(**Without Reference to File**)

SENATE THIRD READING
SB 176 (Committee on Budget and Fiscal Review)
As Amended June 12, 2026
2/3 vote. Budget Bill Appropriation Take Effect Immediately

SUMMARY

This bill is the revenue trailer bill for the 2026-27 Budget. This bill contains various statutory changes necessary to implement the Budget Act of 2026.

Major Provisions

1) Extends Sales and Use taxes to the sale of electronically delivered pre-written software, commencing January 1, 2027.

    a. Specifically, extends sales and use taxes on "tangible personal property" as defined in law to include digital products, except as provided, prewritten computer software transferred on tangible storage media, transferred electronically, or accessed remotely.

    b. Prohibits a purchaser or retailer of a digital product that is transferred electronically or accessed remotely from entering into any form of agreement that would result, directly or indirectly, in the payment, transfer, diversion, or rebate of any tax revenue resulting from the imposition of a sales and use tax on digital products.

2) Establishes a permanent business tax credit limitation commencing with the 2027 tax year.

    a. Limits business tax credit usage to $5 million per company per year or 50% of a company's tax liability, whichever is greater.

    b. Refundable credits generated under the limitations in 2024 through 2026 may continue to be claimed in addition to the credit cap.

3) Establishes a 100% tax on settlement fund payments received by taxpayers during the taxable years 2026 through 2029 from the Anti-Weaponization Fund established by the federal Department of Justice and other specified funds resulting from legal action as detailed in the bill.

4) Reduces the annual minimum franchise tax for Limited Liability Companies, Limited partnerships, and limited liability partnerships from $800 to $400 for the first year of operation, during the 2027 through 2029 tax years.

5) Appropriates $750,000 from the General Fund to the California Department of Tax and Fee Administration for the purposes of administering the changes to the sales and use tax to include pre-written software as detailed in this bill.

COMMENTS

This bill contains various statutory changes necessary to implement the Budget Act of 2026.

According to the Author

Arguments in Support
None on file.

Arguments in Opposition
None on file.

FISCAL COMMENTS

The provisions of this bill result in a net General Fund benefit of approximately $1.2 billion for the 2026-27 fiscal year.

1) The extension of sales and use tax to pre-written software is estimated to increase General Fund revenues by $450 million in 2026-27 and by $900 million annually thereafter. This proposal is also estimated to increase revenues for local jurisdictions by $560 million in 2026-27 (one-half year) and by $1.1 billion per year thereafter.

2) The reduction of the annual minimum franchise tax is estimated to reduce General Fund revenue by $100 million for each of 2027, 2028, and 2029.

3) The permanent business tax credit cap is estimated to increase General Fund revenues by $850 million in 2026-27, $1.7 billion in 2027-28 and similar ongoing revenues.

4) State operations costs related to implementation of the sales and use tax changes are $750,000 in 2026-27.

VOTES

SENATE FLOOR: 28-10-2
YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Richardson, Rubio, Smallwood-Cuevas, Umberg, Wahab, Weber Pierson, Wiener
NO: Alvarado-Gil, Choi, Dahle, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares
ABS, ABST OR NV: Reyes, Stern

UPDATED

VERSION: June 12, 2026

CONSULTANT: Genevieve Morelos / BUDGET / (916) 319-2099 FN: 0003166