

SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

SB 342 (Umberg)
Version: January 5, 2026
Hearing Date: January 13, 2026
Fiscal: Yes
Urgency: No
ID

SUBJECT

Contractors: unlicensed work

DIGEST

This bill permits a contractor to recover compensation for work performed if the person was a duly licensed contractor at the time that the contract for the work was executed and during the portion of times of the performance of the act or contract for which they are seeking to recover, and limits the cause of action that a person who utilized an unlicensed contractor's services may bring to recover compensation paid to the unlicensed contractor to the compensation paid for work performed during the time in which the contractor was unlicensed.

EXECUTIVE SUMMARY

In California, a contractor is defined as an individual who undertakes the construction, repair, alteration, improvement, or demolition of any building, highway, road, or other structure. Under California law, a contractor needs a license for construction projects valued at \$1,000 or more. The licensure, regulation, and discipline of contractors is prescribed by the Contractors State License Law, and is administered and regulated by the Contractor State Licensing Board (CSLB). The CSLB is empowered to discipline contractors who violate the Contractors State License Law and other specified laws. California law also places a number of limitations on the collection of compensation by a contractor who is not licensed. Current law prohibits a contractor from suing to recover any compensation owed them for work that requires a contractor's license when they were not duly licensed to perform that work at all times during the performance of the work or contract. It also permits a person who uses a contractor's services to sue an unlicensed contractor to recover all compensation that they paid the delinquent contractor for the performance of any act or contract for which a license was required. SB 342 would permit a contractor to instead sue to recover compensation for work performed if the person was a duly licensed contractor at the time the contract was executed during the portion of times for which they are seeking to recover. It also

would limit a person who utilized an unlicensed contractor's services to bringing a civil action to recover compensation paid to the unlicensed contractor only for the portion of compensation paid for work performed during the time in which the contractor was unlicensed.

This bill is sponsored by the California Conference of Carpenters and supported by various contractors' organizations and construction associations, and the Committee has received no other letters of opposition. This bill is pending receipt from the Senate Business, Professions, and Economic Development Committee, which will hear the bill on January 12, 2026, the day before the bill will be heard in this Committee.

PROPOSED CHANGES TO THE LAW

Existing law:

- 1) Establishes the Contractors State License Law to regulate and enforce licensure requirements upon contractors engaged in the construction, alteration, repair, addition to or subtraction from, improvement, moving, or wrecking or demolishing of any building, highway, road, parking facility, railroad, excavation or other structure, project, development, or improvement. (Bus. & Prof. Code §§ 7000 et seq.)
- 2) Establishes, until January 1, 2029, the CSLB under the Department of Consumer Affairs to implement and enforce the Contractors State License Law, including the licensing and regulation of contractors and home improvement salespersons. (Bus. & Prof. Code §§ 7000 et seq.)
- 3) Authorizes the CSLB to appoint a registrar of contractors to be the executive officer and secretary of the CSLB. (Bus. & Prof. Code § 7011.)
- 4) Exempts from the Contractors State License Law work or operation on one undertaking or project by one or more contracts if the aggregate price for labor, materials, and all other items is less than \$1,000 and the work or operation is considered of casual, minor, or inconsequential nature, and the work or operation does not require a building permit. (Bus. & Prof. Code § 7048.)
- 5) Requires the CSLB to promulgate regulations covering the assessment of civil penalties that consider the gravity of the violation, the good faith of the licensee or applicant for licensure being charged, and the history of previous violations. Except as otherwise provided, prohibits the CSLB from assessing a civil penalty that exceeds \$8,000. Specifies that the CSLB may assess a civil penalty up to \$30,000 for specified violations, including willful or deliberate disregard and violation of state and local building laws and committing workers' compensation fraud. (Bus. & Prof. Code § 7099.2.)

