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AB-386 Personal Income Tax Law: Corporation Tax Law: credits: student loan payments. (2025-2026)

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AMENDED IN ASSEMBLY APRIL 28, 2025

CALIFORNIA LEGISLATURE— 2025–2026 REGULAR SESSION

ASSEMBLY BILL

NO. 386

Introduced by Assembly Member Tangipa

February 03, 2025

An act to add and repeal Sections 17053.83, 17139.4, and 23632 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

AB 386, as amended, Tangipa. Personal Income Tax Law: Corporation Tax Law: credits: student loan payments.

(1) The Personal Income Tax Law and the Corporation Tax Law allow various credits against the taxes imposed by those laws.

This bill, for taxable years beginning on or after January 1, ~~2026~~, 2027, and before January 1, ~~2031~~, 2032, would allow a credit against those taxes to a qualified taxpayer for student loan ~~payments~~ payments, as defined, made by the qualified taxpayer on behalf of a *qualified* full-time employee, as defined, not to exceed \$3,000 per employee during the taxable year. The bill would define qualified taxpayer for this purpose to mean a ~~business taxpayer~~ whose employees do not perform jobs described by specified federal law. The bill would limit the aggregate amount of credits allocated to \$25,000,000 per year, and would require the Franchise Tax ~~Board~~ Board, in coordination with the Student Aid Commission, to allocate the ~~credit~~, credit through tentative credit reservations, as described.

(2) The Personal Income Tax Law, in modified conformity with federal income tax law, generally defines “gross income” as income from whatever source derived, except as specifically excluded, and provides various exclusions from gross income.

This bill, for taxable years beginning on or after January 1, ~~2026~~, 2027, and before January 1, ~~2031~~, 2032, would provide an exclusion from gross income for student loan payments made by a qualifying employer, as defined, on behalf of a ~~taxpayer~~ *qualified taxpayer, as defined*, that is a full-time employee.

(3) Existing law requires a bill authorizing a new tax expenditure to contain, among other things, specific goals the tax expenditure will achieve, detailed performance indicators, and data collection requirements.

This bill would include additional information required for any bill authorizing a new tax expenditure.

(4) This bill would take effect immediately as a tax levy.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 17053.83 is added to the Revenue and Taxation Code, to read:

17053.83. (a) For taxable years beginning on or after January 1, ~~2026~~, 2027, and before January 1, ~~2031~~, 2032, there shall be allowed as a credit against the "net tax," as that term is defined in Section 17039, of a qualified taxpayer an amount equal to the taxpayer's qualified expenditures during the taxable year.

(b) For purposes of this section, the following definitions shall apply:

~~(1) "Full-time employee" means an employee of a qualified taxpayer who satisfies either of the following:~~

~~(A) Is paid wages by the qualified taxpayer for services not fewer than an average of 35 hours per week.~~

~~(B) Is a salaried employee and was paid compensation during the taxable year for full-time employment, within the meaning of Section 515 of the Labor Code, by the qualified taxpayer.~~

~~(2)~~

(1) "Qualified expenditure" means all ~~student loan~~ payments made by a qualified taxpayer on behalf of a *qualified* full-time employee, not to exceed three thousand dollars (\$3,000) per *qualified* full-time ~~employee~~; *employee, towards repayment of a student loan.*

(2) (A) *"Qualified full-time employee" means an individual employed by a qualified taxpayer for at least six months during the taxable year who satisfies either of the following:*

(i) Is paid wages by the qualified taxpayer for services not fewer than an average of 35 hours per week.

(ii) Is a salaried employee and was paid compensation during the taxable year for full-time employment, within the meaning of Section 515 of the Labor Code, by the qualified taxpayer.

(B) Notwithstanding subparagraph (A), "qualified full-time employee" does not include an employee who receives more than one hundred twenty-five thousand dollars (\$125,000) in wages or salary from the qualified taxpayer during the taxable year.

(3) "Qualified taxpayer" means a ~~business taxpayer~~ whose employees do not perform jobs described in Section 1087e(m)(3)(B) of ~~the~~ Title 20 of the United States Code.

(4) *"Student loan" has the same meaning as that term is defined in Section 108 of the Internal Revenue Code.*

(c) The total aggregate amount that may be allocated by credit reservations to all qualified taxpayers pursuant to this section and Section 23632 shall not exceed twenty-five million dollars (\$25,000,000) per calendar year.

(d) To be eligible for the credit allowed by this section, a qualified taxpayer shall request a credit reservation from the Franchise Tax Board during the month of July for each taxable year, or within 30 days of the start of their taxable year if the qualified taxpayer's taxable year begins after July, in the form and manner prescribed by the Franchise Tax Board.

