

SENATE THIRD READING
SB 711 (McNerney)
As Amended September 02, 2025
2/3 vote. Urgency

SUMMARY

Updates California's date of conformity to the IRC from taxable years beginning on or after January 1, 2015, to taxable years beginning on or after January 1, 2025, with certain modifications.

Major Provisions

COMMENTS

- a) *Conformity in California:* California tax law does not automatically conform to federal tax law changes. Rather, state tax law conforms to federal tax law in two ways. The first is by way of the general date change conformity. The second is by specific cross-reference to certain sections of the IRC. Thus, for the state to adopt changes to federal tax law, individual tax bills conforming to specific federal changes, or an omnibus bill conforming to federal tax law as of a certain date, are required.

Prior to 1983, the state's tax laws were stand-alone, meaning the provisions generally did not adopt federal law by way of cross-reference to IRC Sections. Rather, the Legislature stipulated the provisions of the R&TC in their entirety. In 1983, however, California repealed significant sections of tax law, and replaced them with references to federal law. Throughout the remainder of that decade, and into the 1990s, California enacted conformity legislation nearly every year. By the late 1990's, and early 2000's, general date-change conformity legislation became less frequent, occurring on a five-year basis. AB 154 (Ting), Chapter 359, Statutes of 2015, enacted California's current date-change conformity of January 1, 2015.

- b) *Why conform?* Generally, conformity between federal and state law eases taxpayer compliance and reduces confusion. State taxation begins with a taxpayer's federal adjusted gross income, and makes adjustments to this amount to derive taxable income in the state. As the difference in federal and state law increases, further adjustments are needed, which can lead to errors and cause confusion as tax filers prepare their returns. Conformity eases the burden for state tax administration as well, give state tax agencies can more often rely on federal audits, case law, and regulations.

These advantages do not come without potential cost, namely to state revenues. Indeed, much of tax law is providing for various tax expenditures, which are generally defined as tax credits, deductions, exclusions, or exemptions. Both state and federal governments often use tax expenditures to incent certain beneficial taxpayer behavior. A federal incentive, however, may not promote the same activity if adopted at the state level, and the foregone revenues resulting from conforming to that provision may not be worthwhile.

California, unlike the federal government, must pass a balanced budget. Section 12(g), Article IV of the California Constitution prohibits both the legislative and executive branches

of state government from passing a budget that includes appropriations from the General Fund in excess of General Fund revenues. Moreover, California cannot control the supply of money in the state as the federal government can throughout the nation. In other words, the state cannot "print" money, or increase the monetary base, to subsidize any budget deficit for a given year.

Thus, the Legislature has chosen to selectively conform to federal tax law as of a certain date, allowing prudent examination of the changes made by the federal government before adoption by California.

According to the Author

SB 711 makes it easier for people and businesses to file their taxes by updating R&TC to conform, conform with modification, or not conform to changes that Congress has made to the Internal Revenue Code (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.

Arguments in Support

None on file

Arguments in Opposition

None on file

FISCAL COMMENTS

- 1) General Fund (GF) revenue gain of an unknown amount, but likely in excess of \$300 million in fiscal year (FY) 2025-26, \$200 million in FY 2026-27, and \$150 million in FY 2027-28. By increasing personal income tax and corporate tax 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.

VOTES

SENATE FLOOR: 38-0-2

YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Hurtado, Jones, Laird, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener

ABS, ABST OR NV: Limón, Reyes

ASM REVENUE AND TAXATION: 4-1-2

YES: Gipson, Carrillo, McKinnor, Quirk-Silva

NO: DeMaio

ABS, ABST OR NV: Ta, Bains

ASM APPROPRIATIONS: 11-1-3

YES: Wicks, Arambula, Calderon, Caloza, Elhawary, Fong, Mark González, Ahrens, Pacheco, Pellerin, Solache

NO: Sanchez

ABS, ABST OR NV: Dixon, Ta, Tangipa

UPDATED

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FN: 0001503