California Employer Compliance Considerations for 2026

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INTRODUCTION

Relative to prior years, 2026 appears to be bringing a somewhat lighter legislative calendar, but the case law that emerged from California's courts in 2025 is significant, and the rapidly developing area of AI in the workplace is creating new compliance rules and obligations that can reshape HR practices.

California courts and lawmakers have delivered a consistent message: employers are expected to stay informed about legal developments and adjust their practices accordingly. Ignorance of the law is not a defense. Organizations are expected to monitor regulatory changes, review their policies regularly, and correct compliance gaps before they become litigation problems.

1. NEW LEGISLATION EFFECTIVE 2026

Minimum Wage and Exempt Salary Thresholds

Beginning January 1, 2026, California's statewide minimum wage increased to $16.90 per hour for most non-exempt employees[1]. However, several industry-specific wages have different minimums. Fast-food employees working for chains with sixty or more locations are subject to a $20.00 hourly minimum wage[2], while healthcare workers fall within a wage range that varies by facility type, typically between $18.00 and $24.00 per hour[3].

California also allows cities and counties to establish their own minimum wages above the state floor, such as Los Angeles at $17.87 per hour[4], and San Francisco's at $19.18 per hour[5].

These increases also affect the salary thresholds required for employees to qualify as exempt under California's white-collar exemptions. For 2026, the minimum compensation thresholds are:

- Executive, Administrative, and Professional exemptions: $70,304 annual salary
- Computer Professional exemption: $58.85 hourly rate
- Inside Sales exemption: $53,040 annual compensation

It is important to understand that the exempt salary threshold is tied to the state minimum wage, not to local wage ordinances. Additionally, the minimum salary requirement must be satisfied through salary alone; employers cannot count commissions, bonuses, or other forms of compensation toward meeting the threshold.

AB 692: Restrictions on Stay-or-Pay Agreements (TRAPs)

Assembly Bill 692 places significant limits on agreements that require employees to repay certain costs if they leave employment before a specified date[6]. These arrangements—often referred to as Training Repayment Agreement Provisions (TRAPs) or "stay-or-pay" contracts, have historically been used to recover training expenses or certification costs.

The statute includes limited exceptions; agreements requiring repayment of tuition expenses, as opposed to employer-provided training, may still be enforceable. Contracts involving discretionary or unearned payments may also qualify for exceptions, although the statute does not define these terms with precision.

For signing bonuses in particular, one practical alternative is to pay the bonus in installments over the employee's first year of employment rather than issuing it as a lump sum, which eliminates the need for a clawback clause entirely.

SB 642: Pay Transparency and Realistic Pay Scale Disclosure
California already requires employers with fifteen or more employees to disclose salary ranges in job postings. SB 642 tightens this by redefining "pay scale" as a good faith estimate of what the employer reasonably expects to pay upon hire, and not a theoretical range spanning the full lifecycle of the position[7].

This targets the practice of posting overly broad ranges (e.g., $80K–$180K for a role the employer actually plans to fill around $120K). However, job postings still only require base salary or hourly wage ranges; there is no requirement to list bonuses, equity, or benefits in the posting itself.

Separately, SB 642 broadens the definition of "wages" under California's Equal Pay Act (Labor Code Section 1197.5) to include all forms of compensation, including bonuses, stock options, profit sharing, vacation pay, insurance benefits, and more. This expanded definition applies only to Equal Pay Act claims, not to other Labor Code provisions. In practice, employers must now account for total compensation when evaluating whether employees performing substantially similar work are paid equally across genders. The law also updates the statute's language from "opposite sex" to "another sex," extending protections to non-binary gender identities.

SB 642 also extends the statute of limitations for Equal Pay Act claims from two years to three, and allows employees to recover for up to six years of violations. Each paycheck reflecting a pay disparity can constitute a new violation under the law's continuing violation framework.

