

COST DRIVER

March 19, 2026

The Honorable Damon Connolly
California State Assembly
1021 O Street, Suite 5240
Sacramento, CA 95814

**SUBJECT: AB 1790 (CONNOLLY) CORPORATIONS TAX LAW: WATER'S-EDGE ELECTION:
GLOBAL INTANGIBLE LOW-TAXED INCOME
OPPOSE/COST DRIVER – AS INTRODUCED FEBRUARY 10, 2026**

Dear Assemblymember Connolly:

The California Chamber of Commerce is **OPPOSED** to your **AB 1790 (Connolly)** as introduced on February 10, 2026, as a **COST DRIVER**. This bill will significantly increase taxes on many companies conducting business in the State and ultimately put California in the middle of an international trade war.

AB 1790 would do this by terminating the water's-edge election – an intentional provision of California's corporation tax structure – forcing all taxpayers to file on a worldwide combined reporting basis beginning January 1, 2028. For tax years beginning on or after January 1, 2026, businesses that have already filed under water's-edge would be penalized by a requirement that they include 40 percent of net controlled foreign corporation (CFC) tested income as business income until their election terminates – effectively taxing water's-edge filers more than those filing on a worldwide basis, unless the taxpayer opts to terminate its election early.

Further, we **OPPOSE AB 1790** for the reasons below:

Revenue Volatility and Economic Harm. Proponents argue that mandatory worldwide combined reporting will generate substantial revenue, but this is far from certain. We strongly believe **AB 1790** would actually make California's tax revenues more volatile and could end up costing the state money. Worldwide reporting brings all affiliates into the combined group and imports the losses of less profitable foreign subsidiaries, which could reduce California tax liability. A worldwide combined report requires taxpayers to bring in a global view of the world that impacts business activity – including foreign turbulence, government regime changes, war, terrorism, currency fluctuations, and the ability of foreign governments to effectively respond to disasters, crises, and pandemics. In fact, Vermont recently examined a similar policy, its fiscal analysis noted that such a policy could actually cost the state revenue. Ultimately, Vermont decided not to pursue this policy further.

Jeopardizes Relationships With Foreign Trading Partners. Prior to the enactment of the water's-edge election, the United Kingdom, Japan, Canada, and other trading partners were outraged by California's method of taxing multinational companies, leading those governments to call for significant retaliatory measures against California and the United States unless corrective measures were adopted. This outrage led to the creation of California's water's-edge election in 1986 with the passage of SB 85 by Senator Alquist.

The water's-edge election has been a success in ensuring that California can accurately tax profits derived from or attributable to California, while California and other international businesses are not overburdened with reporting requirements or penalized for their California investments. At the same time, our trading partners are satisfied with California's water's-edge election because their constituents are not being unreasonably burdened or taxed by a sub-state. Implementing the water's-edge election has proved to ease tensions of the State's international partners, preventing a potential trade or tax war.

Risk of Retaliation and Litigation Over Constitutionality. Foreign governments would likely view the enactment of **AB 1790** as a violation of tax treaties and agreements made by the United States, potentially leading to trade retaliation or a pullback in foreign direct investment. Eliminating the water's-edge election would harm California's business climate by undermining the State's credibility in the global economy. Moving to mandatory worldwide combined reporting would be viewed by foreign governments as an aggressive extension of taxing authority to income earned outside the United States, potentially targeting companies headquartered within foreign borders. That perception risks straining trade relationships, discouraging foreign investment, and limiting California's ability to engage in future diplomatic or economic partnerships. California cannot effectively pursue international partnerships while adopting policies that global partners see as hostile to their domestic employers.

California Would Become a Global Outlier. Currently, no other state in the nation mandates worldwide combined reporting for all taxpayers. Similarly, no other nation in the world utilizes a system that taxes extraterritorial income in this manner. This bill goes much further by taxing water's-edge filers more than worldwide filers for tax years 2026 and 2027. If this bill is enacted, California would become the sole subnational government in the world to mandate such a system, placing the state at a distinct competitive disadvantage.

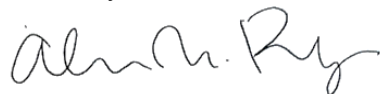
Makes California Less Affordable. Without the water's-edge election, some companies would face higher overall tax liabilities in California on income earned abroad, increasing their cost of doing business. When taxes increase costs, the burden is passed through to consumers in the form of higher prices for goods and services, especially for products with relatively inelastic demand. Manufactured goods – electronics, vehicles, machinery, and other common products sold in California – are largely produced abroad and priced competitively; adding significant tax costs would reduce that competitiveness and make these goods less affordable for California consumers, at a time when affordability is a major concern for residents of this state.

The Water's-Edge Election Is Not a "Loophole." Proponents of **AB 1790** incorrectly characterize the water's-edge election as a "loophole," implying that there has been an exploitation of an unintended ambiguity or gap in the law. The water's-edge election is anything but – it has been in place for 40 years and reflects a conscious, bipartisan decision by the Legislature to resolve a constitutional crisis and prevent trade retaliation.

Taxpayers elect to file on a water's-edge basis by entering into a binding seven-year contract with the Franchise Tax Board. They do not have the ability to simply determine which methodology results in a lower tax burden and choose that option each year. In fact, it is entirely possible businesses will pay higher taxes during portions of the seven-year period because of their election to file on a water's-edge basis. A policy explicitly designed by the Legislature and codified in statute, by definition, cannot be a loophole.

For these reasons we **OPPOSE** your **AB 1790** as a **COST DRIVER**.

Sincerely,



Alexis Rodriguez
Policy Advocate
California Chamber of Commerce

cc: Legislative Affairs, Office of the Governor