

Date of Hearing: August 20, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

SB 711 (McNerney) – As Amended July 7, 2025

Policy Committee: Revenue and Taxation

Vote: 4 - 1

Urgency: Yes

State Mandated Local Program: No

Reimbursable: No

SUMMARY:

This bill conforms the state Personal Income Tax (PIT) and Corporation Tax (CT) Laws to certain provisions of the federal Internal Revenue Code (IRC) prior to January 1, 2025, with certain modifications.

FISCAL EFFECT:

- 1) General Fund (GF) revenue gain of approximately \$336.4 million in fiscal year (FY) 2025-26, \$246.7 million in FY 2026-27, and \$172.1 million in FY 2027-28. By increasing PIT and CT revenue, this bill also likely increases Proposition 98 GF spending by approximately 40% of the revenue gain (the exact amount depends on the specific amount of the annual Proposition 98 guarantee).
- 2) Costs of an unknown, but likely absorbable amount, to the Franchise Tax Board to update returns, guidance, and other informational materials (GF). Conformity generally eases the burden of tax administration.

COMMENTS:

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

SB 711 makes it easier for people and businesses to file their taxes by updating [the Revenue and Taxation Code] to conform, conform with modification, or not conform to changes that Congress has made to the [IRC] since January 1, 2015. There are more than 1,000 changes the state has not yet acted on, which frustrates taxpaying Californians when they find that state and federal tax laws treat the same issue in opposite ways. This bill is a consensus measure, and implements recommendations intended to conform in a fiscally responsible manner that avoids policy disputes.

This bill is supported by the California Taxpayers Association and tax preparer associations.

- 2) **Federal Conformity.** Generally, conformity between federal and state tax law eases taxpayer compliance and reduces confusion. State taxation is based on a taxpayer's federal adjusted gross income, and adjustments made to that amount derive taxable income in the state. As the differences between federal and state law increase, so does the complexity of filing a tax return. Conformity also eases the burden for tax preparers and administrators.

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 IRC through individual legislation conforming to specific federal changes. AB 154 (Ting), Chapter 359, Statutes of 2015, enacted California's current date-change conformity of January 1, 2015. This bill updates the federal date-change conformity to January 1, 2025, with certain modifications. A full list of the modifications is outlined in the Assembly Revenue and Taxation Committee's analysis of this bill.

- 3) **Related Legislation.** SB 302 (Padilla) excludes from gross income, under the PIT and CT Laws, in conformity with federal law, a refund or transfer payment received by a taxpayer claiming certain federal tax credits under the Inflation Reduction Act of 2022. SB 302 is pending hearing by this committee.

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