
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 1435 (Committee on Revenue and Taxation) - Personal Income Tax Law and Corporation Tax Law: federal conformity

Version: April 23, 2026

Urgency: No

Hearing Date: May 4, 2026

Policy Vote: REV. & TAX. 5 - 0

Mandate: No

Consultant: Robert Ingenito

Bill Summary: SB 1435 would make technical and conforming changes to several provisions of the Revenue & Taxation Code as a result of SB 711 (McNerney, 2025).

Fiscal Impact: The Franchise Tax Board (FTB) indicates that this bill's decoupling from the business interest limitation would result in revenue losses of \$240 million in 2025-26, \$550 million in 2026-27, \$360 million in 2027-28, and \$370 million in 2028-29 (General Fund, see Staff Comments). FTB's administrative costs would be minor and absorbable.

Background: State law does not automatically conform to federal changes. Instead, the Legislature must conform to federal changes. Specifically, it can pass (1) an individual bill that conforms to a specific federal tax provision, or (2) an omnibus bill to conform state law to federal law as of a specified date. Current state law generally conforms to federal tax law as of January 1, 2025 (SB 711). Before then, state generally conformed as of January 1, 2015.

Over 1,000 substantive changes to the Internal Revenue Code (IRC) occurred between 2015 and 2025, for which California had not yet determined whether state tax law would conform, not conform, or conform with modifications. Specifically, when the Legislature enacted SB 711, it conformed to the changes for the first time in ten years by updating the "specified date" in Revenue and Taxation Code (RTC) Section 17024.5. Advancing the specified date incorporates select changes made to the IRC where the RTC applies by reference. SB 711 additionally enacted statutes to either decouple, or conform with modifications, to specific changes made by Congress to the IRC where state conformity is not desired.

However, SB 711 inadvertently conformed the state Personal Income Tax law to the section of federal law which limits the deductibility of interest paid by a trade or business. This omission was identified past the deadline to amend the measure as it moved through the legislative process.

Proposed Law: This bill, among other things, would do the following:

- Provide that, beginning in taxable year 2025, the limit on deductibility for business interest under federal income tax law does not apply for purposes of the Personal Income Tax Law
- Remove references in state law to IRC "deadwood" provisions

- Make specified technical amendments.

Related Legislation:

- SB 711 (McNerney, Chapter 231, Statutes of 2025) changed the RTC's general "specified date" of conformity to the IRC from January 1, 2015, to January 1, 2025, for taxable years beginning on or after January 1, 2025, and generally conformed to the numerous changes to federal income tax laws during the ten-year period, except as otherwise provided.
- AB 731 (Gallagher, Chapter 303, Statutes of 2015) made numerous technical, nonsubstantive changes as a matter of code maintenance to various California codes, including to RTC.
- AB 154 (Ting, Chapter 359, Statutes of 2015) changed California's specified date of conformity to federal income tax law from January 1, 2009, to January 1, 2015, for taxable years beginning on and after January 1, 2015.
- SB 410 (Wolk, Chapter 14, Statutes of 2010) changed California's specified date of conformity to federal income tax law from January 1, 2005, to January 1, 2009, for taxable years beginning on and after January 1, 2010.
- AB 115 (Klehs, Chapter 691, Statutes of 2005) changed California's specified date of conformity to federal income tax law from January 1, 2001, to January 1, 2005, for taxable years beginning on and after January 1, 2005.

Staff Comments: SB 711 had an unscored revenue gain by unintentionally conforming to the federal limitation on the deduction for business interest. This gain was not reflected in SB 711's legislative analyses and revenue estimate, so the gain was entirely unintentional. SB 1435 would correct the oversight, rolling back the "gain" to reflect SB 711's intention not to conform to the limitation. However, because this Committee views the fiscal impact of legislation against current law, and FTB estimates a revenue loss from SB 1435 against that baseline, this bill meets the criteria for referral to the Suspense File.

-- END --