- 6) Specifies that willful or deliberate disregard and violation of the building laws of the state, or of any of the following, constitutes a cause for disciplinary action against a licensee:
 - a) Business and Professions Code Sections 8550–8556 relating to structural pest control.
 - b) Civil Code Sections 1689.5–1689.15 relating to home solicitation contracts or offers.
 - c) The safety laws or labor laws or compensation insurance laws or Unemployment Insurance Code of the state.
 - d) The Subletting and Subcontracting Fair Practices Act.
 - e) Any provision of the Health and Safety Code or Water Code relating to the digging, boring, or drilling of water wells.
 - f) Any provision of Article 2 of Chapter 3.1 of Division 5 of Title 1 of the Government Code relating to excavations and subsurface installations.
 - g) Penal Code Section 374.3 or any substantially similar law or ordinance that is promulgated by a local government agency relating to illegal dumping.
 - h) Any state or local law relating to the issuance of building permits. (Bus. & Prof. Code § 7110.)
- 7) Provides that the doing of any willful or fraudulent act by the licensee as a contractor in consequence of which another is substantially injured constitutes a cause for disciplinary action. (Bus. & Prof. Code § 7116.)
- 8) Makes it a misdemeanor for any person to advertise for construction work or work of improvement for which a contractor's license is a requirement unless that person holds a valid contractor's license, as specified. (Bus. & Prof. Code § 7027.1.)
- 9) Makes it a misdemeanor for any person to engage in the business of, or act in the capacity of, a contractor when they are not licensed as a contractor or are operating under a license that is suspended for failure to pay a civil penalty or to comply with an order of correction from the CSLB, as specified. (Bus. & Prof. Code § 7028.)
- 10) Specifies that all contractor's licenses expire two years from the last day of the month in which the license was issued, or two years from the date on which the renewed license last expired, and requires a licensee to submit an application for renewal and pay a renewal fee before the expiration of their license in order to renew their license. (Bus. & Prof. Code § 7140.)
- 11) Permits, except as specified, a licensee to renew their license at any time within five years after its expiration by filing a renewal application with the CSLB, and provides that the renewal will be effective as of the date on which the application for renewal was submitted. Specifies that an incomplete renewal application that

had been submitted on or before the license expiration date must be returned to the licensee by the CSLB with an explanation of its incompleteness, and provides that, if a corrected and acceptable renewal application is returned within 30 days after the expiration date, a delinquency fee may not apply. (Bus. & Prof. Code § 7141.)

- 12) Requires the registrar to grant a retroactive renewal of a license if, within 90 days of the expiration of the license, an otherwise eligible licensee submits a completed renewal application and pays the appropriate renewal fee and delinquency fee, as specified. (Bus. & Prof. Code § 7141.5.)
- 13) Prohibits any person engaged in the business of or acting in the capacity of a contractor to bring or maintain a civil action to recover compensation for the performance of any act or contract when the licensee was required for that act or contract to be licensed, unless the person alleges that they were a duly licensed contractor at all times during the performance of the act or contract, regardless of the merits of the cause of action. (Bus. & Prof. Code § 7031(a).)
- 14) Permits a person who utilizes the services of an unlicensed contractor to bring a civil cause of action to recover all compensation paid to the unlicensed contractor for the performance of any act or contract. (Bus. & Prof. Code § 7031(b).)
- 15) Specifies that, if licensure or proper licensure is controverted for the purposes of (14), above, proof of licensure must be made by a production of a verified certificate of licensure from the CSLB which establishes that the person bringing the action was duly licensed at all times during the performance of any act or contract covered by the cause of action. Specifies that, when proper licensure is controverted, the burden of proof to establish licensure shall be on the licensee. (Bus. & Prof. Code § 7031(d).)
- 16) Specifies that the judicial doctrine of substantial compliance does not apply to a licensee bringing a cause of action under (14), above, where the contractor has never been a duly licensed contractor in the state, but that the court may determine that the contractor substantially complied with their requirement to be licensed if it is shown that the contractor: (1) had been duly licensed as a contractor prior to the performance of the act or contract; (2) acted reasonably and in good faith to maintain proper licensure; and (3) acted promptly and in good faith to remedy the failure to comply with the licensure requirements upon learning of the failure. (Bus. & Prof. Code § 7031(e).)

This bill:

- 1) Specifies that a person engaged in the business or acting in the capacity of a contractor may not bring or maintain any cause of action to recover compensation for the performance of any act or contract for which a license is required without

alleging that they were a duly licensed contractor at the time that the contract was executed for during the portion of the times of the performance for which they are seeking to recover compensation.

- 2) Specifies that a person who utilizes the services of an unlicensed contractor may bring a civil cause of action only to recover the portion of compensation paid to the unlicensed contractor for work performed during the time in which the contractor was unlicensed.

COMMENTS

1. Author's statement

According to the author:

SB 342 provides a fair and reasonable solution to an overly rigid contractor licensing law that can result in severe financial penalties for minor administrative oversights. Under existing law, a contractor who experiences even a brief lapse in licensure – such as a one-day delay in renewal – risks losing the right to be paid for their work, regardless of whether the project was completed successfully. In some cases, clients may demand full repayment of project costs, creating financial instability for contractors and small businesses.

