SENATE COMMITTEE ON APPROPRIATIONS
Senator Anna Caballero, Chair
2025 - 2026 Regular Session

SB 347 (Choi) - Annual tax: partnerships and LLCs

Version: January 16, 2026
Urgency: No
Hearing Date: January 20, 2026

Policy Vote: REV. & TAX. 5 - 0
Mandate: No
Consultant: Robert Ingenito

Bill Summary: SB 347 would reduce the annual tax on partnerships and limited liability companies to $600.

Fiscal Impact: The Franchise Tax Board (FTB) estimates that this bill would result in General Fund revenue losses of $390 million in 2026-27, $380 million in 2027-28, and $390 million in 2028-29. FTB's administrative costs have yet to be identified.

Background: State law imposes an annual franchise tax on corporations (C-Corporations and S-Corporations) for the privilege of doing business in California. The measured franchise tax rate is 8.84 percent for C Corps and 1.5 percent for S Corps, and it applies to corporations' California apportioned net income; higher rates apply to financial corporations. State law also imposes a Minimum Franchise Tax (MFT) of $800 on all corporations, to be paid if their amount of measured franchise tax is below the calculated annual tax amount. The MFT ensures that business taxpayers who do not show a profit in a taxable year bear some of the cost of public services. Generally, C-Corps with a net income of less than $9,049.32 and S-Corps with a net income of less than $53,333.34 will pay the MFT, since their measured franchise tax would be less than $800.

The Legislature has enacted several general or specific exemptions from the MFT. Among other examples, credit unions are exempt from the MFT, and certain nonprofit cooperative associations are exempt for up to 5 years. Additionally, beginning January 1, 2000, newly incorporated or qualified C-Corporations (C-Corps) and S-Corporations (S-Corps) are not required to pay the minimum franchise tax in their first taxable year (AB 10, Correa, 1998). Additionally, corporations are exempt from the MFT if they did not conduct business in California during the tax year and their tax year was 15 days or fewer. This exemption does not apply to any corporation that reorganizes solely to avoid MFT payments.

Similar to C-Corporations and S-Corporations, current state law imposes an annual tax on pass-through entities such as Limited Liability Corporations (LLCs), Limited Partnerships (LPs), Limited Liability Partnerships (LLPs), and qualified Subchapter S subsidiaries (QSubs). Similar to the MFT, these entities are subject to an annual entity-level tax that operates as a minimum charge for the privilege of doing business and maintaining registration in California, set at $800. Individual sections of state law require each LLC, LP, and LLP to pay an annual tax, with the amount set by reference to the MFT amount for C-Corps. However, unlike corporations subject to the MFT, LLCs, LPs, LLPs, and QSubs are not currently granted a first-year exemption from the annual tax.

AB 85 (Committee on Budget, 2020) temporarily authorized a first-year exemption to the annual tax for partnerships and LLCs for tax years 2020 through 2023, resulting in an estimated annual General Fund revenue loss of $50 million. The Legislature did not renew the exemption upon its expiration.

Additionally, every LLC subject to the annual tax must also pay an annual fee based on the total income from all sources derived from or attributable to the State. The current LLC fee schedule is $900 if total income is more than $250,000 but less than $500,000; $2,500 if total income is more than $500,000 but less than $1 million; $6,000 if total income is more than $1 million but less than $5 million; and $11,790 if the total income exceeds $5 million.

Proposed Law: This bill among other things would, for taxable years 2026 through 2030, reduce the annual tax on LLCs, LPs, and LLPs to $600.

Related Legislation:

- AB 91 (Valladares, 2021) would have reduced the annual tax for LPs, LLPs, and LLCs not classified as corporations, that are small businesses or microbusinesses, as defined, from $800 to $400 or $200, respectively. In addition, it would have reduced the MFT for corporations that are small businesses or microbusinesses, as defined, from $800 to $400 or $200, respectively. The bill was not heard by the Assembly Revenue and Taxation Committee.

- AB 632 (Ramos, 2021), similar to this bill, would have reduced the $800 minimum franchise tax for corporations, and, by reference, the annual tax for LPs, LLPs, or LLC's not classified as corporations, based on gross receipts. The bill was not heard by the Assembly Revenue and Taxation Committee.

Staff Comments: FTB data indicate that 1.6 million LLCs not taxed as corporations, LLPs, and LPs would be impacted by the bill's reduction in the annual tax.

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