GIBSON DUNN



Labor & Employment Update

December 23, 2025

2026 California Employment Law Update

Every year, the California legislature passes new and increasingly complex employment laws, and 2025 was no exception. This update discusses 13 areas that may require attention in the new year and beyond.

As we head into 2026, California employers should take a fresh look at whether their handbooks and practices require updating to comply with new laws signed by Governor Gavin Newsom during the 2025 legislative session. Below, we discuss 13 areas that may require attention in the new year and beyond.

1. Updated Statute of Limitations for Certain Sexual Assault and Harassment Claims (AB 250)

In 2023, California amended Civil Procedure Code section 340.16 to give plaintiffs until December 31, 2026, to revive otherwise time-barred sexual assault claims against employers and other private entities. [1] As of January 1, 2026, these plaintiffs will now have an extra year—until December 31, 2027—to do so. Notably, the extended revival period also applies to related claims for wrongful termination and sexual harassment predicated on the same underlying sexual assault. However, this update does not extend to previously resolved claims or those already litigated to a final judgment. [2]

2. Restrictions on Employee Debt Repayment (AB 692)

As of January 1, 2026, with few exceptions, California Business and Professions Code section 16608 will ban employers from requiring employees to repay certain debts if the employment relationship is terminated. [3] The change is not retroactive and will only apply to contracts

executed after January 1, 2026. AB 692 defines debt as "money, personal property, or their equivalent that is due or owing or alleged to be due or owing from a natural person to another person, including, but not limited to, for employment-related costs, education-related costs, or a consumer financial product or service, regardless of whether the debt is certain, contingent, or incurred voluntarily."[4] There are two relevant exceptions.

One exception is for tuition assistance. Employers may require tuition assistance repayment for a transferable credential if they meet the following requirements:

- There is a separate contract from the employment contract;
- The transferable credential must not be a condition of employment;
- The repayment must not exceed the cost of the credential to the employer;
- The contract provides for a prorated repayment plan during any required employment period and does not require an accelerated repayment plan if the employee is separated;
- The contract does not require repayment if the employee is terminated unless the employee is terminated for misconduct.

Employers may also enter into repayment or clawback agreements with employees for unearned monetary payments or bonuses given at the outset of employment provided they meet the following requirements:

- The terms of the repayment agreement are set forth in a separate agreement from the employment contract;
- The employee is notified they have the right to consult an attorney regarding the agreement and are given five business days to obtain advice of counsel prior to forming the agreement;
- The employer cannot require repayment to be subject to interest accrual and must prorate the repayment based on the remaining term of the retention agreement which shall not exceed two years;
- The employer must grant the worker the option to defer receipt of payment to the end of a fully served retention period without any repayment obligation;
- The employer can only require repayment if the separation from employment was at the sole discretion of the employee or at the election of the employer for misconduct.[6]

AB 692 also creates a new private right of action under the Labor Code for employers who violate these new restrictions. Employees who prevail on such claims can recover actual damages or \$5,000, whichever is greater, reasonable attorneys' fees and costs, and injunctive relief.[7]

3. Immigration Rights Notices (SB 294)

As of February 1, 2026, employers must provide employees a notice of their right (1) to workers' compensation, (2) to receive notice of inspection by immigration agencies, (3) to protection against unfair immigration-related practices, and (4) to organize a union, as well as their constitutional rights when interacting with immigration officers in the workplace.[8] The Labor Commissioner is required to develop a template notice by January 1, 2026 and employers may

use the template to comply with the requirements of SB 294.[9] The Department of Labor is also required to make instructional videos by July 1, 2026, that advise employees of their rights and instruct employers on their obligations under this law.[10]

SB 294 also requires employers to provide employees an opportunity to name an emergency contact by March 30, 2026, to be contacted if the employee is arrested or detained. If the employee names an emergency contact, the employer must notify the emergency contact in the event the employee is detained or arrested while on the work site or during work hours or if the employer has actual knowledge of the detainment.[11] The Labor Commissioner has authority to enforce this new law and can fine employers up to \$500 per employee for each violation.[12]

