SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 1120 (McNerney) - Personal Income Tax Law: Corporation Tax Law: credits: CalCompetes

Version: April 13, 2026
Urgency: No
Hearing Date: April 27, 2026

Policy Vote: REV. & TAX. 5 - 0
Mandate: No
Consultant: Robert Ingenito

Bill Summary: SB 1120 would make specified changes to the California Competes Tax Credit.

Fiscal Impact:

- By extending the tax credit for an additional five years (through 2032-33), and making it refundable for certain taxpayers, as specified, this bill would result in annual General Fund revenue losses compared to current law. The bill's specific year-by-year revenue loss is unknown, and would be driven by a variety of factors, including tax credit award volume and recapture rates. The balance of reverted tax credits currently exceeds $900 million.

- The Governor's Office of Business and Economic Development (GO-Biz) indicates that it would incur annual General Fund costs of $137,000 to implement the provisions of the bill (see Staff Comments).

- Any administrative costs to the Franchise Tax Board (FTB) have yet to be identified.

Background: Tax expenditure programs (TEPs) are special tax provisions that reduce the amount of revenues the "basic" tax system would otherwise generate in order to provide (1) benefits to certain groups of taxpayers, and/or (2) incentives to encourage certain types of behavior and activities, such as charitable giving. Specifically, current law provides for, among other things, various income and corporation tax credits and deductions, as well as exemptions from the sales and use tax. The Department of Finance is required to publish a list of TEPs (currently totaling several hundred), which currently exceed $94 billion annually.

California's tax credits for business entities generally are nonrefundable, meaning that taxpayers can apply credits to reduce their tax liability in the current taxable year, and carry forward any remainder to subsequent taxable years. The number of subsequent years – known as the carry forward period – varies among credits.

GO-Biz was established statutorily in 2011 to be the lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, and economic growth. GO-Biz staff provide a wide range of advisory and coordinating roles across the administration related to economic development. Several units of GO Biz serve as points of contact for businesses considering relocating to or expanding in California. For example, the California Office of the Small Business Advocate (CalOSBA) provides resources for small businesses and financial assistance for small business advisory centers. Other units assist international investors, help businesses obtain information about business permits, administer the California Competes Tax Credit Program, and administer the Cannabis Local Equity Grant Program. Additionally, the California Film Commission, Travel and Tourism Commission, and the Infrastructure and Economic Development Bank have been assigned for oversight purposes to GO-Biz.

Created in 2013, California Competes Tax Credit is an incentive program that provides nonrefundable tax credits to companies in exchange for a commitment to increase future employment and investment in the State, as specified. The specific aim of the program is to influence business decisions to make investments in California that, absent the credit, would have been made in another state, or not at all. GO-Biz negotiates individual agreements with each successful applicant, including annual milestones and corresponding credit allocations. Agreements last for five years, by which time all employment and investment milestones must be achieved to claim the full credit amount. In addition, these milestones must be maintained for a further three years. Credits may be used to offset either personal income or corporation taxes and can be carried forward for up to six years. GO-Biz has approved over 1,200 credit agreements since 2013.

Because the tax credit is nonrefundable, businesses without a significant California tax liability cannot benefit from its incentive. Specifically, some firms lack state tax liability due to ongoing and substantial use of other tax deductions and credits, including the Net Operating Loss deduction and the Research & Development Tax Credit. Additionally, startup firms often experience losses for many years before turning a profit (if at all), potentially over the time frame that tax credits can be carried forward. To address this, the enacted budgets for 2021-22 through 2023-24 each provided one-time funding of $120 million for a grant program to supplement the tax credit. Budget proposals in the subsequent two fiscal years each included $60 million to fund the grant program but were not enacted in the final budget act due to projected deficits.

Proposed Law: This bill, among other things, would make the following changes to the Cal Competes Tax Credit:

- Extend (1) for five years (from 2027-28 to 2032-33) the authority for the California Competes Tax Credit Committee to allocate tax credits, and (2) the taxable years that taxpayers can claim them, from taxable year 2030 until taxable year 2035.

- Allow a taxpayer in a strategic industry, defined as industries involved in developing nuclear fusion technologies, quantum technology, or other industries identified in the California Jobs First State Economic Blueprint, to elect for the credit to be refundable, as specified.

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- Require GO-Biz to inform FTB if, under the agreement, the applicant intends for the credit to be refundable.

- Authorize refunds from the Tax Relief and Refund Account and Corporation Tax Fund, beginning in taxable year 2026 and ending after taxable year 2034.

Related Legislation:

- AB 194 (Assembly Committee on Budget, Chapter 55, Statutes of 2022), among other things, Sections 7 and 14 of the bill, under the PITL and the CTL, extended the CA Competes Credit allocations through the 2027-2028 fiscal year, added additional factors for GO-Biz to consider when allocating the CA Competes Credit, and made other non-substantive changes.

- AB 150 (Assembly Committee on Budget, Chapter 82, Statutes of 2021), among other things, Sections 13, 19, and 25 of the bill, under the PITL and the CTL, increased the amount of the CA Competes Credit allocated for the 2021-22 fiscal year.

- SB 313 (Durazo, 2021/2022) would have, under the PITL and the CTL, modified the CA Competes Credit to be refundable for qualified taxpayers that reinvest the refund in immobile capital equipment that supports infrastructure improvements, expansion, or developments for media production facilities in the state. SB 313 was held in the Senate Governance and Finance Committee without further action.

- SB 51 (Durazo, et al., 2019/2020) would have, under the PITL and CTL, for taxable years beginning on or after January 1, 2021, allowed qualified taxpayers to obtain a refund of their CA Competes Credit to invest in specified property in the state. SB 51 did not pass out of the Assembly Revenue and Taxation Committee by the required deadline.

Staff Comments: GO-Biz anticipates that offering refundability within the California Competes Tax Credit program would generate increases in application volume and staff workload. In 2021, GO-Biz received two positions to administer the program, but one has since been eliminated in a state budget reduction exercise. GO-Biz anticipates needing to restore the position as a result of the increased workload that would result from this bill.

FTB data indicate that 286 taxpayers claimed $116 million in credit in 2022, and 219 taxpayers claimed $44 million in credit in 2023. Data for 2024 is not yet complete, but partial data from FTB show that 137 taxpayers claimed $19 million.

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