This bill addresses these concerns by ensuring that contractors can still recover payment for work completed while they were licensed, even if a gap in licensure occurred. SB 342 maintains accountability by continuing to prohibit payment for any days worked without a valid license.

SB 342 strikes a balance between maintaining consumer protections and ensuring that contractors are not unduly punished for administrative missteps. By modernizing California's contractor licensing laws, this bill supports a fairer business environment while upholding the integrity of the licensing system.

2. Licensed Contractors and the State Contractor Licensing Board (CSLB)

Construction projects must be completed by individuals with specialized knowledge and experience to ensure that the construction is completed safely and up to code. In California, this work is completed by a contractor, which is defined as an individual who undertakes the construction, repair, alteration, improvement, or demolition of any building, highway, road, or other structure. (Bus. & Prof. Code § 7026.) Under California law, a contractor needs a license for construction projects valued at \$1,000 or more. (Bus. & Prof. Code § 7027.2.) The licensure, regulation, and discipline of contractors is prescribed by the Contractors State License Law. (Bus. & Prof. Code §§ 700 et seq.)

The Contractors State License Law establishes the CSLB as the agency responsible for administering the law and licensing and regulating contractors for the protection of the public. In order to obtain a license from the CSLB, a contractor generally must meet certain experience and examination requirements for licensure, and must also obtain a contractor's bond and a certificate of workers' compensation. Not only does the CSLB issue contractor licenses, but also it is empowered to discipline contractors who violate the Contractors State License Law and other specified laws. This discipline can include citations and fines, as well as license suspension and revocation. Current law also makes it a misdemeanor for a contractor to advertise or perform services for which a contractor's license is required when they do not have a valid license. (Bus. & Prof. Code §§ 7027.1, 7028.)

3. Contractor license renewals

A contractor's license is valid for two years, at which point it may be renewed. (Bus. & Prof. Code § 7140.) A contractor may renew their license any time up to five years after it expires, to be effective upon the date that they file the renewal. (Bus. & Prof. Code § 7142.) However, if a contractor submits a renewal application and the renewal fee within 90 days of their license's expiration, the CSLB will grant the retroactive renewal of the contractor's license. (Bus. & Prof. Code § 7141.5.)

The State Contractors License Law also places a number of limitations on the collection of compensation by a contractor who is not licensed. These limitations are the subject of this bill. Current law prohibits a contractor from suing to recover any compensation owed them for work that requires a contractor's license when they were not duly licensed to perform that work at all times during the performance of the work or contract. (Bus. & Prof. Code § 7031.) It also permits a person who uses a contractor's services to sue an unlicensed contractor to recover all compensation that they paid the delinquent contractor for the performance of any act or contract for which a license was required. (*Id.*) If the contractor's licensure is contested in any lawsuit regarding compensation, the burden of establishing the contractor's licensure falls upon the contractor, and must be proven by a certificate of licensure from the CSLB. (*Id.*) However, the law does permit a court to find that a contractor has substantially complied with their licensure requirements sufficient to seek compensation in court when: the contractor had been duly licensed as a contractor prior to the performance of the act or contract; the contractor acted reasonably and in good faith to maintain proper licensure; and the contractor acted promptly and in good faith to remedy the failure to comply with the licensure requirements upon learning of the failure. (Bus. & Prof. Code § 7031(e).)

The prohibition under Business and Professions Code section 7031 could result, as courts have recognized, in the "unjust enrichment" of a person who utilizes an unlicensed contractor's services and obtains the contractor's performance without

subsequently having to pay for the work.¹ However, courts have found that this prohibition was enacted to deter unlicensed contract work, regardless of any unequitable result or unjust enrichment to a person utilizing an unlicensed contractor's services, and thus applies whenever a contractor does not maintain their license during the entire time of performance of the act or contract.²

4. SB 342 proposes to permit contractors to recover compensation for periods of work on a project during which they were licensed

According to the author, this provision is harsh and allows for no flexibility for minor administrative licensure issues, such as a late license renewal. The author proposes SB 342 to provide a more balanced approach to circumstances when a contractor can sue or be sued for the compensation due them when they fail to maintain their contractor's license for the entirety of the contract or act. Instead of requiring, for a lawsuit to recover the compensation owed the contractor, that the contractor prove they were duly licensed at all times during the performance of the act or contract for which they hope to recover, SB 342 would require that the contractor show that they were licensed when the contract was executed and during the portion of the times of the performance of the act or the contract for which they seek to recover compensation. SB 342 also limits lawsuits by a person who uses a contractor's services to recover compensation paid to an unlicensed contractor to only the portion of compensation paid to the unlicensed contractor for work that they performed while unlicensed.

