State Tax Alert
07/16/2025

State corporate income and franchise tax developments in the second quarter of 2025

This alert provides a summary of the significant legislative and administrative actions that affected US state and local income/franchise and other business taxes for the second quarter of 2025. These developments are compiled from the EY Indirect/State Tax Weekly and Indirect/State Tax Alerts issued during that period.

Key developments

Arkansas enacts economic nexus and market-based sourcing provisions, among other corporate income tax changes

SB 567 (enacted April 16, 2025), effective for tax years beginning on and after January 1, 2026, makes the following income tax changes:

Economic nexus: SB 567 adopts a bright-line economic nexus provision under which a nonresident corporation or partnership lacking physical presence in Arkansas will be subject to tax if its Arkansas receipts exceed $250,000 for the current or the immediately preceding tax year.

Market-based sourcing: SB 567 repeals the state's modified cost of performance method for sourcing receipts other than from the sale of tangible personal property and enacts a market-based sourcing method. Under this new method, receipts from sales other than sales of tangible personal property (e.g., intangible property, services) are sourced to Arkansas if the taxpayer's market for the sales is in Arkansas. The amendment includes examples to illustrate when the taxpayer's market is in Arkansas.

Throwout rule: SB 567 introduces the four scenarios in which certain receipts should be excluded from the Arkansas numerator and denominator of the receipts factor, including: (1) receipts from hedging transactions and from the maturity, redemption, sale, exchange, loan or other disposition of cash or securities; (2) receipts from the sales of intangible property not explicitly mentioned as being included under the Arkansas Code; (3) receipts otherwise assignable where a state assignment cannot be determined or reasonably approximated; and (4) receipts otherwise assignable to a state in which the taxpayer is not taxable.

"Apportionable" and "nonapportionable" income: SB 567 replaces definitions of "business" and "nonbusiness" income with the Multistate Tax Commission's (MTC's) definitions of "apportionable" and "nonapportionable" income. Apportionable income includes income from: (1) transactions and activity in the regular course of the taxpayer's trade or business; and (2) tangible or intangible property if the acquisition, management, employment, development or disposition of the property is related to the operation of the taxpayer's trade or business. Apportionable income also includes income that would be allocable to Arkansas under US Constitutional law but is instead apportioned to Arkansas under Arkansas law. "Nonapportionable" income is all income other than "apportionable" income.

Other: SB 567 also modifies alternative apportionment provisions, provides industry specific sourcing methodologies and modifies the definition of "taxable in another state" for allocation and apportionment purposes. (See Tax Alert 2025-1011.)

Illinois governor signs tax bill that impacts income tax and tax incentives

HB 2755 (enacted June 16, 2025) modifies Illinois's income and franchise taxes, as well as certain tax credit and incentive provisions, as part of the state's FY26 budget. Key changes in HB 2755 do the following:

Switch from *Joyce* to *Finnigan*: For tax years ending on or after December 31, 2025, HB 2755 switches Illinois's method for apportioning the income of multistate businesses from *Joyce* to *Finnigan*. Under the prior *Joyce*

method, only members of a unitary group with nexus in Illinois sourced sales to the state for apportionment purposes. Under the *Finnigan* method, if one member of a unitary group has Illinois nexus, the Illinois sales of all members of the unitary business group will be sourced to the state. The Illinois sales of non-nexus members will be aggregated and attributed to the nexus members based on a ratio of a nexus member's Illinois sales to total Illinois sales of all nexus members. For purposes of applying any Illinois sourcing provision that relies on being taxable in another state (e.g., throwback and throwout), if any member of the unitary group is taxable in another state, then all members are deemed taxable in that other state.

Global intangible low-taxed income (GILTI) income: For tax years ending on or after December 31, 2025, HB 2755 modifies the Illinois income tax subtraction modification for foreign dividends to include a deduction for 50% of GILTI regardless of any previously applicable ownership percentages. The Illinois addition modifications for the Internal Revenue Code (IRC) Section 250 deduction remain in place. Taxpayers that previously received 100% or 65% deductions will now see 50% of gross IRC Section 951A GILTI included in their tax base.

