



Bill Analysis

Author: Senate Committee
on Revenue and Taxation

Bill Number: SB 1435

SUBJECT

Specified Date Code Maintenance/Conformity 2025

SUMMARY

For all sections of the bill, the amendments are based on SB 711 (Chapter 231, Statutes of 2025), which changed the Revenue and Taxation Code's (RTC) general "specified date" of conformity to the Internal Revenue Code (IRC), from January 1, 2015, to January 1, 2025, for taxable years beginning on or after January 1, 2025. This bill, as specified in Section 46, would provide that the provisions of the bill also apply to taxable years beginning on or after January 1, 2025, unless otherwise provided.

Provision No. 1 -Code Maintenance:

Sections 1, 3-9, 11-24, 26-45, & 47 of the bill would make technical changes as a matter of code maintenance to the RTC and conform to federal public laws that made non-substantive, technical changes to the IRC.

Provision No. 2 - California Earned Income Tax Credit (California EITC) Investment Income:

Section 2 of the bill, for purposes of calculating the California EITC, would update the outdated IRC 32(i)(1) disqualified investment income limitation amount to the current IRC 32(i)(1) disqualified investment income limitation amount, but would maintain California's dollar limitation.

Provision No. 3 - Limitation on Business Interest:

Section 10 of the bill would, under the Personal Income Tax Law (PITL), not conform to the federal limitation on business interest expense.

Provision No. 4 - Excess Business Loss Limitations for Non-Corporate Taxpayers:

Section 25 of the bill would conform to the federal law that clarifies excess business loss does not include deductions for trade or business of performing services as an employee.

REASON FOR THE BILL

The reason for the bill is to make technical changes to the RTC to clarify terminology, update cross-references, provide a uniform style for drafting legislation, and to eliminate obsolete language.

Effective/Operative Date (All Provisions) (Sec 45 and 47 of the bill)

As a tax levy, this bill would be effective immediately upon enactment and retroactively operative for taxable years beginning on or after January 1, 2025.

ANALYSIS

Analysis Provision No. 1:

Code Maintenance

Sections 1, 3-9, 11-24, 26-45, and 47 of this bill would make changes to correct nomenclature, cross-references, amend terminology for clarification, amend provisions to reflect the current style for drafting legislation, renumber sections, and repeal sections.

The chart identifies the technical changes to specific RTC sections (Secs 1, 3-9, 11-24, 26-45, & 47):

RTC Section	Bill Section Number	Cross Reference Removed/Updated	Operative Date Correction	Remove Repeal Date	Repealed Section	Renumbered
17024.5	1	X				
17077	3	X				
17085	4	X				
17091	5			X		
17132	6, 7				X	
17156.1	8	X				
17201.3	9			X		
17250	11				X	
17250	12					X
17260	13	X				
17276	14	X				
17276.1	15	X				
17276.3	16	X				
17276.4	17	X				

RTC Section	Bill Section Number	Cross Reference Removed/Updated	Operative Date Correction	Remove Repeal Date	Repealed Section	Renumbered
17276.7	18	X				
17276.21	19	X				
17276.22	20	X				
17276.24	21	X				
17279	22				X	
17302	23			X		
17551	24		X			
17737	26			X		
17865	27				X	
18044	28				X	
18622.5	29		X			
18624	30	X				
18666	31	X				
19311	32	X				
23051.5	33	X				
23609	34		X			
24355.5	35	X				
24416	36	X				
24416.1	37	X				
24416.3	38	X				
24416.4	39	X				
24416.7	40	X				
24416.21	41	X				
24416.22	42	X				
24452	43	X				
24956	44				X	
25110	45	X				

This bill would also add federal public laws that had nonsubstantive, technical changes to apply retroactively when those changes were enacted. (Sec 47)

Federal/State Law

Federal Law

Occasionally, Congress will make technical and conforming changes to the IRC and amend various provisions that are not used in computing current tax liabilities and are

obsolete (referred to as deadwood provisions). Generally, these do not change substantive law.

