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AB 2533 – California PHIT Act

Summary:

AB 2533 seeks to align state taxation with broader health-promotion objectives by excluding employer-provided fitness benefits from an employee's gross income.

Background:

The Personal Health Investment Today (PHIT) Act is a bipartisan federal initiative designed to incentivize physical activity by expanding the definition of "medical care" within the Internal Revenue Code. Specifically, the Act—reintroduced in the 119th Congress (2025–2026) as S. 1144 and H.R. 2369—would permit taxpayers to utilize pre-tax dollars from Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs) to reimburse qualified sports and fitness expenses. These expenses encompass gym memberships, youth sports registration fees, and certain athletic equipment, subject to an annual cap of \$1,000 for individual filers and \$2,000 for joint filers. By categorizing physical activity as a form of preventive medicine, the PHIT Act aims to reduce the long-term economic burden of chronic, sedentary-related diseases on the national healthcare system.

Existing Law:

Under the Personal Income Tax Law, gross income includes income from all sources unless specifically excluded. Current law does not exclude employer-provided gym memberships or general fitness benefits from taxable income, and those expenses are

generally not eligible for HSA reimbursement unless prescribed to treat a specific medical condition. As a result, without statutory change, most employer-provided fitness benefits are treated as taxable compensation. This bill creates a specific state income tax exclusion for qualified fitness benefits beginning January 1, 2026

Problem:

The current Personal Income Tax Law creates a fiscal barrier to preventive health by classifying employer-provided fitness benefits as taxable gross income. Under existing statutes, when an employer incentivizes physical wellness by subsidizing gym memberships or health club dues, the value of that benefit is treated as supplemental wages. This "tax penalty" on wellness initiatives discourages employers from offering such benefits and increases the net financial burden on employees who seek to maintain an active lifestyle.

This misalignment of tax policy and public health objectives contributes to several systemic issues:

- **Financial Disincentives:** By taxing fitness benefits, the state effectively raises the "cost of entry" for preventive health measures, particularly for low-to-middle-income workers.
- **Rising Healthcare Costs:** A sedentary lifestyle is a primary driver of chronic diseases, such as obesity, Type 2 diabetes,



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and cardiovascular disease, which impose a significant long-term economic burden on the state's healthcare infrastructure.

- **Wellness Access:** Without tax-exempt status, wellness benefits remain a luxury of high-margin corporate environments rather than a standardized component of employee compensation packages

Summary:

Commencing January 1, 2026, the bill provides that a "qualified fitness benefit," defined to include membership fees and dues for health clubs, fitness centers, and gyms, shall not be considered taxable compensation. To ensure fiscal accountability, the legislation

adheres to statutory requirements for new tax expenditures by establishing specific public health goals, defining performance metrics, and implementing rigorous data collection protocols to evaluate the efficacy of the exclusion in promoting physical activity.

Support:

Health and Fitness Association (sponsor)
California Fitness Alliance

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