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California: Governor signs bill providing for single factor apportionment for financial institutions

Governor Gavin Newsom on June 27, 2025, signed SB 132, a budget trailer bill requiring financial institutions, for purposes of the California franchise / income tax, to apportion business income using a single sales factor (Section 22), effective for tax years beginning on or after January 1, 2025.

Background

Historically, financial institutions were required to use a three-factor formula to apportion business income in California. Previously, a trade or business deriving more than 50% of its gross receipts from conducting one or more "qualified business activities" was required to use an equally weighted three-factor formula in apportioning income to the state. The term "qualified business activities" was defined to include, among other things, a savings and loan and a banking and financial business activities.

SB 132

SB 132, for tax years beginning on or after January 1, 2025, removed savings and loans, as well as banking and financial business activities, from the definition of "qualified business activities." Note that the special sourcing rules implemented by the Franchise Tax Board via regulations (CCR 25137-4.2) for banks and financial institutions will remain in place, at least for now.

For more information on SB 132 (Section 22), contact a KPMG professional in the State and Local Tax (SALT) group:

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