State and Local Tax Quarterly Newsletter

Second quarter 2026 state and local tax developments

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Income tax developments

Conformity

Arizona updates IRC conformity, requires Section 168(n) modification beginning in 2026

Enacted Arizona legislation (*H.B. 4168*) updates references to the IRC for tax years beginning from and after December 31, 2024 through December 31, 2025 to include provisions in P.L. 119-21 (the OBBBA) that are retroactively effective during the 2022-2025 tax years.

Further, the legislation updates IRC conformity for tax years beginning from and after December 31, 2025 to the IRC as amended and in effect on January 1, 2026, including provisions that became effective during 2025 and with the specific adoption of all retroactive effective dates. However, for tax years beginning from and after December 31, 2025, an addition is required for the amount of the special depreciation allowance for qualified production property under Section 168(n).

The legislation also updates the existing subtraction for dividend income from foreign corporations, which treats “global intangible low-taxed income” (GILTI) as defined in Section 951A as deductible dividend income. Effective for tax years beginning from and after December 31, 2024, the reference to GILTI is deleted and the statute instead references “income as described in Section 951A.”

Connecticut adjusts conformity to Sections 168(n) and 174/174A

Connecticut legislation (*Subst. S.B. 1*) enacted on May 26 requires an adjustment for Section 168(n) for the 2026 tax year and forward, leaves in place the required adjustment for Section 168(k), and requires application of Section 174 pre-OBBBA for the 2022-2024 catch up election and the 2025 tax year, with Section 174A conformity starting with the 2026 tax year and forward. Due to the state's rolling conformity, Connecticut will not require an adjustment for Section 168(n) for 2025.

Specifically, the legislation provides that for Corporation Business Tax purposes, in computing net income:

- for income years commencing on or after January 1, 2026, the provisions of Section 168(n) do not apply,
- for income years commencing on or after January 1, 2022, the deduction under Section 70302(f) of the OBBBA (the "catch-up" election for 2022-2024 domestic R&E expenditures) is disallowed,
- for income years commencing on or after January 1, 2025, and prior to January 1, 2026, the deduction under Section 174A is disallowed, and
- for income years commencing on or after January 1, 2022, and prior to January 1, 2026, any research or experimental expenditures paid or incurred for those years are deducted as permitted under Section 174 as it was in effect on July 3, 2025 (prior to enactment of the OBBBA).

The legislation provides that the estimated tax requirements under Conn. Gen. Stat. Section 12-242d do not apply to any additional tax due as a result of the above changes for income years commencing prior to the date of the bill's passage. Interest and penalties are waived for resulting underpayments of tax for income years commencing on or after January 1, 2022 but prior to January 1, 2026, if the tax is paid by the later of November 15, 2026 or the due date, without regard to any extension of time to file, of the return on which additional tax is reported.

Florida decouples from Section 168(k), 168(n), 174A, and 163(j) OBBBA changes

Florida legislation (*H.B. 7031*) enacted on June 11 updates references to the IRC as amended and in effect on January 1, 2026 (updated from January 1, 2025), effective "retroactively to January 1, 2026." Also effective as of January 1, 2026:

- Sections 168(k), 174(a), and 163(j) are included as amended and in effect on January 1, 2025, and
- Sections 168(n) and 174A are not included.

The legislation amends the definition of "taxable income" to mean income as defined in IRC Section 63 and properly reportable for federal income tax purposes "except as provided" above.

The practical effect of these changes is that the starting point for computing Florida taxable income:

- Follows pre-OBBBA law for the 2025 tax year and

- Follows OBBBA beginning in 2026 except for specified decoupling from Sections 168(n) and 174A and application of Sections 168(k), 174(a), and 163(j) as in effect pre-OBBBA. Note that Florida has a subtraction modification for its existing application of pre-OBBBA Section 168(k).

The legislation authorizes the Florida Department of Revenue to adopt rules to implement the legislation, including emergency rules effective for six months after adoption and that may be renewed during the pendency of permanent rulemaking.

Hawaii updates IRC conformity for 2026 onward, decouples from IRC Sections 174A and 168(n)

Hawaii legislation (*H.B. 2329*) enacted on May 26 updates conformity to the IRC from December 31, 2024 to December 31, 2025, for all tax years beginning after December 31, 2025, except with respect to certain provisions (e.g., Hawaii retains prior nonconformity to IRC Sections 168(k), 250, and 951A). The 2025 tax year generally remains tied to the December 31, 2024 IRC (i.e., pre-OBBBA).

Effective for tax years beginning after December 31, 2025, the legislation adds certain IRC provisions to the list of items that "shall not be operative" (i.e., from which the state decouples), including Section 174A (concerning domestic research or experimental expenditures). Effective for tax years beginning after December 31, 2025, the legislation specifies that Section 174 is operative "in the form that it existed as of December 31, 2024." Therefore, pre-OBBBA Section 174 applies to both the 2025 tax year and the 2026 tax year and forward.

The legislation also provides that Section 168(n) (concerning qualified production property) "shall not be operative" for tax years beginning after December 31, 2025. Due to the IRC conformity provisions and this decoupling, elections made for federal purposes under Section 168(n) will not apply for Hawaii purposes for both the 2025 tax year and the 2026 tax year and forward.

