

This Week in State Tax (TWIST)

July 14, 2025



California: Golden State Adopts Budget with Changes for Financials and Passthroughs

California's budget bill trailer was signed by the governor on June 27; it changes both the apportionment formula for financial businesses and the availability of the pass-through entity tax (PTET) election. Recall that California generally applies a single sales factor apportionment method to most businesses unless the business generates more than 50 percent of its gross receipts from one or more "qualified business activities," which was defined to include savings and loan activities and banking and financial business activities. The budget bill removes "savings and loan activity" and "banking or financial business activity" from the definition of "qualified business activities" for tax years beginning on or after January 1, 2025. Thus, financial businesses will now be required to use the single sales factor method of apportionment. The law does not repeal the special regulatory sourcing rules for banks and financial institutions, meaning that these rules will remain in effect unless further action is taken.

For taxpayers that are partners or members in one or more passthrough entities, the bill extends the availability of the PTET election through taxable year ending on or before December 31, 2030. In addition, for taxable years beginning on or after January 1, 2026, the bill permits an entity to make the election even if it had not made the required estimated payment. When this occurs, the associated credit will be reduced by 12.5 percent. Finally, the bill makes a minor technical change that ensures fiscal year partners will be able to claim the appropriate PTET credit in the final year available. Please contact [Oksana Jaffe](#) or [Geoff Way](#) with questions about [S.B.132](#).

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