Date of Hearing: August 5, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
SB 1435 (Committee on Revenue and Taxation) – As Amended June 22, 2026

Policy Committee: Revenue and Taxation Vote: 7 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill updates provisions of state tax law to either further conform or prohibit conformity to federal tax law.

Specifically, this bill:

1) Clarifies that the maximum amount of disqualified income a taxpayer may earn for purposes of the California Earned Income Tax Credit (CalEITC) is $3,400, regardless of the federally stipulated threshold.

2) Decouples (ends conformity) from the federal limitation on the business interest expense deduction under the Personal Income Tax (PIT) Law.

3) Conforms to the federal law that clarifies the calculation of excess business loss of a non-corporate taxpayer.

4) Decouples from special federal withholding rules related to dispositions of partnership interest.

FISCAL EFFECT:

1) General Fund revenue loss of approximately $240 million in fiscal year (FY) 2025-26, $550 million in FY 2026-27, $360 million in FY 2027-28, and $370 million in FY 2028-29, related to decoupling from the federal limitation on the business interest expense deduction under PIT Law.

   However, this bill is a clean-up measure to last year's conformity measure, SB 711 (McNerney), Chapter 231, Statutes of 2025, which was estimated to result in hundreds of millions of dollars of GF revenue gain. As noted in the Assembly Revenue and Taxation Committee's analysis of this bill, the revenue loss attributable to this bill was already accounted for as revenue loss in SB 711, but the actual provision was inadvertently omitted from the enacted measure. The Franchise Tax Board (FTB) notes that this bill's other provisions would not impact PIT or Corporation Tax (CT) Law revenues.

2) Absorbable costs to the FTB to update guidance and other materials and process amended tax returns filed by taxpayers impacted by the limitation on business interest revision.

COMMENTS:

1) **Purpose.** According to the author:

> SB 1435 incorporates several technical and conforming clean-up items resulting from the enactment of SB 711 (McNerney), Chapter 231, Statutes of 2025, which updated the state's date of conformity to the Internal Revenue Code. SB 711 amended more than 119 sections of the Revenue and Taxation Code and, given the states complex structure of modified conformity to federal law, some follow-up changes are necessary.

   This bill is supported by the California Taxpayers Association and California Society of Enrolled Agents.

2) **Federal Conformity.** California tax law does not automatically conform to changes in federal tax law. Such decoupling is purposeful, as a federal tax expenditure to incentivize certain behavior may not promote the same behavior if adopted at the state level, or may result in behavior contrary to the state's goals, at the expense of the state's General Fund. Unlike the federal government, California must pass a balanced budget and cannot print money. Accordingly, state tax law conforms to federal tax law via two methods: (a) general date-change conformity through an omnibus bill conforming to federal tax law as of a certain date, or (b) specific cross-references to certain sections of the Internal Revenue Code through individual legislation conforming to specific federal changes.

   After 10 years without an update, SB 711 enacted California's current federal date-change conformity of January 1, 2025. However, an inadvertent drafting error was identified in SB 711 after the bill passed both houses of the Legislature – SB 711 decoupled conformity from the federal limitation on the business interest expense deduction under the CT Law, but not the PIT Law. The author of SB 711 submitted a letter to the Senate Daily Journal on September 12, 2025, clarifying that it was not the author's intent to conform to the business interest expense deduction limitation under the PIT Law. This bill effectuates such intent and makes other technical and clean-up changes identified by the FTB and other stakeholders since the passage of SB 711.

3) **Related Legislation.** SB 1436 (Committee on Revenue and Taxation) conforms state tax law to federal tax law changes made after January 1, 2025, regarding the federal Achieving a Better Life Experience Program. SB 1436 is pending hearing by this committee.

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