4. COVID-Era Right to Rehire (AB 858)

California's Labor Code section 2810.8 already protects employees laid off during the COVID-19 pandemic in a variety of ways. Employers are required, within five days of creating a new position, to offer the position to employees laid off during the COVID-19 pandemic if the employee is qualified for the position.[13] If the employee is not qualified for the position, the employer must provide that employee notice of the decision and the reasons the employer declined to offer the laid-off employee the new position.[14] The law also contains record-keeping requirements. For three years, measured from the date the employee is laid off, the employer must keep records of the employee's name, job classification at the time of separation, date of hire, last known contact information, as well as all written notices relating to the layoff and all communications related to offers of employment after the layoff.[15]

This law was initially set to expire on December 31, 2025 but AB 858 has extended it to January 1, 2027.[16]

5. Penalties for Late or Non-Payment of Judgment (SB 261)

Beginning January 1, 2026, employers who face a judgment for nonpayment of wages in California can be subject to a civil penalty of up to three times the amount of the judgment should they fail to pay the judgment after a period of 180 days. [17] A judgment under California law is defined as a "judgment, order, or decree entered in a court of this state." [18] Final decisions of the Division of Labor Standards Enforcement (DLSE) become judgments under California law when the Labor Commissioner files a certified copy of the final decision with the clerk of the superior court in the appropriate county. [19] Fifty percent of the court-assessed penalty will be distributed to the affected employee and 50 percent is distributed to the DLSE. [20] An employer may reduce the penalty by showing good cause by clear and convincing evidence. [21]

6. Employee Records

A. Employer Pay Data (SB 464)

SB 464 expands job data reporting requirements to ensure employees are not discriminated against based upon their race, gender, or ethnicity. Every May, employers of over 100 employees are already required to submit an annual pay data report to the California Civil Rights Department (CRD) that lists employee earnings within U.S. Bureau of Labor Statistics pay bands

and mean and median hourly pay rates by race, sex, and ethnicity. Employers must also list the number of their employees by race, sex, and ethnicity in these ten job categories:

- Executive or senior level officials and managers.
- First or mid-level officials and managers.
- Sales workers.
- Administrative support workers.
- Craft workers.
- Laborers and helpers.
- Service workers.[22]

Beginning on January 1, 2027, employers of over 100 employees must submit this same report but use these 23 categories:

- Chief executives.
- Management occupations, except chief executives.
- Business and financial operations occupations.
- Computer and mathematical occupations.
- Architecture and engineering occupations.
- Life, physical, and social science occupations.
- Community and social science occupations.
- Legal occupations.
- Educational instruction and library occupations.
- Art, design, entertainment, sports, and media occupations.
- Health care practitioners and technical occupations.
- Health care support occupations.
- Protective service occupations.
- Food preparation and serving-related occupations.
- Building and ground cleaning and maintenance occupations.
- Personal care and service occupations.
- Sales and related occupations.
- Office and administrative support occupations.
- Farming, fishing, and forestry occupations.
- Construction and extraction occupations.

- Installation, maintenance, and repair occupations.
- Production occupations.
- Transportation and material moving occupations.<a>[23]

Effective January 1, 2026, SB 464 also requires the employer to collect and store any demographic information collected for the purposes of submitting the annual report separately from the employee's personnel records.[24] Courts can already issue discretionary penalties against employers who fail to submit this required annual report to the CRD. Beginning January 1, 2026, courts are required to issue penalties for non-compliance upon request by the CRD.[25] The penalty for failing to submit the required report is \$100 per employee for first time offenders and \$200 per employee for repeat offenders.[26]

B. Employee Training Records (SB 513)

The California Labor Code already requires employers to produce certain employee personnel records within 30 days of a written request from a current or former employee (or their authorized representative). [27] Beginning on January 1, 2026, however, SB 513 will broaden the definition of "personnel records" under the Labor Code to specifically include any education or training records that the employer chooses to maintain. If employers choose to maintain education or training records moving forward, they must ensure that the records include the name of the employee, the name of the training provider, the duration and date of the training, the "core competencies" of the training, including skills achieved and any resulting certification in the employee's personnel records. [28] Further, as with all other personnel records encompassed by the Labor Code's recordkeeping requirements, employers who choose to maintain education or training records moving forward must be sure to keep them for at least three years following the termination of an employee's employment. [29]