SB 464: Expanded Pay Data Reporting
Employers with 100 or more employees (or workers hired through labor contractors) already must submit annual pay data reports to the California Civil Rights Department; SB 464 increases the number of reporting categories from 10 to 23, moving beyond the structure used in federal EEO-1 reporting[8]. This change takes effect January 1st, 2027.

The law also requires employers to maintain pay data separately from personnel records and makes penalties for noncompliance mandatory rather than discretionary.

SB 294: Workplace Know Your Rights Act

In response to changes in federal enforcement priorities (particularly around immigration), California enacted SB 294 which requires all employers to provide a standalone written notice to employees describing certain workplace rights[9]. The notice must cover workers' compensation benefits, protections against unfair immigration-related practices, the right to organize, and employees' constitutional rights when interacting with law enforcement at the workplace.

Employers were required to distribute this notice to all current employees by February 1, 2026, and must provide it annually thereafter. New hires must receive the notice upon hire on an ongoing basis. The notice must also be provided annually to an employee's authorized representative, if any. The Labor Commissioner has published a template notice on its website that employers may use rather than drafting their own.

SB 294 also requires employers to give employees the opportunity to designate an emergency contact by March 30, 2026. Furthermore, if an employee is arrested or detained at the worksite off-site but during work hours, if the employer has actual knowledge of the event they must notify that designated contact. Noncompliance penalties are significant: up to $500 per employee per violation, and up to $10,000 per employee for violations of the emergency contact provisions.

2. WAGE AND HOUR DEVELOPMENTS: KEY 2025 CASES

EMD Sales Inc. v. Carrera: The Duties Test for Exempt Classification

The U.S. Supreme Court's unanimous decision in *EMD Sales Inc. v. Carrera* resolved a split among federal circuits over the evidentiary standard an employer must meet to prove that an employee is properly classified as exempt under the Fair Labor Standards Act[10].

The Fourth Circuit had required employers to meet the heightened "clear and convincing evidence" standard; the other circuits to address the issue applied the lower "preponderance of the evidence" standard. The Court held that preponderance (the default standard in civil litigation), meaning an employer need only show it is more likely than not that the exemption applies.

To be clear, the decision did not address what an employer must prove. It only clarified how convincingly the employer must prove it. Employers must still demonstrate that each exempt employee's actual job duties and compensation meet the specific criteria for the claimed exemption.

Bradsbery v. Vicar Operating, Inc.: Prospective Meal Period Waivers Confirmed

The California Court of Appeal confirmed that employers may use written meal period waivers in advance for shifts between five and six hours[11]. U nder California law, a 30-minute meal period is required after five hours of work, but may be waived by mutual consent if the shift does not exceed six hours. The court held that this waiver can be signed during onboarding and applied to all qualifying shifts throughout employment, rather than requiring a new waiver before each individual shift.

The employee is able to revoke it at any time, and must always be voluntary. Also note, that the court also did not address whether prospective oral waivers would be valid, but only written waivers.

Individual Liability for Labor Code Violations

The California Court of Appeal's decision in *Seviour-Iloff v. LaPaille* clarified important questions under Labor Code Section 558.1[12].

First, on individual liability: the court confirmed that employees have a private right of action to sue owners, directors, officers, and managing agents individually for wage and hour violations. The court held that the word "may" in the statute grants the employee discretion to pursue such claims, not the court discretion to deny them — meaning once a violation is proven, individual liability follows. The legislative history showed the statute was designed to prevent business owners from dissolving companies to avoid paying workers.

Second, on the good faith defense: the court addressed good faith in the narrower context of liquidated damages under Section 1194.2, affirming trial court discretion on that specific issue.

Separately, the California Supreme Court's decision in *Estrada v. Royalty Carpet Mills, Inc.* (2024) addressed PAGA manageability, holding that trial courts cannot dismiss PAGA claims solely because they are complex or unmanageable.

***Camp v. Home Depot*: Time Rounding Under Pressure**

The case involves Home Depot's practice of rounding employee time entries to the nearest 15-minute increment for payroll purposes which helped some employees, but penalized others.

