DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 06/29/2026
POSITION: Oppose

BILL NUMBER: AB 2222
AUTHOR: Ward, Christopher M

BILL SUMMARY: Personal Income Tax Law and Corporation Tax Law: credits: local news organizations: business expense deduction: excessive employee remuneration.

This bill, for tax years 2027 through 2032, allows a refundable tax credit for local news outlets and similar entities of between $7,500 and $20,000 for each journalist they employ. This bill additionally conforms California law to federal tax law changes made in the American Rescue Plan Act (ARPA, 2021) and H.R.1 (2025) further limiting publicly held corporations from claiming employee compensation deductions above $1 million per employee for certain highly paid employees.

FISCAL SUMMARY

The Franchise Tax Board (FTB) estimates that this bill increases General Fund revenues on net by $10 million in 2026-27, $15 million in 2027-28, and $23 million in 2028-29. This is the net impact of:

- The tax credit for local news organizations is estimated to decrease General Fund revenues by $19 million in 2026-27, $43 million in 2027-28, and $42 million in 2028-29.
- Conforming to federal law in further limiting business expenses for certain highly paid employees, is estimated to increase General Fund revenues by $29 million in 2026-27, $58 million in 2027-28, and $65 million in 2028-29.

FTB anticipates administrative costs related to the implementation of the new tax credit of $434,000 in 2027-28 for two temporary positions, $10,000 in 2028-29 and $8,000 in 2029-30 and ongoing for overtime for existing staff to update tax forms for the new refundable tax credit.

COMMENTS

The Department of Finance is opposed to this bill because it creates a new refundable tax credit that will result in significant General Fund revenue losses and administrative costs not included in the 2026 Budget Act and is likely to mainly subsidize existing activity rather than encourage net new hiring. Further, a refundable tax credit with no cap creates unlimited fiscal liability to the state, unlike a Budget appropriation which is limited and can be adjusted each year in the Budget. While the bill has an offsetting revenue-raising provision related to federal tax conformity, tax conformity issues should generally be considered in a comprehensive, revenue-neutral manner rather than individually.

The refundable tax credit created by this bill is likely to mainly provide windfall benefits to taxpayers rather than encourage net new hiring activity since the credit is allowed for journalists already employed as well as new hires, which results in fiscal costs to the state without generating new incremental economic benefit. For example, an employer with six journalists will receive a tax credit, as well an employer with four journalists that has recently laid off two journalists. Windfall

Analyst/Principal Flores-Jones, William	Date	Program Budget Manager Andrianarimanana, Danamona	Date
Department Deputy Director			Date
Governor's Office: By:		Date:	Position Approved________ Position Disapproved

COMMENTS (continued)

benefits for a tax credit mean that the state is spending money in the form of tax credits but not receiving any incremental economic benefit to justify the expenditure, and therefore the tax credit should be mainly viewed as tax relief.

The state should consider issues of federal conformity in a comprehensive and revenue-neutral manner, similar to Chapter 711, Statutes of 2025 (SB 711). SB 711 made decisions on state conformity on all federal tax law changes made from January 1, 2015 to January 1, 2025. By evaluating all tax law changes in a comprehensive manner, the state can better assess the cumulative fiscal, administrative, and policy impact while preserving overall revenue neutrality.

This bill allows a refundable tax credit for local news outlets and similar entities equal to the sum of:

- $20,000 for each of the first five full-time journalists the taxpayer employs.
- $15,000 for each additional full-time journalist employed above five journalists.
- An additional $15,000 for each new full-time journalist position added during the tax year.
- $7,500 for each qualifying journalist employed between 20 and 30 hours per week.

This bill defines a local news outlet to include qualified digital news outlets, broadcast stations, or qualifying print publication which produce original news concerning local communities in the state, disclose their owners, and operate a transparent system of fact-checking and corrections, along with other requirements. A journalist is defined as someone whose primary job duty in the state is covering state or local community news, whose job falls within weekly hour and salary thresholds, and who is a California resident.

This bill additionally makes changes to conform state law to federal tax law changes made in the ARPA (2021) and H.R.1 (2025) related to the limitation of deductions for excessive compensation paid by publicly held corporations to covered employees.

Federal law prior to the Tax Cuts and Jobs Act (TCJA) of 2017, limited publicly held companies to $1 million in total expense deductions per employee for the salaries of certain highly-paid employees, referred to as "covered employees", which included the principal executive officer and the next four highest paid executive officers. Federal law defines publicly held corporations as including entities' entire affiliated group of companies, which can include foreign corporations and certain other corporate entities, meaning the $1 million employee compensation deduction limit per covered employee applies across the entire corporation's affiliated group of companies.

The TCJA removed the exemption for performance-based compensation and modified the definition of the five covered employees to include the principal financial officer, the principal executive officer, and three other highest paid executive officers. By removing the exemption for performance-based compensation, TCJA effectively closed a loophole in prior federal law that allowed publicly held corporations to get around the employee compensation deduction limitation. California conformed to this tax law change along with multiple other TCJA tax law changes in 2019 in Chapter 39, Statutes of 2019 (AB 91).

The federal American Rescue Plan Act (ARPA), effective tax year 2027, expanded the definition of covered employees to also apply to the corporation's top five highest-paid employees in addition to the principal executive officer, principal financial officer, and three other highest paid other executive officers. Therefore, the total number of covered employees moved from five to ten. ARPA further specified that individuals not employed by the corporation but that still receive

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payment in exchange for services to the corporation could also be included in the additional five covered employees.

H.R.1 made further changes to prevent corporations from circumventing the $1 million limit by allocating an employee's compensation among multiple entities within its control. H.R.1, beginning tax year 2026, modified the federal rules for affiliate groups to a publicly traded company's controlled group as defined in federal law, broadening affiliate groups to include partnerships and affiliated service groups. H.R.1 clarifies that compensation paid by all controlled group members to a covered employee will be aggregated when calculating the $1 million deduction, and the deduction shall be applied in accordance with an individual entity's proportion of total compensation from the controlled group.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	(Fiscal Impact by Fiscal Year) (Dollars in Thousands) 2026-2027	FC	2027-2028	FC	2028-2029	Fund Code
7730/FTB	RV	No	C	0	C	434	C	10	0001
411 /Major Taxe	RV	No	U	10,000	U	15,000	U	23,000	0001