7. California Paid Family Leave Expansion (SB 590)

Beginning July 1, 2028, SB 590 will allow employees to access wage replacement benefits under California's Paid Family Leave (PFL) program if they take time off from work to care for a "designated person" under the California Family Rights Act (CFRA). Under existing law, employees may take leave under the CFRA to care for a "designated person," i.e., "any care recipient related by blood or whose association with the individual is the equivalent of a family relationship," but cannot access PFL benefits when doing so.[30]

Once SB 590 goes into effect, employees applying for PFL benefits while caring for a designated person will be required to attest under penalty of perjury that they are either related by blood to the designated person or explain how their relationship with the designated person is equal to that of a family relationship.[31] By contrast, to qualify for CFRA leave, which does not guarantee entitlement to PFL benefits, employees need only identify their chosen "designated person" to their employer, which employers can limit to one person per 12-month period, without making any attestations under penalty of perjury.

8. Pay Equity Changes (SB 642)

Effective January 1, 2026, SB 642 makes several changes to California Labor Code section 1197.5, which prohibits employers from paying employees differently based on their sex, race, or ethnicity.

While California already bars employers from paying an employee at wage rates less than an employee of the opposite sex, SB 642 will modify section 1197.5 to make clear that employers cannot pay an employee at wage rates less than employees of "another sex." [32]

SB 642 will also significantly expand what is included in calculating wage rates for Labor Code section 1197.5 specifically going forward. "Wage rates," for purposes of section 1197.5 only, now include "stock, stock options, profit sharing and bonus plans, life insurance, vacation and holiday pay, cleaning or gasoline allowances, hotel accommodations, reimbursement for travel expenses, and benefits."[33] None of these terms are defined in the statute, nor does the statute explain how or when such categories should be valued.

SB 642 will also expand the statute of limitations for pay equity claims. An employee is now entitled to relief during the entire period the violation exists—not to exceed six years.[34] Plaintiffs can file claims three years after the "last date the cause of action occurs."[35] A cause of action occurs when an employer engages in an allegedly "unlawful compensation decision," when an individual becomes subject to that alleged decision, or when an individual "is affected by application of an alleged unlawful compensation decision or other practice, including each time wages, benefits, or other compensation is paid, resulting in whole or in part from the decision or other practice."[36]

Finally, SB 642 also changes the definition of pay scale for job postings made pursuant to California Labor Code section 432.3. The statute previously defined pay scale as "the salary or hourly wage range that the employer reasonably expects to pay for the position." In the new year, Labor Code section 432.3 will define "pay scale" as the "good faith estimate of the salary or hourly wage range that the employer reasonably expects to pay for the position *upon hire*."[37]

9. Withheld Tips (SB 648)

California has long held under Labor Code section 351 that tips belong to employees. However, section 351 did not create a private cause of action and was interpreted by the California Supreme Court as simply affirming what courts had already held: that tips belonged to the employee.[38] While the Labor Commissioner could investigate violations of section 351, ultimately violations were prosecuted as misdemeanors.[39] Now, effective January 1, 2026, the California Legislature has empowered the Labor Commissioner to investigate and issue citations for violations of Labor Code section 351.[40]

10. Construction Industry Vehicle Ownership and Independent Contractors (SB 809)

The California legislature has passed a statute targeting the construction industry and its use of independent contractors. SB 809 declares that mere ownership of a vehicle used to provide labor or services does not make a person an independent contractor. Instead, to determine whether a laborer is an independent contractor, courts should apply the ABC test as established by *Dynamex Ops. W. v. Sup. Ct.*, 4 Cal. 5th 903 (2018).[41] Because it purports to be declarative

of existing law, this provision is effective immediately. This declaration does not eliminate any of the still-valid statutory exemptions to *Dynamex*, but does codify the elimination of one exemption, under Labor Code section 2781(h), which used to exempt subcontractors providing trucking services in the construction industry from the ABC test. That exemption expired on January 1, 2025.

The bill also clarifies that an employer's pre-existing duty to indemnify their employee for necessary losses incurred in the discharge of their duties includes the use of employees' vehicles.[42] With respect to construction trucking, SB 809 clarifies that employers must reimburse commercial motor vehicle driver employees for the use, upkeep, and depreciation of any trucks, tractors, trailers, or other commercial vehicles owned and used by those employees to perform their work duties. The reimbursement can be calculated either as a flat-rate reimbursement or a per-mile reimbursement.[43] Because these sections merely clarify pre-existing law, they are effective immediately.

