



Bill Analysis

Author: Haney

Sponsor:

Bill Number: AB 1611

Related Bills: See Legislative
History

Introduced: January 20, 2026

SUBJECT

Like-Kind Exchange Exception for Certain Single-Family Rentals

SUMMARY

Under the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL), for exchanges completed on or after January 1, 2026, this bill would modify California's conformity to the federal like-kind exchange rules to provide that gains from exchanges of single-family residential rental real properties by taxpayers, who own fifty or more single-family rental properties, would not qualify for gain deferral under the like-kind exchange rules.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

Not applicable.

REASON FOR THE BILL

The reason for the bill is to prevent a taxpayer who owns fifty or more qualified properties from deferring gains from a single-family residential rental property under the like-kind exchange rules.

ANALYSIS

This bill would, under the PITL and CTL, for qualified property exchanges in this state completed on or after January 1, 2026, provide that if a taxpayer owns fifty or more qualified properties at the time the exchange is completed, the exchange would not qualify for gain deferral treatment under the like-kind exchange rules. This rule would apply for taxable years beginning on or after January 1, 2026.

The bill would define the following terms:

“Owns” includes direct ownership as a named owner of the property or indirect ownership through any partial or full ownership interest in an entity that owns the property.

“Qualified property” means a single-family residential rental real property.

This bill would not apply in the case of an exchange, where the property to be disposed of by the taxpayer is disposed of, on or before January 1, 2026. In addition, like-kind exchange treatment would not apply if the property to be received by the taxpayer in the exchange is received on or before January 1, 2026.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment, and specifically operative for exchanges completed on or after January 1, 2026, for taxable years beginning on or after January 1, 2026.

Federal/State Law

Federal Law

Like-Kind Exchanges/Deferred Exchanges

Under federal law, Internal Revenue Code (IRC) section 1031, generally allows the deferral of gain from the sale or disposition of property used in a trade or business or held for investment if replacement property of “like-kind” is acquired. There are specific requirements the taxpayer must meet to qualify for the gain deferral.

For federal purposes, exchanges completed in 2018 and after are not allowed for personal or intangible property.

If the taxpayer transfers property but will not receive other property in exchange until a later date, the transaction must comply with the following statutory time periods:

- The property to be received is identified within 45 days after the taxpayer transferred the property given up in the exchange.
- The identified property is received by the earlier of:
 - The 180th day after the date on which the taxpayer transferred the property given up in the exchange.
 - The due date, including extension, of the taxpayer's tax return for the year in which the taxpayer transferred the property given up.

To be treated as a deferred exchange, a transaction must be an exchange of property for property, not a transfer of property for money, even if the taxpayer buys replacement property of a like-kind at a later date. Thus, a sale of property followed by a purchase of property that is of a like-kind to the property sold does not qualify for no recognition of gain or loss even if the other requirements for a like-kind exchange are met.

Additionally, a partially taxable exchange occurs when the taxpayer receives money or unlike property in addition to like-kind property in the exchange on which the taxpayer realizes a gain. The taxpayer recognizes the gain to the extent of the money and of the fair market value of the unlike property.

State Law

Like-Kind Exchanges/Deferred Exchanges

For exchanges completed after January 10, 2019, California conforms to federal law, with modifications, including to the federal limitation that prohibits exchanges of personal or intangible property.

However, the California modification does not apply to the exchange if:

- The property disposed of by the taxpayer in the exchange is disposed of on or before January 10, 2019, or
- The property received by the taxpayer in the exchange is received on or before January 10, 2019.

California Information Return Filing Requirement for Like-Kind Exchange

For taxable years beginning on or after January 1, 2014, taxpayers who defer gain or loss under IRC section 1031 when they exchange California real property for like-kind property located outside of California are required to file form FTB 3840, California Like-Kind Exchanges, with the Franchise Tax Board (FTB). This form must be filed in the year the exchange is completed and each subsequent year the deferred gain or loss from the exchange is not recognized.

The filing requirement applies to all individuals, estates, trusts, and all business entities regardless of their residency status or commercial domicile.

Implementation Considerations

The FTB has identified the following considerations and is available to work with the author's office to resolve these and other considerations that may be identified.

The bill uses the undefined term, "single-family residential rental real property." To ensure the bill can be implemented as intended by the author and for clarity and ease of administration, it is recommended that the author amend the bill to define this term.

Technical Considerations

For technical consistency, the following change is recommended:

In sections 18031.3 (c)(2) and 24941.6 (c)(2), replace "...the exchange is disposed of by that taxpayer on or before January 1, 2026, or where the property to be received by the taxpayer in the exchange is received by that taxpayer on or before January 1, 2026." with "...the exchange is disposed of by that taxpayer before January 1, 2026, or where the property to be received by the taxpayer in the exchange is received by that taxpayer before January 1, 2026."

Policy Considerations

This bill would provide disparate treatment for similarly situated taxpayers who have completed exchanges on or after January 1, 2026, but have different taxable year periods. The bill would be operative for exchanges completed on or after January 1, 2026, for taxable years beginning on or after January 1, 2026, but would not apply to exchanges completed on or after January 1, 2026, for taxable years beginning before January 1, 2026. If this is not the intent, the author may wish to amend the bill.

This bill would create differences between federal and California tax law; thereby increasing the complexity of California tax return preparation. If this is contrary to the author's intent, the author may wish to amend the bill.

LEGISLATIVE HISTORY

SB 711 (McNearney, Chapter 231, Statutes of 2025), amongst various provisions, added a sunset date for California's modified conformity on like-kind exchanges, relating to the AGI limitation for specified filing statuses.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB’s costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue gain:

Estimated Revenue Impact of AB 1611 as Introduced January 20, 2026

Assumed Enactment after June 30, 2026

(\$ in Millions)

Fiscal Year	Revenue*
2026-2027	\$9.8
2027-2028	\$6.3
2028-2029	\$6.3

*This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

Revenue Discussion

This estimate is based on a modified proration of the Joint Committee on Taxation’s federal expenditure for the deferral of gain on like-kind exchanges. The proration rate was modified to account for deferred capital gains in California relative to the nation and the ratio of California’s tax rate to the federal tax rate. The estimate was further adjusted to determine how many properties entered into like-kind exchanges that are single-family residential real property and how many of those properties are owned by taxpayers who own fifty or more single-family residential real properties at the time the exchange is completed. After applying an average tax rate of 7.5 percent, this would result in an estimated revenue gain of \$6 million for taxable year 2026.

The tax year estimates are converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

To be determined.

ARGUMENTS

To be determined.

LEGISLATIVE CONTACT

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