
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 1349 (Gonzalez) - Taxation: tax expenditures: Legislative Analyst's Office: assessment, report, and recommendation

Version: April 28, 2026

Urgency: No

Hearing Date: May 4, 2026

Policy Vote: REV. & TAX. 4 - 1

Mandate: No

Consultant: Robert Ingenito

Bill Summary: SB 1349 would require the Legislative Analyst's Office (LAO) to report to the Legislature regarding specified tax expenditures (TEPs).

Fiscal Impact: This bill would result in a cost pressure to the LAO to perform its required workload (General Fund). The LAO could likely absorb this work, but by doing so, it would be less able to serve the Legislature in other capacities, such as fulfilling member requests and providing technical assistance. The LAO's funding comes from the Legislature's budget, which is capped by Proposition 130 (1990). Thus, to the extent the Legislature provides additional funding to the LAO to perform the duties required by the bill, less resources would be available for the remainder of its budget.

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.

Many of the State's most significant TEPs contain sunset dates. One example is the Motion Picture Production Credit, administered by the California Film Commission. DOF estimates that the credit will result in \$141 million in foregone revenue in 2023-24, growing to \$463 million in 2027-28. Among other changes, last year the Legislature increased the annual authorization amount to \$750 million.

Many of the state's TEPs that result in the most foregone revenue, however, do not have sunset dates. Examples include the Personal Income Tax (PIT) exclusion for employer pension contributions (which DOF estimates results in \$15 billion in foregone revenue in 2023-24, growing to \$22 billion in 2027-28), the PIT deduction for mortgage interest (\$3 billion), the SUT exemption for food products consumed at home (\$5.5 billion state/\$6.8 billion local), and the water's edge election for Corporation Tax purposes (up to \$4.5 billion).

In 2014, SB 1335 (Leno) was enacted, which added Section 41 to the Revenue and Taxation Code. This measure intended to apply the same level of review used for government spending programs to TEPs, including tax credits. Section 41 requires any bill introduced on or after January 1, 2015, that allows a new income tax credit to contain specific goals, purposes, and objectives that the tax credit will achieve. In

addition, Section 41 requires detailed performance indicators for the Legislature to use when measuring whether the tax credit meets its goals, purposes, and objectives.

Additionally, the Legislature often requires the LAO to analyze specific aspects of new or extended TEPs, and report to the Legislature, usually one year before its sunset date. The Legislature applied these requirements to the Motion Picture Production Credit and the California Competes Tax Credit, among others.

Proposed Law: This bill would do the following:

- Require the LAO to (1) comprehensively assess specified major tax expenditures, as defined, and (2) write and publish a report on each major tax expenditure, and make a recommendation to the Legislature based on each report.
- Require the LAO, as part of the comprehensive assessments, to identify any savings that the Legislature can realize by reducing or limiting the major tax expenditures, and require it to consider certain criteria when finalizing each report, including the extent to which the major tax expenditure is a cost-effective use of resources compared to other options to address the same purpose, intent, or goal.
- Require the LAO to complete and publish on its internet website its first report by October 15, 2027, and to complete and publish each subsequent report on a major tax expenditure annually thereafter, as specified.
- Require the Senate Committee on Revenue and Taxation and the Assembly Committee on Revenue and Taxation, in each legislative session in which a comprehensive assessment of a major tax expenditure is completed, to hold a joint public hearing, as specified.

Related Legislation:

- SB 468 (Jackson, 2019) would have created the California Tax Expenditure Review Board, which would have been tasked with determining the schedule for comprehensive assessments of major tax expenditure programs, to be conducted by a University of California research center. The bill was vetoed by the Governor.
- SB 956 (Jackson, 2020), was similar to SB 468, but was never heard in the Assembly.

Staff Comments: This bill would result in a significant increase in LAO workload; specifically, it would add to the list of 11 reports on tax and economic topics required of it under current law over the next four years. As mentioned previously, the LAO indicates that it could likely absorb the bill's requirements; however, adding them to its regular work on the budget, revenue forecasting, and initiative and ballot measures would diminish its capacity to serve the Legislature in other ways. The LAO further indicates that this bill would likely saturate its existing capacity to perform tax expenditure analyses for the foreseeable future, meaning any future legislation that

would give the office new reporting requirements would require additional resources and staff.

The LAO itself is a part of the Legislature; it is funded from the Legislature's budget. Specifically, the LAO receives an annual transfer from both the Senate and the Assembly to fund its operations. As noted previously, Proposition 140, approved by the voters in 1990, capped the Legislature's budget. Since that time, funding for the LAO has accounted for less than 3 percent of the Legislature's annual budget. Under the requirements of Proposition 140, any additional resources for the LAO would have to come from the Legislature's budget.

Staff notes an additional instance where the Legislature used its ability to direct the LAO to review TEPs. *The Supplemental Report of the 2006-07 Budget Act* required the LAO to report to the chairs of the Senate Committee on Revenue and Taxation, the Assembly Committee on Revenue and Taxation, and the Joint Legislative Budget Committee regarding specified TEPs. In this instance, the supplemental report language required the LAO (1) to provide information on newly enacted TEPs from that timeframe, and (2) to review selected existing TEPs for their effectiveness and efficiency. In response to the requirements, the LAO provided (1) summary information on recently enacted TEPs, (2) more extensive reviews of the two most significant newly enacted TEPs (related to housing tax credits and ultra-low sulfur fuel), (3) a review of a Sales and Use Tax TEP related to bunker fuel (as required by a separate statutory provision), and (4) an in-depth review of one of the state's largest TEPs—the mortgage interest deduction under the personal income tax.

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