Limiting exceptions to interest and intangible expenses paid to foreign related parties: For tax years ending on or after December 31, 2025, HB 2755 eliminates certain exceptions to the interest expense and intangible expense addbacks for payments to related parties. The repealed exceptions previously applied when (i) a recipient's income was subject to tax in a foreign country or (ii) the expense was not for tax avoidance purposes, using arm's-length rates. With the repeal of those exceptions, only two remain—one for interest or intangible expenses paid in the same year to a person that is not a related party (i.e., the conduit exception), and another when the adjustment is unreasonable based on clear and convincing evidence.

Ordering rule for the IRC Section 163(j) limitation for the foreign related party interest expense addback: For tax years ending on or after December 31, 2025, HB 2755 establishes an ordering rule for the IRC Section 163(j) business interest expense limitation for deductible interest expense paid to a foreign related party. Under prior law, the limitation was applied pro-rata based on the percentage of interest expense paid to the foreign related party over the total interest expense subject to the limitation. Under HB 2755, the limitation is first treated as being attributable to interest expense paid to persons who are not foreign related parties. Any remaining limitation is then attributable to interest expense paid to foreign related persons.

Gains and losses from the sale of partnership and Subchapter S corporation interests: HB 2755 modifies rules for allocating and apportioning gain or loss from the sale or exchange of a partnership or Subchapter S corporation (collectively, pass-through entity (PTE)) interest to Illinois. Under the new provision, the gain on the PTE interest — other than an interest in an investment partnership — is allocated or apportioned to Illinois based on the average of the current and prior two years' Illinois apportionment percentage of the PTE that was sold or exchanged. When the gain on the sale of the PTE is allocable, this average percentage of the gain or loss is directly allocable to Illinois. Under prior law, the sale or exchange was allocated to the partner's or shareholder's commercial domicile. When the gain (excluding losses) on the sale or exchange of the PTE is apportionable income, the average percentage of the gain amount is included in the numerator of the apportionment factor with the entire gain in the denominator. Under prior law, the gain was sourced to the location of the income-producing activities or to the commercial domicile of the customer if the partner was a dealer with respect to PTE interests.

Credits and incentives: HB 2755 creates the Advancing Innovative Manufacturing for Illinois Tax Credit Act. For tax years beginning on or after January 1, 2026, an eligible taxpayer may claim the credit against its income tax in the year of the credit award. The amount of credit available is a percentage of the applicant's total capital improvement investment for the year for which the credit is sought, with the percentage ranging from 3% up to 7% depending on the amount of the capital investment. Any unused credit may be carried forward for 10 years.

HB 2755 also limits qualification for the Economic Development for a Growing Economy tax credit to capital improvements of at least $100 million and retention of at least 500 full-time jobs.

Tax amnesty: HB 2755 creates a general tax amnesty program and a franchise tax amnesty program. Both programs will run concurrently from October 1, 2025, to November 15, 2025. The general tax amnesty waives penalties and interest for taxes due for any period after June 30, 2018, and before July 1, 2024, provided all taxes are paid. The franchise tax amnesty applies to all taxpayers owing a franchise tax or license fee for any tax period ending after June 30, 2019, and on or before June 30, 2025. In exchange for participating in the franchise tax

amnesty program, the Secretary will waive applicable penalties and interest and will not pursue civil or criminal prosecution for the time period that amnesty has been granted. (See Tax Alerts 2025-1374 and 2025-1373.)

Kansas enacts single sales factor apportionment, market-based sourcing, and contingent corporate income tax rate reductions

HB 2231 (enacted April 24, 2025) adopts single sales factor apportionment and market-based sourcing for sales of services and intangible property. The law also provides for future corporate income tax rate reductions that are contingent on revenue thresholds being met.

Single sales factor apportionment and the deferred tax impact deduction: Effective for tax years beginning on or after January 1, 2027, Kansas adopts a single sales factor apportionment formula for corporate income tax purposes, while financial institutions will use a single receipts factor. Qualified taxpayers that previously elected to use a property and sales factor apportionment formula may use the single sales factor apportionment formula.

The mileage-based apportionment formula used by railroads and interstate motor carriers is repealed for tax years beginning after 2026.

