Date of Hearing: August 20, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
SB 587 (Grayson) – As Amended May 23, 2025

Policy Committee: Revenue and Taxation Vote: 7 - 0

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

SUMMARY:

This bill allows, upon appropriation, under the Personal Income Tax (PIT) Law and Corporation Tax (CT) Law, a tax credit in an amount equal to the amount of sales and use tax (SUT) paid on purchases qualifying for the partial SUT exemption for manufacturing and research and development (MR&D).

Specifically, this bill:

1) Allows, for taxable years beginning on or after January 1, 2026, and before January 1, 2031, a PIT and CT credit in an amount equal to the amount of SUT paid on purchases qualifying for the MR&D SUT exemption.

2) Authorizes the Franchise Tax Board (FTB) to request information necessary to administer the credit from the Department of Tax and Fee Administration (CDTFA), and authorizes CDTFA to provide specified information to FTB.

3) Requires the Department of Finance (DOF), by May 14, 2026, and annually thereafter, to provide the legislative budget committees with an estimate of the amount of revenue loss if the credits were allowed for the next taxable year, and provides that the credits are allowed for taxable years only for which the Legislature appropriates money in the budget act for administration of the credits.

4) Declares the goal of the new PIT and CT credit and requires FTB to submit a report to the Legislature with specified performance data by April 1, 2033.

FISCAL EFFECT:

1) General Fund (GF) revenue loss of approximately $50 million in fiscal year (FY) 2025-26, $210 million in FY 2026-27, and $330 million in FY 2027-28. 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).

2) Costs of an unknown amount to FTB to administer the tax credit and prepare the report (GF). FTB notes that this credit allowance is contingent upon an appropriation for FTB's administration of the credit, which may create uncertainty for FTB, as well as for taxpayers and tax preparers.

3) Likely absorbable costs to CDTFA to share information with FTB, and to DOF to report specified information to the Legislature.

COMMENTS:

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

> According to the 2024 California Jobs Market Briefing published by the Employment Development Department (EDD), the manufacturing sector was one of only three industries that experienced job loss. It is therefore imperative that the state find ways to mitigate financial burdens and promote increased production and ensure the growth of high-wage jobs for a variety of skill levels and backgrounds in one of the state's essential industries. A stout manufacturing job base is key to the global and domestic competitiveness of our economy. SB 587 will help strengthen that job base.

This bill is supported by a coalition of business groups led by the California Manufacturers and Technology Association.

2) **Existing SUT Incentives.** California's existing MR&D SUT exemption was enacted in 2013 as part of the state's overhaul of economic development policies. The tax expenditure provides, until July 1, 2030, a partial SUT exemption for a qualified taxpayer's purchase of qualified tangible personal property (TPP) that is primarily used in manufacturing, research and development, or electric power generation, distribution, or storage. The partial exemption only applies to the GF components of the statewide SUT rate (3.9375%) and is generally limited to $200 million of TPP purchases by a qualified taxpayer in each calendar year. The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) also administers, until January 1, 2026, a separate full SUT exclusion program for eligible projects that promote the utilization of green technology. Aggregate SUT exclusions for approved projects may not exceed $100 million per calendar year.

This bill creates a PIT and CT credit for the amount of non-exempt SUT paid on purchases for which SUT was partially exempt under the existing MR&D SUT exemption. Thus, taxpayers with sufficient PIT and CT liability would effectively receive the benefit of a full SUT exemption for those MR&D purchases. However, the additional revenue loss from this "full exemption" would be borne by the state, instead of cities and counties.

3) **Related Legislation.** SB 86 (McNerney) extends the CAEATFA SUT exclusion program until January 1, 2031, and expands the types of projects eligible for the exclusion. SB 86 is pending hearing by this committee.

4) **Prior Legislation.** AB 52 (Grayson), of the 2023-24 Legislative Session, was substantively similar to this bill. AB 52 was vetoed by Governor Newsom, who stated:

> California offers many powerful incentives to encourage new and continued investment in the areas of manufacturing, research, and development. However, by enacting a new tax credit, this bill would have a significant impact on the state general fund, and should be considered in the annual budget process.

AB 1951 (Grayson), of the 2021-22 Legislative Session, would have expanded the partial MR&D SUT exemption to become a full exemption. AB 1951 was vetoed by Governor Newsom, who stated, "I agree with the intent of this bill to invest in California's economy, incentivize innovation, and spur a manufacturing marketplace that is competitive nation-wide. However, we cannot ask our local governments to bear this loss in revenue."

Analysis Prepared by: Irene Ho / APPR. / (916) 319-2081