabilize staffing, reduce service disruptions, and improve continuity of care. Those objectives align with broader state workforce data showing that nursing shortages are not evenly distributed across California. The California Department of Health Access and Information (HCAI) projects that in 2025, 50 counties will face a shortage of one or more nursing role groups, with especially severe shortages in the Northern & Sierra and other regions, and it specifically characterizes the problem as a maldistribution of providers rather than a simple statewide shortage.<sup>5</sup>

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<sup>5</sup> <https://hcai.ca.gov/visualizations/supply-and-demand-modeling-for-californias-nursing-workforce/>

6. 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 1102 states that the specific goals of the credit are:

- To increase recruitment and long-term retention of licensed nurses in rural and frontier California, stabilize staffing in rural health care facilities, and improve access to care in rural medical service study areas and health professional shortage areas.
- To address chronic rural health care workforce shortages through direct financial incentives, improve workforce stability in rural hospitals, clinics, and health centers, and to reduce service disruptions caused by staffing shortages.
- To increase the number of nurses practicing in qualifying rural facilities, reduce vacancy and turnover rates, increase the average length of rural employment, and improve continuity of patient care.

The specific performance indicators to aid the Legislature in determining whether this act meets the goals, purposes, and objectives are:

- Workforce metrics, including the number of licensed nurses, vacancy and turnover rates, average tenure, and time to fill vacancies.
- Facility metrics, including staffing levels, patient-to-nurse ratios, and service continuity.
- Patient access metrics, including care delays, emergency diversion incidents, and readmission rates.

The measure also directs HCAI, in collaboration with the Franchise Tax Board (FTB), to submit a report to the Legislature containing the data on the performance indicators and the number of taxpayers that claimed the tax credit pursuant to this section for the most recent taxable year, no later than June 30, 2029, and each June 30 thereafter.

9. Committee amendments. The Committee amendments propose to:

- Sunset the credit after 5 years.
- Set the credit amount to \$2,000.
- Increase the employment criteria to require full-time employment by a rural health facility, as defined, during the taxable year.
- Require that the employment is not primarily for nursing administration.
- Define “direct patient care” as hands-on patient care provided directly by an individual.
- Define “full-time” as:
  - 1,750 hours of employed work during the taxable year, if paid hourly wages; or
  - employed a minimum of 50 weeks during the taxable year, if salaried.
- Define “Primarily” to mean 51 percent or more of the employment position’s responsibilities.
- Define “nursing administration” to mean either of the following:
  - Oversight or managerial responsibilities over nursing units or entire nursing departments, including, but not limited to, staffing, policy implementation, and quality assurance oversight.
  - The employment position involves minimal or no direct patient care.

- Specify that “nursing administration” does not mean having minimal or infrequent supervisory duties over subordinate staff.
- Revise the definition of “rural health facility” to mean a rural hospital defined as having a Rural or Frontier designation status in the Medical Service Study Area created by the California Department of Health Care Access and Information, or as set forth in section 1250 of the Health and Safety Code.
- Repeal the refundability of the credit and replace it with a six-year carry forward.
- Require HCAI to provide the FTB with an annual list of rural health facilities to the FTB by January 15, 2028, and each January 15 thereafter.
- Add a December 1, 2032, repeal date.

**Support and Opposition** (4/16/26)

Support: None received.

Opposition: California Teachers Association

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