

# California Labor and Employment Law: 2026 Update



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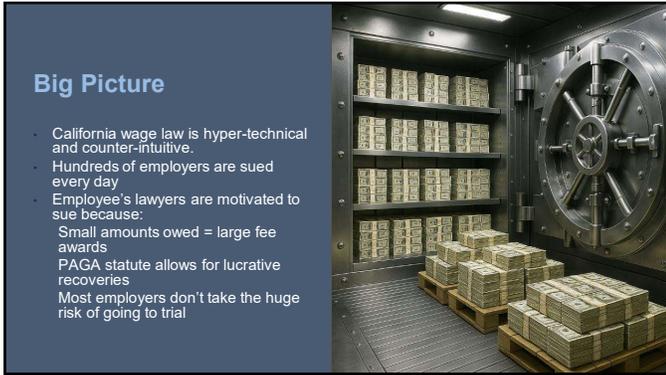
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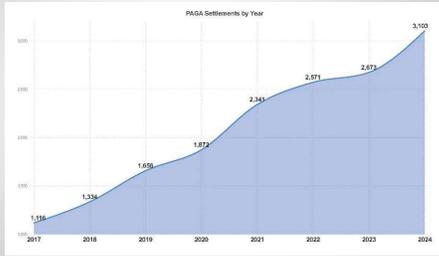
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# California Labor and Employment Law: 2026 Update

## PAGA Settlements by Year: 2017-2024



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## PAGA Reform = Reasons to Comply

### What does the amended law allow?

Reduced penalties if employer does:

- Training
- Audits
- Cure errors



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## Top Claims in Wage Lawsuits

- Meal and Rest Periods
- Rounding time punches
- Off clock work
- "Regular Rate of Pay"
- Pay stubs
- Sick pay accrual / pay out rate
- Exempt classification
- Expenses

Earnings	rate	hours	this period	year to date
Regular	8.2500	40.59	\$334.87	8,108.11
<b>Gross Pay</b>			<b>\$334.87</b>	<b>8,108.11</b>
<b>Deductions</b>				
Statutory				
Social Security Tax			-20.76	
Medicare Tax			-4.85	
IL State Income Tax			-16.74	
<b>Net Pay</b>			<b>\$292.52</b>	
<b>Net Check</b>			<b>\$292.52</b>	

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# California Labor and Employment Law: 2026 Update

## Changes to CA Minimum Wages

Minimum wage increasing to \$16.90/hour effective January 1, 2026

- Be sure to monitor local minimum wage ordinances.

Exempt salary threshold rises to \$70,304/year; \$5,858.67/month

**Next Steps:** Update minimum wage posters; audit salary levels for exempt employees.



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## AB 692: “Stay or Pay” Provisions



- Beginning 1/1/26, “employment-related debt” that conditions the ability to leave a job on paying money back becomes unlawful.
- There are some narrow exceptions, including hire bonuses.
- Employers will need to cease certain repayment practices, and rewrite some agreements.

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## AB 692: “Stay or Pay” Provisions

AB 692 makes it unlawful to include contract terms that:

- Require a worker to pay an employer, training provider, or debt collector a debt if the work relationship terminates
- Authorize initiation or resumption of debt collection or end forbearance upon termination
- Impose any penalty, fee, or cost upon termination (including replacement hire fees, retraining fees, quit fees, visa/immigration reimbursements, liquidated damages, lost goodwill, or lost profit)

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## AB 692: Hire Bonus Exception

Sign-on bonuses and other discretionary, unearned monetary payments at the outset of employment are permitted only if:

- Repayment terms are in a separate agreement from the primary employment contract
- The employee is advised of the right to consult counsel and given at least five business days to do so
- Any repayment obligation is prorated over a retention period not exceeding two years, with no interest
- The worker may elect to defer payment to the end of the retention period with no repayment obligation
- Repayment is triggered only by the employee's voluntary resignation or termination for misconduct

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## AB 692: Tuition Exception

Tuition repayment contracts are permitted only if all of the following are met:

- Standalone agreement, separate from employment contract
- The credential is transferable, offered by an accredited, authorized third-party institution, and not required for the current job
- Repayment amount is disclosed upfront and cannot exceed the employer's actual cost
- Repayment is prorated over any required employment period with no acceleration
- No repayment if the worker is terminated, except for misconduct under §1256

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## What Likely No Longer Survives

Absent an applicable exception, the following arrangements are now generally prohibited for new agreements:

- Training Repayment Agreement Provisions (TRAPs) tied to separation
- Relocation benefits repayment clauses for early departure
- Immigration or visa fee reimbursement upon exit
- Liquidated damages, replacement hire fees, "quit fees," or similar exit charges
- Promissory notes with interest used to secure clawbacks
- Retention bonuses offered mid-employment with repayment triggers upon early departure (unless structured to pay only at the end without any clawback)

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# California Labor and Employment Law: 2026 Update

## SB 642: Equal Pay Act Amendment

### Amends CA Equal Pay Act

- Extends the statute of limitations to 3 years, and extends remedies back 6 years
- Job posting “pay scale” is a good faith estimate of pay upon hire.

Next Steps: Review job posting salary ranges.



