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MULTISTATE INCOME/FRANCHISE TAX

California updates IRC conformity date

Tax Alert

Overview

On October 1, 2025, California Senate Bill 302 ("S.B. 302") and Senate Bill 711 ("S.B. 711") were enacted into law. S.B. 711 updates California's general conformity date to the Internal Revenue Code ("IRC") from January 1, 2015, to January 1, 2025, for taxable years beginning on or after January 1, 2025. The bill selectively conforms to, modifies, or decouples from various federal provisions enacted over the past decade. Additionally, in a separate measure, S.B. 302 specifically provides for exclusions from gross income related to the transferability and direct pay of certain federal credits under IRC sections 6417 and 6418 for tax years beginning on or after January 1, 2026, and before January 1, 2031.

This Tax Alert summarizes some of the relevant tax provisions in S.B. 711 and S.B. 302.

General conformity update to California tax law

Unlike many states, California tax law does not automatically conform to federal tax law changes upon enactment. Instead, the California Legislature must specifically adopt the individual federal provisions that they choose to follow. To the extent adopted, California's general conformity date generally determines the applicable version of the adopted federal provision.

S.B. 711 updates California's general conformity date to the IRC from January 1, 2015, to January 1, 2025, for taxable years beginning on or after January 1, 2025. Therefore, to the extent California specifically adopts a provision in the IRC, it will now adopt the version of the provision as provided in the January 1, 2025, version of the IRC, unless otherwise provided by state statute.

However, because the conformity date does not extend beyond January 1, 2025, California tax law does not incorporate IRC provisions enacted on or amended after that date. Therefore, the conformity update would not incorporate any new or amended IRC provisions included in the One Big Beautiful Bill Act (the "OBBBA") for California tax purposes. To adopt any of these post-January 1, 2025, federal changes, California would need to pass additional legislation either updating the conformity date or selectively incorporating the specific federal tax provisions.

Specific conformity and decoupling pursuant to S.B. 711

SB 711 makes targeted determinations of conformity, modified conformity, or continued decoupling from federal tax law. Select key changes include:

- Replaces California's Alternative Research Credit with the federal alternative simplified research credit under IRC section 41(c)(4), with modifications;
- Decouples from IRC section 163(j), relating to the limitation on the deduction for business interest;
- Decouples from IRC section 56A, relating to adjusted financial statement income for purposes of determining corporate tax obligations under the federal Alternative Minimum Tax framework;
- Decouples from IRC section 199A, relating to qualified business income;
- Decouples from the amendments made to IRC section 174 by the Tax Cuts and Jobs Act ("TCJA"), relating to amortization of research and experimental expenditures, effective for tax years beginning on or after January 1, 2022;
- Decouples from IRC section 168(k), relating to bonus depreciation for certain property; and
- Decouples from the TCJA amendments to IRC section 179, relating to elections to expense certain depreciable business assets.

Notably, S.B. 711 does **not** address California's conformity to several key provisions of the IRC, as enacted under the TCJA. As a result, California continues to not conform to the following provisions:

- IRC section 951A, which requires the inclusion of global intangible low-taxed income ("GILTI") in taxpayer income;
- IRC section 250, which provides a deduction for GILTI and foreign-derived intangible income; and
- IRC section 245A, which allows a 100-percent deduction for the foreign-source portion of dividends received by domestic C corporations from specified 10-percent owned foreign corporations.

Targeted conformity pursuant to S.B. 302

IRC sections 6417 and 6418, enacted as part of the Inflation Reduction Act of 2022 (the "IRA") and applicable for federal purposes to taxable years beginning after December 31, 2022, introduced new mechanisms for monetizing certain federal tax credits.

- IRC section 6417 (Direct Pay Election): Allows "applicable entities" (and certain "electing taxpayers" for credits provided under section 45V, 45Q, or 45X) to elect to treat certain credits ("applicable credits") as a direct payment made against their federal income tax liabilities, thereby allowing such entities a federal tax refund of the amount of the direct payment in excess of any tax liability (the "direct-pay election"). Generally, applicable entities include tax-exempt entities and certain other enumerated entities.
- IRC section 6418 (Transferability): Permits "eligible taxpayers" to elect to transfer (i.e., sell) certain credits to unrelated taxpayers rather than using the credits against their federal income tax liabilities. Any income received for the transfer is generally excluded from the seller's taxable income, while the purchaser of the credits is prohibited from claiming

a business expense deduction for the cost incurred to acquire the credit.

S.B. 302 generally provides for similar tax-free treatment in California starting with tax years beginning on or after January 1, 2026, and before January 1, 2031. A summary of S.B. 302 is provided below.

- For taxable years beginning on or after January 1, 2026, and before January 1, 2031, gross income does not include any payment made pursuant to IRC section 6417, relating to elective payments of applicable credits.
- For taxable years beginning on or after January 1, 2026, and before January 1, 2031, gross income does not include any payment made pursuant to IRC section 6418, relating to the transfer of certain credits.
- S.B. 302 also prohibits any deduction for an amount paid in consideration of a transfer made as described in IRC section 6418.
- A "payment made pursuant to [IRC section 6418]" is defined to include the value of a credit received by a transferee pursuant to IRC section 6418.

Notably, California's conformity under S.B. 302 is ***prospective only*** and does not apply to the same tax years provided by federal tax law relating to IRC sections 6417 and 6418.

Please reach out to one of our California specialists listed below with any questions regarding the impact of S.B. 711 and S.B. 302.

Get in touch

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