

In Print Budget Bill as of June 15, 2026

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(Without Reference to File)

SENATE THIRD READING

SB 122 (Committee on Budget and Fiscal Review)

As Amended June 12, 2026

2/3 vote. Budget Bill Appropriation Take Effect Immediately

SUMMARY

This bill is a revenue trailer bill for the 2026-27 Budget. This bill contains various statutory changes necessary to implement the Budget Act of 2026. Specifically, this bill:

Major Provisions

- 1) Extends Sales and Use taxes to the sale of electronically delivered pre-written software, commencing January 1, 2027.
 - a) Specifically, extends sales and use taxes on “tangible personal property” as defined in law to include digital products, except as provided, prewritten computer software transferred on tangible storage media, transferred electronically, or accessed remotely.
 - b) Prohibits a purchaser or retailer of a digital product that is transferred electronically or accessed remotely from entering into any form of agreement that would result, directly or indirectly, in the payment, transfer, diversion, or rebate of any tax revenue resulting from the imposition of a sales and use tax on digital products.
- 2) Extends temporary business tax credit cap for three additional years:
 - a) Business tax credits claimed under the Personal Income Tax Law and the Corporate Tax Law may not exceed \$5 million for each of taxable years 2024, 2025, and 2026. This bill extends those provisions for an additional three years, through tax year 2029.
 - b) For each of the 2027, 2028, and 2029 taxable years, this bill allows a taxpayer to make an irrevocable annual election to receive a refundable tax credit in the amount of the credit over the \$5 million cap.
 - c) Businesses who make the election can claim an annual refundable credit amount, beginning the third taxable year after the election is made, equal to 20% of the qualified credits that would have otherwise been available to the taxpayer but for the limitation.
- 3) Establishes a permanent business tax credit limitation commencing with the 2030 tax year.
 - a) Limits business tax credit usage to \$5 million per company per year or 70% of a company’s tax liability, whichever is greater.
 - b) Refundable credits generated under the limitations in 2024 through 2026 may continue to be claimed in addition to the credit cap and refundable credits generated under the limitations in 2027 through 2029 may be claimed in addition to the credit cap beginning in the 2030 tax year.

- 4) Establishes a 100% tax on settlement fund payments received by taxpayers during the taxable years 2026 through 2029 from the Anti-Weaponization Fund established by the federal Department of Justice and other specified funds resulting from legal action as detailed in the bill.
- 5) Reduces the annual minimum franchise tax for Limited Liability Companies, Limited partnerships, and limited liability partnerships from \$800 to \$400 for the first year of operation, during the 2027 through 2029 tax years.
- 6) Appropriates \$750,000 from the General Fund to the California Department of Tax and Fee Administration for the purpose of administering the changes to the sales and use tax to include pre-written software as detailed in this bill.

COMMENTS

This bill contains various statutory changes necessary to implement the Budget Act of 2026.

According to the Author

Arguments in Support

None on file.

Arguments in Opposition

None on file.

FISCAL COMMENTS

The provisions of this bill result in a net General Fund benefit of approximately \$1.4 billion for the 2026-27 fiscal year:

- 1) The extension of sales and use tax to pre-written software is estimated to increase General Fund revenues by \$450 million in 2026-27 and by \$900 million annually thereafter. This proposal is also estimated to increase revenues for local jurisdictions by \$560 million in 2026-27 (one-half year) and by \$1.1 billion per year thereafter.
- 2) The reduction of the annual minimum franchise tax is estimated to reduce General Fund revenue by \$100 million for each of 2027, 2028, and 2029.
- 3) The temporary business tax credit cap is estimated to increase General Fund revenues by \$1 billion in 2026-27, \$3.3 billion in 2027-28 and growing to over \$4.5 billion through 2029.
- 4) State operations costs related to implementation of the sales and use tax changes are \$750,000 in 2026-27.

VOTES

SENATE FLOOR: 28-10-2

YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Richardson, Rubio, Smallwood-Cuevas, Umberg, Wahab, Weber Pierson, Wiener
NO: Alvarado-Gil, Choi, Dahle, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares

ABS, ABST OR NV: Reyes, Stern

UPDATED

VERSION: June 12, 2026

CONSULTANT: Genevieve Morelos / BUDGET / (916) 319-2099

FN: 0003164

(Without Reference to File)

SENATE THIRD READING

SB 125 (Committee on Budget and Fiscal Review)

As Amended June 12, 2026

2/3 vote. Budget Bill Appropriation Take Effect Immediately

SUMMARY

This budget trailer bill implements the Managed Care Organization tax as component of the Budget Act of 2026.