The Sixth District Court of Appeal held that where an employer's timekeeping system captures the precise minute an employee starts and ends each shift and each meal break, the employer has an obligation to pay for every minute worked. Which is to say in today's digital age, there is no excuse for inaccurate timekeeping.

If the California Supreme Court affirms this reasoning, rounding will effectively be abolished for employers in California.

3. DISCRIMINATION, HARASSMENT, AND RETALIATION

***Kruitbosch v. Bakersfield Recovery Services, Inc.*: Off-Site Harassment and Employer Response**

In *Kruitbosch v. Bakers˜eld Recovery Services, Inc.*, the California Court of Appeal addressed for the first time under FEHA (CA Fair Employment and House Act), whether an employer can be liable for a nonsupervisory coworker's harassment that occurs entirely off-site and outside of work hours [13].

The plaintiff, Steven Kruitbosch, alleged that a coworker subjected him to unwanted sexual advances at his home and via his personal cell phone while he was on leave. When he reported the conduct, the acting program director told him nothing could be done because it happened off-site. The HR representative then mocked his complaint on social media and made a dismissive remark to him directly.

The court held that the coworker's off-site conduct was not sufficiently work-related to be imputed to the employer under FEHA, merely knowing someone through work does not make private conduct work-related.

However, the court also held that the employer's response to the complaint can independently create a hostile work environment, even when the underlying harassment is not actionable against the employer. The refusal to investigate, failure to take any protective measures, and the HR representative's mocking behavior could, under the totality of the circumstances, alter the plaintiff's working conditions in an objectively severe manner. The court found the claim was viable and reversed the dismissal, but the case has not yet been decided on the merits.

***Billesdon v. Wells Fargo Securities*: Remote Work as Disability Accommodation**

Billesdon v. Wells Fargo Securities, Inc. involved a Managing Director at Wells Fargo Securities who suffered an accident in 1990 that left him with paralysis of portions of his colon and bladder, requiring frequent and immediate restroom access[14].

Billesdon had worked for Wells Fargo for approximately 25 years, and after relocating to North Carolina office during the pandemic, he requested to continue working from home as a disability accommodation when the company began its return-to-office transition. His managers allegedly pushed back, characterizing a trial work-from-home period as "delaying the inevitable" and selected his role for elimination before the accommodation process was resolved. He was terminated in February 2022, ostensibly for cost-cutting.

A jury awarded $22.1 million: $6 million in back pay, $14 million in future lost earnings, $100,000 for emotional distress, and $2 million in punitive damages ($1 million under the ADA, $1 million under North Carolina state law). The jury found Wells Fargo liable for failure to provide a reasonable accommodation under the ADA, unlawful retaliation, and wrongful discharge under state law.

The case underscores two points. First, the interactive accommodation process remains active even when workforce reductions are underway; selecting someone for a layoff while their accommodation request is pending creates significant retaliation exposure. Second, evidence that managers treated the accommodation as a foregone conclusion rather than engaging in genuine dialogue was central to the jury's finding.

***Carranza v. City of Los Angeles*: AI-Generated Images and Hostile Work Environment**

Carranza v. City of Los Angeles is a harbinger of cases that will become more frequent as AI-generated imagery proliferates. A senior LAPD captain discovered that a nude image closely resembling her was circulating within the department while she was on vacation[15]. The image was not of her, but it was convincingly realistic; suspected to be digitally altered. She cut her vacation short, complained to HR, and repeatedly requested that the department notify employees that the image was not her and that sharing it constituted misconduct. The LAPD launched an internal investigation but declined to address the photograph with staff, reasoning that doing so could cause "further embarrassment" and disrupt the investigation.