Iowa removes GILTI designation from Section 951A deduction

Iowa legislation (*S.F. 2492*) enacted on May 15 amends the existing subtraction under Iowa Code Section 422.35, subsection 12 for amounts included under IRC Section 951A. As amended, the statute no longer specifically references "global intangible low-taxed income" for purposes of the subtraction, but rather references "income under section 951A..." The change applies "retroactively to January 1, 2026, for tax years beginning on or after that date."

As described in the bill's fiscal note, the intent is to provide "a State corporate income tax deduction for net controlled foreign corporation (CFC) tested income (net CFC tested income or NCTI) from a foreign corporation, replacing the tax deduction for global intangible low-taxed income (GILTI)." This change addresses *guidance* published by the Iowa Department of Revenue in November 2025 that took the position that NCTI is not eligible for a deduction because the statute referenced GILTI (not NCTI), and Iowa does not treat NCTI as a foreign dividend or as subpart F income.

Kansas removes GILTI reference, maintains 100% subtraction under Section 951A

Kansas *S.B. 300*, enacted April 27, removes GILTI nomenclature from the existing subtraction modification for amounts included under IRC Section 951A.

Prior Kansas law provided a subtraction modification as follows: “For all taxable years commencing after December 31, 2020, 100% of global intangible low-taxed income under section 951A of the federal internal revenue code of 1986, before any deductions allowed under section 250(a)(1)(B) of such code.”

The legislation strikes “global intangible low-taxed” from this subtraction modification, so that the subtraction is now for “100% of income under section 951A....”

The legislation also requires certain manufacturers of alcoholic liquor to use the single sales factor apportionment method to apportion business income to Kansas for corporation income tax purposes for tax years beginning on or after January 1, 2027.

Kentucky enacts IRC conformity legislation, Sections 174/174A, 163(j) changes and delays combined reporting deduction

IRC conformity update

Legislation (*H.B. 757*) enacted April 14 updates references to the "Internal Revenue Code" to mean, for tax years beginning on or after January 1, 2026, the Internal Revenue Code in effect on December 31, 2025. For tax years beginning in 2025, the IRC conformity reference remains the IRC in effect on December 31, 2024 (i.e., pre-OBBBA).

Sections 174/174A adjustments

For tax years beginning on or after January 1, 2026, the legislation provides that taxpayers should add back the amounts deducted for domestic research or experimental (R&E) expenditures under Section 174A and deduct the amount allowed for those expenditures under Section 174 as it existed on December 31, 2024 (i.e., pre-OBBBA).

Section 163(j) limitation

For purposes of determining the limitation on business interest under Section 163(j), the legislation requires application of the federal limitation as in effect on December 31, 2024, exclusive of any amendments made subsequent to that date. In effect, this maintains the pre-OBBBA interest expense limitation calculation for Kentucky tax purposes.

Combined reporting deduction delay

The legislation also delays the first year in which a deduction can be taken to offset a change in the net deferred tax liability of a combined group, from the first tax year beginning on or after January 1, 2026 to the first tax year beginning on or after January 1, 2028.

Maine updates IRC conformity, treatment of Sections 174 and 168(n)

Under legislation (H.P. 1491) enacted on April 10, Maine has codified certain changes announced by Governor Janet Mills (D) for the 2025 tax year, including addition modifications related to federal expensing of domestic research and experimental (R&E) expenditures and qualified production property. The legislation provides mechanisms for deducting these addback amounts for Maine tax purposes in future years, among other changes.

Click *here* for PwC's Insight on the Maine legislative enactment.

Maryland enacts modifications for Sections 168(k) and 168(n), but no adjustments required for Sections 174/174A and 163(j) beginning in 2026

Sections 168(k) and 168(n)

The legislation (*S.B. 284*) enacted on April 8 provides for an addition or subtraction to reflect the depreciation deduction under Section 167(a) and related basis adjustments without regard to the additional depreciation allowance under Section 168(n) for qualified production property. This is similar to the existing Maryland addition/subtraction and basis adjustment language for bonus depreciation under Section 168(k).

Also under existing law, manufacturing entities were carved out of the Section 168(k) required modifications. The legislation changes this treatment, however, by limiting the additional (bonus) depreciation allowance for manufacturing entities to 20% of the adjusted basis of the qualified property.

Application of conformity rule

The above changes are applicable to all tax years beginning after December 31, 2025.

Further, Maryland law provides that an IRC amendment that affects the determination of federal gross income or federal taxable income does not affect the determination of Maryland taxable income for any tax year that begins in the calendar year in which the amendment is enacted, unless the Comptroller determines that the impact of the amendment on the state income tax revenue is less than $5 million. As a result, Maryland did not adopt the OBBBA changes to Section 168(n) for the 2025 tax year.

While Maryland did not adopt the OBBBA changes to Sections 174 /174A and 163(j) for the 2025 tax year, those changes are now adopted for the 2026 tax year by operation of the state's rolling conformity.

See *Maryland Impacts of the One Big Beautiful Bill Act (PL 119-21)* (1/6/2026)

Massachusetts requires Sections 174A, 168(n), and 163(j) modifications

Massachusetts' supplemental budget (*H. 5470*) enacted on June 12 requires an addback for certain amounts deducted under P.L. 119-21 (the OBBBA), including for domestic R&E in 2025, the enhanced interest deduction in 2025 and 2026, and the qualified production property deduction in 2025 and 2026. However, the legislation will allow each of these deductions for future years because of a decision by the Massachusetts Supreme Judicial Court barring placement of the "25-18 Initiative Petition" on the November ballot.

