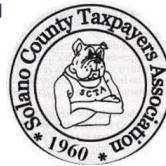


OPPOSITION TO AB 122 / SB 122 AND AB 176 / SB 176



**Floor Alert – Opposition to AB 122 / SB 122 and AB 176 / SB 176
June 15, 2026**

Date: June 15, 2026
To: Members, Senate Budget Committee
From: Peter Blocker, Vice President of Policy
Subject: **OPPOSITION to AB 122 / SB 122 and AB 176 / SB 176 (Committee on Budget and Fiscal Review) – Taxation of Software/SaaS and Permanent Business Credit Limitations, as amended on June 12, 2026**

The California Taxpayers Association and the organizations listed below respectfully oppose AB 122, SB 122, AB 176 and SB 176, tax increases that would make California significantly less affordable and raise the cost of doing business by expanding the sales and use tax to digital prewritten software and Software-as-a-Service, and by permanently limiting business tax credits, including the research-and-development tax credit.

Taken together, these proposals represent a major expansion of California's tax base that will increase costs for consumers, harm small businesses, undermine investment, and weaken the state's economic competitiveness. At a time when affordability remains one of the most pressing challenges facing Californians, these bills move the state in the wrong direction.

Expansion of Sales Tax to Digital Software and SaaS

These bills would increase sales taxes by expanding California's sales tax base to include digital prewritten software and Software-as-a-Service products, regardless of whether the product is delivered on physical media, transferred electronically, or accessed remotely.

For nearly a century, California's sales and use tax has applied primarily to sales of tangible personal property. These bills would upend that precedent by expanding the tax to digital products and moving California toward the taxation of services. This is a major, negative shift in tax policy that would increase the cost of products and services used by nearly every California resident and business.

At first glance, the proposal may sound like a narrow tax on technology. In reality, it would reach far beyond the tech sector, as digital software is part of every basic business process. Employers of all sizes rely on software and SaaS products for payroll, accounting, cybersecurity, customer management, compliance, payments, inventory, scheduling, communications, and many other day-to-day operations.

That is why this proposal would create significant tax pyramiding. Sales taxes are generally intended to apply to final consumer purchases, not to the business inputs used to produce goods and services. By taxing digital software and SaaS products used throughout the economy, these bills would impose taxes at multiple stages of production and distribution.

Consider a local grocery store. It may use taxable software for payroll, inventory, security, payments, accounting, employee scheduling, and online ordering. Its delivery company may use

Floor Alert – Opposition to AB 122 / SB 122 and AB 176 / SB 176
June 15, 2026

taxable logistics software. Its vendors may use taxable billing, compliance, and supply-chain systems. Each business in the chain would face higher costs and pass those costs forward.

By the time a family buys groceries, diapers, school supplies, or household basics, those software taxes would be embedded in the final price of what they pull off the shelf — even if the family never sees a line item for “software tax” on the receipt.

Other common tools that would be subject to higher taxes include architecture and engineering software, artificial intelligence tools, customer relationship management platforms, cybersecurity services, e-commerce and payment systems, email and word-processing software, finance and bookkeeping tools, insurance and claims-management software, legal compliance platforms, marketing and advertising tools, payroll and HR systems, and video, photo, and creative software.

In practice, these bills would embed higher costs into every sector of California’s economy and ultimately raise prices for consumers.

Permanent Limitation on Incentives to Invest in California

These bills would also impose ongoing limitations on taxpayers’ ability to claim business tax credits, including the research-and-development tax credit and one of California’s few economic development tools, CalCompetes. These limitations would weaken important incentives that support research, innovation, hiring, and job creation in California.

California is the national leader in artificial intelligence, software, and advanced research, and Silicon Valley remains the center of that ecosystem. Yet, California is now threatening to restrict one of the very policies that helps drive investment in innovative job growth: the research-and-development tax credit.

To claim an R&D tax credit, a business must spend money in California on qualified research expenses. Often, the largest qualified expense is payroll for engineers, software developers, scientists, researchers, and lab technicians. These are California workers whose jobs are directly tied to whether companies continue investing in research and development in this state.

The credit limitation provisions come at exactly the wrong time. SB 122 and SB 176 would deliver a double blow to California’s innovation economy by both limiting the R&D incentive that supports in-state research and increasing taxes on the digital and AI tools that businesses across the economy are working to adopt.

At the very moment companies are deciding where to build, scale, and commercialize the next generation of technologies, California should be reinforcing its innovation advantage — not making it more expensive to invent, invest, and grow here.

These costs will not remain on paper. When tax policy raises the cost of research, development, and technology adoption, businesses respond by delaying projects, reducing expansion plans, cutting payroll, or relocating work to other states. That means fewer opportunities for the

**Floor Alert – Opposition to AB 122 / SB 122 and AB 176 / SB 176
June 15, 2026**

engineers, scientists, software developers, researchers, and lab technicians who drive California's innovation economy.

California is facing an affordability crisis, persistent economic uncertainty, and intense competition for jobs and investment. In that environment, these bills move California in the wrong direction.

These bills would broaden the tax base, raise costs on essential business inputs, weaken incentives to invest and hire in California, and ultimately pass higher costs on to consumers, workers, and employers.

This is not the time to make California more expensive — particularly for the industries driving its future. Limiting R&D incentives while increasing taxes on digital services and business tools compounds the burden on businesses across the state working to create California's future. The likely result is reduced investment, slower innovation, and increased pressure on employers to scale back hiring and high-skilled jobs.

For these reasons, we respectfully oppose AB 122, SB 122, AB 176, and SB 176 and urge their rejection.

On behalf of...

California Taxpayers Association
Adventist Health
American Car Rental Association
American Council of Engineering Companies
American Honda Motor Co., Inc.
American Institute of Architects California
American Property Casualty Insurance Association
Association of California Life and Health Insurance Companies
Business Software Association
California Bankers Association
California Business Properties Association
California Business Roundtable
California Chamber of Commerce
California Distributors Association
California Grocers Association
California Manufacturers & Technology Association
California Retailers Association
California Self Storage Association
California's Credit Unions
Cellular Telecommunications Industry Association
Central City Association of Los Angeles
Computer & Communications Industry Association
Contra Costa Taxpayers Association
Council on State Taxation
Crypto Council for Innovation
Family Business Association

The California Taxpayers Association is a nonpartisan, nonprofit association formed to support good tax policy, oppose unnecessary taxes and promote government efficiency. Established in 1926, CalTax is the oldest and largest group representing California taxpayers.

**Floor Alert – Opposition to AB 122 / SB 122 and AB 176 / SB 176
June 15, 2026**

Greater High Desert Chamber of Commerce
Howard Jarvis Taxpayers Association
Internet Works
Kern County Taxpayers Association
Los Angeles Area Chamber of Commerce
Orange County Business Council
San Diego Regional Chamber of Commerce
San Jose Chamber of Commerce
Self Storage Association
Silicon Valley Leadership Group
Solano County Taxpayers Association
TechNet
United Hospital Association
Valley Industry and Commerce Association
Western Manufactured Housing Communities Association

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