

SUMMARY OF FOURTH INTERESTED PARTIES MEETING

Regulation § 17951-7, Gains or Losses Involving Real Property from Sources within this State

A. Administration

On January 27, 2026, at 1:30 P.M., the Franchise Tax Board ("FTB") held the fourth Interested Parties Meeting ("IPM") concerning proposed new Regulation section 17951-7 ("Proposed Regulation"), relating to gains or losses involving real property from sources within this State. The purpose of the meeting was to explain and discuss revisions to the prior version of the Proposed Regulation and gather public input. Participants were able to submit written comments before and after the meeting, and were able to submit verbal comments in person or by phone during the meeting.

Red Gobuty, Attorney IV, Lawrence Xiao, Attorney, Mira Coutinho, Attorney IV, and Adam Susz, Attorney Supervisor, served as the IPM Facilitators, referred herein collectively or individually as Facilitator. A Facilitator advised the public that the purpose of the IPM was to provide the public with an opportunity to discuss and provide comments on revisions to the Proposed Regulation as provided in the Draft Text document published concurrently with the Notice of the Interested Parties Meeting. Participants were advised that written comments must be submitted by the deadline of February 27, 2026.

B. Discussion

During the IPM, the Facilitators described revisions to the Proposed Regulation. The revisions were designed to address California's rules for sourcing gains and losses from the disposition of real property located in California for exchanges under Internal Revenue Code (IRC) sections 1031 or 1033. The revisions aimed to provide greater clarity and consistency with how these transactions are treated for California state income tax purposes, particularly for nonresidents of California.

C. Summary

Facilitators noted that major revisions to the Proposed Regulation included limiting the regulation's application to real property exchanges following the passage of Senate Bill 711 (Stats. 2025, Ch. 231) § 58, and restructuring several subsections to improve clarity. A Facilitator also noted numbering issues with the current draft text, where paragraph numbering was inadvertently removed in the definitions at subsection (b), the rules for single exchanges at subsection (c), and the examples at subsection (f), and that these numbering issues would be addressed in any future version of the text. Facilitator remarks regarding each revised subsection of the Proposed Regulation are presented below, followed by a summary of the comments received during the IPM comment period.

Discussion Topic 1: General Rule and Definitions (Subsections (a) and (b))

Facilitator's Remarks: Subsection (a) was revised for consistency with the terminology used in IRC sections 1031 and 1033. Subsection (b) was revised to change the definition of "property" to real property, limiting the regulation's application to real property exchanges in alignment with California's conformity to the Internal Revenue Code (IRC) following the passage of Senate Bill 711.

Comments: There were no public comments on this discussion topic.

Discussion Topic 2: Single Exchanges (Subsection (c))

Facilitator's Remarks: Subsection (c) was reorganized into two parts: (c)(1) for exchanges where the relinquished property is in California, and (c)(2) for exchanges where the replacement property is in California. The prior version of the Proposed Regulation's subsection (f) rules, addressing exchanges involving no gain or loss from sources within California, were integrated into both (c)(1) and (c)(2) for clarity. The rule for recognized gain/loss from California sources remains the lesser of the deferred gain/loss and the gain/loss recognized for federal purposes.

Comments: There were no public comments on this discussion topic.

Discussion Topic 3: Series of Exchanges (Subsection (d))

Facilitator's Remarks: Subsection (d) was restructured to separate the calculation of gains or losses (paragraph 1) from the sourcing of gains or losses (paragraph 2) to provide clear guidance for taxpayers. The prior version of the Proposed Regulation's subsection (f) rules, addressing exchanges involving no gain or loss from sources within California, were integrated into subsection (d).

Comments: There were no public comments on this discussion topic.

Discussion Topic 4: Exchanges with Multiple Replacement Properties (Subsection (e))

Facilitator's Remarks: Subsection (e) was re-worded for clarity. Revisions to this subsection clarify that any calculated gain or loss is divided among multiple replacement properties pro rata based on the properties' fair market values, and is reduced for any non-like-kind property used to purchase the replacement property.

Comments: There were no public comments on this discussion topic.

Discussion Topic 5: Examples (Subsection (f))

Facilitator's Remarks: Subsection (f)'s examples were updated to improve clarity and ensure consistent terminology throughout the regulation, such as replacing "sells the property" with "exchanges the property" and "deferring gain" with "not recognizing gain." Explicit cross-references to the governing subsections of the Proposed Regulation were added to make the examples easier to follow.

Comments: There were no public comments on this discussion topic.

D. Closing

At the conclusion of the IPM, Facilitators thanked all Participants for attending and stated that all commentary would be taken under consideration. The Facilitators indicated that FTB staff would review comments received from the public during the comment period and thereafter prepare this summary.