



# California Corporate Taxes: Setting the Record Straight

2026 | Kayla Kitson

Recent federal tax cuts, passed as part of the 2025 megabill H.R. 1, slash taxes for corporations and the ultra-wealthy at the expense of our collective health and well-being — cutting access to health care, food assistance, and other programs that keep Californians healthy and housed. Here are facts to keep in mind as the state works to protect Californians from deep harms:

- ✓ **Nearly half of corporations in California only pay the minimum \$800 state tax**  
Due to a variety of corporate tax breaks that California allows, **nearly half** of corporations making profits in California **only pay the required \$800 minimum tax**.<sup>1</sup>
- ✓ **Corporations have received significant federal tax cuts, many pay nothing**  
Federal laws enacted in 2017 and 2025 provided corporations with *major* tax cuts, including a 2017 reduction in the corporate tax rate from 35% to 21%. Due to various federal tax breaks, the average *effective* tax rate — the share of profits paid in taxes — for large profitable corporations is much lower than 21%. In fact, at least 88 profitable corporations reported paying *nothing* in federal taxes in 2025.<sup>2</sup>
- ✓ **California corporate taxes represent around 0.1% of business expenses**  
California's corporate tax only applies to the profits, or net income, of corporations — after their payroll and other costs are accounted for. This tax represents an incredibly small fraction of corporations' total expenses — just 0.11% on average from 2017 to 2019.<sup>3</sup>
- ✓ **Corporate tax breaks worsen racial disparities**  
At the national level, an estimated 88% of the benefits of a corporate tax cut go to white households, which make up 67% of the population, while Black and Latinx households each receive only about 1% of the total benefits. This disparity reflects who owns corporate stock: shareholders tend to be wealthy and white, the result of generations of policy that gave white households a significant head start in building wealth.

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<sup>1</sup> Kayla Kitson, How Corporations Reduce Their California Tax Bill (California Budget & Policy Center, August 2025), <https://calbudgetcenter.org/resources/legal-loopholes-how-corporations-reduce-their-california-state-tax-bill/>; Kayla Kitson, Profitable Corporations Can't Keep Paying Zero in California State Taxes (California Budget & Policy Center, August 2025), <https://calbudgetcenter.org/resources/profitable-corporations-cant-keep-paying-zero-in-california-state-taxes/>

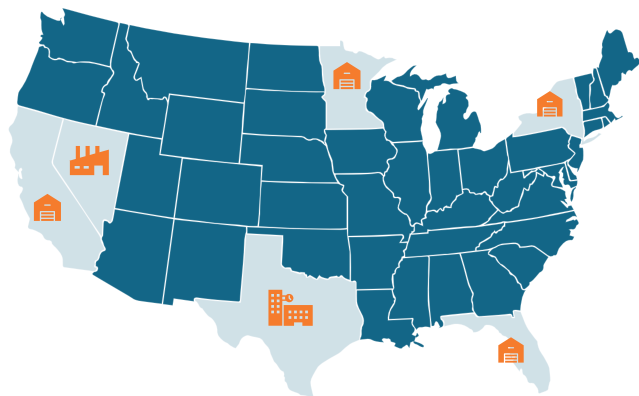
<sup>2</sup> Matthew Gardner and Spandan Marasini, At Least 88 Profitable U.S. Corporations Paid Zero Federal Income Tax in 2025 (Institute on Taxation and Economic Policy, April 2026), <https://itep.org/88-profitable-corporations-paid-zero-income-tax-in-2025/>.


<sup>3</sup> Kayla Kitson, State Corporate Taxes Are a Tiny Share of Total Corporate Expenses (California Budget & Policy Center, January 2024), <https://calbudgetcenter.org/resources/state-corporate-taxes-are-a-tiny-share-of-total-corporate-expenses/>

## Requiring corporations to pay their fair share in California corporate taxes will not make businesses leave the state

California's corporate tax is based on where a corporation sells its products, not where it's headquartered. The state only taxes corporations on the **share of the corporations' sales made in California**, so a company making 14% of its sales in California is taxed on just 14% of its profits. As the 4th largest economy in the world with nearly 40 million residents, California remains one of the most attractive markets for any business. Moving operations out of state doesn't change a corporation's tax bill as long as it continues selling to California customers. Here's how:

### "LOOPHOLE LOGIC, INC." BUSINESS FOOTPRINT



-  **Headquarters:** TX
-  **Production Plant:** NV
-  **Warehouses:** CA, MN, NY, FL
-  **Sales:** Everywhere

### "LOOPHOLE LOGIC, INC." CALIFORNIA CORPORATE TAX CALCULATION

*Simplified Example*

**Sales Total:** \$100 billion  
(CA Sales: \$14 billion)

14% of Loophole Logic, Inc.'s total sales are made in CA (its CA "sales factor" is 14%)



**Profit Total:** \$10 billion  
(CA Profit: \$1.4 billion)

CA taxes 14% of Loophole Logic, Inc.'s Profits (Total profits x CA sales factor)



**Loophole Logic's CA Tax Bill =**  
\$1.4 billion x 8.84% CA tax rate = \$124 million\*

**IF LOOPHOLE LOGIC, INC. MOVES ITS CALIFORNIA WAREHOUSE TO ANOTHER STATE, THIS DOES NOT CHANGE ITS TAX CALCULATION.**

If it still makes 14% of its sales in California, the company will still owe California tax on 14% of its total profits.

### AND WHY WOULD ANY CORPORATION WANT TO SELL LESS IN CALIFORNIA?

CA is the world's 4th largest economy

CA's GDP represents about 14% of US GDP

CA has the nation's largest consumer base

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\*Example assumes Loophole Logic, Inc. has no Net Operating Losses to reduce its taxable income or California tax credits to reduce its tax liability. In reality, many corporations can dramatically reduce their final tax bill with Net Operating Loss deductions and various tax credits. Factoring in these things could reduce Loophole Logic's tax bill far below \$124 million.