Major Provisions

This budget trailer bill implements the Managed Care Organization tax as a component of the Budget Act of 2026.

Specifically, this bill:

- 1) States legislative intent to implement a Managed Care Organization (MCO) provider tax that is not subject to the Protect Access to Health Care Act of 2024 and that meets certain goals, including compliance with federal requirements and funding for the Medi-Cal program.
- 2) Imposes an MCO provider tax on a health plan, as defined, for the 2027, 2028, and 2029 calendar years.
- 3) Prohibits the department from collecting the tax until the Director of Health Care Services certifies that the tax is a federally permissible health care-related tax meeting specified federal requirements, or until the department receives federal approval that the tax is a permissible health-care related tax, as specified.
- 4) Sets the tax amount at \$8.85 per countable enrollee per month, unless that amount is modified by the department under certain conditions.
- 5) Establishes the Medi-Cal Stability Fund, and deposits the tax revenues, less refunds, in that fund.
- 6) Clarifies that deposited funds would be continuously appropriated to the department for the purpose of funding the department's administrative costs, the nonfederal share of increased capitation payments to Medi-Cal managed care plans, the nonfederal share of certain Medi-Cal payments, and the nonfederal share of Medi-Cal managed care rates for certain health care services, as specified.
- 7) Requires the Department of Health Care Services to request federal approval as is necessary to implement these MCO provider tax provisions.
- 8) Sets forth various procedures regarding the inoperative status of these provisions if the tax was determined to be noncompliant or was rejected, as specified.

- 9) Makes the MCO provider tax provisions inoperative on January 1, 2031, and would repeal them on January 1, 2032, with an exception for certain provisions relating to the Medi-Cal Stability Fund.

COMMENTS

- 1) AB 119 (Budget Committee) of 2023, as amended by SB 136 (Budget and Fiscal Review) Chapter 6, Statutes of 2024 and AB 160 (Budget Committee) Chapter 39, Statutes of 2024, authorized an enrollment-based MCO tax from April 1, 2023 through December 31, 2026. Under the current MCO tax structure, Medi-Cal enrollment is taxed at a significantly higher rate than commercial enrollment, requiring the state to obtain a federal waiver from federal proportionality rules. That waiver, and the current tax structure, are approved through the end of December 2026.
- 2) California's current MCO tax generates between \$7 billion and \$8 billion in net revenue annually, with most of the funding to date offsetting General Fund spending in Medi Cal. The smaller remaining share of funding supports certain programmatic augmentations, primarily Medi-Cal provider rate increases.
- 3) Proposition 35 (November 2024) governs how MCO tax revenue is spent beginning in 2025 and requires the state to continue a substantially similar tax on and after January 1, 2027.
- 4) H.R. 1 (Public Law No. 119-21, 139 Stat. 72) significantly constrains state options to impose health care-related taxes and prohibits taxes that assess higher tax rates on Medi-Cal plans than commercial plans or otherwise place a disproportionately high tax burden on Medi-Cal plans, making California's current MCO tax structure federally impermissible after December 31, 2026. A CMS final rule published February 2, 2026 codified these requirements and confirmed the December 31, 2026 transition deadline.
- 5) A key change from H.R. 1's new rules is that any renewed MCO tax must apply a uniform rate across Medi-Cal and commercial enrollment. Because commercial plans currently pay significantly less under the existing structure, a uniform rate means commercial plans will face a much higher per-enrollee tax than they pay today.
- 6) According to the Administration, the Department of Health Care Services (DHCS) will seek federal approval of a substantially similar MCO tax as required by Proposition 35 by no later than December 31, 2026. The federal government is expected to decline to approve this tax upon determining that it does not conform with H.R. 1 requirements. DHCS proposes to establish and concurrently seek federal approval to continue an alternative, federally compliant MCO tax effective January 1, 2027, in order to maintain ongoing support for the Medi-Cal program.

According to the Author

Arguments in Support

None on file.

Arguments in Opposition

None on file.

