



**US State Income Tax Digest**

# Highlighting significant income and business tax developments

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## Featured article: Multiple states adjust conformity to federal P.L. 119-21, OBBBA

### 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.

## **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.

## **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.

## Two more states lower their corporate 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
- 4.1% 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.

## **Nexus/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]

## **Let’s talk**

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

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