An act to add Sections 42 and 42.5 to the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL’S DIGEST

SB 468, as amended, Jackson. Taxation: tax expenditures: repeal date.

Existing law, including, but not limited to, property tax law, the Sales and Use Tax Law, the Personal Income Tax Law, the Corporation Tax Law, the Motor Vehicle Fuel Tax Law, the law governing the taxation of insurers, the Use Fuel Tax Law, and the Diesel Fuel Tax Law provide for tax expenditures, including exemptions, deductions, exclusions, and credits against the taxes imposed by those laws.

This bill would repeal all tax expenditures, as defined, on December 31, 2023, not including any tax expenditures under the Personal Income Tax Law and the exemption from taxation for specified nonprofit organizations, and would require, if a tax expenditure is amended to remove or extend the repeal date, the act doing so to include specified information related to the efficacy of the tax expenditure. The bill would also require the Legislative Analyst’s Office to conduct an analysis of, and provide a specified report to the Legislature regarding, these tax expenditures.

This bill would include a change in state statute that would result in a taxpayer paying a higher tax within the meaning of Section 3 of Article
XIII A of the California Constitution, and thus would require for passage
the approval of \( \frac{2}{3} \) of the membership of each house of the Legislature.
This bill would take effect immediately as a tax levy.
Vote: \( \frac{2}{3} \). Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. The Legislature finds and declares all of the following:
(a) California’s publicly funded K–14 education systems are
dependent on state revenues, including personal, corporate, sales,
and use taxes.
(b) The Legislature has consistently advanced tax expenditures,
including credits and sales tax exemptions to accomplish market
and policy goals. While these expenditures have been put in place
with the goal of achieving certain policy objectives, they have the
effect of reducing revenue to the General Fund which, in turn,
reduces Proposition 98 funding by approximately 40 cents on each
dollar.
(c) Given the fact that Proposition 98 was suspended twice
during the past economic downturn and recession, more than
30,000 teachers lost jobs, and millions of California’s students
faced significant reductions in services, the closure of programs,
and increases in class size, it is imperative for the Legislature to
ensure that California’s dollars are spent efficiently, with
transparency and oversight to ensure decisions are intentionally
created to provide long-term benefits to California.
(d) The California State Auditor released an audit in 2015 on
six of the largest tax expenditures in California and found a lack
of oversight or evaluation has resulted in insufficient evidence to
determine if some tax credits and exemptions are fulfilling their
purpose to provide economic benefit to California.
(e) In 2016, the California State Auditor questioned whether
some of California’s revenue going toward some tax expenditures
is being well spent or if these funds could be better allocated to
fulfill the same policy objectives or if improvements can be made
to make them more effective.
(f) Tax expenditures have been created to provide an economic
benefit to California as well as to create incentives to achieve
particular goals and outcomes. It is imperative for California to
ensure the billions of dollars allocated to these outcomes are being
well spent to justify the reductions in critical education and public
policy programs.
SEC. 2. Section 42 is added to the Revenue and Taxation Code,
to read:
42. (a) All tax expenditures shall be repealed on December
(b) (1) For purposes of this section, “tax expenditure” means
a tax expenditure that does not, as of the effective date of the act
adding this section, have a repeal or inoperative date, does not
include metrics of efficacy reported as a requirement, and for which
the annual cost to the state has met or exceed one billion dollars
($1,000,000,000) over the past 10 years.
(2) “Tax expenditure” does not include a tax expenditure in Part
10 (commencing with Section 17001) of Division 2.
(A) A tax expenditure in Part 10 (commencing with Section
17001) of Division 2.
(B) The tax expenditure pursuant to Section 23701.
(c) If a tax expenditure subject to subdivision (a) is amended to
remove or extend the repeal date, the act amending the section
shall include all of the following:
(1) Specific goals, purposes, and objectives that the tax
expenditure will achieve.
(2) Detailed performance indicators for the Legislature to use
when measuring whether the tax expenditure meets the goals,
purposes, and objectives stated in the act.
(3) Data collection requirements to enable the Legislature to
determine whether the tax expenditure is meeting, failing to meet,
or exceeding those specific goals, purposes, and objectives. The
requirements shall include the specific data and baseline
measurements to be collected and remitted in each year the tax
expenditure is in effect, in order for the Legislature to measure the
change in performance indicators, and the specific taxpayers, state
agencies, or other entities required to collect and remit data.
SEC. 3. Section 42.5 is added to the Revenue and Taxation
Code, to read:
42.5. Prior to December 1, 2022, the Legislative Analyst’s
Office shall conduct an analysis of each tax expenditure subject
to Section 42 and submit a written report, submitted in compliance
with Section 9795 of the Government Code, to the Legislature which shall include all of the following:
(a) A description of the legislative intent for each tax expenditure, if the act adding or amending the expenditure contains legislative findings and declaration of that intent, or that legislative intent is otherwise expressed or specified by that act.
(b) A brief description of the beneficiaries of the credit, deduction, exclusion, exemption, or other tax benefit as provided by state law.
(c) The number of returns filed or business entities affected, as applicable, for the most recent tax year for which full year data is available.
(d) A listing of any comparable federal tax benefit, if any.
(e) A description of any recent prior tax expenditure evaluation or compilation of information completed by any state agency.
(f) The economic, social, or any other benefits of the tax expenditure to the State of California.
(g) Total net General Fund dollars lost, including what impact the shift in resources had on other General Fund programs.
(h) Total Proposition 98 dollars lost, including what impact the shift in resources had on educational programs.
(i) Potential environmental impacts, if any.
(j) A longer term analysis outlining the true beneficiaries versus intended beneficiaries of the tax expenditure and its impact on the business climate and market conditions.
(k) Jobs created by the tax expenditure. For the information required by paragraphs (1) and (2), the data must include demographics on gender, race, ethnicity, and age.
(1) Whether the jobs created were short or long term, as well as the average salary and benefits provided for the jobs created.
(2) Jobs lost or reduced in areas impacted by the tax expenditure or whether jobs were shifted to other sectors.
SEC. 4. This act provides for a tax levy within the meaning of Article IV of the California Constitution and shall go into immediate effect.