

## Assembly Bill No. 692

### CHAPTER 703

An act to add Section 16608 to the Business and Professions Code, and to add Section 926 to the Labor Code, relating to employment.

[Approved by Governor October 13, 2025. Filed with Secretary of State October 13, 2025.]

#### LEGISLATIVE COUNSEL'S DIGEST

AB 692, Kalra. Employment: contracts in restraint of trade.

Existing law declares every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind to be void, except as expressly provided. Existing law provides for a system of labor standards enforcement administered by the Labor Commissioner.

This bill would, for contracts entered into on or after January 1, 2026, make it unlawful to include in any employment contract, or to require a worker to execute as a condition of employment or a work relationship a contract that includes, specified contract terms, including a term that requires the worker to pay an employer, training provider, or debt collector for a debt if the worker's employment or work relationship with a specific employer terminates. The bill would declare these contracts as contracts that restrain a person from engaging in a lawful profession, trade, or business, and as void and contrary to public policy, except as provided.

This bill would authorize a worker who has been subjected to the above-described prohibited conduct regarding a contract or its terms or a work representative to bring an action on behalf of that worker, other persons similarly situated, or both, in any court of competent jurisdiction. The bill would make a person who violates these provisions liable for specified civil penalties and relief.

*The people of the State of California do enact as follows:*

SECTION 1. Section 16608 is added to the Business and Professions Code, immediately following Section 16607, to read:

16608. (a) For purposes of this section, the following definitions apply:

(1) "Contract" includes a promise, undertaking, contract, or agreement, whether written or oral, express or implied.

(2) "Debt" means 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.

(3) “Debt collector” has the same meaning as defined in subdivision (c) of Section 1788.2 of the Civil Code.

(4) “Employer” means any person or entity that employs workers. “Employer” includes any parent company, subsidiary, division, affiliate, contractor, hiring party, or third-party agent of an employer.

(5) “Freelance worker” has the same meaning as defined in subdivision (a) of Section 18101.

(6) “Misconduct” has the same meaning as in Section 1256 of the Unemployment Insurance Code.

(7) “Penalty, fee, or cost” includes, but is not limited to, a replacement hire fee, retraining fee, replacement fee, quit fee, reimbursement for immigration or visa-related costs, liquidated damages, lost goodwill, and lost profit.

(8) “Person” means a natural person or an entity, including, but not limited to, a corporation, partnership, association, trust, limited liability company, cooperative, or other organization.

(9) “Training provider” means an entity, whether or not affiliated with an employer, that provides an education program, as defined in Section 94837 of the Education Code, a job training program, or a skills training program.

(10) “Transferable credential” means a degree that is offered by a third-party institution that is accredited and authorized to operate in the state, is not required for a worker’s current employment, and is transferable and useful for employment beyond the worker’s current employer.

(11) “Worker” means a natural person who is permitted to work for or on behalf of an employer or business entity, or who is permitted to participate in any other work relationship, job training program, or skills training program. “Worker” includes, but is not limited to, an employee or prospective employee.

(b) (1) Except as provided in paragraph (2), for contracts entered into on or after January 1, 2026, it shall be unlawful to include in any employment contract, or to require a worker to execute as a condition of employment or a work relationship a contract that includes, a contract term that does any of the following:

(A) Requires the worker to pay an employer, training provider, or debt collector for a debt if the worker’s employment or work relationship with a specific employer terminates.

(B) Authorizes the employer, training provider, or debt collector to resume or initiate collection of or end forbearance on a debt if the worker’s employment or work relationship with a specific employer terminates.

(C) Imposes any penalty, fee, or cost on a worker if the worker’s employment or work relationship with a specific employer terminates.

(2) This section does not apply to any of the following:

(A) A contract entered into under any loan repayment assistance program or loan forgiveness program provided by a federal, state, or local governmental agency.

(B) A contract related to the repayment of the cost of tuition for a transferable credential that meets all of the following requirements:

- (i) The contract is offered separately from any contract for employment.
- (ii) The contract does not require obtaining the transferable credential as a condition of employment.
- (iii) The contract specifies the repayment amount before the worker agrees to the contract, and the repayment amount does not exceed the cost to the employer of the transferable credential received by the worker.
- (iv) The contract provides for a prorated repayment amount during any required employment period that is proportional to the total repayment amount and the length of the required employment period and does not require an accelerated payment schedule if the worker separates from the employment.
- (v) The contract does not require repayment to the employer by the worker if the worker is terminated, except if the worker is terminated for misconduct.

(C) A contract related to enrollment in an apprenticeship program approved by the Division of Apprenticeship Standards.

(D) A contract for the receipt of a discretionary or unearned monetary payment, including a financial bonus, at the outset of employment that is not tied to specific job performance, provided that all of the following conditions are met:

- (i) The terms of any repayment obligation are set forth in a separate agreement from the primary employment contract.
- (ii) The employee is notified that they have the right to consult an attorney regarding the agreement and provided with a reasonable time period of not less than five business days to obtain advice of counsel prior to executing the agreement.
- (iii) Any repayment obligation for early separation from employment is not subject to interest accrual and is prorated based on the remaining term of any retention period, which shall not exceed two years from the receipt of payment.
- (iv) The worker has an option to defer receipt of the payment to the end of a fully served retention period without any repayment obligation.
- (v) Separation from employment prior to the retention period was at the sole election of the employee, or at the election of the employer for misconduct.

(E) A contract related to the lease, financing, or purchase of residential property, including, but not limited to, a contract pursuant to the California Residential Mortgage Lending Act (Division 20 (commencing with Section 50000) of the Financial Code).

(c) A contract that is unlawful under subdivision (b) is a contract restraining a person from engaging in a lawful profession, trade, or business, and is void under Section 16600 only if the contract was entered into on or after January 1, 2026.

(d) The rights, remedies, and penalties established by this section are cumulative and shall not be construed to supersede or limit the rights,

remedies, or penalties established under other laws, or to limit the ability of any other person or entity to pursue enforcement of rights, remedies, or penalties established under other laws, including, but not limited to:

- (1) Obligations of employers under Section 2802 of the Labor Code.
- (2) Article 1.5 (commencing with Section 2775) of Chapter 2 of Division 3 of the Labor Code.
- (3) The Unfair Competition Law (Chapter 5 (commencing with Section 17200)).

SEC. 2. Section 926 is added to the Labor Code, to read:

926. (a) A contract or contract term that violates Section 16608 of the Business and Professions Code is void as contrary to public policy only if entered into on or after January 1, 2026.

(b) A worker who has been subjected to the conduct prohibited by subdivision (b) of Section 16608 of the Business and Professions Code or a worker representative may bring a civil action on behalf of that worker, other persons similarly situated, or both, in any court of competent jurisdiction.

(c) Any person found liable for a violation of this section shall be liable for actual damages sustained by the worker or workers on whose behalf the case is brought, or five thousand dollars (\$5,000) per worker, whichever is greater, in addition to injunctive relief, and reasonable attorney's fees and costs.

(d) This section does not limit the remedies available to a worker or other natural person specified in Section 16608 of the Business and Professions Code.