pwc

Tax Insights
from Exempt Organization
Tax Services

California exempt organizations face activity-level UBTI reporting as NOL suspension enters its final year

October 22, 2026

In brief

What happened?

The California Franchise Tax Board (FTB) has advised exempt organizations to begin identifying and tracking each unrelated trade or business for reporting on the 2026 tax return. Details on implementation, including the reporting manner and form, are still under development.

The FTB's direction stems from California Senate Bill (S.B.) 711, enacted October 1, 2025, which updated California's conformity to the federal rules for exempt organizations, including Section 512(a)(6). Under that section, exempt organizations must now report unrelated business taxable income (UBTI) separately for each activity rather than aggregating them. California's suspension of net operating loss (NOL) deductions for larger taxpayers with net business income or modified adjusted gross income of at least $1 million remains in place for tax years beginning on or after January 1, 2024, and before January 1, 2027. The 2026 tax year, therefore, is both the first year of activity-level UBTI reporting and the final year of the NOL suspension.

Why is it relevant?

Until now, California UBTI was effectively computed in the aggregate, so a loss in one unrelated activity could offset income from another. For 2026, that offset goes away, and for larger taxpayers the NOL suspension also prohibits the use of loss carryovers. Together, the two regimes can increase California

UBTI relative to an organization's net unrelated business income and complicate the tracking of loss carryovers.

Actions to consider

Exempt organizations with California UBTI may want to consider the following steps:

- **Identify and document each unrelated trade or business:** Build an activity inventory using the approach the organization has adopted for federal Form 990-T reporting as a starting point, and document the basis for each grouping.
- **Build activity-level California NOL schedules:** Roll forward California NOL carryovers by year of origin and, where possible, by activity.
- **Model the $1 million threshold:** Estimate 2026 net business income to determine whether the NOL suspension applies, and quantify the effect on each activity.
- **Revisit 2026 estimated tax payments:** Activity-level computation combined with a suspended NOL deduction may produce a higher California tax liability than in prior years.
- **Monitor FTB guidance:** Watch for the reporting form and instructions, the treatment of legacy NOLs, and any FTB position on how the suspension applies at the activity level.

In detail

Background—federal activity-level UBTI

IRC Section 512(a)(6) requires UBTI to be computed separately for each unrelated trade or business, and losses from one activity generally may not offset income from another. Federal NOLs arising after 2017 are tracked by activity and may be used only against income from the same activity, while earlier NOLs generally remain usable against UBTI in the aggregate, subject to ordering rules. The regulations generally rely on the first two digits of the NAICS (North American Industry Classification System) code, together with a reasonable, good-faith interpretation standard, to identify separate trades or businesses.

California conformity under S.B. 711

S.B. 711 conforms California to IRC Section 512 as of January 1, 2025, except as modified by Cal. Rev. & Tax. Code Section 23732. The FTB has stated that the conformity aligns California with federal reporting standards and facilitates more accurate activity-level reporting, but it has not yet published the form or manner of reporting. S.B. 711 also requires exempt organizations with UBTI to file Form 109 electronically for tax years beginning on or after January 1, 2025, and decouples California from the federal 80% NOL limitation.

Observation: Organizations can reasonably expect California to follow the federal activity-level framework but should not assume that every federal rule, including how activities are identified, will be applied identically until the FTB issues guidance.

Extended NOL carryover period during the suspension

Under S.B. 167, California suspends NOL deductions for taxpayers whose net business income or modified adjusted gross income is $1 million or more for the tax year. For any NOL or NOL carryover denied a deduction because of the suspension, the carryover period under Section 172 is extended as follows:

- By one year, for losses incurred in tax years beginning on or after January 1, 2025, and before January 1, 2026.
- By two years, for losses incurred in tax years beginning on or after January 1, 2024, and before January 1, 2025.
- By three years, for losses incurred in tax years beginning before January 1, 2024.

How the two regimes interact

Activity-level reporting and the suspension can compound tax exposure

Under federal rules, a loss in one activity cannot reduce income from another but is preserved as an activity-specific NOL. If California applies the same framework, then in a suspension year a profitable activity will generally pay California tax on that activity's income without the benefit of its own NOL carryover. The loss from another activity becomes a carryover that cannot be used until the suspension ends.

The following illustration assumes California applies the federal activity-level ordering rules, that the $1 million threshold is measured on aggregate net unrelated business income before any NOL deduction, and that no early sunset of the suspension applies.

2026 illustration	Activity A	Activity B	Total
Current-year UBTI / (loss)	$1,500,000	($300,000)	$1,200,000
Activity-level NOL carryover available	($600,000)	—	($600,000)
Taxable UBTI: activity-level rules, no suspension	$900,000	$0	$900,000
Taxable UBTI: activity-level rules, NOL suspension applies	$1,500,000	$0	$1,500,000
NOL carried to 2027: no suspension	$0	$300,000	$300,000
NOL carried to 2027: suspension applies (A carryover extended)	$600,000	$300,000	$900,000

Observation: In this example, California taxable UBTI ($1,500,000) exceeds the aggregate net unrelated business income ($1,200,000) because of activity-level reporting, and the NOL suspension prevents Activity A from using its carryover. The carryover is extended, but the cash tax cost is accelerated.

Open questions pending FTB guidance

- **Measuring the $1 million threshold:** It is unclear whether net business income for an exempt organization is measured in the aggregate or by activity, and before or after activity-level computations. This computation determines who is subject to the suspension.
- **Treatment of legacy California NOLs:** California NOLs generated in earlier years were not computed by activity. The FTB has not indicated whether they will be treated like federal pre-2018 NOLs, which are usable against aggregate UBTI, or must be allocated to activities. California and federal NOL amounts and expiration dates also could differ.
- **Layering of extended carryover periods:** Suspension-related carryover extensions add a specific expiration date on top of the activity-level tracking required under Section 512(a)(6). Organizations may need schedules that track year of origin, activity, and extended expiration date.
- **Reporting mechanics:** The form, manner of reporting, and any schedules showing activity-level income and NOL usage have not been released.

The takeaway

The FTB's advice is that organizations should not wait for the forms. Activity-level tracking should begin now for the 2026 tax return, even though the reporting manner and form are still under development. Because California's NOL suspension continues through the 2026 tax year, the requirement to report UBTI at the activity level arrives at the same time as a limit on loss utilization. The result can be higher current California tax, with carryovers that are deferred rather than forfeited. Exempt organizations with California UBTI should inventory their unrelated activities now, build California NOL schedules by activity, model the effect of the suspension on 2026 liability and estimated payments, and monitor FTB guidance on the reporting form and the open questions above.

Let's talk

For a deeper discussion of how these developments may affect your organization, please reach out to your PwC engagement team or a member of our Exempt Organization Tax Services practice:

Exempt Organization Tax Services

Rob Friz, *Philadelphia*
+1 302-545-0885
robert.w.friz@pwc.com

Erica McReynolds, *Philadelphia*
+1 610-213-1187
erica.r.mcreynolds@pwc.com

Travis Patton, *Washington*
+1 703-517-9744
travis.patton@pwc.com

Meet our Exempt Organization Tax Services team

© 2026 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

This content is for general information purposes only and should not be used as a substitute for consultation with professional advisors.

Solicitation