Click here for PwC's Insight on this legislation.

Minnesota enacts legislation impacting OBBBA conformity

Minnesota *H.F. 2438,* enacted on May 28, updates the state's conformity to the IRC to mean the IRC as amended through May 1, 2026 (formerly May 1, 2023), effective "retroactively at the same time the changes were effective for federal purposes." As a result, Minnesota generally conforms with the OBBBA, including Section 168(n) expensing of qualified production property and revisions to the Section 163(j) interest expense limitation calculation. However, the state continues to not conform to Section 168(k) bonus depreciation and now requires the following modifications for research and experimental (R&E) expenditures and with respect to certain CFC income.

R&E expenditures

For corporate tax purposes, effective for tax years beginning on or after January 1, 2025, the legislation:

- Requires an addition for 80% of the amount of the deduction for domestic R&E expenditures claimed under IRC Section 174A(a) (treatment as expenses). The legislation allows a subtraction in each of the four tax years immediately following the tax year in which an addition is required equal to one-fourth of the amount of the addition.
- Requires an addition for the amount of the one-year and two-year deduction elections for 2022-2024 unamortized qualified domestic R&E under the OBBBA, title VII, section 70302(f)(2)(A). The legislation allows a subtraction in the tax year of the addition and the immediately following tax years equal to the amortization deduction that would be allowed if the taxpayer did not make the election.

Adjustments to CFC income

The legislation amends current law to replace the reference to GILTI to instead provide that "Net CFC tested income" as calculated under new Minn. Code Sec. 290.034 is dividend income, effective for tax years beginning after December 31, 2025. Under this new Minnesota code section, Net CFC tested income is the amount included pursuant to Section 951A as modified for Minnesota purposes (see below with regards to federal look-through) minus the amount calculated under former Section 951A(b)(2)(A) (prior to OBBBA) (i.e., GILTI's "net deemed tangible income return" of 10% of the aggregate of a US shareholder's pro rata share of the qualified business asset investment, or QBAI, of each CFC) without regard to the interest expense reduction under former Section 951A(b)(2)(B) (prior to OBBBA).

The legislation further provides that the OBBBA's permanent extension of the look-through rule under Section 70351 of P.L. 119-21 and applicable for tax years beginning after December 31, 2025 does not apply for purposes of determining the Net CFC tested income inclusion under Section 951A or subpart F under Section 951.

New York State and City final budget includes OBBBA conformity revisions

New York has enacted budget revenue legislation amending conformity to the OBBBA, particularly with respect to IRC Sections 168(n) and 174/174A (and for New York City, with respect to Section 163(j)). Notably, there are numerous drafting differences between the city and state provisions, as well as clear departures in policy. For example, New York State requires 60-month amortization (as if Section 174A(c) applied) for both domestic and foreign R&E expenditures from 2025 forward, while New York City requires five years for domestic and 15 years for foreign (as under pre-OBBBA law).

The legislation also extends the state's temporary top corporate tax rate by three years, includes a vendor sales tax reregistration program and limited amnesty, and introduces a novel New York City tax on certain high-value residential property that does not serve as a primary residence, among other tax provisions.

Click here to view PwC's Insight on this development**.**

Oregon legislation requires modifications for Section 168(k)

Effective for property that is placed in service in tax years beginning on or after January 1, 2026, S.B. 1507 requires an addition modification for the difference between the amount of depreciation deducted for federal purposes under Section 168(k) and the amount allowed as a deduction pursuant to Section 168(k) as it was in effect on December 1, 2017. Any amounts added to federal taxable income will then be allowed as a subtraction modification for the year in which they would have been allowed as a deduction for federal purposes under the IRC as in effect on December 1, 2017.

The legislation did not adjust conformity to Section 168(n).

[*S.B. 1507*, enacted 4/9/2026]

Rhode Island legislation amends conformity for Sections 174A and 163(j)

Legislation (*H.B. 7127 Sub. A as amended*) enacted on June 12 requires modifications in computing net income related to Sections 174A and 163(j). The 2026 legislation did not address 2025 and prior tax years.

Under 2025 H.B. 5076, enacted June 29, 2025, Rhode Island amended the definition of "net income" to add to such income, "for the taxable year beginning on or before January 1, 2025, the amount of any income, deduction or allowance that would be subject to federal income tax but for the Congressional enactment of the One Big Beautiful Bill Act ("OBBBA") or any other similar Congressional enactment." On December 15, 2025, the Rhode Island Department of Revenue, Division of Taxation (the Division) issued an emergency regulation (280-RICR-20-25-16) stating that "for the taxable year beginning on or before January 1, 2025" includes fiscal tax years beginning in 2025 and all tax years prior to 2025. This emergency regulation was adopted as a permanent regulation (280-RICR-20-25-17) on March 27, 2026.

According to the Division, required adjustments under H.B. 5076 for the 2025 and prior years include:

- *Section 174A.* For tax year 2025, Rhode Island is decoupled from OBBBA's allowance to accelerate expensing of qualified research and experimental (R&E) expenditures at the federal level. If a corporation does not amortize on its federal filing, the taxpayer must amortize the expenditures on the Rhode Island return. For all tax years, taxpayers will be required to maintain an amortization schedule for Rhode Island tax purposes. Any amount that is not allowed within the tax year may be carried forward for a total of five years. Future amortization deductions may not exceed 20% of the initial addback each subsequent year a deduction is taken as allowed by law.
- *Section 163(j)*. If the federal corporate return is originally filed or amended and includes an additional deduction for business interest expense than what was allowed prior to the enactment of OBBBA, then the corporation must add back the additional business interest expense on the RI Schedule HR1 - Entity form.

