



US State Income Tax Digest

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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.

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.

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 \(PL 119-21\) \(1/6/2026\)](#).

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)]

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.”

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]

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](#).

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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