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California Tax and Business Updates to Have on Your Radar for 2027

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Start Here: As 2027 approaches, California taxpayers and business owners have several changes worth knowing about. New sales tax rules for digital products, a higher statewide minimum wage, updated business filing procedures, and other developments could affect the decisions you make before and after year-end.

Keeping up with California tax law can feel like a full-time job. Fortunately, most taxpayers do not need to follow every bill, court decision, or administrative update coming out of Sacramento. What matters is knowing when a change could affect your business, your tax return, your real property, or a financial decision you're preparing to make.

With year-end tax planning underway here at SWC, we have narrowed the field to several California-related developments we believe are worth having on your radar as we head into 2027, starting with how the state is gearing up to handle sales tax on certain digital products.

California Is Expanding Sales Tax to Digital Products

One of the biggest changes for California businesses arrives Jan. 1, 2027. Beginning on that date, the Golden State's sales and use tax will apply to retail sales of digital products sold in the state or purchased for use in the state. The new rules can apply whether the product is delivered on physical media and transferred electronically, or even accessed remotely.

That last category is particularly important for businesses, because the change reaches many products companies routinely purchase without thinking of them as tangible property, including certain prewritten software and software-as-a-service, commonly known as SaaS. The change could affect several parts of a business's software purchasing process, including contracts, purchasing procedures, recordkeeping, and documentation showing where digital products are used.

What If Your Business Operates In More Than One State?

Things become even more complicated when a digital product is used by employees or other users both inside and outside California. CDTFA (California's Department of Tax and Fee

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Administration) has been developing regulations addressing digital products purchased for use in multiple locations, along with rules covering sourcing, certain tax-liability thresholds, custom software, and other aspects of the new law.

The distinction between the law and those implementation rules isn't trivial. With the state's expansion of sales and use tax to digital products taking effect at the beginning of the year, some of the administrative details surrounding how the tax will operate are still being developed.

> **What You Should Do:** If your business makes significant purchases of software, SaaS, cloud services, or other digital products, now is a good time to review those agreements. Businesses operating in multiple states should also consider whether their records adequately show where their digital products are actually being used.

California's Minimum Wage Is Going Up

Beginning Jan. 1, 2027, California's statewide minimum wage increases from $16.90 to $17.40 per hour. However, if you own a business, the hourly minimum wage is only part of the change. The increase also raises the minimum salary necessary to satisfy the salary portion of certain California overtime exemptions. Beginning Jan. 1, an employee must earn at least $72,384 annually to meet that salary threshold.

Salary alone does not determine whether someone qualifies as an exempt employee. The employee must also satisfy the duties and other requirements associated with the particular exemption. Certain fast-food and health care employees, for example, are subject to separate minimum-wage requirements, while some California cities and counties have local minimum wages above the statewide rate.

> **What You Should Do:** Review your payroll before the first payroll period of 2027, especially if you have salaried employees whose compensation is close to the new exemption threshold. This is also a sensible time to confirm that employees classified as exempt continue to satisfy the applicable duties requirements.

California Cleaned Up Several 2025 Tax-Conformity Issues

Not every recent development waits until 2027 to matter. The state legislature and governor enacted SB 1435 (*Personal Income Tax Law and Corporation Tax Law: federal conformity*) to correct several issues arising from the state's 2025 conformity legislation under SB 711 (*Taxation: federal conformity*). Here, the changes apply retroactively to the 2025 tax year.

SB 1435 addresses several areas of California tax law, including:

- The Internal Revenue Code (IRC) Section 163(j) focused on business interest expense limitation for taxpayers subject to California personal income tax
- Excess business loss rules

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- Treatment of alimony under certain divorce and separation agreements
- The investment-income limitation for purposes of the California Earned Income Tax Credit
- Special withholding rules under IRC Section 1446(f)

For many business owners and investors, the business interest and excess business loss provisions may deserve particular attention. This is why a year-end tax projection appointment with your CPA is timely and important!

