
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair

2025 - 2026 Regular

Bill No: SB 1277
Author: Grove
Version: 2/20/26
Consultant: Summers

Hearing Date: 4/8/26
Tax Levy: No
Fiscal: Yes

TAXATION: PERSONAL INCOME TAX LAW: COST-OF-LIVING REFUNDABLE TAX CREDIT

Authorizes a refundable personal income tax credit to a qualified taxpayer in a qualified amount; authorizes a personal income exclusion for refunded credit amounts.

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.

Cost of living. Recent economic turmoil has contributed to high cost-of-living increases for most California families in key areas such as housing, insurance, food, and energy.¹ Pandemic-related inflation raised prices for everything from groceries to health care, and although wages have grown since 2020, inflation has cut into those earnings.² Trade policy, especially the 2025 tariffs, increased the economic burden on consumers, and the 2026 Middle East war shock is

¹ <https://www.ppic.org/blog/five-fast-facts-on-the-cost-of-living-in-california>

² <https://www.ppic.org/blog/testimony-cost-pressures-and-affordability-for-californians-in-todays-economy>

now pushing gas and transport costs back up.³ Housing costs, which are the largest expense for most people, have remained higher in California than in many other areas of the country.⁴ These cost pressures have put a strain on California families or led them to consider moving to other states with a lower cost of living.

The author wants to provide financial relief for cost-of-living increases by enacting a personal income tax credit for California residents.

Proposed Law

Senate Bill 1277 authorizes a refundable personal income tax credit to a qualified taxpayer in a qualified amount and authorizes a personal income exclusion for refunded credit amounts for taxable years beginning in 2027 and ending after 2031. The measure defines “qualified taxpayer” to mean a taxpayer who was a resident of the state for at least six months during the prior taxable year and who is a resident at the time the taxpayer claims the credit. The “qualified amount” shall be calculated as follows:

- Single individual or a spouse making a separate return:
 - \$350 for AGI of \$75,000 or less, or \$700 if the taxpayer has one or more dependents.
 - \$250 for AGI of \$75,000 or more but less than \$125,001, or \$500 if the taxpayer has one or more dependents.
 - \$200 for AGI of \$125,001 or more but less than \$250,001, or \$400 if the taxpayer has one or more dependents.
- Head of household:
 - \$350 for AGI of AGI is \$150,000 or less, or \$700 if the taxpayer has one or more dependents.
 - \$250 for AGI of \$150,000 or more but less than \$250,001, or \$500 if the taxpayer has one or more dependents.
 - \$200 for AGI of \$250,001 or more but less than \$500,001, or \$400 if the taxpayer has one or more dependents.
- Surviving spouse or spouses making a joint return:
 - \$700 for AGI of \$150,000 or less, or \$1,050 if the taxpayer has one or more dependents.
 - \$500 for AGI of \$150,000 or more but less than \$250,001, or \$750 if the taxpayer has one or more dependents.
 - \$400 for AGI of \$250,001 or more but less than \$500,001, or \$600 if the taxpayer has one or more dependents.

The bill also provides that spouses shall receive only one credit. If the spouses file separate returns, the credit may be taken by either spouse or equally divided between them, with exceptions allowed for spouses who are nonresidents. The credit and exclusion authorized by this measure shall be repealed on December 1, 2032.

³ <https://www.federalreserve.gov/econres/notes/feds-notes/the-slow-climb-how-tariffs-gradually-raised-retail-prices-in-2025-20260305.html>; <https://apnews.com/article/gas-prices-4-gallon-iran-war-de8b7ccea254a1585cab86f336db57a6>

⁴ <https://www.ppic.org/blog/three-decades-of-housing-challenges-in-the-golden-state>

State Revenue Impact

According to the Franchise Tax Board, SB 1277 would result in a revenue loss of \$6 billion in FYs 2026-27, \$10 billion in 2027-28, and \$10 billion in 2028-29.

