

California Narrows the “All-or-Nothing” Contractor Licensing Rule

SB 342 (Umberg) amends Bus. & Prof. Code § 7031 for public, commercial, institutional and certain common interest and multifamily projects.

SIGNED

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EFFECTIVE

January 1, 2027

RETROACTIVITY

No express provision

Which contracts are covered

The new rules apply to an action arising from a contract for:

- A public work of improvement
- A commercial construction project
- An institutional construction project
- Construction of a common interest development (Civ. Code § 4100)*
- Construction of a multifamily residential project of four or more units*

* Only if no tenant or resident is a party to the contract

§ 7031(a)(2)(B)(i)(I)–(V); (b)(2)(A)(i)–(v). The condition turns on who is a party to the contract, not on whether the property is occupied.

For contracts outside the listed categories, the existing payment bar and full-disgorgement rule remain in place, subject to existing statutory exceptions.

What changed for covered contracts

	BEFORE†	AFTER SB 342
Contractor’s payment claim § 7031(a)(2)(B)(ii)	Generally barred unless licensed at <i>all times</i> during performance.	May sue if licensed (1) when the contract was executed <i>and</i> (2) during the portion of performance for which compensation is sought. Licensure obtained only after execution does not satisfy this exception.
Hiring party’s disgorgement claim § 7031(b)(2)(B)	Generally may recover <i>all</i> compensation paid to the unlicensed contractor.	Under § 7031(b), may recover only the portion paid for work performed while the contractor was unlicensed. A contractor unlicensed throughout the work may still face recovery of all compensation for that work.

† Subject to existing statutory exceptions, including substantial compliance under § 7031(e). Limited disgorgement does not restrict independent contract or defective-work claims.

Unchanged: A security interest remains unenforceable unless the contractor was licensed at all times (§ 7031(c)); a payment claim permitted by the new exception does not itself make a security interest, such as a mechanic’s lien, enforceable. Proof-of-licensure and burden provisions (§ 7031(d)) and the substantial-compliance rules (§ 7031(e)–(f)) are unchanged; how (d)’s “at all times” certificate language operates with the new partial-recovery exceptions may require judicial interpretation.

When and how it takes effect

SB 342 takes effect **January 1, 2027** (Cal. Const., art. IV, § 8(c) (1)). It contains no urgency clause, separate delayed operative date, or express transition provision, and no separate implementing action is specified as a prerequisite.

Does it apply retroactively?

SB 342 contains no express retroactivity provision. California generally presumes substantive statutory changes apply prospectively unless contrary legislative intent is established (Civ. Code § 3; *Myers v. Philip Morris Cos.* (2002) 28 Cal.4th 828, 839–841). Application to pre-2027 contracts, performance, payments or pending disputes will require analysis.

Recommended practices (not requirements of SB 342): verify the contracting entity’s license at execution, monitor it during performance, and keep dated records tying each payment to specific work and dates.