Effective January 1, 2026, the bill establishes an amnesty program, similar to the existing Motor Carrier Employer Amnesty Program, called the Construction Trucking Employer Amnesty Program, whereby if eligible construction contractors engage in a settlement with the Labor Commissioner before January 1, 2029 to reclassify all drivers operating on their behalf as employees and compensate them for any lost wages, the contractor would be relieved of liability for misclassifying its workers as independent contractors.[44]

11. Transportation Network Company Drivers (AB 1340)

AB 1340 targets app-based gig economy companies. The Transportation Network Company (TNC) Drivers Labor Relations Act, is designed to "encourage and protect the right of transportation network company drivers to full freedom of association, self-organization, and designation of representatives of their own choosing to negotiate" compensation and other terms and conditions of their agreements with transportation network companies.[45] A TNC is defined as an "organization, including, but not limited to, a corporation, limited liability company, partnership, sole proprietor, or any other entity, operating in California that provides prearranged transportation services for compensation using an online-enabled application or platform to connect passengers with drivers using a vehicle."[46]

Starting March 31, 2026, the end of the first quarter of 2026, TNCs will be required to submit quarterly reports to the Public Employment Relations Board (PERB), including identifying information on qualifying TNC drivers—those who have completed at least 20 rides—in a list format.[47] The information must include:

- The driver's name.
- The driver's license number.
- The driver's most recent email address, local mailing address, and cell phone number.
- The first date the driver joined the platform.
- The number of rides the driver completed in the past six months.

The statute also provides procedures to allow the PERB to classify and certify TNC associations as designated collective bargaining representatives for TNC drivers.[48] It is now also illegal for TNCs or for TNC driver associations to fail to negotiate in good faith with one another and the statute assigns procedures and remedies for the adjudication of unfair practices charges.[49]

12. Exemptions from California's Standard Rest and Meal Break Requirements

A. Rest Breaks (AB 751)

California extended the existing rest break exemption for petroleum safety workers indefinitely. When this exemption was enacted, it was set to expire on January 1, 2026 but AB 751 makes the provision permanent.[50] Pursuant to California Labor Code section 226.75, employers of petroleum-safety-sensitive positions may require workers to carry a pager or other instant communication device and remain at the work site during their break without being required to pay any premium wage rate.[51] An employer may also require the safety worker to interrupt their break and return to work to respond to an emergency.[52] When the emergency has ceased, the employer is required to give the employee a break within a reasonable time and if the employer cannot give the employee a break, the employer is required to give the safety worker one hour of pay at the regular rate of pay.[53]

B. Meal Breaks (SB 693)

Under California Labor Code section 512, employers are required to provide employees with a 30-minute meal break if the employee works for more than five hours a day.[54] Several categories of employees are already excepted from this law. SB 693 added another exception effective January 1, 2026 for employees of a "water corporation" defined under California law as "every corporation or person owning, controlling, operating or managing any water system for compensation within [California]."[55] To qualify for this exception, the water corporation employee must be covered by a valid collective bargaining agreement which expressly provides for meal periods for those employees.[56]

13. State Adjudication of Unfair Labor Practices and Collective Bargaining Claims (AB 288)

As of January 1, 2026, California's administrative agencies may have expanded power to hear unfair labor practices and collective bargaining claims under AB 288, potentially at the expense of the federal government's exclusive jurisdiction in that domain. [57] The National Labor Relations Board (NLRB) has already responded by pre-emptively suing California on October 15, 2025, alleging that AB 288 violates the NLRB's exclusive right to regulate private sector labor relations under the Supremacy Clause. [58] On November 19, 2025, the NLRB moved for a preliminary injunction, which is still pending as of the date of this publication. [59]