H.B. 7127 reenacts the above provision from 2025 H.B. 5076 "for the taxable year beginning on or before January 1, 2025." Further, the legislation requires the following additions to net income:

- *Section 174A.* For any tax year beginning on or after January 1, 2026, the amount of the deduction taken for domestic R&E expenditures under Section 174A less the amount of the deduction that would have been allowed under pre-OBBBA Section 174.
- *Section 163(j).* For any tax year beginning on or after January 1, 2027, the amount of any deduction allowable for depreciation, amortization, or depletion pursuant to Section 163(j)(8)(A)(v) (the amount of additional interest deduction allowed due to the OBBBA's changes to the calculation of the interest expense limitation).

While the H.B. 7127 provides for an addition modification to net income related to IRC Section 163(j), H.B. 7127 does not specifically provide for a subtraction modification for any disallowed amount relating to this modification.

H.B. 7127 also allows a deduction for any tax year beginning on or after January 1, 2026 for "the amount as determined by the tax administrator required to be added back in a prior year that would have been allowed" under Section 174A but would not have been allowed as a deduction under pre-OBBBA Section 174. The legislation provides that "at no time may the cumulative modification amount for each amortized expenditure exceed 100% of said expenditure's expense amount."

Texas Comptroller finalizes margin tax COGS rule amendments to align with IRC conformity interpretation

The Texas Comptroller has adopted amendments to Regulation Section 3.588, concerning margin tax cost of goods sold (COGS), without changes to the proposed text as published in the *April 3, 2026, issue* of the Texas Register. [*34 TAC 3.588*, Texas Register, Volume 51 TexReg 3843, 6/12/2026]

The amended rule provides that, beginning with the 2026 franchise tax report, a taxable entity must use the then-current federal tax law, instead of the 2007 Internal Revenue Code (IRC), when determining includible depreciation from the federal tax return on which the report is based, including amounts for which the taxable entity elected to expense certain depreciable business assets. The 2007 IRC only applies where the statute and rule specifically reference the IRC.

For example, beginning with the 2026 franchise tax report, a taxable entity may include in its COGS the bonus depreciation claimed on its federal return, to the extent associated with and necessary for the production of the goods. Further, on the 2026 franchise tax report only, a taxable entity with qualifying assets also may include a one-time net depreciation adjustment for each qualifying asset in its COGS calculation. Qualifying assets are those placed in service prior to the accounting year start date on the 2026 report, if the assets have not been disposed of prior to this date and are associated with and necessary for the production of the goods. The depreciation adjustment for a qualifying asset for a given year is the difference in the depreciation claimed on the federal tax return and the depreciation claimed for Texas franchise tax COGS. For each tax year the qualifying asset was in service (through the accounting year end date on the 2025 report), the taxable entity may calculate the depreciation adjustment.

A taxable entity should add the depreciation adjustment for each year to arrive at the net depreciation adjustment for that qualifying asset and include this amount in the entity's COGS on its 2026 franchise tax report.

Vermont requires modifications for Sections 168(k) and (n), 174A, and 250

Legislation (*H.B. 933*) enacted on June 18 updates IRC conformity to the IRC as amended through December 31, 2025 (updated from December 31, 2024), effective for tax years beginning on or after January 1, 2025.

However, also effective for tax years beginning on or after January 1, 2025, the legislation strikes existing provisions that specify that "Vermont net income" means taxable income under the IRC "without regard to... § 168(k)" and instead provides that Vermont net income is to be increased by:

- The "bonus depreciation deduction" taken on the taxpayer's federal income tax return under Section 168(k) or (n).
- The deduction taken on the taxpayer's federal income tax return under Section 174A and OBBBA Section 70302(f)(2) (the "catch-up" deduction for 2022-2024 domestic R&E expenditures), except for certain taxpayers that meet the gross receipts test (small business test) under Section 448(c) for the tax year.
- An amount equal to the amount of income deducted under Section 250 to the extent deducted from net income.
  - Vermont previously provided deductions from net income under Section 250 both for purposes of the GILTI deduction and the FDII deduction.
  - As noted in the Department of Taxes' updated conformity guidance, this impacts Vermont's foreign dividend based, which is set forth in Vt. Reg. Section 1.5862(d)-8(b). This also impacts Vermont apportionment. The Department advises that "all GILTI included in the taxpayer's Vermont net income will now be eligible for factor relief under Vt. Reg. Section 1.5862(d)-8(b). Vermont's denominator for the purposes of apportionment factor relief will now include all gross receipts relating to GILTI. This is a change from previous years, when the denominator included net GILTI factors (after the IRC § 250 deduction)."

The legislation provides corresponding deductions for:

- the depreciation deduction that would be allowed if the taxpayer had made the election under Section 168(k)(7) or (n)(6) to not claim bonus depreciation on that property; and
- the deduction that would be allowed under pre-OBBBA Section 174. As noted in the Department's updated conformity guidance, taxpayers making the amortization election at the federal level under Section 174A(c)(1) for expenses incurred in tax years beginning on or after January 1, 2025 will not need to report modifications "because the net Vermont R&E adjustment is zero."

