



Tax Insights
from State and Local Tax
Services

DC adopts permanent legislation with specified OBBBA decoupling

October 21, 2026

In brief

What happened?

The District of Columbia enacted permanent legislation providing for retroactive decoupling from certain OBBBA provisions, including research and experimental (R&E) expensing, the interest deduction limitation calculation, expensing of qualified production property, and bonus depreciation. The legislation was enacted without the Mayor's signature on August 14, transmitted to Congress on August 20, and published as Law Number L26-0189 effective from October 2, 2026, in the October 16 DC Register.

[Fiscal Year 2027 Budget Support Act of 2026 (B26-0661 / D.C. Act 26-418 / DC Law 26-189, DCR Issue: Vol.73, No.42, 10/16/2026)]

Why is it relevant?

DC passed both emergency and temporary legislation in 2025 providing for retroactive decoupling from the above provisions. While Congress acted to disapprove of the temporary legislation, the DC Attorney General opined that Congress failed to act in a timely manner and also did not explicitly disapprove of the retroactive elements of the legislation and therefore concluded that DC is decoupled from these provisions for the 2025 tax year. This permanent legislation seeks to codify this decoupling both retroactively and prospectively (with certain sunset provisions).

Actions to consider

Taxpayers will need to reconsider their 2025 filing positions in light of the permanent legislation and its asserted retroactive effect. Even if Congress were to disagree with DC on the 30-day review period for the permanent legislation, it does not appear that Congress would have an opportunity to pass a disapproval resolution under the current congressional calendar (and no disapproval resolution appears to have been introduced).

In detail

Background—2025 legislation

DC first enacted OBBBA nonconformity provisions under emergency legislation, B26-0457 - D.C. Income and Franchise Tax Conformity and Revision Emergency Amendment Act of 2025 on December 3, 2025. The 2025 emergency legislation expired on March 3, 2026. However, temporary legislation (B26-0458 - D.C. Income and Franchise Tax Conformity and Revision Temporary Amendment Act of 2025), enacted on December 20, 2025, purported to continue this nonconformity until September 25, 2026.

On February 18, US House Joint Resolution (H.J. Res.) 142 was enacted into law as Public Law 119-78, providing that “the Congress disapproves of...The D.C. Income and Franchise Tax Conformity and Revision Temporary Amendment Act of 2025 (D.C. Act 26–217), enacted by the Council of the District of Columbia on December 20, 2025, and transmitted to Congress pursuant to section 602(c)(1) of the District of Columbia Home Rule Act on December 30, 2025.”

The DC Council, however, published a notice that “Act 26-217 is now D.C. Law 26-89, effective February 12, 2026.” DC Attorney General Brian Schwalb sent the Council a letter on February 24 concluding that “notwithstanding the enactment of HJ 142, the changes to the tax laws made by the Emergency Conformity Act and the Temporary Conformity Act continue to govern tax liabilities for taxpayers whose tax year ended December 31, 2025, and the Temporary Conformity Act remains in effect and, absent further legislative action, will expire on September 25, 2026.”

The DC Attorney General's letter outlines two reasons that he believes DC does not conform to the OBBBA for the 2025 tax year: (1) that the disapproval resolution was not timely, and (2) the emergency legislation “changed the tax liability of District taxpayers ‘as of January 1, 2025,’ and remained in effect at the end of calendar year 2025.” The Attorney General reasoned that Congress took no action to repeal or nullify the emergency legislation and further did not “expressly state that it applies retroactively to alter any tax liability incurred” under the temporary legislation.

2026 legislation

The 2026 permanent legislation contains some notable differences from the 2025 legislation, providing a sunset for Section 174A decoupling for tax years beginning on or after January 1, 2028, and for decoupling from the Section 163(j) changes and Section 168(n), a sunset for tax years beginning on or after January 1, 2030.

Specifically, the legislation amends D.C. Code Ann. Sec. 47–1803.03, which provides for the deductions allowed from gross income in computing net income of corporations, financial institutions, unincorporated businesses, and partnerships, as follows:

- **Section 174A and “catch up” R&E expensing.** For tax years beginning after December 31, 2021, but before January 1, 2028, the deduction allowed for domestic R&E expenditures under Section 174A must be charged to the capital account and is allowed as an amortization deduction ratably over the five-year period beginning with the midpoint of the tax year in which those expenditures are paid or incurred. Further, taxpayers may not elect to expense eligible R&E expenditures incurred in 2022-2024 under the OBBBA’s transition rules.
- **Section 163(j) changes.** For tax years beginning after December 31, 2024, but before January 1, 2030, the legislation requires taxpayers to compute Section 163(j) adjusted taxable income without adding back deductions for depreciation, amortization, and depletion, thereby reducing the adjusted taxable income against which the Section 163(j) limitation percentage is applied.
- **Qualified production property and bonus depreciation.** For tax years beginning after December 31, 2024, but before January 1, 2030, no deduction is allowed for the special depreciation allowance for qualified production property under Section 168(n). As under prior law, no deduction is allowed for bonus depreciation under Section 168(k). Existing 2025 form instructions require taxpayers to recompute their DC depreciation deductions without regard to these provisions, although the permanent legislation does not amend D.C. Code Ann. Sec. 47-1811.04 (regarding the allowable DC depreciation deduction) to reference the Section 168(n) decoupling.

Observation: Note that 2026 emergency legislation containing these provisions (Fiscal Year 2027 Budget Support Emergency Act of 2026, B26-0724) was enacted on August 13, 2026, and will expire on November 11, 2026. While the enactment of the permanent retroactive legislation may make this a moot point, DC may take the position that this 2026 emergency legislation “bridged the gap” between the expiration of the 2025 temporary legislation on September 25 and the October 2 law date of the permanent legislation.

Other notable tax provisions in the legislation include:

- **PTE tax addback.** For tax years beginning after December 31, 2025, a taxpayer computing DC gross income that claims a credit for taxes paid to another state or locality must add back the taxpayer’s distributive or pro rata share of any tax imposed on or paid by a pass-through entity (PTE) to that jurisdiction to the extent the tax was deducted in determining the PTE’s federal taxable income.
- **BAT study.** The legislation directs the CFO to submit a report to the Mayor and Council by January 31, 2027, on the feasibility of implementing a Business Activity Tax (BAT), including a process to gather any missing data necessary for the analysis through informational returns or the expansion of existing returns. The legislation defines a BAT as a tax “calculated by subtracting the sum of purchases from other businesses, rent, and capital expenditures from gross receipts that exceed \$200,000.”

Let's talk

To discuss the potential impact of this DC permanent legislation on your business, please contact:

State and local tax services

Rob Porcelli

+1 856-371-7776

robert.m.porcelli@pwc.com

Leighanne Scott

+1 202-322-5992

leighanne.scott@pwc.com

© 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