(e) (1) The Franchise Tax Board, in coordination with the Student Aid Commission, shall approve tentative credit reservations with respect to qualified expenditures incurred during a taxable year for qualified taxpayers, subject to the cap established under this section and Section 23632.

~~(d) The Franchise Tax Board shall do the following in relation to the credit allowed by this section:~~

~~(1) Beginning on July 1 of each year, accept applications from taxpayers for a tentative credit reservation for the taxable year that includes January 1 of the calendar year following that date. Applications shall be made in the form and manner prescribed by the Franchise Tax Board.~~

(2) ~~Approve applications, giving~~ *In approving applications, the Franchise Tax Board shall give* priority to those applications submitted by qualified taxpayers that are at least one of the following:

(A) Businesses that are owned by veterans.

~~(D) Businesses that are owned by women.~~

~~(E)~~

(B) Employers that employ no more than 500 employees at any time during the taxable year.

~~(D) Businesses that are minority owned.~~

~~(E)~~

(C) Businesses that are owned by disabled individuals.

~~(e)~~

(f) To obtain a credit reservation with respect to a qualified expenditure, the qualified taxpayer shall provide all necessary information, as determined by the Franchise Tax Board.

~~(f)~~

(g) In the case where the credit allowed by this section exceeds the "net tax," the excess may be carried over to reduce the "net tax" in the following taxable year, and the three succeeding years if necessary, until the credit is exhausted.

~~(g)~~

(h) If the credit allowed by this section is claimed by the qualified taxpayer, any deduction or credit otherwise allowed under this part for any qualified expenditure made by the qualified taxpayer ~~as a trade or business expense~~ shall be reduced by the amount of the credit allowed by this section.

~~(h) The Franchise Tax Board may prescribe rules, guidelines, or procedures necessary or appropriate to carry out the purposes of this section, including any guidelines regarding the allocation of the credit allowed under this section. Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code shall not apply to any rule, guideline, or procedure prescribed by the Franchise Tax Board pursuant to this section.~~

(i) *The Franchise Tax Board may prescribe regulations necessary or appropriate to carry out the purposes of this section.*

~~(i)~~

(j) (1) For purposes of complying with Section 41, as it pertains to the credit allowed pursuant to this section and Section 23632, as well as the exclusion allowed pursuant to Section 17139.4, the Legislature finds and declares as follows:

(A) The specific goal of the credit and exclusion is to encourage employers to assist in reducing the overwhelming burden of student loan payments on their employees.

(B) The performance indicators that the Legislature shall use to determine if the credit and exclusion are achieving the stated goal are the number of *qualified* taxpayers allowed a credit or exclusion, and the total dollar amount of credits and exclusions allowed.

(2) (A) On or before December 1, 2028, and annually thereafter, the Franchise Tax Board shall submit a report to the Legislature, in compliance with Section 9795 of the Government Code, detailing, to the extent data is available, the number of *qualified* taxpayers allowed a credit pursuant to this section and Section 23632, and the total dollar amount of credits allowed.

(B) The disclosure requirements of this paragraph shall be treated as an exception to Section 19542.

~~(j) The~~

(k) *This* section shall remain operative only until December 1, ~~2031~~, 2032, and as of that date is repealed.

SEC. 2. Section 17139.4 is added to the Revenue and Taxation Code, to read:

17139.4. (a) For taxable years beginning on or after January 1, ~~2026~~, 2027, and before January 1, ~~2031~~, 2032, gross income does not include any student loan payments made by a qualifying employer on behalf of a *qualified* taxpayer that is a full-time employee of that qualifying employer.

(b) For purposes of this section, the following definitions apply:

(1) "Full-time employee" means an employee of a qualifying employer who satisfies either of the following:

(A) Is paid wages by the ~~qualified taxpayer~~ *qualifying employer* for services not fewer than an average of 35 hours per week.

(B) Is a salaried employee and was paid compensation during the taxable year for full-time employment, within the meaning of Section 515 of the Labor Code, by the ~~qualified taxpayer~~ *qualifying employer*.

(2) *"Qualified taxpayer" means an individual with adjusted gross income that does not exceed the following:*

(A) In the case of spouses filing a joint return, heads of household, or a surviving spouse, two hundred fifty thousand dollars (\$250,000).

(B) In the case of any other individual, one hundred twenty-five thousand dollars (\$125,000).

~~(2)~~

(3) "Qualifying employer" means a business whose employees do not perform jobs described in Section 1087e(m)(3)(B) of Title 20 of the United States Code.

(c) This section shall remain operative only until ~~January~~ *December* 1, ~~2031~~, *2032*, and as of that date is repealed.

