SENATE THIRD READING
SB 1349 (Gonzalez)
As Amended June 17, 2026
Majority vote

SUMMARY

Requires the Legislative Analyst's Office (LAO) to comprehensively assess the "major tax expenditures" of the state, write and publish a report on each "major tax expenditure", and make a recommendation to the Legislature based on each report, as specified.

Major Provisions

1) Defines the term "major tax expenditure" to include all of the following:

   a) The water's-edge election allowed by Revenue and Taxation Code (R&TC) Section 25110;

   b) The credits relating to increasing research activities allowed by R&TC Sections 17052.12 and 23609;

   c) The change in cost basis of inherited property pursuant to rules relating to gain or loss from the sale or other disposition of property prescribed in R&TC Sections 18031 and 24911;

   d) The exclusion from recognition of gain or loss on the exchange of property held for productive use or investment, also known as like-kind exchange, pursuant to the rules prescribed by R&TC Sections 18031 and 18031.5 of the Personal Income Tax Law and R&TC Sections 24941 and 24941.5 of the Corporation Tax Law;

   e) The deductions relating to accelerated depreciation of research and experimental costs allowed pursuant to rules prescribed by R&TC Sections 17201 and 17201.1; and,

   f) The special apportionment of business income for qualified cable system operators pursuant to R&TC Section 25136.1.

2) Provides that, as part of the comprehensive assessments, the LAO shall identify any savings that the Legislature can realize by reducing or limiting the major tax expenditures.

3) Requires the LAO to consider all of the following criteria when finalizing each report:

   a) 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;

   b) An analysis of the major tax expenditure's effect on the General Fund, including Proposition 98;

   c) An analysis of the major tax expenditure's effect on employment, wages, and the state's economy; and,

d) Whether opportunities exist to improve the effectiveness of the major tax expenditure in meeting its purpose, intent, or goal, or if no such opportunities exist, whether the Legislature should enact legislation to repeal each major tax expenditure.

4) Requires the LAO to complete and publish on its internet website its first report on a major tax expenditure by January 1, 2028, and to complete and publish on its internet website each subsequent report on a major tax expenditure annually thereafter, until January 1, 2032. Each report shall additionally be submitted to the Legislature in compliance with Government Code Section 9795.

5) Requires the Senate Committee on Revenue and Taxation and the Assembly Committee on Revenue and Taxation to hold a joint public hearing on the first report submitted by August 15, 2028, and a joint public hearing on the two most recent reports submitted by each August 15 of the second year of the legislative session thereafter.

COMMENTS

1) *What is a "tax expenditure"*? Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. In the late 1960s, U.S. Treasury officials began arguing that these features of the tax law should be referred to as "expenditures" since they are generally enacted to accomplish some governmental purpose and there is a determinable cost associated with each (in the form of foregone revenues).

   As the Department of Finance notes in its annual Tax Expenditure Report, there are several key differences between tax expenditures and direct expenditures. First, tax expenditures are typically reviewed less frequently than direct expenditures. Second, there is generally no control over the amount of revenue losses associated with any given tax expenditure. Finally, it should also be noted that, once enacted, it takes a two-thirds vote to rescind an existing tax expenditure absent a sunset date. This effectively results in a "one-way ratchet" whereby tax expenditures can be conferred by majority vote, but cannot be rescinded, irrespective of their efficacy or cost, without a supermajority vote.

2) *What would this bill do*? This bill seeks to establish a process for the state to systematically review some of its largest tax expenditures. This bill would require the LAO to comprehensively assess a set of "major tax expenditures", and to make a recommendation to the Legislature based on each report. The LAO is charged with, among other things, identifying any savings that the Legislature can realize by reducing or limiting these specific tax expenditure programs. The LAO would be required to complete and publish its first report by January 1, 2028, and to complete and publish each subsequent report annually thereafter, until January 1, 2032. Finally, this bill would require the Senate Committee on Revenue and Taxation and the Assembly Committee on Revenue and Taxation to hold a joint public hearing on the first report by August 15, 2028, and a joint public hearing on the two most recent LAO reports by each August 15 of the second year of the legislative session thereafter. This bill's statutory provisions would thereafter sunset on January 1, 2033.

According to the Author

The author has provided the following statement in support of this bill:

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.

SB 1349 injects much-needed scrutiny into this fiscal vacuum by directing the Legislative Analyst's Office to independently review five tax expenditures to determine whether they are a cost-effective use of resources to achieve their goals, what their effect is on the state's economy and employment, and whether there are opportunities for improvement through reform or repeal. When our state faces impossible choices about what public services to cut, continuing to hand out billions in unexamined tax subsidies is a luxury we simply cannot afford. We must ensure our current tax code is achieving its goals, rather than just shifting the burden onto everyday Californians. By providing a clear, data-driven report, SB 1349 will help ensure that California is investing its resources most effectively.

Arguments in Support
Supporters of this bill note the following:

By providing a non-partisan "scorecard" for our state's most significant tax programs, SB 1349 ensures that California's tax code remains a tool for progress rather than a source of unchecked fiscal leakage. Transparent, evidence-based evaluation is the only way to ensure that every dollar of foregone revenue is delivering a tangible return for the people of California.

Arguments in Opposition
Opponents of this bill note the following:

The mandate that the Legislative Analyst's Office publish a report assessing business-related tax expenditures is unnecessary and duplicative of functions currently performed by the Department of Finance, the Legislative Analyst's Office, the State Auditor, the Franchise Tax Board, the California Department of Tax and Fee Administration, and others. Reports and findings commissioned by the Legislature ought to be submitted directly to the Legislature, without any intermediary.

FISCAL COMMENTS

According to the Assembly Committee on Appropriations:

1) Likely absorbable cost pressures to the LAO to complete the five required reports on an annual basis. However, this committee sees a wide array of bills that require the LAO to measure different tax expenditures. Generally, a request to prepare an individual report would not generate significant new workload for the LAO. But, taken together, these proposals strain the ability of the LAO [to] fulfill other existing or future legislative mandates and requests, as the LAO's budget is subject to the Legislature's constitutional spending cap (General Fund). The LAO notes that this bill would likely fully saturate the office's existing capacity to perform tax expenditure analyses for the foreseeable future, meaning any subsequent legislation tasking the LAO with such new workload would necessitate additional staffing resources.

   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.

VOTES

SENATE FLOOR: 30-8-2
YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Reyes, Richardson, Rubio, Smallwood-Cuevas, Stern, Umberg, Wahab, Weber Pierson, Wiener
NO: Alvarado-Gil, Choi, Dahle, Jones, Ochoa Bogh, Seyarto, Strickland, Valladares
ABS, ABST OR NV: Grove, Niello

ASM REVENUE AND TAXATION: 5-1-1
YES: Gipson, Carrillo, McKinnor, Quirk-Silva, Michelle Rodriguez
NO: DeMaio
ABS, ABST OR NV: Sanchez

ASM APPROPRIATIONS: 11-4-0
YES: Wicks, Arambula, Calderon, Caloza, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache
NO: Hoover, Dixon, Ta, Tangipa

UPDATED

VERSION: June 17, 2026

CONSULTANT: M. David Ruff / REV. & TAX. / (916) 319-2098 FN: 0003578