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## SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair  
2025 - 2026 Regular Session

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### SB 984 (Ochoa Bogh) - Personal Income Tax Law: deductions: tips

**Version:** April 29, 2026

**Urgency:** No

**Hearing Date:** May 11, 2026

**Policy Vote:** REV. & TAX. 5 - 0

**Mandate:** No

**Consultant:** Robert Ingenito

**Bill Summary:** SB 984 would conform state law to the federal deduction for tipped income.

**Fiscal Impact:** The Franchise Tax Board (FTB) estimates that this bill would result in General Fund revenue losses of \$650 million in 2026-27, \$430 million in 2027-28, and \$210 million in 2028-29. FTB's administrative costs have yet to be identified.

**Background:** Tax expenditure programs (TEPs) are special tax provisions that reduce the amount of revenues the "basic" tax system would otherwise generate in order to provide (1) benefits to certain groups of taxpayers, and/or (2) incentives to encourage certain types of behavior and activities, such as charitable giving. Specifically, current law provides for, among other things, various income and corporation tax credits and deductions, as well as exemptions from the sales and use tax. The Department of Finance is required to publish a list of TEPs (currently totaling several hundred), which currently exceed \$94 billion annually.

Current federal and state laws provide that gross income includes all income from any source, unless specifically excluded; examples include amounts received as a gift or inheritance, certain compensation for injuries and sickness, qualified scholarships, educational assistance programs, foster care payments, and interest received on certain state or federal obligations.

Existing federal and state laws allow for the deduction of certain expenses from gross income when calculating adjusted gross income (AGI). Some examples include moving expenses for members of the armed service, as well as certain ordinary and necessary trade and business expenses. These are known as "above the line" deductions. Unlike itemized deductions, such as charitable deductions and mortgage interest deductions, all taxpayers with these types of expenses may take the corresponding deduction. In other words, the taxpayer can take above-the-line deductions regardless of whether the taxpayer claims the standard or itemized deduction. Tips have always been considered income.

In July 2025, Congress enacted H.R. 1, which allows a deduction of up to \$25,000 for qualified tips received, applicable for tax years 2025 through 2028. The deduction is reduced for taxpayers whose modified adjusted gross income exceeds \$150,000 for single taxpayers, or \$300,000 for married filing joint taxpayers. The deduction applies to tips reported by employees to employers under current requirements in federal law. H.R. 1 defined "qualified tips" as cash paid, or amounts charged, including amounts received by an employee under any tip sharing arrangement in an occupation that receives tips on a customary and regular basis, but excludes amounts that are not

provided voluntarily, not in a specified service trade or business, or excluded under guidance to be established by the Secretary of the U.S. Department of the Treasury. The deduction is available to taxpayers regardless of whether they itemize deductions or claim the standard deduction, similar to an above-the-line deduction.

State law does not automatically conform to federal changes. Instead, the Legislature must conform to federal changes. Specifically, it can pass (1) an individual bill that conforms to a specific federal tax provision, or (2) an omnibus bill to conform state law to federal law as of a specified date. Current state law generally conforms to federal tax law as of January 1, 2025 (SB 711, McNerney). H.R. 1 was enacted after SB 711's conformity date of January 1, 2025; consequently, California currently does not conform to the new tip deduction.

**Proposed Law:** This bill, among other things, would conform state law to H.R. 1's tip deduction, for tax years 2026 through 2028. Any California filer could claim the deduction.

**Related Legislation:** SB 17 (Ochoa Bogh, 2025) would have conformed state law to H.R. 1. The bill was held under submission on the Suspense File of this Committee.

**Staff Comments:** FTB's estimate is largely based on a national estimate from the Joint Committee on Taxation (JCT). JCT estimates the 2025-26 revenue loss at the federal level to be \$10 billion.

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