The legislation also amends the existing R&D tax credit from 27% to 75% of the amount of the federal tax credit allowed for eligible R&D expenditures under IRC Section 41(a) that are made within Vermont, effective for tax years beginning on and after January 1, 2027.

See Vermont conformity guidance *here*.

Credits

California budget legislation includes permanent business tax credit limitation

California budget "trailer" legislation (S.B. 122) enacted on June 29 extends the current $5 million business tax credit cap and "refundable" credit election under both the personal income and corporate tax law through the 2029 tax year, while instituting a permanent limitation of the greater of $5 million or 70% of the aggregate amount of tax liability beginning in 2030. The legislation also sunsets the current NOL suspension, which applies to tax years beginning on or after January 1, 2024 and before January 1, 2027 for taxpayers with net business income or modified adjusted gross income of at least $1 million for the tax year. [*S.B. 122*, enacted 6/29/2026]

Extension of temporary credit limitation, "refundable" credit election

California in 2024 limited credit utilization for 2024-2026 (*S.B. 167*) and provided for the elective recovery of credits limited by the provision (*S.B. 175*). S.B. 122 extends these provisions through the 2029 tax year.

Specifically, S.B. 167 limited the aggregate use of otherwise allowable business credits to $5 million for each tax year beginning on or after January 1, 2024 and before January 1, 2027 (except for certain credits not subject to the limitation). S.B. 122 extends this limitation through tax years beginning before January 1, 2030.

For combined reports, the $5 million credit limitation is applied to the aggregate amount of "tax," as defined in Cal. Rev. and Tax. Code Section 23036, of all combined group members. The carryover period for any credit that is not allowed due to the application of the $5 million limitation is increased by the number of tax years the credit or any portion thereof was not allowed.

S.B. 175 allowed taxpayers to make an irrevocable election on an original timely filed return for each tax year beginning on or after January 1, 2024, and before January 1, 2027. S.B. 122 extends this election period through tax years beginning before January 1, 2030.

The election provides taxpayers with an annual refundable credit during the five-year refundable period equal to 20% per year of the credit that otherwise would have been available to reduce net tax in the tax year of the election but for the above limitations. The "refundable period" is the first five consecutive tax years beginning the third tax year after the tax year for which the taxpayer makes the election.

In each tax year of the refundable period, the annual refundable credit amount will be allowed as a credit against the tax computed for the tax year, and the excess, if any, will be credited against any other amounts due. Any remaining balance then will be paid to the taxpayer. S.B. 122 provides that the refundable credit will not be included for purposes of applying the credit limitation above.

New permanent credit limitation

S.B. 122 provides that for each tax year beginning on or after January 1, 2030, the total of all business tax credits otherwise allowable, including the carryover of any business tax credit, may not reduce the "net tax" for the tax year by more than 70% or $5 million, whichever is greater. For combined reports, the 70% or $5 million credit limitation is applied to the aggregate amount of "tax," as defined in Cal. Rev. and Tax. Code Section 23036, of all combined group members.

As with the temporary credit limitation, the permanent limitation applies to most business tax credits, with a short list of exceptions including the low-income housing tax credit and the pass-through entity tax credit. The excepted credits (not subject to the credit limitation) are to be applied after any business credits subject to the limitation are applied.

The permanent limitation will be computed without taking into account the amount of any refundable credits pursuant to the election described above. Taxpayers will continue to be able to take advantage of the refundable credits as outlined above, but new refundable credit elections will not be allowed beginning with the 2030 tax year.

S.B. 122 provides that the amount of any credit otherwise allowable for the tax year that is not allowed due to application of the credit limitation will remain a credit carryover amount. However, the legislation does not appear to provide an extension of the allowable carryover period for limited credits (unlike the temporary credit limitation).

Michigan Treasury announces research credit proration percentages

The Michigan Department of Treasury published a proration notice for the 2025 expense year research credit based on qualifying expenses under MCL 206.677 and 206.717. The annual credit cap is $100 million ($75 million for large employers and $25 million for small employers), and tentative claims for the 2025 expense year submitted by April 1, 2026, exceeded this cap. Small-employer claims were over $25 million but stayed within 25% of total claims.

As a result, the following proration percentages will apply to the 2025 Michigan research credit:

- Large employers: 50.96%
- Small employers: 59.88%

The proration must be applied to the tentative claim amount, even if the original estimate was understated. However, if a claim is later adjusted downward, the percentage should be applied to the revised (lower) amount.

[*Research and Development Credit Proration Notice for Credits Based on 2025 Expenses*, Mich. Dept. of Treas. (4/24/2026)]

Wisconsin extends research credit carryforward period to 50 years

Legislation (*S.B. 482*, enacted April 9) increases from 15 to 50 years the carryforward of the income and franchise tax research credit to the extent the credit is not used to offset the tax due and not certified for payment. This change "first applies retroactively to all credits claimed...and carried over from previous taxable years that have not been used to offset tax, that have not been refunded, and which have not expired...on the effective date of this subsection" (i.e., as of April 10, 2026). For more information, see the Wisconsin Legislative Council *Act Memo*.

Net operating losses

Illinois retains $500,000 NOL carryover limitation, introduces "greater of" income percentage limitation

Legislation (S.B. 3019) enacted on June 16 introduced a percentage limitation to the corporate net operating loss carryover allowance, so that the limitation will be the greater of $500,000 (the existing limit) or a percentage of net income.