5. Arguments in support

According to the California Conference of Carpenters, the sponsor of this bill:

California Business & Professions Code Section 7031 is currently set up to prohibit contractors with a gap in a contractor's license, no matter how brief, from using the courts to collect against claims and costs incurred on a construction project and potentially have to remit back to the project owner all money paid for work conducted on a project, even if the project is completed in full. For example, a contractor could be compelled to return 100% of the contract payments received on a project due to a 1% gap period in the license, with the project's owner receiving the windfall of a free project. This is true even if the gap is for a single day on a multi-year project for an administrative reason, i.e., a renewal application is a day late.

¹ See *MW Erectors, Inc. v. Neiderhauser Ornamental & Metal Works Co., Inc.* (2005) 36 Cal. 4th 412, 424; *Lewis & Queen v. N.M. Ball Sons* (1957) 48 Cal. 2d 141, 151.

² *Id.*

[The bill] would make a modest but important change. It would simply make any penalty proportional to the period of unlicensed performance. It would correct a problem that leads to inequitable and often absurd results.

SUPPORT

California Conference of Carpenters (sponsor)
California Legislative Conference of Plumbing, Heating & Piping Industry (CLC)
Construction Employer's Association (CEA)
Finishing Contractors Association of Southern California (FCASC)
National Electrical Contractors Association (NECA)
Northern California Allied Trades (NCAT)
Northern California Floor Covering Association
Southern California Glass Management Association (SCGMA)
United Contractors (UCON)
Wall and Ceiling Alliance (WACA)
Western Line Constructors
Western Painting and Coating Contractors Association (WPCCA)
Western Wall and Ceiling Contractors Association (WWCCA)

OPPOSITION

None received

RELATED LEGISLATION

Pending Legislation: AB 559 (Berman, 2025) includes in the definition of a "home improvement," for the purposes of various laws regarding home improvement contracts, to include the construction, erection, installation, replacement, or improvement of an accessory dwelling unit on residentially zoned property, and makes a contractor or unlicensed person who violates specified provisions relating to home improvement contracts subject to the revocation of their license and a civil penalty, as specified. AB 559 is currently in the inactive file of the Senate.

Prior Legislation:

SB 779 (Archuleta, Ch. 233, Stats. 2025) increased the minimum civil penalties for violations related to unlicensed contractors to \$1,500 and imposed minimum civil penalties of at least \$500 or \$1,500 for other violations, as specified, and permits the CSLB to adjust the limits of these civil penalties for inflation every 5 years.

SB 456 (Ashby, Ch. 758, Stats. 2025) exempted from the requirements of the Contractors State License Law that a contractor be licensed as an artist who draws, paints, applies, executes, restores, or conserves a mural, as specified.

AB 1002 (Gabriel, Ch. 567, Stats. 2025) permitted the Attorney General to bring a civil action to deny or impose discipline upon a contractor's license when a contractor fails to pay its workers, fails to fulfill a wage judgment, or is in violation of an injunction or court order relating to the payment of wages to its workers, as specified, and permitted the CSLB to intervene in any such proceeding.

SB 1474 (Senate Committee on Business, Professions, and Economic Development, Ch. 312, Stats. 2020) required, among other changes to the Contractors State License Law, that the CSLB grant a retroactive renewal of a contractor's license if, within 90 days from the due date, the licensee is otherwise eligible and submits a completed application for renewal and pays the renewal and delinquency fees, removing the previous requirement that the contractor show that delay was due to circumstances beyond their control.

AB 3275 (Chen, 2020) would have provided that the prohibition under the Contractors State License Law for the recovery of compensation for work performed while unlicensed does not apply to a limited partnership in which the license is held by a general partner of the limited partnership. AB 3275 died in the Assembly Business and Professions Committee.

SB 822 (Senate Committee on Business, Professions, and Economic Development, Ch. 319, Stats. 2013) provided that a contractor who fails to renew their license before it expires may not be required to pay a delinquency fee where an incomplete renewal application had been submitted before their license's expiration, and a corrected and acceptable renewal application was returned to the CSLB within 30 days of notice of the insufficiency of the renewal application.

PRIOR VOTES:

Senate Business, Professions, and Economic Development Committee (Vote not available at the time of publishing this analysis)