State Law

As sections of California law are amended, cross-references to sections in other parts of the law may inadvertently not always be updated. When tax law includes items such as incorrect nomenclature, cross-referencing, unclear terminology, and language that is inconsistent with the current style for drafting legislation, this can create confusion for taxpayers and the Franchise Tax Board (FTB) when applying state law. Occasional updates may be needed to ensure consistent application and explanation in state law.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

SB 711 (McNerney, Chapter 231, Statutes of 2025) changed the RTC's general "specified date" of conformity to the IRC from January 1, 2015, to January 1, 2025, for taxable years beginning on or after January 1, 2025, and generally conformed to the numerous changes to federal income tax laws during the ten-year period, except as otherwise provided.

AB 731 (Gallagher, Chapter 303, Statutes of 2015) made numerous technical, nonsubstantive changes as a matter of code maintenance to various California codes, including to the RTC.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

This provision would not significantly impact the FTB's costs.

ECONOMIC IMPACT

This provision would not impact state income or franchise tax revenue.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

Analysis Provision No. 2:*California EITC Investment Income*

Section 2 of the bill clarifies that California's modification to the disqualified investment income amount would remain at \$3,400 regardless of changes made to the federal disqualified investment income amount.

This provision also makes nonsubstantive, technical changes.

*Federal/State Law**Federal law*

Existing federal law allows eligible individuals a refundable Earned Income Tax Credit (EITC) under IRC section 32. The refundable credit allows for the excess of the credit over the taxpayer's tax liability to be refunded to the taxpayer. The EITC is a percentage of the taxpayer's earned income and is phased out as income increases. For tax year 2025, the EITC is available to individuals and families earning up to \$68,675. No credit is allowed if the aggregate amount of investment income of the taxpayer for the taxable year exceeds a specific amount. The American Rescue Plan Act of 2021 (Public Law 117-2, sec 9624) raised the disqualified investment income maximum amount from \$2,200 to \$10,000 for taxable years beginning in 2021. The \$10,000 maximum amount is indexed for inflation for taxable years beginning after 2021. For tax year 2025, that adjusted amount is \$11,950 (adjusted for inflation). Examples of investment income are interest, dividends, and capital gains. The earned income, phaseout, and investment income threshold amounts are adjusted each taxable year by the cost-of-living adjustment.

State law

State law provides a refundable CalEITC that is generally determined in accordance with IRC section 32, as applicable for federal income tax purposes for the taxable year, except as modified. For 2025, CalEITC is generally available to taxpayers with earned income of \$32,900 or less. The maximum amount of investment income a taxpayer could have and remain eligible for the credit is \$4,814 in tax year 2025 (adjusted for inflation). State law generally conforms to the types of disqualified investment income under federal law. The earned income, phaseout, and investment income amounts are adjusted annually for inflation for taxable years beginning on or after January 1, 2016, in the same manner as the recomputation of the state income tax brackets.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

SB 80 (Senate Committee on Budget and Fiscal Review, Chapter 21, Statutes of 2015) enacted the California EITC.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

This provision would not significantly impact the FTB's costs.

ECONOMIC IMPACT

This provision would not impact state income or franchise tax revenue.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

Analysis Provision No. 3:*Limitation on Business Interest*

Section 10 of the bill modifies conformity to Section 163, specifically not to conform to IRC 163(j) of the IRC, relating to the limitation on business interest, to the PITL.

The Tax Cuts and Jobs Act (TCJA)(Public Law 115-97, Section 13301(a)) limited the taxpayer's business interest expense deduction to the sum of the following: 1) business interest income, 2) 30 percent of the taxpayer's adjustable taxable income, and 3) floor plan financing interest. For tax years 2019 and 2020, Coronavirus Aid, Relief, and Economic Security (CARES)(Public Law 116-136, Section 2306) temporarily increased the amount of interest that businesses are allowed to deduct on their tax returns, by increasing the 30 percent limitation to 50 percent of taxable income (with adjustments) and allowed a taxpayer to elect to use their 2019 adjusted taxable income instead of the 2020 adjusted taxable income, which could also increase limitation on the business interest deduction.