A. The Public Employment Relations Board (PERB)

If the law is not enjoined, it would allow California workers as of January 1, 2026, to petition the PERB to resolve cases traditionally heard by the NLRB. To do so, the worker must establish that: (i) they were subject to the National Labor Relations Act as of January 1, 2025; and (ii) the NLRB impliedly or explicitly ceded jurisdiction or engaged in undue delay, defined as (1) the failure of a regional director to issue a complaint or certification of an election by more than six

months; (2) the failure of an administrative law judge to issue a decision for more than six months; or (3); the failure by the NLRB, to issue a final decision of a reviewable order or of a certification of an election by more than 12 months.[60] Further, all records submitted to the PERB for these dispute resolutions are exempted from California's Public Records Act. PERB can follow precedents set forth by the NLRB but it can now also decline to follow the NLRB's precedents when "the board deems it inappropriate to do so."[61]

B. The Agricultural Labor Relations Board (ALRB)

The ALRB has existed since 1975 to regulate labor practices for agricultural employees in California. Traditionally, the ALRB has followed the precedents of the NLRB when adjudicating disputes, but if AB 288 is not enjoined, it will grant the ALRB the discretion to follow NLRB precedents but also decline to follow them when "the board deems it inappropriate to do so."[62]

```
[1] 2025 Cal. AB 250 (2025-2026 Regular Session) § 1 (Cal. Civ. Proc. Code § 340.16(e)).
[2] Ibid.
[3] 2025 Cal. AB 692 (2025-2026 Regular Session) § 1 (Cal. Bus. & Prof. Code § 16608).
[4] Id. (Cal. Bus. & Prof. Code § 16608(a)(2)).
[5] Id. (Cal. Bus. & Prof. Code § 16608(b)(2)(B)).
[6] Id. (Cal. Bus. & Prof. Code § 16608(b)(2)(D)).
[7] Id. § 2 (Cal. Lab. Code § 926).
[8] 2025 Cal. SB 294 (2025-2026 Regular Session) § 1 (Cal. Lab. Code Div. 2 § 1553).
[9] Id. (Cal. Lab. Code Div. 2 § 1554(a)).
[10] Id. (Cal. Lab. Code Div. 2 § 1554).
[11] Id. (Cal. Lab. Code Div. 2 § 1555(b)).
[12] Id. (Cal Lab. Code Div. 2 §.1558).
[13] Id. (Cal. Lab. Code § 2810.8(b)(1)).
[14] Id. (Cal. Lab. Code § 2810.8 (b)(5)).
[15] Id. (Cal. Lab. Code § 2810.8(b)(4)).
[16] 2025 Cal. AB 858 (2025-2026 Regular Session) § 1 (Cal. Lab. Code § 2810.8).
```

[17] 2025 Cal. SB 261 (2025-2026 Regular Session) § 1 (Cal. Lab. Code § 98.2).

```
[18] Cal. Civ. Proc. Code § 680.230.
[19] Cal. Lab. Code § 98.2(e).
[20] Id. § 3 (Cal. Lab. Code § 238.05(c)(1)–(2)).
[21] Id. § 3 (Cal. Lab. Code § 238.05(b)).
[22] Cal. Gov't Code § 12999(b)(1).
[23] 2025 Cal. SB 464 (2025-2026 Regular Session) § 2 (Cal. Gov't Code § 12999(b)(1)).
[24] Id. (Cal. Gov't Code § 12999(a)(3)).
[25] Id. (Cal. Gov't Code § 12999(f)).
[26] Ibid.
[27] Cal. Labor Code § 1198.5.
[28] 2025 Cal. SB 513 (2025-2026 Regular Session) § 1 (Cal. Labor Code § 1198.5).
[29] Ibid.
[30] See id. § 4 (Cal. Unemployment Ins. Code § 3302(d)).
[31] See id. § 6 (Cal. Unemployment Ins. Code § 3303(a)(2)(B)).
[32] 2025 Cal. SB 642 (2025-2026 Regular Session) § 2 (Cal. Lab. Code § 1197.5(a)).
[33] Id. (Cal. Lab. Code § 1197.5(I)(3)).
[34] Id. (Cal. Lab. Code § 1197.5(i)(2)).
[35] Id. (Cal. Lab. Code § 1197.5(i)(1)).
[36] Id. (Cal. Lab. Code § 1197.5(i)(3)).
[37] Id. § 1 (Cal. Lab. Code § 432.3(m)(1)) (emphasis added).
[38] Lu v. Hawaiian Gardens Casino, Inc., 50 Cal. 4th 592, 601 (2010).
[39] Cal. Lab. Code § 354 9 ("Any employer who violates any provision of this article is guilty of a
misdemeanor, punishable by a fine not exceeding one thousand dollars ($1,000) or by
imprisonment for not exceeding 60 days, or both.")
```