FISCAL COMMENTS

DHCS proposes to establish and concurrently seek federal approval to continue an alternative, federally compliant MCO tax effective January 1, 2027, in order to maintain ongoing support for the Medi-Cal program, as outlined below:

- 1) DHCS's costs of administering the MCO tax and associated expenditures not to exceed \$4 million annually;
- 2) The nonfederal share of increased capitation payments to Medi-Cal managed care plans (MCPs) accounting for their projected tax obligation;
- 3) The nonfederal share of sustaining 2024 targeted rate increases for primary, maternal, and behavioral health services at 87.5 percent of applicable Medicare rates, currently estimated at about \$300 million annually; and
- 4) The nonfederal share of Medi-Cal managed care rates for health care services furnished to children, adults, seniors and persons with disabilities, and persons dually eligible for the Medi-Cal program and the Medicare Program, in the amount of at least \$2 billion annually.

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 2/3 of the membership of each house of the Legislature.

This bill would declare that it is to take effect immediately as a bill providing for appropriations related to the Budget Bill.

VOTES**SENATE FLOOR: 28-10-2**

YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Richardson, Rubio, Smallwood-Cuevas, Umberg, Wahab, Weber Pierson, Wiener

NO: Alvarado-Gil, Choi, Dahle, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares

ABS, ABST OR NV: Reyes, Stern

UPDATED

VERSION: June 12, 2026

CONSULTANT: Patrick Le / BUDGET / (916) 319-2099

FN: 0003165

(Without Reference to File)

SENATE THIRD READING

SB 110 (Laird)

As Amended June 12, 2026

Majority vote. Budget Bill Appropriation Takes Effect Immediately

SUMMARY

Amends the 2026 Budget Act to identify budget related legislation, pursuant to Proposition 25 of 2010.

Major Provisions

COMMENTS

This bill makes a technical amendment to the 2026 Budget Act, which is expected to be enacted in AB 109.

Proposition 25 of 2010 requires the budget bill to identify budget-related legislation (also known as trailer bills) for purposes of using Proposition 25 authority for the bill to take effect immediately. This bill amends the 2026 Budget Act to allow this provision to be in effect for AB/SB 122, AB/SB 125, and AB/SB 176.

According to the Author

This bill makes a technical change to the 2026 budget bill.

Arguments in Support

None on file.

Arguments in Opposition

None on file.

FISCAL COMMENTS

This bill has no cost.

VOTES

SENATE FLOOR: 28-10-2

YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Richardson, Rubio, Smallwood-Cuevas, Umberg, Wahab, Weber Pierson, Wiener

NO: Alvarado-Gil, Choi, Dahle, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares

ABS, ABST OR NV: Reyes, Stern

UPDATED

VERSION: June 12, 2026

CONSULTANT: Christian Griffith / BUDGET / (916) 319-2099

FN: 0003163

(Without Reference to File)

SENATE THIRD READING

SB 176 (Committee on Budget and Fiscal Review)

As Amended June 12, 2026

2/3 vote. Budget Bill Appropriation Take Effect Immediately

SUMMARY

This bill is the revenue trailer bill for the 2026-27 Budget. This bill contains various statutory changes necessary to implement the Budget Act of 2026.

Major Provisions

- 1) Extends Sales and Use taxes to the sale of electronically delivered pre-written software, commencing January 1, 2027.
 - a. Specifically, extends sales and use taxes on "tangible personal property" as defined in law to include digital products, except as provided, prewritten computer software transferred on tangible storage media, transferred electronically, or accessed remotely.
 - b. Prohibits a purchaser or retailer of a digital product that is transferred electronically or accessed remotely from entering into any form of agreement that would result, directly or indirectly, in the payment, transfer, diversion, or rebate of any tax revenue resulting from the imposition of a sales and use tax on digital products.
- 2) Establishes a permanent business tax credit limitation commencing with the 2027 tax year.
 - a. Limits business tax credit usage to \$5 million per company per year or 50% of a company's tax liability, whichever is greater.
 - b. Refundable credits generated under the limitations in 2024 through 2026 may continue to be claimed in addition to the credit cap.
- 3) Establishes a 100% tax on settlement fund payments received by taxpayers during the taxable years 2026 through 2029 from the Anti-Weaponization Fund established by the federal Department of Justice and other specified funds resulting from legal action as detailed in the bill.
- 4) Reduces the annual minimum franchise tax for Limited Liability Companies, Limited partnerships, and limited liability partnerships from \$800 to \$400 for the first year of operation, during the 2027 through 2029 tax years.
- 5) Appropriates \$750,000 from the General Fund to the California Department of Tax and Fee Administration for the purposes of administering the changes to the sales and use tax to include pre-written software as detailed in this bill.

COMMENTS

This bill contains various statutory changes necessary to implement the Budget Act of 2026.

