US State Income Tax Digest

Highlighting significant income and business tax developments

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Featured article: North Carolina updates IRC conformity, requires Section 174A modifications, amends franchise tax calculation

Legislation (S.B. 595) enacted on July 2 updates North Carolina conformity to the IRC through the date of the One Big Beautiful Bill Act's (OBBBA's) enactment and requires modifications with respect to Section 174A expensing of domestic R&E expenditures. Among other changes, the legislation also seeks to retroactively change the franchise tax net worth calculation with respect to intercompany debt and establishes a new process for reporting a partnership's federal adjustments.

Observation: North Carolina's IRC update impacts the 2025 tax year, and a recent Department of Revenue notice provides guidance to taxpayers filing original or amended North Carolina tax returns. The franchise tax change could impact current intercompany debt arrangements and create liabilities for prior years.

Click here for PwC's Insight on these developments.

Multiple states provide federal tax conformity guidance

Connecticut Revenue Services issues guidance on Section 174A nonconformity for 2025

The Connecticut Department of Revenue services on July 2 issued a Taxpayer Services Special Bulletin (TSSB 2026-2) addressing the state's nonconformity with Section 174A for the 2025 tax year, requiring a "modification" to add back the federal Section 174A deduction and allowing a Connecticut subtraction equal to the amount deductible under Section 174 as in effect on July 3, 2025.

2026 law changes impacting Sections 174/174A. The guidance notes that Subst. S.B. 1, enacted on May 26, 2026, "expressly conformed to IRC Section 174 as it existed on July 3, 2025 and did so for the income years starting on and after January 1, 2022 and prior to January 1, 2026." Further, the guidance notes that the legislation "expressly provided that corporations are not eligible to claim the deduction allowed under IRC Section 174A in the 2025 income year but will allow such deduction in income years starting on and after January 1, 2026." The guidance also notes that as a result of Subst. S.B. 1, "it is clear that the provisions of Section 70302(f) of P.L. 119-21 [the "catch-up" election] are not application for Connecticut corporation business tax purposes. Accordingly, corporations must disregard any federal adjustments that arise as a result of Section 70302(f) of P.L. 119-21 when determining their Connecticut corporation business tax liability."

Connecticut modification required for 2025. The guidance provides that "whether filing an original or amended Form CT-1120 for the 2025 income year, a corporation must add back any deduction claimed federally under IRC Section 174A for domestic research or experimental expenditures incurred during the 2025 income year. After doing so, the corporation would then be eligible to compute and claim a Connecticut subtraction modification equal to the amount deductible under IRC Section 174 as in effect on July 3, 2025." This modification would be reported on the "Other" subtraction modification line on Form CT-1120.

Connecticut amortization schedule. The remaining Connecticut basis in the expenditures would continue to be amortized over the remainder of the applicable five-year period for Connecticut purposes. Corporations must maintain a separate Connecticut amortization schedule for domestic research or experimental expenditures incurred during income years prior to January 1, 2026 for which a difference in tax basis exists.

Florida DOR provides guidance on 2026 decoupling provisions

The Florida Department of Revenue on July 7 issued guidance (Tax Information Publication (TIP) 26C01-01) regarding legislation (H.B. 7031) enacted on June 11 that updated references to the IRC as amended and in effect on January 1, 2026, while also decoupling from certain IRC provisions effective retroactive to January 1, 2026. The Department explained that “this means Florida will follow the computation of federal taxable income except for several sections from which Florida is specifically decoupling.”

Certain IRC provisions including the following are to be applied by taxpayers without taking into consideration any amendments made by the OBBBA:

- Section 168(k) (Bonus depreciation);
- Section 174(a) (Amortization of research and experimental expenditures); and
- Section 163(j) (Limitation on business interest).

Further, the following IRC sections are not to be applied by taxpayers:

- Section 168(n) (Special allowance for qualified production property) and
- Section 174A (Domestic research or experimental expenditures).

The Department states that a taxpayer affected by these decoupling provisions “will need to recompute its federal taxable income for purposes of Line 1 of the Florida Corporate Income/Franchise Tax Return (Form F-1120). When filing Form F-1120 (for the 2026 tax year), the taxpayer should attach a proforma federal return with the recomputed federal taxable income, in addition to attaching pages 1-6 of its federal income tax return. Taxpayers should retain documentation that substantiates and supports the recomputed federal taxable income calculation...”

The Department notes that Fla. Stat. Section 220.13(1)(e) continues to require certain modifications to federal taxable income, including for bonus depreciation under Section 168(k) for assets placed in service before January 1, 2027.

Oklahoma finalizes rule changes updating GILTI reference for NCTI

On May 20, effective July 11, 2026, Oklahoma enacted legislation (H.J.R. 1091) that “approves all proposed permanent rules of the Oklahoma Tax Commission filed on or before February 1, 2026.” This action includes permanent rules of the Oklahoma Tax Commission filed on January 20 (710:50-17-51) that replace references to GILTI to more broadly state that “foreign income inclusions under 26 U.S.C. §951A (Global Intangible Low-Taxed Income, prior to repeal, or Net CFC Tested Income)” are considered dividend income allocable to the domiciliary situs of the taxpayer.

Filing threshold / Rates

New Hampshire legislation increases business enterprise tax (BET) filing threshold, provides for contingent future rate decreases

New Hampshire H.B. 155, enacted July 10, increases the filing threshold for the business enterprise tax (BET) to $400,000 effective January 1, 2027.

Further, the legislation provides a mechanism for lowering the BET rate by 0.05 percentage point for each $100 million of business tax surplus effective for tax periods beginning on or after January 1 of the calendar year immediately following the calendar year in which a tax surplus certification is issued. The certification is to be made by the legislative budget assistant not later than December 31 following the close of each fiscal year to the legislature and to the commissioner of the Department of Revenue Administration. The total amount of rate reductions allowable under this provision may not lower the BET rate below 0.25 percent.

These contingent rate reduction provisions take effect June 30, 2026.

Unitary combined reporting / P.L. 86-272

Massachusetts ATB rules that P.L. 86-272 insulates protected income from combined group apportionment inclusion

The Massachusetts Appellate Tax Board (ATB) agreed with the taxpayer that a unitary combined group member that is protected by P.L. 86-272 may not have its sales included in the apportionment calculation for taxable group members. Rejecting precedent from other states, the ATB concluded that by including the protected group member’s sales in the apportionment factor, “Massachusetts has done indirectly what it cannot do directly.”

In addition, the ATB upheld the Massachusetts rule that considers the joint activities of a corporation engaged in manufacturing activities and a related combined group member selling the property so manufactured for the purpose of determining the appropriate method of apportioning income to be used by the combined group member selling the manufactured goods.

[*Smithfield Packaged Meats Corp. v. Commissioner of Revenue*, Mass. Appellate Tax Bd., Docket No. C344811, 7/22/2026]

Observation: While P.L. 86-272 restricts states from imposing income-based taxes on out-of-state businesses that limit their in-state activity to solicitation of sales of tangible personal property, many combined reporting states (such as Massachusetts) employ the “Finnigan” rule to include destination receipts in the numerator of the combined group’s sales factor (or the sales factor of taxable members of the combined group) notwithstanding a group member’s P.L. 86-272 protection. This decision provides a potential refund opportunity for combined groups with members protected by P.L. 86-272 that make sales into Massachusetts.

Click here for PwC’s Insight on the decision.

Let’s talk

For a deeper discussion of how these issues might affect your business, please contact:

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