[40] 2025 Cal. SB 648 (2025-2026 Regular Session) § 1 (Cal. Lab. Code § 351).

```
[41] 2025 Cal. SB 809 (2025-2026 Regular Session) § 2 (Cal. Lab. Code § 2775.5(a)).
```

- [42] Id. §§ 2–3 (Cal. Lab. Code § 2775.5(a), Cal. Lab. Code § 2802.2(b)(1)).
- [43] Id. § 3 (Cal. Lab. Code § 2802.2(b)(2)(A)).
- [44] Id. § 1 (Cal. Lab. Code § 2750.9(a)).
- [45] 2025 Cal. AB 1340 (2025-2026 Regular Session) § 1 (Cal. Bus. & Prof. Code Div. 3 § 7470.1(a)).
- [46] Cal. Pub. Util. Code § 5431(c).
- [47] See id. (Cal. Bus & Prof. Code Div. 3 § 7470.5(a)).
- [48] Id. (Cal. Bus. & Prof. Code § 7470.14).
- [49] Ibid.
- [50] 2025 Cal. AB 751 (2025-2026 Regular Session) § 1 (Cal. Lab. Code § 226.75).
- [51] *Ibid.*
- [52] *Ibid.*
- [53] Id. (Cal. Lab. Code § 226.75(b)).
- [54] See Cal. Lab. Code § 512.
- [55] 2025 Cal. SB 693 (2025-2026 Regular Session) § 1 (Cal. Pub. Util. Code § 241).
- [56] Id. (Cal. Lab. Code § 512(e)).
- [57] 2025 Cal. AB 288 (2025-2026 Regular Session) §§ 1–2.
- [58] NLRB v. California, 2:25-CV-02979 (E.D. Cal., Oct. 15, 2025), Dkt. 1.
- [59] *Id.* (Nov. 19, 2025), Dkt. 10.
- [60] See id. § 2 (Cal. Lab. Code § 923.1).
- [61] See id. § 2 (Cal. Lab. Code § 923.1(c)(3), (e)(2)).
- [62] See id. § 2 (Cal. Lab. Code § 923.1(c)(3), (e)(2)).

The following Gibson Dunn lawyers prepared this update: Katherine V.A. Smith, Tiffany Phan, Megan Cooney, Lauren Fischer, and John Collins.

Gibson Dunn's lawyers are available to assist in addressing any questions you may have regarding these developments. Please contact the Gibson Dunn lawyer with whom you usually work, any member of the firm's <u>Labor and Employment</u> practice group, or the following authors and practice leaders:

<u>Jason C. Schwartz</u> – Co-Chair, Washington, D.C. (+1 202.955.8242, jschwartz@gibsondunn.com)

<u>Katherine V.A. Smith</u> – Co-Chair, Los Angeles (+1 213.229.7107, ksmith@gibsondunn.com)

<u>Tiffany Phan</u> – Los Angeles (+1 213.229.7522, tphan@gibsondunn.com)

Megan Cooney - Orange County (+1 949.451.4087, mcooney@gibsondunn.com)

Attorney Advertising: These materials were prepared for general informational purposes only based on information available at the time of publication and are not intended as, do not constitute, and should not be relied upon as, legal advice or a legal opinion on any specific facts or circumstances. Gibson Dunn (and its affiliates, attorneys, and employees) shall not have any liability in connection with any use of these materials. The sharing of these materials does not establish an attorney-client relationship with the recipient and should not be relied upon as an alternative for advice from qualified counsel. Please note that facts and circumstances may vary, and prior results do not guarantee a similar outcome.

If you would prefer NOT to receive future emailings such as this from the firm, please reply to this email with "Unsubscribe" in the subject line.

If you would prefer to be removed from ALL of our email lists, please reply to this email with "Unsubscribe All" in the subject line. Thank you.

© 2025 Gibson, Dunn & Crutcher LLP. All rights reserved. For contact and other information, please visit our website.