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## **AB 386 – California Student Loan Payment Tax Credit**

### **Summary:**

This bill will establish a new tax credit for businesses that make student loan payments on behalf of their full-time employees. Starting January 1, 2026, and ending December 31, 2030, businesses can claim up to \$3,000 in tax credits per employee annually, with a statewide annual allocation limit of \$25 million.

### **Existing Law:**

Starting on January 1, 2025 Connecticut began offering the “Student Loan Payment Tax Credit” to qualified employers who make payments on behalf of their employees toward eligible education loans. The credit is a maximum credit of \$2,625 per employee per year. To qualify, the employer must be a licensed business in Connecticut and subject to the state's corporation business tax or insurance companies and health care centers taxes. The employee must be a Connecticut resident, employed full-time, and have earned their first bachelor's degree within the past five years.

### **Problem:**

California businesses, both large and small, are facing mounting challenges in attracting and retaining skilled workers, as the state's high cost of living and competitive job market make it increasingly difficult to secure long-term talent. At the same time, many students are burdened with crippling debt, limiting their ability to pursue careers in essential fields. This disconnect between businesses struggling to fill positions and graduates struggling to make ends meet highlights the need for California to invest in local industries and workforce development. By providing the tools for businesses to hire and retain talent,

California can strengthen its economy while ensuring that workers have the stability they need to thrive. A more competitive business environment will not only drive economic growth but also improve the quality of life for residents, making the state a more sustainable and attractive place to work and live.

### **Solution:**

Under AB 386, businesses can claim a tax credit of up to \$3,000 per full-time employee annually, reducing their tax burden while helping employees manage their student debt. The program will operate within a \$25 million annual cap, with oversight from the Franchise Tax Board to allocate credits and ensure compliance. The credit will be allocated by prioritizing specific businesses, that are veteran, woman, minority, or disabled individual owned. It will also prioritize any business that employs no more than 500 employees at a time. This bill will not only provide tax benefits for businesses and employees, but it will further attract and retain a quality workforce in California.

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