Manufacturers of alcoholic liquor who sell to distributors will continue to use an equally weighted three-factor (property, payroll and sales) apportionment formula.

The law also creates a deferred tax impact deduction that may be claimed by publicly traded companies on their relevant Kansas tax return if the imposition of the single sales factor apportionment requirements results in (1) an aggregate increase in the taxpayer's net deferred tax liability (DTL), (2) an aggregate decrease in its net deferred tax assets (DTA), or (3) causes its net DTA to become a net DTL. Eligible taxpayers may claim the deferred tax impact deduction in annual installments over a 10-year period, starting in 2035. The amount of the deferred tax impact deduction exceeding the taxpayer's liability will be carried forward until fully used.

Market-based sourcing: Effective for tax years beginning on or after January 1, 2027, Kansas replaces the cost of performance method for sourcing sales of non-tangible personal property with the market-based sourcing method for purposes of the Kansas corporation income tax. Although financial institutions will adopt a receipts method as previously discussed, the sourcing rules for financial institutions in K.S.A. 79-1130 were not amended by the law. Thus, financial institutions generally will source receipts from services using the cost of performance method – except that, under K.S.A. 79-1130(n) "other receipts" of a financial institution (which references K.S.A. 79-3287), will be sourced under the new market-based sourcing rules for corporations.

The law describes when the taxpayer's market for sales of services, intangible property, interest and dividends are in Kansas under the new market-based sourcing rules.

Communications service providers may assign sales of non-tangible property to Kansas using the cost of performance method.

Corporate income tax rate: The law allows for future corporate rate reductions in the event that revenue thresholds are met. A rate reduction could first occur after 2028. (See Tax Alert 2025-0994.)

Legislative developments

Alabama: HB 163 (enacted May 14, 2025), effective for tax years beginning on or after January 1, 2024, decouples Alabama income tax provisions from the Tax Cuts and Jobs Act (TCJA) amendments to IRC Section 174 related to amortization of research and experimental (R&E) expenditures. Instead, taxpayers may deduct the R&E expenditures or treat them as deferred expenses in the same manner as provided by IRC Section 174 before tax year 2022. HB 163 took effect immediately. (See SALT Weekly May 16 through May 30, 2025.)

Arkansas: HB 1922 (enacted April 17, 2025) establishes a tax credit for businesses relocating their corporate headquarters to the state. The income tax credit for an eligible business is up to 50% of the payroll for the new full-time permanent employees of a corporate headquarters relocating to Arkansas. Eligibility for this incentive

depends on the tier of the county in which the corporate headquarters is relocating. For the first five years, the credit may offset up to 100% of the qualified business's income tax liability. The amount is reduced to 80% in the sixth year, to 60% in the seventh year, to 40% in the eighth year, and to 20% in the ninth year. In the tenth year and thereafter, the credit can no longer offset the qualified business's income tax liability. Unused credit cannot be carried forward, and the credit cannot be sold or transferred. These changes take effect January 1, 2026. (See SALT Weekly for May 2 and May 9, 2025.)

HB 1303 (enacted April 10, 2025) creates a sustainable aviation fuel tax credit that may be claimed against income tax. The credit is equal to 30% of the cost of sustainable aviation fuel production and processing equipment purchased for use in Arkansas by a qualified manufacturer of sustainable aviation fuel that satisfies certain conditions. The amount of credit claimed by the taxpayer cannot exceed the taxpayer's income tax liability; unused credit is carried forward indefinitely. These changes are effective for tax years beginning on or after January 1, 2025. (See SALT Weekly for April 18 and April 25, 2025.)

SB 568 (enacted April 22, 2025) expands the definition of "solid waste" for purposes of the income tax credit for waste reduction, reuse or recycling equipment to include electronic waste, lithium-ion battery cells and battery packs. This provision takes effect October 1, 2025. (See SALT Weekly for May 2 and May 9, 2025.)

California: SB 132 (enacted on June 27, 2025) enacts income tax changes proposed by the governor as part of his 2025 budget. Key tax changes: (1) require an apportioning trade or business that derives more than 50% of its "gross business receipts" from savings and loan activity and banking or financial business activity to use a single sales factor apportionment formula, effective for tax years beginning on or after January 1, 2025; (2) extend the elective PTE tax (PTET) through tax years beginning before January 1, 2031, with some modifications; and (3) increase the aggregate amount of the motion picture tax credits that may be allocated in the fiscal year to $750 million (from $330 million). (See SALT Weekly for June 20 and June 27, 2025.)