Under this provision, California would not conform to the federal modification of the limitation on business interest made under TCJA and CARES as of the specified date January 1, 2025.

Federal/State Law

The 2017 & 2020 Summary of Federal Income Tax Changes report contains the federal and state law discussion.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

SB 711 (McNerney, Chapter 231, Statutes of 2025) changed the RTC's general "specified date" of conformity to the IRC from January 1, 2015, to January 1, 2025, for taxable years beginning on or after January 1, 2025, and generally conformed to the numerous changes to federal income tax laws during the ten-year period, except as otherwise provided.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

This bill would not significantly impact the FTB's costs. However, the changes proposed in this bill could result in amended tax returns being filed by impacted taxpayers that have already filed returns prior to the bill's enactment.

ECONOMIC IMPACT

This provision would result in the following revenue loss:

Estimated Revenue Impact of SB 1435 (Section 10)
Assumed Enactment after June 30, 2026

(\$ in Millions)

Fiscal Year	Revenue
2025-2026	-\$240
2026-2027	-\$550
2027-2028	-\$360
2028-2029	-\$370

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 proration of the Joint Committee on Taxation federal tax expenditure estimate for the limitation of net interest deductions to 30 percent of adjusted taxable income.

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

Revenue associated with a prior tax year is accrued back one year.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

Analysis Provision No. 4:

Excess Business Loss Limitations for Non-Corporate Taxpayers

Section 25 of the bill conforms to section 2304 of the Coronavirus Aid, Relief, and Economic Security Act (CARES, Public Law 116-136.), which clarifies that excess business loss is determined without regard to any deductions, gross income, or gains attributable to any trade or business for services performed as an employee.

Federal/State Law

Federal Law

Federal law permanently limits excess business losses for noncorporate taxpayers for taxable years beginning on or after December 31, 2026. An excess business loss is the excess of any aggregate deductions of the taxpayer attributable to the taxpayer's trades and businesses, over the sum of aggregate gross income or gain of the taxpayer plus a threshold amount. Any excess is determined without regard to any deductions, gross income, or gains attributable to any trade or business for services performed as an employee as defined under IRC 62(a)(1), adjusted gross income. As defined, adjusted gross income for an individual is gross income minus trade and business deductions if attributed to a trade or business carried on by the taxpayer that does not consist of the performance of services as an employee.

State Law

California has modified conformity to IRC section 461(l), relating to limitation on excess business losses on noncorporate taxpayers, for taxable years beginning after December 31, 2018. For California purposes, losses are treated as an excess business

loss carryover to the following taxable year as opposed to a net operating loss carryover under IRC section 172.

Additionally, for purposes of state income tax law, adjusted gross income (AGI) is defined by cross-reference to the IRC as gross income, which includes all income from whatever source derived, minus specific deductions. For purposes of computing limitations based upon AGI, such as miscellaneous itemized deductions where only the portion that exceeds 2 percent of the AGI may be deducted, the taxpayer would use the AGI that is required to be shown on the federal tax return for the same taxable year.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

AB 91 (Burke, et al., Chapter 39, Statutes of 2019) conformed to several provisions of the Tax Cuts and Jobs Act (Public Law 115-97), including conforming with modifications to the excess business loss limitations for non-corporate taxpayers.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

This provision would not significantly impact the FTB's costs.

ECONOMIC IMPACT

This provision would not impact state income or franchise tax revenue.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION (All Provisions)

Senate Rules Committee, dated August 24, 2026

Support

California Society of Enrolled Agents
California Taxpayers Association

Opposition

None noted.

VOTES

Location	Date	Yes Votes	No Votes
Concurrence	August 27, 2026	40	0
Assembly Floor	August 24, 2026	77	0
Senate Floor	May 22, 2026	33	0

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