

CALIFORNIA LEGISLATURE—2025-2026 SIMULATION SESSION

SENATE BILL

NO 7

Introduced by Senator Valladares

October 01, 2025

To reduce financial strain on California's working families by creating a state-level commuter benefit exclusion aligned with federal Internal Revenue Code §132(f), while expanding state tax relief for household affordability.

LEGISLATIVE COUNSEL'S DIGEST

SB 7, as introduced, Valladares. California Family Affordability and Commute Relief Act.

Existing California law imposes excise taxes on gasoline and diesel fuels and authorizes tolls on certain highways. While federal tax law allows certain commuter benefits to be excluded from taxable income under Internal Revenue Code §132(f), California does not conform to this provision. As a result, benefits such as transit passes, vanpool assistance, and qualified parking remain subject to state personal income tax. Additionally, current state law provides only limited commuter benefit programs and lacks significant direct tax relief for working commuters. Transportation infrastructure projects overseen by Caltrans and regional agencies also face lengthy permitting and approval processes, contributing to delays, congestion, and higher costs for drivers.

This bill would enact the California Family Affordability and Commute Relief Act to address these issues. It would conform California's tax code to the federal exclusion for qualified commuter benefits, ensuring that these benefits are not taxed at the state level. The bill would also create a commuter relief program to provide a personal income tax credit or rebate to middle-class Californians whose annual commuting expenses exceed a threshold amount established by the Franchise Tax Board. To further support affordability, the measure would expand access to employer pre-tax commuter benefit programs statewide.

In addition to tax relief, the bill would direct Caltrans to streamline permitting and approval processes for priority transportation projects in high-commute corridors. By accelerating critical projects, the state seeks to reduce congestion and improve mobility for working families. The Franchise Tax Board would administer the tax credit provisions with implementation support from Caltrans to ensure commuter benefit eligibility aligns with state transportation standards. Funding for the tax credit and project acceleration would come from the General Fund, with ongoing adjustments provided through the annual budget act.

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

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

SECTION 1. Findings and Declarations.

The Legislature finds and declares all the following:

(a) California families face rising costs of living, with transportation and commuting expenses among the largest household expenditures.

(b) Lengthy commutes and high transportation costs reduce disposable income, increase traffic congestion, and contribute to greenhouse gas emissions.

(c) Federal law under Internal Revenue Code Section 132(f) allows employees to exclude certain commuter benefits from gross income, but California does not conform to this provision, increasing the tax burden on working families.

(d) Middle-class commuters who rely on public transit, vanpools, and qualified parking facilities often receive little to no state-level tax relief despite bearing significant costs.

(e) Infrastructure projects designed to reduce congestion and improve safety in high-commute corridors are frequently delayed by lengthy permitting and environmental review processes, raising costs and prolonging traffic impacts.

(f) It is in the interest of the State of California to:

(1) Provide targeted tax relief to working families with significant commuting expenses.

(2) Conform state tax law to federal commuter benefit exclusions to reduce complexity and costs for taxpayers and employers.

(3) Expand access to commuter benefit programs for employees statewide.

(i) Streamline and accelerate the approval of critical transportation infrastructure projects while maintaining environmental safeguards.

SECTION 2. Section 17052.27 is added to the Revenue and Taxation Code, to read:

17052.27. (a) For each taxable year beginning on or after January 1, 2026, there shall be allowed as a credit against the “net tax,” as defined in Section 17039, to qualified commuting expenses paid or incurred by a taxpayer during the taxable year, subject to the following conditions:

(1) The taxpayer’s adjusted gross income does not exceed the threshold amount determined annually by the Franchise Tax Board.

(2) The amount of the credit shall be equal to 50 percent of the excess of the taxpayer’s annual qualified commuting expenses over \$1,500, not to exceed \$2,500 per taxable year.

(3) “Qualified commuting expenses” means amounts paid or incurred for transit passes, vanpool expenses, qualified parking, and other expenses described in Section 132(f)(1) of the Internal Revenue Code.