Under preexisting law, no NOL carryover deduction is allowed exceeding $500,000 for any tax year ending on or after December 31, 2024 and prior to December 31, 2027. As amended, the statute imposes a carryover limitation of *the greater of* $500,000 or the following percentages of net income (without regard to the NOL carryover deduction):

- 15%, for tax years ending on or after December 31, 2027, and before December 31, 2028;
- 30% for tax years ending on or after December 31, 2028, and before December 31, 2029;
- 50% for tax years ending on or after December 31, 2029, and before December 31, 2030;
- 65% for tax years ending on or after December 31, 2030, and before December 31, 2031; and
- 80% for tax years ending on or after December 31, 2031.

As under preexisting law, for purposes of applying the carryforward period, the years for which the carryover is limited above will not be counted.

New Jersey adopts temporary $1 million NOL cap

New Jersey legislation (*A. 5322*) enacted on June 30 provides that the amount of any prior net operating loss deduction (PNOL) and any post-unitary NOL deduction claimed by a taxpayer (except for a public utility) cannot exceed in the aggregate $1 million for privilege periods ending on or after July 31, 2026, but before July 31, 2030. For taxpayers with a privilege period of less than 12 months, the limitation will be prorated by the number of months covered during the privilege period. For privilege periods ending on or after July 31, 2030, but before July 31, 2032, taxpayers may deduct PNOLs/NOLs that were disallowed due to the $1 million cap, but only up to 75% of the taxpayer's allocated entire net income.

Taxpayers may carry over the balance amount of the disallowed PNOL/NOL deduction that remains unused due to the above limitations for an additional six privilege periods beyond their normal expiration date immediately following the privilege period during which the PNOL/NOL deduction would have otherwise expired. New Jersey generally has a 20-year carryforward period for PNOLs/NOLs.

No interest or penalty will be assessed against a taxpayer for an underpayment of an installment payment of estimated tax resulting from the above limitations, provided that the installment payment is due and payable after December 31, 2025 but before January 1, 2027.

P.L. 86-272

New York appellate division upholds regulation interpreting P.L. 86-272

The New York Supreme Court, Appellate Division affirmed the trial court's decision that New York's regulation applying Public Law (P.L.) 86-272 is not preempted. Because the plaintiff trade association brought a "facial" challenge to the regulation, the court limited its review to whether the regulation "as written" revokes franchise tax immunity where P.L. 86-272 requires it or obstructs Congress's purposes in enacting the federal law. The court stated that "whether the Department can, in practice, administer the regulation in accord with Public Law 86-272's in-state activity requirement...will need to be assessed on a factual record, not the text of the regulation itself."

Click here to view PwC's Insight on this development.

[*American Catalog Mailers Ass'n v. Dep't of Tax'n and Fin.*, N.Y. App. Div. (3d Dep't), No. CV-25-0865, 5/7/2026]

Tax rates

Arkansas lowers corporate tax rate

Legislation (*S.B. 1* and *H.B. 1001*) enacted on May 6 in special session lowers the top corporate tax rate to 4.1%, effective for tax years beginning on or after January 1, 2027. Specifically, the tax rates beginning with the 2027 tax year will be:

- 1% on the first $3,000 of net income;
- 2% on the next $3,000 of net income up to $6,000;
- 3% on the next $5,000 of net income up to $11,000; and
- 1% on net income exceeding $11,000.

The top corporate tax rate was previously 4.3%, lowered from 4.8%, effective for tax years beginning on or after January 1, 2024.

Georgia legislation lowers corporate income tax rate, repeals various credits

Legislation (*H.B. 463*) enacted on May 11 lowers the Georgia corporate tax rate (which references the individual tax rate) from 5.19% to 4.99%, effective for tax years beginning on or after January 1, 2026.

The legislation further provides that the rate will be reduced by 0.125% annually, beginning on January 1, 2027, until the rate reaches 3.99%. However, these additional reductions will be delayed by one year for each year that prospective annual reductions in the standard deduction are delayed. Whether those adjustments are delayed will depend on future revenue estimates. The Office of Planning and Budget will make these delay determinations and report them by December 1 of each year.

Prior law (H.B. 111, enacted 4/15/2025) reduced the corporate tax rate from 5.39% to 5.19%, effective for tax years beginning on or after January 1, 2025. That legislation provided for annual 0.1% rate reductions contingent on state revenue determinations until the rate reached 4.99%. These potential future rate reductions are replaced by the new framework described above.

The legislation also repeals various tax credits, effective for tax years beginning on or after January 1, 2026. These include credits for businesses headquartered in state and full-time jobs (Section 48-7-40.18); manufacturers of medical equipment and supplies, pharmaceuticals, and medicine; base year port traffic increases; eligible teleworking expenses; personal protective equipment manufacturers; alternative fuel, low-emission, and zero-emission vehicles and electric vehicle chargers; businesses engaged in manufacturing cigarettes for exportation; and business enterprises that purchase or lease a motor vehicle to provide transportation for employees.

Unitary

Colorado enacts worldwide combined reporting regime with water's-edge election, repeals 80/20 company treatment

On June 3 Colorado enacted legislation (*H.B. 1289)* providing for default worldwide unitary combined reporting with a 10-year water's-edge election. The legislation also repeals the 80/20 rule, under which a C corporation is excluded from the unitary combined return if 80% or more of its property and payroll are assigned to locations outside the United States. These changes are effective for tax years beginning on or after January 1, 2027.

Click here to view PwC's Insight on this development.

