Date of Hearing: August 20, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
SB 302 (Padilla) – As Amended July 17, 2025

Policy Committee: Revenue and Taxation Vote: 7 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill excludes from gross income, under the Personal Income Tax (PIT) and Corporation Tax (CT) Laws, a refund or transfer payment received by a taxpayer claiming certain federal tax credits under the Inflation Reduction Act (IRA) of 2022.

Specifically, this bill:

1) Excludes from gross income, in conformity with federal law, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, a refund or transfer payment received by a taxpayer claiming certain IRA tax credits.

2) Declares the goal of the new PIT and CT exclusion and requires the Franchise Tax Board (FTB) to report, by November 1, 2029, specified performance data to the Legislature.

FISCAL EFFECT:

1) General Fund (GF) revenue loss of an unknown, but definitely significant amount, the magnitude of which depends on the dollar amount and frequency of the excluded payments. By decreasing PIT and CT revenue, this bill also likely decreases Proposition 98 GF spending by approximately 40% of the GF revenue loss (the exact amount depends on the specific amount of the annual Proposition 98 guarantee).

   FTB notes that the recent creation of the federal elective payment and transferability provisions for IRA tax credits means there is little data regarding market participants and participants' potential tax burden to the state. However, initial data suggests a market of up to $23 billion in credit transfers annually. Assuming 15% of such market transactions are completed by California businesses with varying tax attributes, FTB estimates revenue loss of up to $280 million resulting from excluding elective payments and credit transfers from gross income. However, this revenue loss is expected to decrease over time, as recent reductions to certain IRA tax credits signed into law by the Trump Administration begin to take effect.

2) Costs of an unknown amount to FTB to administer the exclusion and prepare the report (GF). New tax expenditures generally result in absorbable administrative costs to FTB, but the shifting federal landscape may make this exclusion more complex to administer.

COMMENTS:

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

> The Federal Inflation Reduction Act (IRA) includes several clean energy investment incentives to accelerate our transition from fossil fuels. These incentives are necessary to spur clean energy development and make renewable projects possible. Currently, California law needs to conform with the new federal tax code for project developers to access those critical federal credits. If developers are unable to fully utilize these incentives, clean energy projects in California will cost more to build leading to higher ratepayer costs.

2) **IRA.** The IRA authorizes a series of tax credits designed to incentivize certain emissions reduction activities by generating electricity, producing low- and no-emissions fuels, and developing energy storage, among other activities. California, however, does not conform to these credits, as state law does not automatically conform to federal tax law changes. Rather, California conforms to federal tax law as of a certain date, January 1, 2015, with certain modifications to those provisions. Recently enacted legislation under the Trump Administration begins to phase out many of these IRA tax credits over the course of the next few years.

   Under the Internal Revenue Code (IRC), certain taxpayers may elect to treat certain IRA emissions reduction credits as a refund of overpayment. In addition to this elective payment authorization, the IRC allows a taxpayer to transfer, or sell, generated credits, subject to certain restrictions. Such payments are generally excluded from federal income. This bill provides a gross income exclusion under state law for payments received pursuant to the elective payment and transferability of certain IRA emissions reductions credits, thus conforming to the federal exclusion of such payments from gross income.

3) **Support and Opposition.** This bill is supported by a coalition of energy associations, environmental organizations, business groups, and others, arguing this bill "is not a new tax credit, but rather an opportunity to align our state tax code with the largest federal investment in climate and clean energy in U.S. history – an opportunity we are not currently maximizing."

   This bill is opposed by the California Tax Reform Association, which argues, "The $280 million loss that would be incurred by this bill is far too high in our budget-constrained environment" and this bill "should be part of a broader conformity bill which sets revenue losses against gains as a result of conformity."

4) **Related Legislation.** SB 711 (McNerney) conforms certain provisions of state tax law to federal tax law by adopting certain changes made to the IRC prior to January 1, 2025, with certain modifications. SB 711 is pending hearing by this committee.

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