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UNFINISHED BUSINESS

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Bill No: SB 711  
Author: McNerney (D)  
Amended: 9/2/25  
Vote: 27 - Urgency

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SENATE REVENUE AND TAXATION COMMITTEE: 4-0, 4/23/25  
AYES: McNerney, Ashby, Grayson, Umberg  
NO VOTE RECORDED: Valladares

SENATE APPROPRIATIONS COMMITTEE: 6-0, 5/23/25  
AYES: Caballero, Seyarto, Cabaldon, Grayson, Richardson, Wahab  
NO VOTE RECORDED: Dahle

SENATE FLOOR: 38-0, 5/28/25  
AYES: 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  
NO VOTE RECORDED: Limón, Reyes

ASSEMBLY FLOOR: 57-0, 9/9/25 – Roll call not available.

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**SUBJECT:** Taxation: federal conformity

**SOURCE:** Author

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**DIGEST:** This bill updates the conformity date to the Internal Revenue Code set by the Revenue and Taxation Code from January 1, 2015, to January 1, 2025, and then either specifically decouples, or enacts modified conformity with, specific changes made by Congress to the Internal Revenue Code (IRC).

*Assembly Amendments* of 9/2/25 (1) Maintain the current state treatment for the recognition timing of credit card fees; (2) strike provisions that would have decoupled from federal changes to the Low-Income Housing Tax Credit; (3) add

effective dates for conformity to federal changes to treatment of alimony; (4) ensure changes made to IRC 1042, relating to sales of stock to employee stock ownership plans or cooperatives, apply to tax years after 1/1/2028; (5) repeal RTC 24462 to ensure changes made to IRC 355, relating to the distribution of stock and securities of a controlled corporation, apply under the new specified date of 1/1/2025; and (6) make technical and conforming changes.

## **ANALYSIS:**

Existing law:

- 1) Does not automatically conform to changes made by Congress to the IRC except for changes to pension and retirement programs; instead, the Legislature must affirmatively conform state law to federal to ensure consistent treatment for the same items.
- 2) Conforms to the IRC as of January 1, 2015, with modifications (AB 154, Ting, Chapter 359, Statutes of 2015).
- 3) Conforms specifically to several specific federal changes enacted by Congress since January 1, 2015, including:
  - a) AB 454 (Ridley-Thomas, Chapter 655, Statutes of 2017), which conformed state law to the federal law's exclusion from income for any civil damages, restitution, or other monetary award made to a wrongfully convicted individual.
  - b) The Loophole Closure and Small Business and Working Families Tax Relief Act of 2019 (AB 91, Burke, Chapter 39, Statutes of 2019), conformed to several changes enacted in the federal Tax Cuts and Jobs Act of 2017 (TCJA) to generate revenue to expand the state's Earned Income Tax Credit and enact the Young Child Tax Credit.
  - c) SB 167 (Committee on Budget & Fiscal Review, Chapter 34, Statutes of 2024), which conformed to limitations on conservation easements.
  - d) Several bills conformed to the federal treatment of Paycheck Protection Loans and other federal assistance programs (AB 1577, Burke, Chapter 39, Statutes of 2020; AB 80, Burke, Chapter 17, Statutes of 2021; ABs 158 and 194, Committee on Budget, Chapters 737 and 55, Statutes of 2022; SB 113, Committee on Budget & Fiscal Review, Chapter 3, Statutes of 2022).

- e) SB 274 (Glazer, Chapter 729, Statutes of 2018), conformed to partnership audit rules.
  - f) Several bills which conformed CalABLE accounts (AB 449, Irwin, Chapter 774, Statutes of 2015; SB 324, Pavley, Chapter 796, Statutes of 2015; AB 2216, Irwin, Chapter 896, Statutes of 2022; AB 339, Irwin, Chapter 324, Statutes of 2023).
- 4) Does not determine whether the RTC will conform, not conform, or conform with modifications to more than 1,000 substantive changes Congress has made to the Internal Revenue Code (IRC) since January 1, 2015.

This bill:

- 1) Updates the conformity date to the IRC set by the Revenue and Taxation Code from January 1, 2015, to January 1, 2025, thereby incorporating into state law changes Congress has made to the Internal Revenue Code in the last ten years.
- 2) Updates several individual provisions of the RTC or enacts new ones to provide that specific changes apply, do not apply, or apply in a modified way.
- 3) Takes effect immediately as an urgency statute.

## Background

“Date change” conformity 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 to replace more than 300 stand-alone provisions and link those provisions 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 the IRC, as of January 1st of a specified year, 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.

As noted above, the Legislature has not yet determined whether it will conform to the more than 1,000 substantive changes enacted under three different

presidencies, and every possible combination of unified or split partisan control of Congress, in the last ten years. The differences between state and federal tax systems cause confusion for taxpayers and practitioners, and make it harder for the Franchise Tax Board to ensure that taxpayers pay the correct amount of tax. Senate Revenue & Taxation Committee staff reviewed each of these 1,000 plus substantive changes to the IRC since 2015 and have recommended a tentative decision for each change. The recommendations are incorporated into SB 711, and can be found, along with a conformity chart detailing each section of this bill, at this link: <https://srev.senate.ca.gov/committeehome/tax-conformity>.

Nonconformity can affect hundreds, if not thousands, of taxpayers. Here are a few examples where SB 711 reduces differences:

- *Alimony*. Alimony was deductible to the payer, and included as income to the recipient, for federal purposes before 2017. In that year, Congress repealed the deduction and the exclusion, but California still applies the pre-2017 federal treatment. As a result, payers and recipients of alimony treat alimony in opposite ways for state as they do for federal taxes.
- *Catch-up IRA contributions*. In 2022, Congress expanded the deduction for qualified retirement contributions by increasing and indexing limitations on catch-up contributions, and increasing the contribution limits for SIMPLE IRA plans. Unless California conforms, IRA distributions may not be deductible for state purposes when they are for federal, in cases where the catch-up contribution exceeds the pre-2021 contribution limits. Additionally, retirement accounts will have a different tax basis for state than for federal purposes.
- *First responder retirement and disability payments*. In 2022, Congress excluded from income retirement, annuity, or service-connected disability payments made to qualified first responders. Until California conforms, these payments are included in taxable income for state purposes.

### **Related/Prior legislation**

SB 302 (Padilla) conforms state law to specific IRC sections added by the Inflation Reduction Act of 2022, relating to renewable energy development; this measure is pending on the Assembly Floor.

**FISCAL EFFECT:** Appropriation: No   Fiscal Com.: Yes   Local: No

According to the Assembly Appropriations Committee, the 7/7/25 version of this bill is expected to have a General Fund 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. Costs of an unknown, but likely absorbable amount, to the Franchise Tax Board to update returns, guidance, and other informational materials.

**SUPPORT:** (Verified 9/8/25)

California Society of Certified Public Accountants  
California Society of Enrolled Agents  
California Taxpayers Association  
Silicon Valley Leadership Group  
Spidell Publishing, Inc.

**OPPOSITION:** (Verified 9/8/25)

None received

**ARGUMENTS IN SUPPORT:** According to the author, “Senate Bill 711 makes it easier for people and businesses to file their taxes by updating California’s Revenue and Taxation Code to conform, conform with modification, or not conform to changes that Congress has made to the Internal Revenue Code 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.”

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9/9/25 18:38:42

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