



# This Week in State Tax (TWIST)

September 22, 2025



## California: IRC conformity legislation approved (finally)

After 10 years of waiting, the California legislature has approved a bill to update the state's general date of conformity to the Internal Revenue Code (IRC) for income and franchise tax purposes from January 1, 2015 to January 1, 2025, effective for tax years beginning on or after that date. The bill is before the Governor for signature. Due to the 2015 conformity date, California generally did not conform to the IRC changes in the Tax Cuts and Jobs Act of 2017 and numerous subsequent federal changes, unless the state specifically provided for conformity under California law. In total, there were reportedly over 1,000 differences between the IRC and California law, prior to the adoption of the update.

While the conformity update should simplify matters for taxpayers, the state will still determine those changes in the IRC to which it will conform, and it will not be conforming automatically to the provisions of the One Big Beautiful Bill Act enacted in July 2025. In keeping with California's historical selective conformity approach, the conformity update bill would modify, or otherwise decouple from, certain specific IRC provisions. Some of the notable such provisions include: (1) conformity to the Alternative Simplified Credit but with reduced credit percentages and decouple from the Alternative Incremental Research Credit under IRC section 41; (2) decouple from IRC section 163(j) - the interest expense limitation; (3) continue to decouple from IRC section 174 - the capitalization and amortization of research and experimental expenditures; (4) continue to decouple from IRC section 168(k) - federal bonus depreciation; (5) partially decouple from the American Rescue Plan Act limitations on deductions for executive pay under IRC section 162(m); and (6) continue to decouple from FDII and GILTI deductions under IRC sections 250 and 951A.

Separately, the California legislature also approved a bill that would address the California treatment of the gross income exclusion provided under IRC sections 6417 and 6418. Under IRC section 6417, eligible entities may elect to receive direct payments from the federal government for certain credits they generate. Under IRC section 6418, eligible entities may elect to sell all or a portion of certain eligible credits that they generate to unrelated taxpayers. Under IRC sections 6417 and 6418, the refund amount and gain recognized on the sale of credits is excluded from gross income. The bill would specifically exclude from gross income payments made pursuant to IRC sections 6417 and 6418. In line with IRC section 6418, the bill would also disallow any deduction for amounts paid in consideration of a transfer of the eligible credits. The bill would apply for taxable years beginning on or after January 1, 2026 and before January 1, 2031.

Both bills are currently awaiting a signature from Governor Newsom, and if signed, the legislation will go into effect immediately. Please contact [Candace Axline](#), [Oksana Jaffe](#), or [Geoffrey Way](#) with questions about [S.B. 711](#) and [S.B. 302](#).

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