Date: July 28, 2026

To: Members, Senate Appropriations Committee

From: Peter Blocker, Vice President of Policy

Subject: OPPOSITION to AB 2222 (Ward), as amended on June 29, 2026

The California Taxpayers Association and the organizations listed below respectfully oppose AB 2222 (Ward), which would conform state law to Internal Revenue Code Section 162(m), relating to the non-deductibility of executive pay, to raise revenue to fund a new tax credit.

CalTax and the organizations below oppose AB 2222 for the following reasons:

Undermines Federal-State Alignment on Executive Compensation. Under IRC Section 162(m), federal law imposes a $1 million limit on the deductibility of compensation paid to covered executives, with clear rules governing which employees are covered and how compensation is treated. California made a policy decision in 2019 to conform to these federal rules, thereby aligning state and federal treatment of executive compensation, eliminating the need for separate state-specific calculations, and creating a consistent, predictable framework for taxpayers. AB 2222 would move California away from this alignment by modifying or expanding the limitations on deductibility beyond federal law, effectively requiring taxpayers to apply different standards for state and federal purposes.

Imposes Additional Costs Without Improving Tax Administration. Executive compensation structures often involve stock-based compensation, deferred compensation arrangements, and multi-year performance incentives. By deviating from federal Section 162(m) rules, AB 2222 would require taxpayers to recalculate allowable deductions under a separate California regime, track compensation differently for state and federal reporting, and potentially restructure compensation practices solely to address state tax treatment. These changes would increase costs for businesses without simplifying compliance or improving tax administration.

Creates Uncertainty and Competitive Disadvantages. A key benefit of conformity to Section 162(m) is predictability. Employers can design compensation programs based on a uniform set of tax rules. AB 2222 would undermine that predictability by introducing state-specific limitations that differ from federal law, creating uncertainty in long-term compensation planning, and placing California-based employers at a competitive disadvantage relative to other states that adhere more closely to federal standards. This uncertainty would discourage investment and make it more difficult for California companies to attract and retain executive talent.

California's existing conformity to IRC Section 162(m) reflects a balanced approach that promotes consistency, reduces administrative burden, and provides clarity to taxpayers. AB 2222 would reverse these benefits by introducing unnecessary complexity, increasing compliance costs, and creating uncertainty in the taxation of executive compensation.

For these reasons, we respectfully urge that you reject AB 2222.

On behalf of…

California Taxpayers Association
California Business Roundtable
California Fuels and Convenience Alliance
Council on State Taxation
Family Business Association of California
Greater High Desert Chamber of Commerce
Greater San Fernando Valley Chamber of Commerce
Solano County Taxpayers Association

cc: The Honorable Christopher Ward, California State Assembly