> **What You Should Do:** Do not assume this is solely a 2027 issue because the legislation was enacted in 2026. If your 2025 California return involves significant business interest expense, business losses, or another provision affected by SB 1435, talk with your CPA about whether the change affects your return or year-end planning.

A California Business Suspension Can Have Consequences Beyond the Filing You Missed

It is easy to think of maintaining a business entity's good standing as administrative housekeeping. A recent California tax decision offers a useful reminder that the consequences can extend much further. A California corporation may be suspended for reasons that include failing to file required tax returns, failing to pay certain amounts due, or even failing to meet required Secretary of State filing obligations.

Once a business entity is suspended, its ability to conduct business and exercise certain legal and tax rights becomes restricted. Those restrictions can include the ability to pursue certain refund claims, as well as file protests and appeals.

As you can hopefully see, the timing is important. Fixing a business entity's status later does not necessarily restore a tax right when the deadline for exercising that right expired while the business was suspended!

> **What You Should Do:** Do not set aside notices involving delinquent California returns, unpaid tax obligations, Statements of Information, or business entity suspension. If you discover that your business entity has been suspended, address the process for remedying it promptly, particularly if a refund claim, appeal, transaction, or other deadline is approaching.

California Has Changed Access to Online Business Filings

California business owners also have a more practical procedural change to keep in mind. As of Aug. 1, 2026, the California Secretary of State requires web *User Access* for online filings, including Statements of Information. Businesses or their representatives must establish the required access through the state's bizfile Online system before completing these filings online.

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That may sound like a relatively minor change but it becomes considerably less minor when a filing deadline is approaching and the person responsible for filing discovers that access has not been established.

> **What You Should Do:** Confirm that the appropriate people have access to your business's online record before your next Statement of Information is due. Building in extra time can help prevent an access problem from becoming a filing problem.

California Has Expanded Mortgage Protections Following Disasters

California has also enacted additional protections for homeowners whose residences become uninhabitable because of a disaster. New legislation provides qualifying borrowers with access to mortgage payment forbearance beginning with an initial period of up to 180 days and allowing extensions in 90-day increments up to a maximum of 12 months.

Separate relief applies to certain homeowners affected by the 2025 Los Angeles County wildfires. For qualifying borrowers, the available mortgage-forbearance period can extend to as much as 24 months, and the deadline for requesting relief has also been extended.

Pro Tip: Mortgage forbearance is not mortgage forgiveness. Forbearance provides temporary relief from scheduled mortgage payments. It does not eliminate the underlying debt.

> **What You Should Do:** If your California home has become uninhabitable because of a qualifying disaster, contact your mortgage servicer promptly to determine what protections apply to your loan. Homeowners affected by the 2025 Los Angeles County wildfires should also ask whether the extended provisions apply to their circumstances.

Year-End Is the Time to Determine What Actually Applies to You

A rundown like this inevitably covers changes that will matter greatly to some taxpayers and not at all to others. That is precisely why year-end planning is important. A business owner purchasing software across several states has a different set of concerns from a California employer reviewing payroll. An investor affected by California's business-loss rules may need to revisit a 2025 tax position, while another client may have no exposure to those provisions at all.

The objective is this: Do not react to every tax development. Instead, identify the ones that intersect with your income, business, investments, and plans while there is still time to make informed decisions. And that makes now an ideal time to schedule your year-end tax projection appointment with your CPA.

A year-end tax projection gives you and your tax planning professional an opportunity to look at where your income and deductions are likely to land, identify changes that may affect you, and discuss planning decisions before Dec. 31 rather than discovering their impact when your return is being prepared.

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Here at SWC, we are holding year-end tax projection appointments now through Dec. 21. If you have not yet scheduled yours, we encourage you to contact our office so we can review your situation while there is still time to address planning opportunities before year-end. Remember: Tax planning works best when there is time to plan.

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