SEC. 3. Section 23632 is added to the Revenue and Taxation Code, to read:

23632. (a) For taxable years beginning on or after January 1, ~~2026~~, *2027*, and before January 1, ~~2031~~, *2032*, there shall be allowed as a credit against the "tax," as that term is defined in Section 23036, of a qualified taxpayer an amount equal to the ~~taxpayer's qualified expenditures during the taxable year~~ *amount stated on the tentative credit reservation provided to the taxpayer pursuant to subdivision (d)*.

(b) For purposes of this section, the following definitions shall apply:

~~(1) "Full-time employee" means an employee of a qualified taxpayer who satisfies either of the following:~~

~~(A) Is paid wages by the qualified taxpayer for services not fewer than an average of 35 hours per week.~~

~~(B) Is a salaried employee and was paid compensation during the taxable year for full-time employment, within the meaning of Section 515 of the Labor Code, by the qualified taxpayer.~~

~~(2)~~

(1) "Qualified expenditure" means all ~~student loan~~ payments made by a qualified taxpayer on behalf of a *qualified* full-time employee, not to exceed three thousand dollars (\$3,000) per *qualified* full-time ~~employee~~ *employee, towards repayment of a student loan*.

(2) (A) *"Qualified full-time employee" means an individual employed by a qualified taxpayer for at least six months during the taxable year who satisfies either of the following:*

(i) Is paid wages by the qualified taxpayer for services not fewer than an average of 35 hours per week.

(ii) Is a salaried employee and was paid compensation during the taxable year for full-time employment, within the meaning of Section 515 of the Labor Code, by the qualified taxpayer.

(B) Notwithstanding subparagraph (A), "qualified full-time employee" does not include an employee who receives more than one hundred twenty-five thousand dollars (\$125,000) in wages or salary from the qualified taxpayer during the taxable year.

(3) "Qualified taxpayer" means a ~~business~~ *taxpayer* whose employees do not perform jobs described in Section 1087e(m)(3)(B) of Title 20 of the United States Code.

(4) *"Student loan" has the same meaning as that term is defined in Section 108 of the Internal Revenue Code.*

(c) The total aggregate amount that may be allocated by credit reservations to all qualified taxpayers pursuant to this section and Section 17053.83 shall not exceed twenty-five million dollars (\$25,000,000) per calendar year.

(d) To be eligible for the credit allowed by this section, a qualified taxpayer shall request a credit reservation from the Franchise Tax Board during the month of July for each taxable year, or within 30 days of the start of their taxable year if the qualified taxpayer's taxable year begins after July, in the form and manner prescribed by the Franchise Tax Board.

(e) (1) *The Franchise Tax Board, in coordination with the Student Aid Commission, shall approve tentative credit reservations with respect to qualified expenditures incurred during a taxable year for qualified taxpayers, subject to the cap established under this section and Section 23632.*

~~(d) The Franchise Tax Board shall do the following in relation to the credit allowed by this section:~~

~~(1) Beginning on July 1 of each year, accept applications from taxpayers for a tentative credit reservation for the taxable year that includes January 1 of the calendar year following that date. Applications shall be made in the form and manner prescribed by the Franchise Tax Board.~~

(2) Approve applications, giving priority to those applications submitted by qualified taxpayers that are at least one of the following:

(A) Businesses that are owned by veterans.

~~(B) Businesses that are owned by women.~~

~~(C)~~

(B) Employers that employ no more than 500 employees at any time during the taxable year.

~~(D) Businesses that are minority-owned.~~

~~(E)~~

(C) Businesses that are owned by disabled individuals.

(3) *Issue tentative credit reservations to qualified taxpayers based on, and not in excess of, the taxpayer's expected qualified expenditures for the applicable taxable year.*

~~(e)~~

(f) To obtain a *tentative* credit reservation with respect to a qualified expenditure, the qualified taxpayer shall provide all necessary information, as determined by the Franchise Tax Board.

~~(f)~~

(g) In the case where the credit allowed by this section exceeds the ~~"net tax,"~~ *"tax,"* the excess may be carried over to reduce the ~~"net tax"~~ *"tax"* in the following taxable year, and the three succeeding years if necessary, until the credit is exhausted.

~~(g)~~

(h) If the credit allowed by this section is claimed by the qualified taxpayer, any deduction or credit otherwise allowed under this part for any qualified expenditure made by the qualified taxpayer ~~as a trade or business expense~~ shall be reduced by the amount of the credit allowed by this section.

~~(h) The Franchise Tax Board may prescribe rules, guidelines, or procedures necessary or appropriate to carry out the purposes of this section, including any guidelines regarding the allocation of the credit allowed under this section. Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code shall not apply to any rule, guideline, or procedure prescribed by the Franchise Tax Board pursuant to this section.~~

(i) *The Franchise Tax Board may prescribe regulations necessary or appropriate to carry out the purposes of this section.*

~~(i) The~~

(j) *This* section shall remain operative only until December 1, ~~2031,~~ *2032*, and as of that date is repealed.

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.