State and Local Tax Quarterly Newsletter

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Income tax developments

Apportionment

Illinois DOR issues GIL on GILTI alternative apportionment petition

The taxpayer filed a Petition for Alternative Apportionment requesting modification of the statutory apportionment formula that includes 50% of GILTI in taxable income but does not include corresponding apportionment factors. [IL DOR, *IT 26-0008-GIL* (Alternative Apportionment), 7/28/2026]

The petition argues that this attributes income to Illinois without equitable factor relief and proposed an alternative method by including "50% of GILTI income in the sales factor denominator." This method "aligns income with economic activity and corrects distortion. The statutory method produces a grossly distorted result and taxation without factor representation[.]"

The DOR replied that in order to make a determination under IITA Section 304(f) as to whether the statutory apportionment provisions reflect the market for the person's goods, services, or other sources of business income, it is necessary that the taxpayer first determine its apportionment under the statutory provisions. "If the apportionment under such sections does not fairly reflect the taxpayer's market, then an alternative apportionment method may be permitted."

The Department, however, found that the taxpayer failed to provide:

- A determination of its apportionment under IITA Section 304 for the tax year;
- Information relative to the market for the taxpayer's goods and services;
- Information to support a determination of whether the statutory apportionment provisions fail to fairly reflect the taxpayer's market or fairly represent the extent of the market for the taxpayer's goods, services, or other sources of business income in Illinois; or
- Evidence that the proposed alternative method produces a reasonable result.

While the Department declined to grant the taxpayer's petition for alternative apportionment for the tax year, it stated that the taxpayer may supplement its petition with additional information as outlined above. The Department noted that 86 Ill. Adm. Code 100.3390(e)(1) requires a petition to be filed at least 120 days prior to the due date (including extensions) for the first return for which permission is sought to use the alternative apportionment method.

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.

IRC conformity

California legislation provides for Section 162(m) OBBBA conformity update effective for tax years beginning after December 31, 2025

California *A.B. 2222*, enacted on September 30, amends Cal. Rev. & Taxn. Code Sec. 24343 to provide that the OBBBA amendments to Section 162(m) "relating to remuneration from controlled group members and allocation of deduction, shall apply, except as otherwise provided."

Section 162(m) limits the compensation deduction of a "publicly held corporation" to $1 million per "covered employee" in the tax year when the deduction otherwise would apply. Effective for tax years beginning after December 31, 2025, the OBBBA expands how the deduction limitation applies to public corporations by adding a definition of the aggregated group that must include the publicly held corporation. The OBBBA also imposes new rules on the allocation of the $1 million deduction limitation among members of that aggregated group. (See *PwC's Insight* for more on the federal changes.)

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 of no 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.

Massachusetts DOR issues revised corporation excise tax forms and instructions

The Massachusetts Department of Revenue has issued guidance on business taxes affected by the Massachusetts Supplemental Budget and provided links to forms and instructions that were updated on August 4. [Massachusetts Department of Revenue, *New guidance on business taxes affected by the Supplemental Budget*, DOR News, 8/19/2026]

The updated 2025 Massachusetts Corporation Excise Return forms provide that taxpayers who timely filed their 2025 return or timely made their 2025 extension payment prior to enactment of the Supplemental Budget may claim relief from interest or penalties on underpayments, late payments, or underpaid estimated payments resulting from the Supplemental Budget's conformity adjustments to IRC Sections 163(j)(8), 168(n), 174, 174A, and 179, and any exclusions taken under IRC Section 1400Z-2.

For taxpayers that filed their 2025 return prior to enactment of the Supplemental Budget, the Supplemental Budget requires an amended return reflecting conformity changes within 90 days of enactment (i.e., by September 10, 2026). The Supplemental Budget does not specify a deadline for estimated payment penalty and interest relief for taxpayers that have made a valid extension. However, the updated 2025 forms direct extended filers to claim penalty and interest relief with their 2025 original return, which presumably would be filed by the extended filing deadline.