Comments

1. **Purpose of the bill.** According to the author, “Californians are working harder than ever, yet many are falling behind simply because the cost of living continues to rise. Families across our state are struggling to afford basic necessities like housing, gas, and energy, even when it seems they are doing everything right. SB 1277 ensures that targeted, meaningful relief is available to those who need it most. By establishing the California Cost of Living Tax Credit, this measure delivers direct income-based support to help offset everyday expenses. California should stand behind its residents not just in times of crisis, but in the face of an ongoing affordability challenge that demands real, immediate action from the State Legislature.”

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 1277 does not propose to modify taxpayer behavior; rather, its purpose is to provide targeted relief to California residents to help families maintain financial stability amid a continued cost-of-living crisis. Thus, this is a “windfall” tax benefit, according to the bill’s stated legislative intent. However, the financial relief provided by this bill may allow families to purchase necessities that they may have otherwise forgone, but for the refunded credit. On balance, this credit serves as a “windfall.”

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 1277 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.

4. **Precedent.** Income is generally taxable, regardless of the source from which it is derived. The Legislature has made several exceptions to this rule; however, these have been limited to specific wildfires or to implement state benefit programs. If the Legislature allows an exclusion for this credit, why should it not allow other personal income credits to be refundable? This may lead to a slippery slope in which more credits are authorized for refund and more are excluded from gross income, thereby eroding the income tax base and reducing general fund revenues.

5. **Equity.** SB 1277 promotes social equity through its refundability and by authorizing larger credit amounts for taxpayers with lower AGIs and one or more dependents. Refundable credits provide direct cash relief, unlike non-refundable tax credits, because taxpayers with little or no net tax liability can still receive the full value of the credit, making them more likely to reach households facing the greatest financial strain. However, the uptake of other refundable credits targeted to low-income households has lagged. For example, in 2024 and 2025, FTB mailed more than 300,000 letters to Californians who appeared to be eligible for the California Earned Income Tax Credit (CalEITC) but did not claim it, and one study found a CalEITC take-up rate of only 54% among eligible

Supplemental Nutritional Assistance Program enrolled households in California.⁵ Therefore, it is possible that the households that would benefit most from this credit may not claim it. Additionally, the bill authorizes credits to relatively high-income households, including single filers with AGI up to \$250,000 and heads of household or joint filers with AGI up to \$500,000, even though the cost burdens from cost-of-living increases are not comparable across that AGI range. Further, taxpayers who are asset-rich but have little to no income would also be able to claim this credit, even though they are less burdened by cost-of-living increases like lower or middle-income households. On balance, SB 1277 may produce a less equitable financial impact than the state's other poverty-reduction-focused refundable credits. The committee may wish to consider whether expanding existing programs, such as CalEITC, CalWORKs, or CalFresh, would be a more equitable way to assist families experiencing financial hardship from cost-of-living increases.

6. Marriage penalty. A marriage penalty exists when a married couple receives less in tax benefits than they would have received if they had not married. With respect to this credit, for single filers, spouses making a separate return, or head-of-household filers, the credit amount doubles if the taxpayer has one or more dependents. However, in the case of a surviving spouse or spouses filing a joint return, the credit amount still increases if they have one or more dependents, but by less than two times. Under SB 1277, a marriage penalty exists because the bill generally doubles the credit for taxpayers with one or more dependents, but the credit is less than doubled for a surviving spouse or spouses filing a joint return.

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). SB 1277 does not contain Section 41 findings and declarations.

Support and Opposition (4/3/2026)

Support: Amy Shuklian, Tulare County Supervisor, District 3
 Joan Pogon-Cord, Mayor, City of Tehachapi
 Larry Micari, Tulare County Supervisor, District 1
 City of Porterville
 City of Tulare
 Community Action Partnership of Kern
 Fresno County Board of Supervisors
 Proteus, Inc.
 Tulare Chamber of Commerce
 One Individual

Opposition: California Federation of Teachers
 California Tax Reform Association
 California Teachers Association

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⁵ <https://www.ftb.ca.gov/about-ftb/data-reports-plans/taxpayer-bill-of-rights/2024/executive-summary.html>;
<https://www.sciencedirect.com/science/article/abs/pii/S0047272723001846>