

TaxNewsFlash

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California: Newly enacted law updates IRC conformity

California Governor Gavin Newsom on October 1, 2025, signed Senate Bill No. 711 ([SB 711](#)) into law, updating California's conformity to numerous Internal Revenue Code (IRC) provisions from January 1, 2015, to January 1, 2025. This change introduces new rules for the research credit and other California-specific tax items, as summarized below.

Available research credit calculation methods

SB 711 revises the research credit calculation methods available to California taxpayers. For tax years beginning on or after January 1, 2025, taxpayers may elect the Alternative Simplified Credit (ASC). The California ASC rate is set at 3%, in contrast to the federal ASC rate of 14%. Taxpayers with no qualified research expenditures (QREs) in one of the three prior tax years may use a reduced ASC rate of 1.3%, compared to the federal rate of 6%. The Alternative Incremental Research Credit (AIRC) method is no longer available.

KPMG observation: These changes may allow taxpayers who previously did not generate California research credits, often due to large gross receipts and base period hurdles, to benefit from the newly available ASC method.

Capitalization and amortization of section 174/174A expenditures

California taxpayers are not required to capitalize and amortize their section 174/174A expenditures. California retains the IRC section 174 language as of January 1, 2015, prior to amendments enacted by the "Tax Cuts and Jobs Act" (providing mandatory capitalization and amortization requirements) and the "One Big Beautiful Bill Act" (maintaining mandatory capitalization and amortization for non-U.S. research and experimental (R&E) costs but permitting expensing of U.S. R&E costs under new section 174A). Therefore, for California purposes, both U.S. and non-U.S. R&E costs can still be deducted.

KPMG observation: Other states may still require capitalization and amortization of section 174/174A costs, and a section 174/174A study may be necessary depending on state nexus and other federal provisions, such as the foreign-derived intangible income (FDII) and foreign-derived deduction eligible income (FDDEI) rules.

Additional changes

SB 711 introduces several additional changes by not conforming to certain IRC provisions as of January 1, 2025. Key provisions include:

- **Business interest limitation (section 163(j)):** For corporate income tax purposes, California does not conform to the federal business interest limitation under section 163(j).
- **Bonus depreciation (section 168(k)):** California continues its long-standing policy of decoupling from federal bonus depreciation.
- **Qualified production property (section 168(n)):** California does not conform to the new federal expensing provision for qualified production property.
- **Net operating losses (NOLs) (section 172):** The bill modifies California's treatment of NOLs, decoupling from certain federal provisions such as the 80% of taxable income limitation.
- **Corporate alternative minimum tax (CAMT):** SB 711 specifically retains the federal alternative minimum tax as of January 1, 2015, and therefore decouples from the federal CAMT (which applies a minimum tax based on adjusted financial statement income of applicable corporations).
- **Certain IRA credit provisions (sections 6417 and 6418):** Under another bill enacted on October 1, 2025 (SB 302), for tax years beginning on or after January 1, 2026, and before January 1, 2031, California conforms to the federal exclusion from gross income for payments received under sections 6417 and 6418 and the value of credits received by a purchaser of those credits.

Contact us

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