Specifically, to claim relief from penalties on late payments and underpayments for the 2025 tax year for a business corporation that has a valid extension but has not yet filed a return, the business corporation must attach to its original 2025 tax return (1) Massachusetts Schedule M-2220 (Underpayment of Massachusetts Estimated Tax by Corporations) and (2) Massachusetts Schedule TDS (Taxpayer Disclosure Statement), including:

- The following statement: "Taxpayer is applying for relief related to Massachusetts conformity with the provisions of federal law P.L. 119-21" and clearly specify which IRC provision(s) are being adjusted. Relevant provisions include:
  - Domestic Research and Experimental Expense Deductions under Section 174 and Section 174A;
  - Special Depreciation Allowance for Qualified Production Property under Section 168(n);
  - Increased Dollar Thresholds for Deductible Amounts when Expensing Certain Business Assets under Section 179;
  - Modification of Limitation on Business Interest Expense Deduction under Section 163(j); and
  - Changes to the Tax Treatment of Investments in Qualified Opportunity Zones under Section 1400Z-2
- An explanation of how the adjustment was calculated, and how it is reflected in the attached Schedule M-2220.

Taxpayers are advised to visit mass.gov/dor for more up-to-date and detailed information concerning penalty and interest relief related to Massachusetts conformity with the provisions of federal law P.L. 119-21.

Massachusetts DOR announces suspension of penalties and interest for certain taxpayers impacted by OBBBA nonconformity

The Massachusetts Department of Revenue has announced the suspension of penalties and interest for certain taxpayers affected by OBBBA nonconformity. [*New guidance on business taxes affected by the June supplemental budget*, Mass. Dept. of Revenue, updated 9/23/2026]

Under H. 5470 (the FY 26 supplemental budget), enacted June 12, 2026, "interest and penalties shall not be imposed on an underpayment or late payment of tax for taxable years beginning in 2025 where a taxpayer filed a return ... prior to the enactment of this act that did not [take de-conformity into account], and the taxpayer files a subsequent return ... to adjust the previous return [to take these changes into account] .... within 90 days of enactment of this act." That deadline for filing was September 10, 2026.

The DOR noted that the Administration has introduced legislation to extend this deadline to March 1, 2027. “In the meantime,” the DOR announced, “we have been directed to suspend penalties and interest for affected taxpayers.”

NYC issues guidance on and reporting for OBBBA, allows R&E "catch-up" election

The New York City Department of Finance on September 9 issued *Finance Memorandum 26-2*, providing guidance on, and taxpayer reporting instructions for, New York City's One Big Beautiful Bill Act (OBBBA) conformity revisions enacted under New York's budget legislation, including modifications for IRC Sections 174A, 163(j), and 168(n). The Memorandum applies to New York City’s Unincorporated Business Tax (UBT), General Corporation Tax (GCT), Banking Corporation Tax (BTX), and Business Corporation Tax (BCT) (collectively “the Business Taxes” or "Business Taxpayers") for tax years beginning after December 31, 2024.

IRC Section 174A. The Memorandum affirms that Business Taxpayers must disregard the federal treatment under Section 174A and instead must amortize domestic R&E expenditures in the same manner as foreign R&E expenditures under Section 174, except that the applicable period for that amortization is five years beginning with the midpoint of the tax year in which those expenditures are paid or incurred. Business Taxpayers must submit a pro forma federal Form 4562 Part VI, showing a recomputed amount of the amortization deductions. To the extent the Section 174A deduction was taken into account on a corporate taxpayer's federal balance sheet, that balance sheet value must be adjusted to reflect only the New York City allowable portion of the deduction when reporting the value of assets on the applicable City forms.

The Memorandum also states that **no modification is required** for the transition rules pursuant to section 70302(f) of the OBBBA, which allow a "catch-up" deduction for 2022-2024 qualified domestic R&E expenditures. As a result, amounts deducted under the one-year or two-year federal income tax elections do not have to be added back.

