
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair

2025 - 2026 Regular

Bill No:	SB 1435	Hearing Date:	4/22/26
Author:	Committee on Revenue and Taxation	Tax Levy:	Yes
Version:	3/11/26	Fiscal:	Yes
Consultant:	Summers		

PERSONAL INCOME TAX LAW AND CORPORATION TAX LAW: FEDERAL CONFORMITY

Makes technical and conforming changes to several provisions of the Revenue & Taxation Code as a result of SB 711 (McNerney, 2025).

Background

Conformity. State law does not automatically conform to changes in federal tax law, except for specific retirement provisions. Instead, the Legislature must affirmatively conform to federal changes, which it can do in two different ways. First, the Legislature can pass an individual tax bill that conforms to a specific federal provision, such as the Regulated Investment Company Modernization Act (AB 1423, Perea, 2011). Second, the Legislature can enact one omnibus bill to provide that state law conforms to federal law as of a specified date. Currently, state law generally conforms to federal tax law as of January 1, 2025 (SB 711, McNerney, 2025).

SB 711. Between 2015 and 2025, there were more than 1,000 substantive changes to the Internal Revenue Code, for which California had not yet determined whether the RTC will conform, not conform, or conform with modifications. When the Legislature enacted SB 711, it conformed to the changes for the first time in ten years by updating the “specified date” in RTC Section 17024.5. Advancing the specified date incorporates select changes made to the IRC where the RTC applies by reference. The bill then enacts statutes to either decouple, or conform with modifications, to specific changes made by Congress to the IRC where state conformity is not desired. Through this “date-change” process, SB 711 updates the RTC to align with the IRC, thereby reducing differences between a taxpayer’s state and federal tax obligations and easing compliance burdens for taxpayers. Examples include the treatment of alimony payments, catch-up IRA contributions, and first-responder retirement and disability payments.

However, SB 711 inadvertently conformed the state Personal Income Tax (PIT) law to Section 13301(a) of the TCJA, which limits the deductibility of interest paid by a trade or business. SB 711 explicitly decouples from this change under Section 89 of the Corporation Tax. SB 711’s PIT omission was identified past the deadline to amend the measure. Additionally, the Franchise Tax Board (FTB) identified several “deadwood” provisions, and helpful conforming changes have been identified since SB 711’s enactment.

The Committee wants to implement clean-up amendments to address a drafting omission regarding the deductibility of interest paid by a trade or business and to remove references in state law to IRC “deadwood” provisions, as of the specified state date, January 1, 2025.

Proposed Law

Senate Bill 1435 provides that for taxable years beginning on or after January 1, 2025, the limit on deductibility for business interest under federal income tax law does not apply for purposes of the Personal Income Tax Law; removes references in state law to IRC “deadwood” provisions; and makes several technical amendments. The bill also states that its provisions apply to taxable years beginning on or after January 1, 2025, unless otherwise specified.

An appendix to this analysis details the nonsubstantive and technical changes to specific RTC sections of the bill.

State Revenue Impact

According to the Franchise Tax Board, SB 1435’s decoupling from the business interest limitation will result in a revenue loss of \$240 million in 2025-2026, \$550 million in 2026-2027, \$360 million in 2028-2029, and \$370 million in 2028-2029. However, SB 711’s revenue estimate of General Fund revenue gains of approximately \$336.4 million in fiscal year 2025-26, \$246.7 million in 2026-27, and \$172.1 million in 2027-28 *assumed* the decoupling, which, as noted above, was inadvertently not included in SB 711.

Comments

1. Purpose of the bill. SB 1435 incorporates several technical and conforming clean-up items resulting from the enactment of SB 711 (McNerney, 2025), which updated the state’s date of conformity to the Internal Revenue Code. SB 711 amended more than 119 sections of the Revenue & Taxation Code and, given the state’s complex structure of modified conformity to federal law, some follow-up changes are necessary. Committee staff distributed these proposals to affected parties for review before they were included in the bill. Should anyone object to an item in the bill, the Committee will remove said item.
2. SB 711 clean-up. In addition to remedying SB 711’s inadvertent conformity to the limitation on the deductibility of interest paid by a trade or business, it also deletes several “deadwood” provisions from state law, which are out-of-date and obsolete provisions. The bill also makes several technical amendments identified by the FTB and other stakeholders. The amendment will apply to the 2025 taxable year, the same as SB 711, to ensure consistent treatment for taxpayers.
3. How did we get here? “Date change” commenced in 1982, when California’s income and corporation taxes were not linked to the Internal Revenue Code. In that year, the Legislature made wholesale changes to the RTC, replacing more than 300 stand-alone provisions and linking them to the Internal Revenue Code. For example, instead of California law defining “income” to include wages, salaries, and capital gains, among others, it says, “Section 61 of the Internal Revenue Code, relating to gross income defined, applies except as otherwise provided.” These changes significantly reduced the differences between state and federal tax systems, simplifying compliance for taxpayers, practitioners, and tax enforcement agencies. One part of the 1982 changes was to enact a section of law in the RTC that provides that, as of January 1st of a specified year, the IRC applies for California purposes. The Legislature could then enact a bill to update the specified year to incorporate any subsequent changes that Congress made to the IRC,

while at the same time providing in the bill the specific changes that they did not want to apply for California purposes.

4. Committee amendments. FTB and committee staff suggest additional technical amendments for conformity clean-up:

- In RTC 24416.1(a), replace “November 29” with “November 30”
- Add a new section to the bill to amend RTC 18622.5(l) by striking “as in effect January 1, 2018.”
- In RTC 19311(c)(2), delete (c)(2)
- In RTC 17551(d)(2), replace “For taxable years beginning on or after January 1, 2025” with “For taxable years beginning before January 1, 2025”
- In RTC 17250, removing (a)(4)

Support and Opposition (4/16/26)

Support: California Society of Enrolled Agents
California Taxpayers Association

Opposition: None received.

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Appendix

This chart, prepared by FTB, identifies the nonsubstantive, technical changes to specific RTC sections (Secs 1, 3-9, 11, 13-24, 26-43, & 45):

R&TC Section	Bill Section Number	Cross Reference Removed/Updated	Operative Date Correction	Remove Repeal Date	Repealed Section
17024.5	1	X			
17077	3	X			
17085	4	X			
17091	5			X	
17132	6, 7				X
17156.1	8	X			
17201.3	9			X	
17250	11				X
17260	13	X			
17276	14	X	X		
17276.1	15	X	X		
17276.3	16	X	X		
17276.4	17	X	X		
17276.7	18	X	X		
17276.21	19	X	X		
17276.22	20	X	X		
17276.24	21	X	X		
17279	22				X
17302	23			X	
17551	24		X		

17737	26			X	
17865	27				X
18044	28				X
18624	29	X			
19311	30	X			
23051.5	31	X			
23609	32		X		
24355.5	33	X			
24416	34	X	X		
24416.1	35	X	X		
24416.3	36	X	X		
24416.4	37	X	X		
24416.7	38	X	X		
24416.21	39	X	X		
24416.22	40	X	X		
24452	41	X			
24956	42				X
25110	43	X			