SENATE THIRD READING
SB 785 (Caballero)
As Amended July 7, 2025
Majority vote

SUMMARY

Allows a credit under the Personal Income Tax (PIT) Law for purchases of certain durable medical equipment, as specified.

Major Provisions

1) Allows a PIT credit equal to 50% of the "qualified expenditures" of a taxpayer during the taxable year.

2) Provides that the credit shall not exceed $5,000 per taxable year for each "qualifying dependent".

3) Allows the credit for taxable years beginning on or after January 1, 2026, and before January 1, 2031.

4) Defines a "qualified expenditure" as an unreimbursed expense paid or incurred by the taxpayer for the purchase of "durable medical equipment" prescribed by a licensed health care provider for use by a "qualifying dependent".

5) Defines a "qualifying dependent" as a dependent of the taxpayer who has one or more "complex medical conditions" and is younger than 18 years of age as of the first day of the taxable year.

6) Defines "durable medical equipment" by reference to Section 1395x(n) of Title 42 of the United States Code.

7) Defines "complex medical conditions" to include, without limitation, conditions where an individual would be eligible for early and periodic screening, diagnosis, and treatment services, as described in Welfare and Institutions Code Section 14132(v).

8) Provides that, in cases where the credit amount exceeds the taxpayer's tax liability, the excess credit amount may be carried over to reduce the taxpayer's tax liability in the succeeding eight years, if necessary, until the credit has been exhausted.

9) Provides that, if any credit is claimed by the taxpayer, any deduction otherwise allowed for a qualified expenditure shall be reduced by twice the amount of the credit allowed.

10) Provides that the credit allowed shall be in lieu of any other credit that the taxpayer may otherwise be allowed under the PIT Law with respect to amounts taken into account in calculating the credit allowed by this bill.

11) Provides that, for purposes of complying with Revenue and Taxation Code (R&TC) Section 41, the Legislature finds and declares:

a) The goal of this credit is to provide financial relief to families with children who have complex medical conditions that face large or consistent out-of-pocket expenses associated with expensive, medically necessary durable medical equipment; and,

b) The performance indicators for the Legislature to use in determining whether the credit achieves its stated goal shall be the number of taxpayers allowed a credit under this bill, and the total dollar amount of credits allowed.

12) Requires the Franchise Tax Board (FTB), no later than July 1, 2028, and annually thereafter, to submit a report to the Legislature, in compliance with Government Code Section 9795, detailing the number of taxpayers allowed a credit under this bill and the total dollar amount of credits allowed. These disclosure requirements shall be treated as an exception to R&TC Section 19542.

13) Takes immediate effect as a tax levy.

14) Sunsets on December 1, 2031.

COMMENTS

1) *What is a "tax expenditure"*? Existing law provides various credits, deductions, exclusions, and exemptions for particular taxpayer groups. In the late 1960s, U.S. Treasury officials began arguing that these features of the tax law should be referred to as "expenditures" since they are generally enacted to accomplish some governmental purpose and there is a determinable cost associated with each (in the form of foregone revenues).
As the Department of Finance notes in its annual Tax Expenditure Report, there are several key differences between tax expenditures and direct expenditures. First, tax expenditures are typically reviewed less frequently than direct expenditures. Second, there is generally no control over the amount of revenue losses associated with any given tax expenditure. Finally, it should also be noted that, once enacted, it takes a two-thirds vote to rescind an existing tax expenditure absent a sunset date. This effectively results in a "one-way ratchet" whereby tax expenditures can be conferred by majority vote, but cannot be rescinded, irrespective of their efficacy or cost, without a supermajority vote.

2) *What would this bill do*? This bill would allow a credit under the PIT Law equal to 50% of a taxpayer's qualified expenditures, not to exceed $5,000 per taxable year for each qualifying dependent with complex medical conditions. This bill defines "qualified expenditures", in turn, as unreimbursed expenses paid or incurred for durable medical equipment prescribed by a licensed healthcare provider for use by the qualifying dependent. To this end, the author notes:

> Families face enormous out-of-pocket costs even when they have private insurance or Medi-Cal. Without access to essential DME, children with complex medical conditions experience delays in care, hospitalization, and in extreme cases, institutionalization.