IRC Section 163(j). The Memorandum affirms that Business Taxpayers subject to the Section 163(j) interest expense limitation must follow the applicable steps provided in FM 18-11 to report and attribute the interest expense deducted, except that the amount of the Section 163(j) limitation must be recalculated by excluding depreciation, amortization, or depletion from adjusted taxable income. Business Taxpayers must add back the incremental federal interest deduction attributable to the additional adjusted taxable income resulting from IRC Section 163(j)(8)(A)(v), measured as the difference between adjusted taxable income calculated with and without regard to that provision.

Business Taxpayers also must attach a pro forma federal Form 8990 and enter zero on line 11 of that form to calculate the New York City amount of business interest expense deduction for the current tax year and the amount of excess interest to be carried forward, if any. Carryforwards of interest expense from tax years beginning prior to January 1, 2025, are not affected by this recalculation.

IRC Section 168(n). The Memorandum affirms that Business Taxpayers must add back to their federal gross income the amount allowed as an exclusion or deduction of any depreciation of qualified production property pursuant to Section 168(n) when calculating taxable income for the Business Taxes. Business Taxpayers should deduct the depreciation of that qualified production property pursuant to Section 167(a) so that the depreciation deduction and adjusted basis reduction or any deduction or exclusion allowed by Section 168(n) does not apply.

Interest and penalty abatement. No interest or penalty will accrue on a Business Tax return filed within a valid extension period, or on an amended return for a tax year beginning after December 31, 2024, and before January 1, 2026, that solely reports modifications required by Part G of Chapter 59 of the Laws of 2026 ("Part G modifications"). When filing an original return under a valid extension or an amended return that reports OBBBA modifications resulting in additional tax liability, interest, or penalties, taxpayers must enter a special condition code "OB" in the space indicated near the top of the applicable form. Taxpayers must submit a worksheet that isolates the amount of tax liability from Part G modifications shown on the return. Each of the Business Taxes has a separate worksheet for this purpose. Taxpayers may access the worksheets through their eServices account at *www.nyc.gov/eservices*. An amended return that solely reports Part G modifications must use special condition code "AB," in the space indicated near the top of the applicable form and no worksheet is required.

Taxpayers subject to the UBT, GCT, or BTX that made an estimated payment for the 2026 tax year will not be subject to the addition to the tax pursuant to Sections 11-676(3) or 11-525(c) of the Administrative Code by reason of the increase in tax liability for the 2025 tax year solely due to the OBBBA modifications. However, estimated tax payments for any Business Taxes made after May 28, 2026, must accurately take into account those modifications.

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.

North Carolina DOR issues FAQs on IRC conformity, R&E expensing

The North Carolina Department of Revenue issued Frequently Asked Questions (FAQs) regarding recent legislation updating North Carolina's IRC conformity and requiring Section 174A modifications (see Session Law 2026-31, S.B. 595. enacted on July 2). [NC DOR, *FAQs Regarding Recent Session Law Changes*, 9/11/2026]

Domestic R&E expenditures. The FAQ confirms that an individual or a corporation must add 80% of the amount of domestic R&E expenditures taken on the federal income tax return for the tax year under Section 174A(a) to AGI or FTI. The individual or the corporation is allowed to deduct 25% of the modification for domestic R&E expenditures from AGI or FTI in the subsequent four tax years. C corporations are to report the required addition on Form CD-405 Schedule H, Line 1(h), and the deduction on Form CD-405 Schedule H, Line 3(g).

The FAQs state that this adjustment for domestic R&E expenditures is effective for tax years beginning on or after January 1, 2022, for taxpayers that "elect for federal income tax purposes the retroactive application of Section 174A(a)" for a tax year beginning in 2022, 2023, or 2024. This includes any deduction for unamortized domestic R&E expenditures paid or incurred before January 1, 2025, under OBBBA section 70302(f)(2)(A) and applies to all taxpayers, not just small businesses.

Filing returns. Taxpayers impacted by North Carolina's 2026 IRC conformity legislation should file (or amend) the applicable North Carolina tax return and include any necessary documentation supporting the taxpayer's calculation of North Carolina taxable income. If an amended return results in additional tax due, the taxpayer will owe the additional tax along with applicable penalties and interest on tax not paid by the original due date. However, taxpayers may request a waiver of penalties within the provisions of the Department's *Penalty Waiver Policy*.