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## SB 464: Pay Data Reporting



**Existing law** requires employers with 100/+ employees to submit annual pay data reports to the state labor agency.

### Amended law:

- Additional “job categories” that must be covered in pay data reports (increasing from 10 to 23 specified categories in 2027)
- Mandatory civil penalties for failures to comply with the reporting requirements
- Demographic information stored separately from personnel records.

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## SB 590: PFL for “Designated Person”



**Existing law** provides EDD wage replacement benefits for employees taking time off for PFL purposes.

### Amended law:

- “Designated person” added to list of covered family members as of 7/1/28.
  - Any individual whose association with the claimant is the equivalent of a family relationship

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# California Labor and Employment Law: 2026 Update

## SB 261: Enforcement of Labor Commissioner Awards

Imposes a penalty equal to 3x the award if the award remains unsatisfied after 180 days

- Unless payment terms have been agreed



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## SB 355: Judgement Debtor Employers

- Within 60 days of a final judgment against employer, inform Labor Commissioner:

- Judgment fully satisfied
- Bond posted
- Employer entered into installment agreement

- Failure to do so:

- \$2,500 penalty
- Report to EDD Tax Support Division



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## AB 1326: Right to Wear Masks

Right to wear a "health mask" in the workplace

- Exceptions for security, performing essential functions



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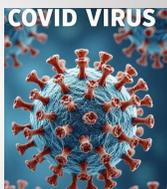
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# California Labor and Employment Law: 2026 Update

## AB 858: COVID Rehire Rights

**Existing law:** recall rights for airport, building service, hotel or event center employees laid off due to COVID through 12/31/25

**Amended law:** Extends rehire rights until 1/1/2027



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## SB 648: Tips

Authorizes the Labor Commissioner to investigate and issue citations or file lawsuits for gratuity taken or withheld in violation of the CA Labor Code



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## SB 294: Workplace Poster and Notice

- Imposes new workplace notice requirements related to immigration-related practices and constitutional rights
- Distribute by 2/1/26 and annually thereafter
- Labor Commissioner to publish template
- Also: notify emergency contact if employee arrested or detained at worksite.



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## SB 513: Training Records

Require employers to include these items in education or training records:

- the name of the employee,
- the name of the training provider,
- the duration and date of the training,
- the core competencies or skills in the training, and
- the resulting certification or qualification.



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## SB 617 CalWARN Disclosures

**Existing law:** Certain employers must provide advance notice of mass layoffs, relocations or closures.

**Amended law:** Employers must state whether they plan to coordinate services for affected employees with the local workforce development board and must provide a description of the LWDB services in the notice.

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## SB 7 : Disclosure of ADS

- Prohibits the use of “automated decision systems” (ADS) or AI tools to intentionally or unintentionally discriminate against “applicants” or “employees” based on Fair Employment and Housing Act protected characteristics.
  - Effective October 1, 2025.
- Auditing is highly encouraged!**



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## SB 7: Disclosure of ADS

- Requires employers to provide written notice that an ADS was in use in the workplace for the purpose of making employment-related decisions.
- Requires employers to notify employees subject to discipline or employment termination based on a decision made by ADS and give those employees the right to appeal the decision.
- Employers are required to provide notice to job applicants if ADS will be used in the hiring process.
- Employers must keep ADS records for 4 years.



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## FEHA Regulations – Automated-Decision Systems

- **Prevention of discrimination:** Cannot use an ADS that discriminates based on FEHA-protected characteristics.
- **Expanded record-keeping:** Must keep employment and ADS-related data, including data used, outputs, and audit findings, for at least four years.
- **Liability for third-party vendors:** Employers can be held liable for discriminatory effects of AI tools from vendors, necessitating vendor contracts that ensure transparency and compliance.
- **Reasonable accommodation:** Employers must provide reasonable accommodations for disabilities and religious beliefs when using an ADS, potentially offering alternative assessments if a system discriminates.



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## AB 406 Victims of Violence

**Existing law:** Employers must allow victims of violence time off, and sometimes workplace accommodations.

**Amended law:** Re-defines qualifying crimes, adjusts employee notice requirements, and adds right to use sick pay for jury duty, court appearances, or crime victim activities.

**Next Steps:** Update employee handbook.

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# California Labor and Employment Law: 2026 Update

## Tip Pool

DOL Opinion Letter FLSA 2025-1 on manager's participation in tip credit pool

- Managers and supervisors cannot keep tips
- Manager/supervisor determined by "primary duty" over a workweek (not a shift)
- No "wearing two hats"
- Exception for direct service



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## Federal No OT Tax

Certain individuals may claim income deduction for qualified overtime.

- **Qualified Overtime** = overtime compensation paid in excess of the regular rate of pay in compliance with Section 7 of the Fair Labor Standards Act (FLSA).
- Maximum annual deduction of \$12,500 (\$25,000 for joint filers).
- Deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers).

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## Federal No Tax on Tips

- Employees may deduct qualified tips received in occupations that are listed by the IRS as customarily and regularly received tips.
- Tips that are reported on the Form W-2, 1099, or other specified statement furnished to the individual or reported directly by the individual on the Form 4137.
  - Maximum annual deduction is \$25,000.
  - Deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers).

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## Questions



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## Thank You

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