

CALIFORNIA PRACTICE GUIDE

PASS-THROUGH ENTITIES

2026 UPDATE

The 2026 softbound update completely replaces the 2025 update.

These Highlights summarize the most significant developments over the past year. The paragraph numbers are keyed to the 2026 edition of the Practice Guide where the topics are discussed in greater detail.

Our cut-off date for this Update was June 1, 2026. Some of the new cases cited were not final as of that date, so be sure to check the subsequent histories before citing or relying on them.

Thank you! A reminder that we welcome your comments and suggestions regarding this Practice Guide. If you see room for improvement, please let us know!

JEFFREY C. SOZA

Glaser Weil Fink Howard
Jordan & Shapiro LLP

MATTHEW JANN

Taft Law

EVRIDIKI “VICKI” DALLAS

Dallas Innovation Law
A Professional Corporation



2026 UPDATE HIGHLIGHTS

CHAPTER 7

SECURITIES LAW CONSIDERATIONS

Federal Securities Law

[7:6] **Preemption of state law:** See *Pino v. Cardone Capital, LLC* (9th Cir. 2025) 139 F4th 1102, 1109, 1112 (applying *Omnicare, Inc. v. Laborers Dist. Council Const. Industry Pension Fund* (2015) 575 US 175, 135 S.Ct. 1318 to internal rate of return and distribution projections and holding misstatements and omissions in Reg A real-estate crowdfunding offering materials and social-media communications could support liability under SA §12(a)(2)).

[7:279] **Liability subject to SA §12:** Opinion-statement framework from *Omnicare, Inc. v. Laborers Dist. Council Const. Industry Pension Fund*, supra, and SA §12(a)(2) applied to performance projections and omissions in a Reg A real-estate crowdfunding context, including social-media communications to unsophisticated investors. [*Pino v. Cardone Capital, LLC*, supra, 139 F4th at 1107, 1109-1112]

CHAPTER 8

TAXATION OF PASS-THROUGH ENTITIES

California Taxes

[8:216] **Withholding on distributions to non-U.S. partners or members:** For California source income, non-U.S. partners or members are subject to a withholding regime with rules similar to those in IRC §1446, and LLCs and partnerships are required to withhold from California source income based on the maximum California income tax rate specified in Rev. & Tax.C. §§17041 (currently 12.3%) and 17043 (an additional 1%), as applicable. [Amended Rev. & Tax.C. §18666]

Federal Taxes

[8:234.4; 8:345; 8:432] **One Big Beautiful Bill:** The One Big Beautiful Bill Act of 2025 amended IRC §163(j), including by restoring the addback of depreciation, amortization, and depletion in determining adjusted taxable income for tax years beginning after December 31, 2024. [See PL 119-21 (2025)]

Excess Business Loss Limitation

[8:432.1] **Impact on California taxable income:** California does not conform to the federal amendments enacted by the CARES Act that temporarily suspended the excess business loss limitation for 2018 through 2020 or to the extensions of that limitation enacted by the American Rescue Plan Act of 2021 and the Inflation Reduction Act of 2022. [Amended Rev. & Tax.C. §17560.5(c), (d), (e)]

IRC §1031 Exchanges

[8:508.1] **Under California law:** For taxable years beginning on or after January 1, 2025, California's income-threshold exception

no longer applies, and California generally conforms to the federal rule limiting IRC §1031 treatment to exchanges of real property.
[Amended Rev. & Tax.C. §18031.5]