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.

Pennsylvania issues new Section 163(j) guidance, Philadelphia issues BIRT OBBBA guidance

The Pennsylvania Department of Revenue (DOR) on September 10 issued Corporation Tax Bulletin 2026-01, providing guidance for the Pennsylvania treatment of IRC Section 163(j) effective for tax years beginning on or after January 1, 2025. Further, the Philadelphia DOR issued City Business Income and Receipts Tax

(BIRT) guidance regarding nonconformity with the federal 2025 reconciliation bill, the One Big Beautiful Bill Act (OBBBA). [*Corporation Tax Bulletin 2026-01*, issued 9/10/2026; *Advisory notice: Philadelphia joins Pennsylvania in decoupling from certain federal tax provisions in the One Big Beautiful Bill Act*, issued 9/17/2026]

The Pennsylvania Section 163(j) guidance provides that taxpayers should calculate their federal interest expense deduction (under the pre-OBBBA limitation) on a separate-entity basis, essentially negating prior guidance, which provided that taxpayers would have no Pennsylvania separate-company interest expense limitation for a tax year if the federal consolidated group was not subject to a limitation. The Philadelphia guidance implements legislation affecting 2025 tax year BIRT filers for the Section 163(j) limitation, immediate expensing of qualified production property (QPP), and deductions for R&E expenditures.

Click *here* for PwC's Insight on the Pennsylvania and Philadelphia guidance.

Tax 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 took effect June 30, 2026.

Indirect tax developments

Digital and data taxes

California’s application of sales/use tax to digital products--CDTFA releases discussion paper and draft emergency regulations

Effective January 1, 2027, California expands its sales/use tax to certain digital products, including software delivered electronically and SaaS. CDTFA released its initial draft of emergency regulations on September 1, 2026. Final comments were due on September 24, 2026.

CDTFA continues to work with taxpayers to provide guidance to implement the expanded tax base and clarify concepts, such as the exclusion for digital infrastructure, multiple points of use, and use tax direct

payment permits. The draft regulations also discuss the procedures related to the liability for transactions exceeding $5 million in the aggregate with a single vendor.

The release includes draft language for the following amended or proposed regulations:

- Reg 1502 (Amended), Computers, Programs, and Data Processing
- Reg 1502.2 (Proposed), Custom Computer Software
- Reg 1507 (Amended), Technology Transfer Agreements
- Reg 1600 (Proposed), Application of Sales and Use Tax to Digital Products
- Reg 1600.1 (Proposed), Tax Liability Threshold for Digital Products
- Reg 1600.2 (Proposed), Digital Products Purchased for Multiple Points of Use
- Reg 1600.3 (Proposed), Digital Products Purchased Solely for Use Outside this State or in Interstate or Foreign Commerce
- Reg 1699.6 (Amended), Use Tax Direct Payment Permits

These rules are still developing. Since releasing the draft regulations, CDTFA has received significant feedback. The regulations may be revised and additional guidance may be issued before the new digital product rules take effect.

Let's talk

To discuss planning strategies before the January 1, 2027 effective date, contact:

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Illinois enacts transaction tax on cryptocurrency via "digital asset business activity"

Effective January 1, 2027, the Digital Asset Tax Act imposes tax on Illinois customers that receive digital asset business activity from a digital asset broker. This activity includes exchanges, transfers, and storing of digital assets. The tax is imposed at 0.2% on the value of underlying digital assets involved in the transaction.

The fiscal year 2027 budget bill (*SB 3019*), signed by Illinois Governor Pritzker on June 16, 2026, includes the Digital Asset Tax Act, imposing tax on digital asset transactions. This tax resembles a transaction tax on gross receipts from digital asset transfers and requires digital asset brokers with nexus in Illinois to collect the tax on each sale. On June 22, 2026, *HB 5798* was introduced in the Illinois General Assembly, which if passed, would repeal this tax completely. The tax has already drawn legal challenges.