Colorado: HB 25-1021 (enacted May 30, 2025) creates tax incentives for businesses that convert to an employee-owned business. A business owner that establishes a qualified employee-owned business may deduct from its income tax any qualified capital gains realized during the tax year of a qualified sale of a qualified business. The law also allows worker-owned cooperatives to deduct from its taxable income an amount equal to its federal taxable income, not to exceed $1 million. The law extends through 2031 (from 2026) the Employee Ownership Tax Credit (EOTC) and provides an EOTC for up to 75% of the conversion costs of a business that converts to a worker-owned cooperative, an employee stock ownership plan, or an employee ownership trust. The law also creates the qualified support entity income tax credit. The credit is refundable and may be claimed by an entity that assist in converting a qualified business to an employee-owned business. The deductions and incentives may be taken in income tax years beginning on or after January 1, 2027, but before January 1, 2038. HB 25-1021 takes effect on August 6, 2025. (See SALT Weekly for June 6 and June 13, 2025.)

Connecticut: HB 7287 (enacted June 30, 2025) makes several changes to the state's corporation business tax (CT CBT). The law extends for three years, through 2028 (from 2025) the 10% CT CBT surcharge. The surcharge imposed on the capital base tax component of the CT CBT is extended through 2027, as the capital base tax component will phase out by 2028.

The law eliminates the $2.5 million cap on the amount by which a combined group's tax calculated on a unitary combined basis can exceed the tax that it would have paid had it filed on a separate basis. This change applies to income years beginning before January 1, 2025.

The law also eliminates the alternative net operating loss (NOL) rule for certain combined groups. (Otherwise, Connecticut limits prior year NOL deductions to 50% of taxable income.) Specifically, a special tax preference that allowed combined groups that had more than $6 billion in NOLs from pre-2013 tax years to make an election that allowed the group to fully deduct remaining loss carryovers without regard to statutory limitations in exchange for the electing group relinquishing 50% of its unused NOL incurred before 2015. The new law requires a combined group that made this election to recalculate its remaining NOL carry-over on the return its files for income years commencing on or after January 1, 2025, and before January 1, 2026, as if the combined group had not been required to relinquish 50% of its unused NOL carry-over. The combined group may use the recalculated remaining NOLs in income years beginning on or after January 1, 2025, subject to limitations in effect for the period such losses were incurred.

The law increases the amount of refund of the research and development (R&D) and R&E tax credits that a biotechnology company may receive to 90% of the value of the credit (for all other companies the amount of refund remains 65% of the value of the credit). This change took effect July 1, 2025, and applies to income years beginning on or after January 1, 2025.

The law modifies a deduction, enacted in 2024, related to the state's earlier move to combined reporting. Starting in 2026, an eligible combined group shall deduct from the combined group's net income an amount equal to one-thirtieth of the amount necessary to offset the increase in the valuation allowance against NOLs and tax credits in Connecticut that resulted from the enactment of combined reporting provisions.[1] The computation of the valuation allowance increase was previously to be based on the change in the valuation allowance reported on the combined group's financial statement for income years beginning on or after January 1, 2016, but before January 1, 2017. Provisions of HB 7287 change these dates to the combined group's financial statement for income years beginning on or after January 1, 2015, but before January 1, 2016 (i.e., one year earlier than described in the 2024 law). A combined group intending to claim this deduction had until July 1, 2025, to file a statement specifying the total amount of the deduction to be claimed with the revenue commissioner. (See SALT Weekly July 4 and July 11, 2025.)

Florida: HB 7031 (enacted June 30, 2025) updates the state's date of conformity to the IRC to January 1, 2025 (from January 1, 2024). This change took effect upon becoming law and operates retroactively to January 1, 2025. (See SALT Weekly July 4 and July 11, 2025.)

Georgia: HB 290 (enacted May 14, 2025) updates the state's date of conformity to the IRC to January 1, 2025 (from January 1, 2024). This change applies to tax years beginning on or after January 1, 2024. (See SALT Weekly May 16 through May 30, 2025.)