The jury awarded $4 million in non-economic damages (past and future emotional distress). On appeal, the City argued Carranza had never directly witnessed the harassment and the conduct was not severe or pervasive enough. The Court of Appeal rejected both arguments. It held that secondhand knowledge of harassing conduct is sufficient to support a hostile work environment claim; FEHA protects employees from environments poisoned by inappropriate conduct whether or not they personally witness it. The court found substantial evidence that the harassment was severe or

pervasive (either is sufficient under FEHA), and that the LAPD's failure to take immediate corrective action after Carranza's complaint was a critical factor in the verdict.

Again, the reaction of the employer to fail to take what was viewed as adequate steps in their response was a determining factor in both the case and the appeal.

4. ARTIFICIAL INTELLIGENCE IN THE EMPLOYMENT LIFECYCLE

The Compliance Landscape

Artificial intelligence is now embedded across nearly every stage of employment; application screening and candidate filtering, AI-assisted video interviews, performance management platforms, and even separation workflows. California is emerging as the most active state-level regulator of AI in employment, and its approach is already shaping expectations in other jurisdictions. For employers, the takeaway is straightforward: the rules governing how these tools can be used are tightening, and they are increasingly focused on outcomes rather than intent.

The foundational legal principle is equally clear: when an AI tool is used to make (or meaningfully influence) an employment decision, responsibility for ensuring that tool does not produce discriminatory outcomes rests with the employer using it, not the vendor that built it (for now). Employers cannot point to a third-party provider and disclaim accountability for biased results. If an AI system touches the employment lifecycle, the employer deploying it is expected to understand how it works, evaluate its outputs, and audit for negative impacts.

***Mobley v. Workday*: Pending Class Action on AI Discrimination**

Derek Mobley, an African-American over the age of 40 with a disability, alleges that after applying to more than 100 positions at companies using Workday's AI-powered applicant screening tools, he was rejected every time, often within minutes, sometimes during early morning hours, and without receiving a single interview. He asserts claims under Title VII (race), the ADEA (age), Section 1981, and the ADA (disability)[16].

What makes the case so important is the liability aspect; Mobley didn't accuse Workday as an employer, but instead alleges that they should be held liable as an agent of the employers who used its platform to screen candidates. The court denied Workday's motion to dismiss on this basis, holding that the claim was plausible because Workday's AI tools actively participated in hiring decisions rather than merely providing a passive platform.

In May 2025, the court granted preliminary certification of a nationwide collective action on the ADEA claim, covering all individuals aged 40 and over who applied for jobs through Workday's platform and were denied employment recommendations from September 2020 through the present. Opt-in members have until March 7, 2026 to join. The case is now in discovery.

There are two major implications from this. First, as evidenced repeatedly in this paper, employers cannot avoid responsibility for discriminatory outcomes produced by AI tools they deploy. Second, this tests if the vendor themselves that built and operates the AI tool can also face direct liability.

AI Policies and Onboarding Disclosures

Employers that use AI in hiring or workforce management should strongly consider adopting formal policies that are incorporated into employee handbooks and onboarding materials. These policies should clearly explain where and how AI is used across the employment lifecycle, including application review, interviews, onboarding, performance evaluation, and separation, and outline expectations regarding candidate and employee use of AI tools during the hiring process.

That last point is becoming increasingly relevant in practice. Many employers report a growing pattern in which candidates submit highly polished, AI assisted applications and perform well in AI coached interviews, only to struggle to meet expectations once hired. Establishing clear parameters around acceptable AI use (and building baseline assessments that measure actual capability) has become an increasingly important component of responsible hiring.

CONCLUSION

The 2026 employment law landscape in California sends a clear and consistent message to HR leaders and employers: proactive compliance is no longer optional, and not knowing the law offers no protection.

The practical playbook is consistent: employers should regularly audit their policies and practices, (ideally under the protection of attorney-client privilege), train managers and HR teams thoroughly, document compliance efforts carefully, and monitor legal developments in real time. Employers that approach compliance as an ongoing discipline, rather than a reactive exercise, will be in a better place than those who wait for a lawsuit.