Other

Nebraska legislation provides relief from "foreign adversarial company" designation

Nebraska legislation (L.B. 644) enacted on June 4, 2025 prohibits "foreign adversarial companies" (FACs)-–including any corporation with a subsidiary, affiliate, or parent based in China, Hong Kong, Macau, Cuba, Iran, North Korea, Russia, or Venezuela (Maduro regime)-–from receiving any benefit from Nebraska incentive programs, including the Advantage, ImagiNE, and research credits.

L.B. 1096, enacted on April 16, 2026, removes parent companies not based in these countries from this restriction. Specifically, the legislation provides that direct and indirect subsidiaries of a FAC are restricted, but that a parent of a FAC (e.g., the FAC's US-based parent) is not restricted.

The legislation also provides rules for use of Nebraska credits and incentives by a unitary group including a FAC. The legislation provides that any company that is not a FAC "shall only use benefits against income taxes of the members of the same group of companies that are not foreign adversarial companies. The tax liability attributable to members of the unitary group that are foreign adversarial companies shall be determined using the apportionment formula used to determine the amount of tax due."

Indirect tax developments

Digital and data taxes

Illinois enacts budget bill with new digital taxes and social media platform fee, among other items

Budget-related tax legislation signed by Governor JB Pritzker on June 16, 2026 includes the following significant changes, effective January 1, 2027:

- imposes a new tax on providers of targeted advertising services at a rate of 10% of the gross receipts derived from these services provided in Illinois, whose receipts exceed $1 million during the preceding 12-month period, determined quarterly
- establishes a monthly social media platform fee for platforms with more than 100,000 Illinois users from whom the platform collects data, and requires a report of average monthly Illinois users to the Secretary of State within 14 days after the start of each month
- applies a new privilege tax at the rate of 0.2% of the value of digital asset business activity received by Illinois customers collected by digital asset brokers who maintain a place of business in Illinois, including remote brokers meeting a $100,000 Illinois gross receipts threshold.

[*SB 3019*, enacted 6/16/2026]

Beginning July 1, 2026, the bill:

- imposes marketplace facilitator collection obligations on hotel booking platforms
- imposes a new 15% privilege tax on fantasy contest receipts
- consolidates the fee imposed on new or used tires sold and delivered in Illinois
- suspends the previously scheduled July 1, 2026 Consumer Price Index (CPI) inflation adjustment to the motor fuel excise tax rate for the period beginning July 1, 2026 and ending January 1, 2027.

In addition, SB 3019 creates a sales tax holiday for 10 days in August 2026.

For more information, see *Illinois legislature passes budget bill with new digital taxes and social media platform fee, among other items*.

Kentucky expands sales and use tax to data brokering services, makes additional changes

Kentucky *HB 757*, enacted on April 14, 2026, adopts several sales and use tax changes. The following changes are effective on August 1, 2026:

- Data brokering services (the act of collecting, aggregating, and analyzing personal data for sale) are defined as a new service category and added to the list of enumerated services subject to tax
- Eliminates the 200-transaction threshold requirement for economic nexus registration and collection

- Amends definition of “communication services” to include separately stated charges for pay telephone (previously excluded)
- Defines “educational or charitable institution” and makes changes to expand the definition of “religious institutions” and provides sales and use tax exemptions for sales and purchases.

The following changes were effective upon enactment:

- Provides a sales tax incentive for certain professional sporting event qualifying attractions for events held on or after July 1, 2026 (expires November 30, 2036)
- Extends the motion picture refundable credit program application window through June 30, 2030
- Extends the $2 fee on sales of new tires for transactions occurring prior to July 1, 2034.

For more information, see *Kentucky expands sales and use tax to data brokering services, makes additional changes*.

Utah enacts targeted advertising tax beginning January 1, 2027

Utah enacted *S.B. 287* on March 25, 2026, creating a new annual 4.7% tax that applies to a targeted advertising entity meeting specified revenue thresholds and delivering targeted advertising to Utah audiences. The enacted legislation uses an impressions-based apportionment methodology to determine the tax base. The tax is imposed beginning January 1, 2027.

For more information, see PwC’s Insight *here*.

Chicago’s social media amusement tax faces legal challenge

The City of Chicago’s Social Media Amusement Tax, which became effective on January 1, 2026, is being challenged by a trade association representing members of the technology industry. NetChoice filed suit at the Circuit Court of Cook County on March 13, 2026 requesting that the tax be declared invalid and collection enjoined. The tax, imposed as a per-user fee, applies to certain social media businesses.

For more information, see PwC’s Insight *here*.

Taxability of transactions

California to impose sales and use tax on digital products including prewritten software and SaaS beginning January 1, 2027

Legislation (SB 122) signed by California Governor Gavin Newsom (D) on June 29, 2026 implements the Governor’s budget revision to apply sales and use tax to transactions involving digital products transferred on tangible media, transferred electronically, or accessed remotely, effective January 1, 2027. Digital products include prewritten computer software, regardless of how the software is delivered or accessed, and software as a service (SaaS). Custom software remains exempt.

For more information, see PwC’s Insight here.

Colorado expands sales/use tax to software downloads, apps, and remote access

Colorado enacted *HB26-1223* on June 4, 2026. Effective January 1, 2027, the bill expands sales and use tax to computer software, regardless of method of delivery including downloaded “apps,” as well as software accessed remotely through the internet. Custom software remains exempt. An exemption is also provided for software governed by a negotiable license agreement.

