



Short Form Analysis

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Sponsor:

Bill Number: AB 1790

Amended: April 29, 2026

SUBJECT

Elimination of Water's-Edge; Conformity to Net Controlled Foreign Corporation (CFC) Tested Income (NCTI)

- Technical Amendment

SUMMARY

This bill, for taxable years beginning on or after January 1, 2026, would require a taxpayer that files on a water's-edge basis to include all income and apportionment factors of any corporation, other than a bank, whose United States (US) sales factor is equal to or greater than 20% (rather than an average of its US property, US payroll, and US sales factors), 40% of any NCTI, and would make other non-substantive changes.

The bill would also terminate all existing water's-edge elections effective for the first taxable year beginning on or after January 1, 2028, and would not allow a taxpayer to make a water's-edge election, or file on a water's-edge basis, for taxable years beginning on or after January 1, 2028. The bill would also allow any water's-edge taxpayer to terminate their election without the consent of the Franchise Tax Board (FTB) for taxable years beginning on or after January 1, 2026, and before January 1, 2028.

ANALYSIS

The April 29, 2026, amendments made a technical correction to the corporations entirely included in the water's-edge combined report and added titles to the referenced Internal Revenue Code sections. The amendments resolved the technical considerations discussed in the FTB's analysis of the bill as introduced on February 10, 2026, leaving the two implementation considerations unresolved. Otherwise, the FTB's analysis of the bill as introduced on February 10, 2026, still applies.

LEGISLATIVE CONTACT

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