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California's Franchise Tax Board Adopts Final Regulations for Market-Based Sourcing

Tax Talks on **September 14, 2025**

On September 10, 2025, California's Franchise Tax Board ("**FTB**") adopted final regulations ("**Final Regulations**") amending the rules regarding market-based sourcing for sales other than sales of tangible personal property. This brings to an end the FTB's long-running process toward formally adopting the amendments first approved in 2016 and subsequently revised in September 2024 and in May 2025 (described in the following blog posts). The Final Regulations are substantially identical to the proposed regulations and will apply to taxable years starting on or after January 1, 2026.

As was the case in the proposed regulations, the Final Regulations alter the existing language of section 25136-2 by implementing a look-through approach in how California assigns income to the applicable taxpayer.[1] The Final Regulations continue to source revenues for asset management services to the location of the investor or beneficial owner, which essentially requires a look-through to the domicile of a fund's investors or beneficial owners.[2] Receipts from asset management services are assigned to California in proportion to the average value of the interest in the assets held by the assets' investors domiciled in California.[3] If the total asset management fees attributable to California-domiciled limited partners exceeds the California economic nexus threshold ($735,019 for 2024[4]), then such asset manager is deemed to have California income tax nexus and a related filing obligation, despite having no physical presence in or connection to California.

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[1] Final California Code of Regulations, Title 18, section 25136-2(c).

[2] *Id*.

[3] *Id*.

[4] California Franchise Tax Board, *Doing Business in California,* <https://www.ftb.ca.gov/file/business/doing-business-in-california.html>.

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