According to the Author

Arguments in Support

None on file.

Arguments in Opposition

None on file.

FISCAL COMMENTS

The provisions of this bill result in a net General Fund benefit of approximately \$1.2 billion for the 2026-27 fiscal year.

- 1) The extension of sales and use tax to pre-written software is estimated to increase General Fund revenues by \$450 million in 2026-27 and by \$900 million annually thereafter. This proposal is also estimated to increase revenues for local jurisdictions by \$560 million in 2026-27 (one-half year) and by \$1.1 billion per year thereafter.
- 2) The reduction of the annual minimum franchise tax is estimated to reduce General Fund revenue by \$100 million for each of 2027, 2028, and 2029.
- 3) The permanent business tax credit cap is estimated to increase General Fund revenues by \$850 million in 2026-27, \$1.7 billion in 2027-28 and similar ongoing revenues.
- 4) State operations costs related to implementation of the sales and use tax changes are \$750,000 in 2026-27.

VOTES

SENATE FLOOR: 28-10-2

YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Richardson, Rubio, Smallwood-Cuevas, Umberg, Wahab, Weber Pierson, Wiener

NO: Alvarado-Gil, Choi, Dahle, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares

ABS, ABST OR NV: Reyes, Stern

UPDATED

VERSION: June 12, 2026

CONSULTANT: Genevieve Morelos / BUDGET / (916) 319-2099

FN: 0003166

(Without Reference to File)

CONCURRENCE IN SENATE AMENDMENTS

AB 177 (Committee on Budget)

As Amended June 12, 2026

Majority vote. Budget Bill Appropriation Takes Effect Immediately

SUMMARY

This trailer bill contains the necessary changes to implement the Fair Share from Big Corporations Act.

Senate Amendments

These amendments delete the current content of the bill and replace it with the following provisions:

- 1) Requires the Department of Finance, on or before March 1, 2027, to present to the Joint Legislative Budget Committee one or more options for holding the state's largest corporations accountable for the taxpayer costs of their employees enrolled in the Medi-Cal program.
- 2) Requires one of the options presented by the department to include a premium paid by employers with at least 250 employees to offset taxpayer costs of their employees enrolled in the Medi-Cal program who are not offered employer health coverage.
- 3) Requires the options presented to be accompanied by the following:
 - a. Data prepared by the Employment Development Department (EDD) and the Department of Health Care Services (DHCS) regarding the number of workers in the state's largest corporations enrolled in Medi-Cal
 - b. Proposed statutory language necessary to implement the options
 - c. An analysis of the cost of, and timeline for, implementing the options in the 2027 legislative session.
- 4) Makes the provisions of the bill inoperative if the Medicaid program-related provisions of House Resolution (HR) 1 are repealed on or before March 1, 2027.
- 5) Appropriates General Fund expenditure authority of \$10,000 to the Department of Finance to prepare the options to be presented to the Legislature.

COMMENTS

This bill implements the Fair Share from Big Corporations Act, which requires the Department of Finance to present, on or before March 1, 2027, one or more options to the Legislature for holding the state's largest corporations accountable for the taxpayer costs of their employees enrolled in the Medi-Cal program.

According to the Author

None on File

Arguments in Support

None on File

Arguments in Opposition

None on File

FISCAL COMMENTS

Appropriates General Fund expenditure authority of \$10,000 to the Department of Finance to prepare the options to be presented to the Legislature.

VOTES:

ASSEMBLY FLOOR: 53-17-10

YES: Addis, Aguiar-Curry, Arambula, Ávila Farías, Bains, Bennett, Berman, Boerner, Bonta, Bryan, Caloza, Carrillo, Connolly, Elhawary, Fong, Gabriel, Garcia, Gipson, Mark González, Haney, Harabedian, Hart, Jackson, Kalra, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Patel, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Ward, Wicks, Wilson, Zbur, Rivas

NO: Alanis, Castillo, Chen, Davies, DeMaio, Dixon, Ellis, Flora, Gallagher, Jeff Gonzalez, Hadwick, Lackey, Macedo, Patterson, Sanchez, Ta, Tangipa

ABS, ABST OR NV: Ahrens, Alvarez, Bauer-Kahan, Calderon, Essayli, Hoover, Irwin, Krell, Papan, Wallis

UPDATED

VERSION: June 12, 2026

CONSULTANT: Guy Strahl/ BUDGET / (916) 319-2099

FN: 0003171