According to the Author

1) The author has provided the following statement in support of this bill:

> Families with children who have complex medical conditions are faced with many burdens, barriers, and anxieties in their day to day lives. Many struggle financially

because of the diagnosis and the treatment. One of these burdens is the cost of durable medical equipment (DME), equipment that have been prescribed by a physician and are medically necessary for the care of the child, such as wheelchairs and ventilators.
California offers various forms of financial relief for residents who are faced with the high costs of healthcare. The Medical Expense Deduction allows taxpayers to deduct unreimbursed medical expenses that exceed 7.5% of adjusted gross income. And while prescribed DME can qualify for this itemized deduction, the fact is that most middle-income Californians don't meet the high thresholds [needed] to itemize their deductions, and claim the deduction.
Other states have taken different approaches to relieving the financial burdens associated with DME. New York provides a sales tax exemption for all DME costs. States like Maryland and Minnesota provide broad deductions and insurance mandates for DME coverage.
Families face enormous out-of-pocket costs even when they have private insurance or Medi-Cal. Without access to essential DME, children with complex medical conditions experience delays in care, hospitalization, and in extreme cases, institutionalization. Data shows that children with complex health needs do best at home, but only if they have timely access to the equipment that keeps them safe and healthy. A tax credit eases the stress for families who have to make out-of-pocket DME purchases and reduces the financial burden of unreimbursed costs.
Beginning January 1, 2026, the tax credit created by SB 785 will allow a taxpayer to claim up to 50% of costs paid or incurred for the purchase of durable medical equipment that is prescribed by a licensed health care provider to a child with a complex medical condition. The tax credit would be capped at $5,000 a year per child, and anything in excess of that amount would be carried over to the following taxable year.
SB 785 is the first of its kind in California. It will relieve the financial stress of parents managing the costs of medical services, drugs, therapy, and medical equipment necessary for their children with complex medical conditions, and will improve the quality of life for children living in our state.

Arguments in Support

1) This bill is supported by Maxim Healthcare Services, which notes the following:

> As you know, private duty nursing, or PDN, is skilled, in-home nursing care provided to medically fragile children and adults provided under Medi-Cal. PDN care is an alternative to more costly hospital settings and where families overwhelmingly prefer to be. Unfortunately, Medi-Cal rates for PDN in California are some of the lowest in the western half of the United States, putting medically fragile children in the state, many who require ventilators or tracheostomies, at risk.
>
> Last year, the California legislature and Governor Newsom recognized the importance of PDN and included a 40% rate increase in the budget to help keep children out of the hospital and at home with their families. Sadly, the passage of Proposition 35 in November 2024 nullified that increase.
>
> Your legislation recognizes that PDN patients are facing a crisis, and they need support. While our ultimate hope is for a permanent increase to the PDN Medi-Cal reimbursement rate, we support any initiatives that will help provide clinical and financial relief to our patient families[.]

Arguments in Opposition
None on file

FISCAL COMMENTS

According to the Assembly Appropriations Committee:

1) General Fund (GF) revenue loss of approximately $3.2 million in fiscal year (FY) 2025-26, $5.7 million in FY 2026-27, and $6.1 million in FY 2027-28. By decreasing PIT 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, but likely absorbable amount, to FTB to administer the new credit and prepare the annual report.

VOTES

SENATE FLOOR: 38-0-2
YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Hurtado, Jones, Laird, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener
ABS, ABST OR NV: Limón, Reyes

ASM REVENUE AND TAXATION: 7-0-0
YES: Gipson, Ta, Bains, Carrillo, DeMaio, McKinnor, Quirk-Silva

ASM APPROPRIATIONS: 15-0-0
YES: Wicks, Sanchez, Arambula, Calderon, Caloza, Dixon, Elhawary, Fong, Mark González, Ahrens, Pacheco, Pellerin, Solache, Ta, Tangipa

UPDATED

VERSION: July 7, 2025

CONSULTANT: M. David Ruff / REV. & TAX. / (916) 319-2098 FN: 0001385