(i) For purposes of this section, California law shall conform to Section 132(f) of the Internal Revenue Code, relating to qualified transportation fringe benefits, as that section may be amended from time to time, except as otherwise provided in this part.

(ii) The Franchise Tax Board shall adopt regulations necessary to implement this section, including verification of qualified expenses, income thresholds, and adjustments consistent with the annual Budget Act.

(iii) This section shall remain in effect only until January 1, 2032, and as of that date is repealed, unless a later enacted statute extends that date.

SECTION 3. Section 21080.07 of the Public Resources Code is amended to read:

21080.07. *This division shall not apply to any activity or approval necessary for or incidental to planning, design, site acquisition, construction, operation, or maintenance of the new prison facilities located in any of the following places:*

(a) The County of Riverside.

(b) The County of Del Norte.

(a) Notwithstanding any other provision of this division, transportation infrastructure projects located in designated high-commute corridors, as identified by the Department of Transportation, shall be eligible for expedited environmental review and permitting.

(b) For purposes of subdivision (a), “expedited” means that the department and all responsible agencies shall complete required environmental impact reports, negative declarations, or mitigated negative declarations within 180 days of the release of a draft document for public comment, unless extended for good cause.

(c) The department shall prioritize projects that reduce congestion, improve safety, and expand commuter transportation alternatives.

(d) The department, in consultation with the Natural Resources Agency, may adopt regulations establishing eligibility criteria, reporting requirements, and procedures to ensure compliance with this section.

SECTION 4. Section 2815 is added to the Labor Code, to read:

2815. (a) Every employer with 50 or more employees nationwide shall offer to its employees, at a minimum, a commuter benefit program that allows employees to elect to exclude from taxable wages qualified transportation benefits, as defined in Section 132(f)(1) of the Internal Revenue Code, up to the maximum amount permitted by federal law.

(b) Employers may comply with subdivision (a) by providing one or more of the following:

(i) A pre-tax payroll deduction program allowing employees to elect to exclude qualified transportation benefits from taxable wages.

(ii) An employer-paid subsidy for transit passes, vanpool costs, or qualified parking.

(iii) Employer-provided transportation in a vanpool or shuttle consistent with Internal Revenue Code Section 132(f).

(c) The Labor Commissioner shall adopt regulations to implement and enforce this section.

(d) This section shall become operative on January 1, 2027.

SECTION 5. Appropriation.

(a) The sum of six million (\$6,000,000) is hereby appropriated from the General Fund, subject to annual appropriation in the Budget Act, for implementation of this act.

(b) To the Franchise Tax Board, a sum of two million five hundred thousand (\$2,500,000), for administrative costs associated with the implementation of Section 17052.2 of the Revenue and Taxation Code.

(c) To the Department of Transportation, a sum of two million five hundred thousand (\$2,500,000), for administrative and implementation costs associated with Section 21080.07 of the Public Resources Code, including staffing and regulatory development necessary for expedited permitting.

(d) To the Department of Industrial Relations, a sum of one million (\$1,000,000), for enforcement of Section 2815 of the Labor Code.

(1) This pilot amount is expected to support 25,000 taxpayers during the initial implementation year, allowing for assessment and future scaling.

SECTION 6. Environmental and Economic Impact.

(a) The Franchise Tax Board in consultation with the Department of Transportation, shall annually assess the program's effectiveness in lowering commuting costs, improving regional air quality, and reducing emissions linked to long distance commuting

(b) A report summarizing participation rates, averages taxpayer savings, and measurable environment benefits shall be submitted to the Legislature by January 1st, 2028, and each year thereafter.

(c) The Department of Finance shall evaluate the program's overall cost- effectiveness and provide recommendations on continuation, expansion, or modification by January 1, 2029

SECTION 7. Severability.

(a) If any provision of this act or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application, and to this end the provisions of this act are severable.