The bill also expands and codifies the exemption for sales tax on gas and electric utilities for certain prepared food retailers. It also provides a limited sales tax deduction for certain food services and hospitality industries for specified periods in 2027 and 2028.

HB26-1223 contains the safety clause, which exempts the legislation from the constitutional right of referendum.

For more information, see *Colorado expands sales and use tax to software downloads, apps, and remote access*.

Tennessee Court of Appeals finds software licenses exempt from business tax; cloud-based hosting and services taxable

The Tennessee Court of Appeals on May 13, 2026, held that receipts from computer software licenses are exempt from Tennessee business tax as sales of intangible personal property. The court found that cloud hosting and related cloud-based services are taxable when electronically delivered to Tennessee locations.

SAP America, Inc. v. David Gerregano, Commissioner of Revenue, State of Tennessee, No. M2024-01399-COA-R3-CV, Tenn. Ct. App. (5/13/26)

For out-of-state service providers, the decision emphasizes that Tennessee business tax exposure is dependent on the customer’s delivery or access location rather than the provider’s performance location. Electronic access by Tennessee users establishes in-state delivery, making customer, billing, “ship-to,” and service-location data important support for sourcing positions. It also highlights that prewritten computer software is considered intangible personal property for purposes of the business tax, despite being defined as tangible personal property under the sales and use tax statutes.

For more information, see *Tennessee Court of Appeals finds software licenses exempt from business tax; cloud-based hosting and services taxable*.

Utah clarifies sales tax on streaming, subscriptions, and seller-hosted prewritten software

Utah enacted *Senate Bill 162* on March 23, 2026, expanding and clarifying the sales and use tax treatment of digital transactions beginning July 1, 2026. While Utah already taxed digital products transferred electronically and prewritten software regardless of delivery method, the new law expressly applies tax to amounts paid or charged for:

- access to digital audio-visual works, digital audio works, digital books, and gaming services, including the streaming of, or subscription for access to, that content even without a download; and
- the storage, use, or other consumption of prewritten computer software delivered electronically or by load and leave, as well as seller-hosted prewritten computer software.

The legislation also adds language to clarify that transactions already subject to tax under Utah's MultiChannel Video or Audio Service Tax Act are exempt from the sales and use tax, according to the state's longstanding position.

For more information, see PwC's Insight *here*.

Washington State repeals tax on certain services enacted under ESSB 5814

Engrossed Substitute Senate Bill 6346 (ESSB 6346) enacted on March 30, 2026 to become effective on January 1, 2029 as part of the Washington State Tax and Investment Act, repeals many of the recently enacted provisions of ESSB 5814, which expanded the retail sales tax and business and occupation (B&O) tax to several categories of services, including advertising services, custom software and software customization, data processing, website development and support, certain IT support and training services, temporary staffing, security services, and live presentations. ESSB 6346 also restores key Digital Automated Service (DAS) exclusions, while leaving advertising services taxable.

Businesses will need to comply with the tax on the expanded services under current law until the repeal becomes effective on January 1, 2029. The tax on advertising services remains unaffected and is not part of the appeal.

For more information, see *Indirect Tax Digest, April 2026*.

Marketplace sales

South Carolina Supreme Court affirms tax liability on marketplace third-party sales

The South Carolina Supreme Court on March 18, 2026, affirmed an Administrative Law Court and Court of Appeals decision that the taxpayer was liable for tax on products sold by third-party merchants through the taxpayer's online marketplace website in 2016. The court stated there was no question that taxes were due on third-party sales. The question before the court was whether the taxpayer was required to collect and remit those taxes. The taxpayer contended that (1) it served as a conduit between merchants and customers, not a party "engaged . . . in the business of selling," (2) the statute lacked a limiting standard and would sweep in incidental service providers, (3) any ambiguity must be resolved in the taxpayer's favor, and (4) the assessment effectively applied the 2019 marketplace facilitator statute retroactively, violating due process.

The court held that (1) the statutory phrase "engaged . . . in the business of selling," not the definition of "seller," determined who must remit sales tax, (2) the taxpayer's business model, including its control over pricing, listings, returns, and proceeds, made it integrally involved in every sale, (3) the statute provided a "stopping point" distinguishing it from incidental service providers, (4) the statute was unambiguous as applied, and (5) no due process violation occurred because the Department applied the law as written in 2016.

Amazon Services LLC v. South Carolina Department of Revenue, South Carolina Supreme Court, case number 2024-000625 (3/18/26)

For more information, see *Indirect Tax Digest, April 2026*.

Other

Maryland enacts statutory framework for MPU certificates effective January 1, 2027

Maryland *Senate Bill 644*, enacted on April 28, 2026, establishes a statutory framework for the issuance, use, renewal, rescission, and revocation of multiple points of use (MPU) certificates for sales and use tax purposes, effective January 1, 2027. The legislation applies to MPU certificates for digital codes, digital products, and taxable data and information technology services.

SB 644 supersedes or modifies key elements of prior Comptroller guidance, creating a two-year authorization cycle, vendor-level certificates that may apply to future purchases, streamlined certificate generation requirements, and statutory procedures for revocation and vendor notification.

For more information, see *Maryland enacts statutory framework for MPU certificates effective January 1, 2027*.

Let's talk

For a deeper discussion, please contact:

Victoria Torchen
National SALT Practice Leader
+1 203-455-4159
victoria.torchen@pwc.com

or one of our SALT Team members.