HB 111 (enacted April 15, 2025) reduces the individual and corporate income tax rates to 5.19% (from 5.39%), effective for tax years beginning on or after January 1, 2025. HB 111 retains provisions that provide for a 0.10% rate reduction annually, beginning in 2026 (from 2025), until the rate reaches 4.99%. The additional rate reductions are contingent on revenue thresholds being met. HB 111 takes effect on July 1, 2025, and applies to tax years beginning on or after January 1, 2025. (See SALT Weekly for April 18 and April 25, 2025.)

HB 475 (enacted May 12, 2025) modifies the income tax credit for film, gaming, video or digital productions by expanding the definition of "qualified production activities" to include the production of commercial advertisements (changed from televised commercial advertisements). The list of channels on which projects recorded in the state can be viewed or reproduced is expanded to include paid subscription-based platforms and free advertiser supported streaming television channels. HB 475 takes effect on January 1, 2026, and applies to tax years beginning on or after that date. (See SALT Weekly May 16 through May 30, 2025.)

Hawaii: SB 1464 (enacted May 29, 2025) updates the state's date of conformity to the IRC to December 31, 2024 (from December 31, 2023). This change applies to tax years beginning after December 31, 2024. (See SALT Weekly for May 16 through May 30, 2025.)

HB 1146 (enacted May 15, 2025) modifies the state's elective PTET to require qualified members claiming the credit for their share of PTET paid, to add to their taxable income their share of taxes paid by the elective PTE. HB 1146 applies to tax years beginning after December 31, 2024. (See SALT Weekly for May 16 through May 30, 2025.)

Idaho: HB 479 (enacted April 4, 2025) makes clear that the corporate income tax rate reduction to 5.3% (from 5.695%) enacted under HB 40 (2025), applies to each tax year commencing on and after January 1, 2025. (See SALT Weekly for April 4 and April 11, 2025.)

[1] Enacted under Conn. Gen. Stat. Sections 12-218e (concerning "Combined group's net income. Apportionment percentage. Net operating loss. Carryover. Additional tax base. Nexus combined base tax") and 12-218f (concerning "Combined group determined on world-wide basis, affiliated group basis or water's-edge basis. Tax havens").

Indiana: HB 1427 (enacted May 6, 2025) creates sourcing rules for adjusted gross income of investment partnerships. Effective for tax years beginning after December 31, 2025, in the case of an investment partnership, any qualifying investment partnership income distributable to a nonresident partner will be: (1) allocated to the partner's state of residence (individuals, estates and trusts) or commercial domicile (corporations or entities), and (2) treated as business income and apportioned as if such income had been received by the partner provided that such income is from investment activity (a) that is directly or integrally related to any other business activity conducted in Indiana by the nonresident partner, (b) that serves an operational function to any other business activity of the nonresident partner, or (c) where assets of the investment partnership were acquired with working capital from a trade or business activity conducted in Indiana in which the nonresident partner (or another corporation or entity that is unitary with the partner) owns an interest. An entity permitted to allocate qualifying investment partnership income must exclude from the sales factor denominator receipts derived from the investment partnership and attributable to investment partnership income. An entity required to treat qualifying investment partnership income as apportionable income must include in the sales factor denominator its share of receipts from the investment partnership and attributable to the investment partnership and must attribute such income to its state of domicile. The law describes when a corporation or other entity will be treated as unitary with the partner.

The law also modifies provisions related to the elective PTET, providing that an electing entity or PTE may claim a credit for taxes withheld or paid on the entity's behalf. An electing entity that has direct owners who would be allowed to claim a credit for taxes paid to another state with regard to a taxable year may elect to claim the credit for tax withheld or paid. An electing entity also may elect to claim a credit for any credit under IC 6-3-3 or IC 6-3.1 (with some exceptions) and arising from the operations of the electing entity, or that are passed through to or assigned to the electing entity. The PTET related changes are retroactively effective to January 1, 2025. (See SALT Weekly for June 6 and June 13, 2025.)