Digital asset brokers will be required to register and collect the tax.

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

Legal challenges prompt joint delayed implementation of Illinois' Digital Asset Tax Act

The Sangamon County Circuit Court approved an order delaying the effective date of the Digital Asset Tax until July 1, 2027. The Agreed (Stipulated) Motion for Preliminary Injunction to preliminarily enjoin, stay, and continue the effective date of the Digital Asset Tax was filed jointly by the state of Illinois, along with the Chamber of Digital Commerce and Illinois Blockchain Association on October 1, 2026.

The action was prompted by the two challenges initiated against Illinois' Digital Asset Tax (DAT) Act. The Chamber of Digital Commerce, along with the Blockchain Association and Crypto Council for Innovation (CCI), initially filed complaints in Sangamon County Circuit Court (July 21, 2026, and August 21, 2026, respectively). The plaintiffs seek declaratory and injunctive relief preventing enforcement of Illinois' newly enacted DAT Act. The plaintiffs also seek preliminary and permanent injunctions preventing enforcement of the Act. No court has yet ruled on the merits of the allegations. *Chamber of Digital Commerce d/b/a The Digital Chamber v. Harris, et al., Verified Complaint for Declaratory and Injunctive Relief, Circuit Court of the Seventh Judicial Circuit, Sangamon County, Illinois (July 21, 2026); Blockchain Association & Crypto Council for Innovation v. Harris, et al., Complaint for Declaratory and Injunctive Relief, Circuit Court of the Seventh Judicial Circuit, Sangamon County, Illinois (Aug. 21, 2026)*

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

Maryland Tax Court finds digital advertising tax invalid in three refund cases

The Maryland Tax Court on August 14, 2026 issued three memoranda and orders granting petitioners summary judgment, finding that:

- The digital advertising gross revenues (DAGR) tax violates the Internet Tax Freedom Act (ITFA), the dormant Commerce Clause, and Due Process.
- In one of the decisions, the broadcast news media exemption results in a First Amendment violation. In that same decision, the court separately rejected a foreign Commerce Clause challenge.

The court reversed the Comptroller's denial of tax year 2022 (TY2022) refund claims, ordering refunds along with interest for all three petitioners. *Apple Inc. v. Comptroller*, Md. Tax Ct. No. 23-DA-OO-0456 (8/14/26); *Google LLC v. Comptroller*, Md. Tax Ct. No. 23-DA-OO-0649 (8/14/26); *Peacock TV, LLC v. Comptroller*, Md. Tax Ct. No. 23-DA-OO-0654 (8/14/26).

Digital advertising service providers should:

- Assess the opportunity for any potential refund claims against the three-year limitation period, which generally runs from the date each tax payment was made;
- Inventory/track any existing refund claims that may have been initiated;
- Evaluate appropriate reserve and financial-statement treatment while judicial review remains possible;
- Carefully evaluate the impact of these decisions before ceasing payment, since the decisions are only binding for the three petitioners.

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

The Maryland Comptroller filed petitions for judicial review on September 10, 2026 (posted September 15), challenging the decisions to the Maryland Circuit Court (trial court), Anne Arundel County.

Sourcing

Pennsylvania shifts to destination-based sourcing for local sales tax

Pennsylvania's *Act 21 of 2026* updated local sales tax sourcing rules for Philadelphia and Allegheny County from a generally origin-based approach tied to the vendor's location to a destination-based approach tied to where the taxable product or service is delivered. The change applies to Philadelphia's 2% local sales tax and Allegheny County's 1% local sales tax. Pennsylvania's 6% state sales tax and state and local use tax rules remain unchanged.

Although the new sourcing provisions apply to tax years beginning after December 31, 2025, the Pennsylvania Department of Revenue has *announced* that it will begin enforcing the new sourcing rules on October 1, 2026. Vendors already required to collect Pennsylvania's 6% state sales tax should evaluate whether their tax systems are configured to collect the applicable local tax on taxable sales delivered to customers in Philadelphia or Allegheny County based on the destination location.

Let’s talk

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Let's talk

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