



Since the primary purpose of this bill is to create a report, this bill qualifies for this committee's suspense file consistent with committee rules and custom and practice.

- 2) Minor and absorbable costs to FTB and CDTFA to share anonymized taxpayer data with the LAO if needed. The EDD notes its estimated costs to enter into a data sharing agreement with the LAO would depend on the specific data elements requested and be subject to reimbursement by the LAO.

#### COMMENTS:

- 1) **Purpose.** According to the author:

As California navigates a structural budget deficit compounded by the threat of federal HR-1 cuts, we have an obligation to scrutinize every dollar spent. While direct spending is heavily debated each year, the tax expenditures targeted by SB 1349 quietly drain billions from our revenues without any expiration dates or oversight to prove they actually work.

- 2) **Tax Expenditure Reports.** As the Department of Finance (DOF) notes in its annual Tax Expenditure Report, there are several key differences between a tax expenditure and direct expenditure. Generally, tax expenditures are reviewed less frequently than direct expenditures and there is less budgetary control over the amount of revenue loss associated with a tax expenditure. Additionally, once enacted, a two-thirds vote of the Legislature is needed to rescind an existing tax expenditure absent a sunset date, effectively resulting in a "one-way ratchet" whereby a tax expenditure may be enacted by majority vote, but cannot be repealed without a supermajority vote, irrespective of the expenditure's efficacy or cost.

This bill requires the LAO, over the course of five years, to assess five of six specified major tax expenditures and make a recommendation to the Legislature regarding the expenditure based on the assessment. As noted in the Assembly Revenue and Taxation Committee's analysis of this bill:

Members and legislative staff receive a significant number of reports each year, many mandated by statute...The state also prepares reports specifically examining the state's tax expenditure programs. Most notably, the DOF already prepares an annual report that comprehensively lists all tax expenditures exceeding \$5 million in annual cost.

It should also be noted that this Committee has held multiple informational hearings on the state's tax expenditure programs. The most recent such hearing was held on February 22, 2023. As such, the Committee may wish to assess whether additional reporting on the state's tax expenditure programs would be beneficial to the policymaking process.

- 3) **Support and Opposition.** This bill is co-sponsored by AFSCME and the California Teachers Association, with the latter arguing, "At a time when we are faced with a structural deficit, California should examine tax expenditures to ensure that they are achieving their

public policy objectives and making the best use of limited public dollars.” This bill is also supported by other labor organizations, local government entities, and education groups.

This bill is opposed by business groups, led by the California Taxpayers Association, which argues, “At a time when California’s state budget is facing cost pressures, and the Legislature and administration are seeking to minimize new program costs, any duplicative program that creates new costs for an evaluation that already exists is not necessary.”

- 4) **Prior Legislation.** AB 545 (Quirk), of the 2021-22 Legislative Session, would have requested the Regents of the University of California (UC) to perform a comprehensive assessment of major tax expenditures. AB 545 was held on the Senate Appropriations Committee’s suspense file.

SB 468 (Jackson), of the 2019-20 Legislative Session, would have established the California Tax Expenditure Review Board to assess major tax expenditures and make recommendations to the Legislature and requested the UC to perform a comprehensive assessment to present to the board. SB 468 was vetoed by Governor Newsom, who stated:

I support greater transparency with respect to tax credits, exemptions, and other expenditures and believe these items should be scrutinized periodically to justify their overall cost to the state’s revenue base. However, creating a new board to accomplish that goal is unnecessary. The [DOF] is currently required to publish tax expenditure reports and existing law requires new income tax expenditures to specify goals, performance indicators, and data collection requirements.

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