
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 1287 (Hurtado) - Personal Income Tax Law: Corporation Tax Law: credits: shortline railroad expenditures and railroad infrastructure

Version: April 9, 2026

Policy Vote: REV. & TAX. 5 - 0, TRANS.
12 - 0

Urgency: No

Mandate: No

Hearing Date: May 4, 2026

Consultant: Robert Ingenito

Bill Summary: SB 1287 would establish a 50 percent tax credit for short line railroads to maintain, construct, or improve rail infrastructure, as specified.

Fiscal Impact:

- The Franchise Tax Board (FTB) estimates that this bill would result in General Fund revenue losses of \$1.6 million in 2026-27, \$7 million in 2027-28, and \$11 million in 2028-29. FTB's administrative costs have yet to be identified.
- The California Department of Transportation (Caltrans) would be tasked with and collecting applications and issuing certifications of eligibility for the credit. The resulting implementation costs also have yet to be identified, but would likely be, at a minimum, in the hundreds of thousands of dollars annually.

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.

Tax credits directly reduce the amount of tax owed by a taxpayer, making them more impactful than deductions because they result in a dollar-for-dollar reduction. They come in two main types: nonrefundable credits, which can reduce tax to zero, and refundable credits, which can result in a refund if they exceed tax liability. They are used to encourage specific behaviors like working, raising children, pursuing education, or investing in clean energy, but each credit has its own eligibility rules, income limits, and phase-outs. Under current state law, the only refundable credits are the Earned Income Tax Credit, the Young Child Tax Credit, the Foster Youth Tax Credit, and the Motion Picture and Television Production Credit.

Class II and Class III railroads, commonly referred to as short line railroads, are the "first-mile, last-mile" of the freight rail network. California Public Utilities Commission data indicate that currently, there are two Class I railroads, no Class II railroads, and 24 Class III railroads in the State. Short line railroads link communities to the broader

national rail system and serve farmers, miners, energy producers, port facilities, grain elevators, and countless other businesses to move goods to local and international markets. Shortline railroads incur ongoing maintenance costs and are investing in infrastructure modernization to improve energy efficiency, among other initiatives.

Current federal law provides a 40 percent business tax credit for qualified railroad track maintenance expenditures paid or incurred by an eligible taxpayer during the taxable year. An eligible taxpayer includes any Class II or Class III railroad, and any person who transports property using the rail facilities of a Class II or Class III railroad or who furnishes railroad-related property or services to a Class II or Class III railroad. The credit is limited to \$3,500 times the number of miles of railroad track, as specified. California does not conform to this federal tax credit.

In 2019, the Legislature enacted the Short-Line Infrastructure Improvement Act (SB 87, Hurtado), requiring the California Transportation Commission (CTC) to create a competitive funding program for short-line railroad infrastructure projects. SB 87 included a one-time appropriation of \$7.2 million from the Trade Corridors Improvement Fund (TCIF) for the program. CTC subsequently created the Short-Line Railroad Improvement Program to fund projects such as railroad reconstruction, maintenance, upgrade, or replacement for short-line rail infrastructure. CTC awarded project funding amounts according to the following limits: (1) the grant funding cannot exceed 50 percent of the total project cost, (2) at least 30 percent of the total project cost must come from nongovernmental sources, and (3) funding to an individual project cannot exceed 25 percent of the total funding available in a fiscal year.

Proposed Law: This bill, among other things, would do the following:

- Allow credits against the personal income tax and corporation tax for taxable years 2027 through 2031, to a qualified taxpayer in an amount equal to 50 percent of the qualified shortline railroad expenditures and for taxable years 2028 through 2033, in an amount equal to 50 percent of the qualified new rail infrastructure expenditures, as provided.
- Task Caltrans with collecting applications and issuing certifications of eligibility for the credit.

Related Legislation:

- SB 87 (Hurtado, Chapter 32, Statutes of 2019) created a competitive funding program for short line railroad infrastructure projects and included a one-time appropriation of \$7.2 million for the program from TCIF.
- AB 1397 (Burke, 2019) would have created a 50 percent tax credit for short line railroads for reconstruction or replacement projects, capped at \$3,500 per mile. This bill was held under submission on the Suspense File of the Assembly Revenue and Taxation Committee.

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