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UNFINISHED BUSINESS

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Bill No: SB 785  
Author: Caballero (D)  
Amended: 7/7/25  
Vote: 21- Urgency

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SENATE REVENUE AND TAXATION COMMITTEE: 5-0, 5/14/25  
AYES: McNerney, Valladares, Ashby, Grayson, Umberg

SENATE APPROPRIATIONS COMMITTEE: 6-0, 5/23/25  
AYES: Caballero, Seyarto, Cabaldon, Grayson, Richardson, Wahab  
NO VOTE RECORDED: Dahle

SENATE FLOOR: 38-0, 5/29/25  
AYES: 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  
NO VOTE RECORDED: Limón, Reyes

ASSEMBLY FLOOR: 78-0, 9/4/25 - See last page for vote

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**SUBJECT:** Personal income tax: credit: durable medical equipment

**SOURCE:** Author

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**DIGEST:** This bill authorizes a personal income tax credit in an amount equal to 50% of unreimbursed expenses paid or incurred by a taxpayer, up to \$5,000, for the purchase of durable medical equipment for each qualifying dependent under the age of 18 with a complex medical condition.

*Assembly Amendments of 7/7/25* 1) reduce any deduction taken, for the same qualifying expense, by twice the amount of the credit; the version of the measure the Senate approved reduced deductions taken for the same qualifying expense only by the amount of the credit taken; 2) remove permission for the Franchise Tax

Board (FTB) to prescribe rules, guidelines, or other guidance to implement the bill and 3) make technical changes.

**ANALYSIS:**

Existing federal law authorizes a personal income tax “above-the-line” deduction for contributions to Health Savings Accounts and an exclusion for qualified distributions.

Existing state law:

- 1) Allows various income tax credits, deductions, exemptions, and exclusions.
- 2) Authorizes personal income tax benefits to help absorb the cost of medical equipment that also apply to federal income taxes, such as:
  - a) Itemized deduction for unreimbursed medical expenses;
  - b) Exclusions for qualified distributions from an Achieving a Better Life Experience (529A) account;
  - c) Exclusions for contributions to Flexible Spending Arrangements and qualified distributions;
- 3) Provides for a sales and use-tax exemption for medical devices.

This bill:

- 1) Authorizes a personal income tax credit in an amount equal to 50% of unreimbursed expenses paid or incurred by a taxpayer, up to \$5,000, for the purchase of durable medical equipment for each qualifying dependent under the age of 18 with a complex medical condition.
- 2) Authorizes the credit for the 2026 through 2030 tax years.
- 3) Allows the credit to be carried forward to the following taxable year, and the succeeding seven years if necessary.
- 4) Defines a “complex medical condition” to mean “where an individual would be eligible for early and periodic screening, diagnosis, and treatment services, as described in subdivision (v) of Section 14132 of the Welfare and Institutions Code.”

- 5) Defines “durable medical equipment” as having the same meaning as that term is defined in Section 1395x(n) of Title 42 of the United States Code.
- 6) Reduces any deduction taken, for the same qualifying expense, by twice the amount of the credit claimed under this bill.
- 7) Contains legislative findings and declarations to comply with Section 41 of the Revenue and Taxation Code, specifically to direct FTB to submit a report to the Legislature by July 1, 2028, and annually thereafter, regarding the number of taxpayers allowed a credit and the total dollar amount of credits allowed pursuant to this measure.

## Background

*Complex medical condition.* Subdivision (v) of Section 14132 of the Welfare and Institutions Code refers to the Medi-Cal Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) benefit. Medi-Cal’s EPSDT benefit is intended to cover all medically necessary services for individuals under the age of 21; however, out of pocket expenses may be incurred due to a delay in coverage or when families are unaware of appeal rights.

*Durable medical equipment.* The term “durable medical equipment”, as defined under Section 113395x(n) of Title 42 of the United States Code, includes iron lungs, oxygen tents, hospital beds, and wheelchairs used in the patient’s home (including an institution used as their home), blood-testing strips and blood glucose monitors for individuals with diabetes, and eye tracking and gaze interaction accessories for speech generating devices.

**FISCAL EFFECT:** Appropriation: No    Fiscal Com.: Yes    Local: No

According to the Assembly Appropriations Committee:

- 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).
- Costs of an unknown, but likely absorbable amount, to FTB to administer the new credit and prepare the annual report.

**SUPPORT:** (Verified 9/3/25)

Aveanna Healthcare  
California Association for Health Services at Home  
Maxim Healthcare Services  
Pediatric Day Health Care Coalition  
Prime Home Health

**OPPOSITION:** (Verified 9/3/25)

None received

**ARGUMENTS IN SUPPORT:** According to the author, “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 has been prescribed by a physician and is 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.”

ASSEMBLY FLOOR: 78-0, 9/4/25

AYES: Addis, Aguiar-Curry, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NO VOTE RECORDED: Ahrens

Prepared by: Haley Summers / REV. & TAX. / (916) 651-4117  
9/6/25 10:40:16

\*\*\*\* END \*\*\*\*