SB 306 (enacted April 16, 2025) modifies the film and media production tax credit by allowing taxpayers to assign any part of the credit they may claim. The value the taxpayer receives in connection with the assignment may not exceed the value of the part of the credit assigned. This change applies to tax years beginning after December 31, 2025. Effective July 1, 2025, the law caps the amount of any single credit to $250,000 and the aggregate amount of credit to $2 million per year, and it extends the sunset date of the credit to July 1, 2031 (from July 1, 2027). (See SALT Weekly for April 18 and April 25, 2025.)

Iowa: Effective for tax years beginning January 1, 2026, SF 657 (enacted June 6, 2025), replaces the current research activities tax credit for individual and corporate income taxpayers with a new R&D tax credit program. The new R&D tax credit, administered by the Iowa Economic Development Authority (IEDA), will provide tax credits to eligible businesses that incur qualified research expenses in Iowa for tax years beginning on or after January 1, 2026. SF 657 defines eligible expenditures as qualified research expenses under IRC Section 41 to the extent the expenditures occurred in Iowa. SF 657 caps the total credits that IEDA could issue in a fiscal year at $40 million. The IEDA may approve and issue a tax credit certificate to qualified businesses for up to 3.5% of eligible expenditures. The credit will be claimed by the business in the tax year immediately following the tax year in which the eligible expenditures were incurred. SF 657 also makes the R&D tax credit refundable for credits that exceed a business's tax liability or allow taxpayers to use the refundable portion creditable in the following year and prohibits the R&D tax credit from being transferred. A qualified business may claim the tax credit for up to five years, with recertification available upon application to the IEDA. SF 657 also specifies that the tax credit is available to businesses actively engaged in qualified R&D primarily engaged in advanced manufacturing, bioscience, insurance and finance, and technology innovation.[2]

SF 657 also allows the IEDA to reduce or eliminate some or all of the financial assistance it has awarded to entities that experienced a business closure or mass layoff for which notice is required under Chapter 48C. This provision applies to an entity awarded a tax incentive or other financial assistance under any program administered by the authority. (See Tax Alert 2025-1123.)

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[2] Business sectors that are not eligible for the tax credit, including agriculture producers, contractors, finance or investment companies, retailers, wholesalers, transportation companies, ethanol biorefineries, agricultural cooperative associations, real estate companies, collection agencies, accountants, architects, and publishers.

Kansas: SB 269 (enacted April 10, 2025), contingent on revenue thresholds being met, provides for the reduction in: state individual income tax, the corporate surtax, and privilege taxes on national banking associations, state banks, trust companies or savings and loan associations. Reductions to the corporate surtax rate and to the normal tax rate for financial institutions and trust companies will occur after the lower and higher individual income tax rates are reduced to 4%. As revenue thresholds are met, the corporate surtax rate will be reduced until the combined surtax and normal rates equal 4%. The normal tax rate for financial institutions and for trust companies and savings and loan associations will be decreased until the combined normal tax and surtax rates equals 2.6% for banks and 2.62% for trust companies and savings and loan associations. SB 269 takes effect on July 1, 2025. (See SALT Weekly for April 4 and April 11, 2025.)

Louisiana: HB 567 (enacted June 20, 2025) repeals provisions that subjected S corporation to the corporate income tax and required them to file as a corporation and allowed qualified Subchapter S subsidiaries (QSSS) be treated as a separate corporate entities. Instead, an S corporation will be treated as a PTE and be required to file an annual informational corporation return. S corporation shareholders are liable for income tax only in their separate or individual capacities. An S corporation's items of income, loss, deduction and credit taken into an account by a shareholder are characterized as received or incurred by the S corporation and not by the shareholders. For tax years beginning on or after January 1, 2026, credits previously earned by an S corporation flow-through to the shareholders. HB 567 prescribes the computation of the initial basis of resident and nonresident shareholders in the stock of the S corporation and any indebtedness of the corporation owned to the shareholder. Carryforward and carrybacks to and from an S corporation are restricted in the same manner as prescribed by IRC Section 1371(b); the amount of losses and deductions claimed by a shareholder may not exceed the shareholder's adjusted basis in the stock of the S corporation. HB 567 discusses the taxability of distributions of a S corporation to its shareholders. These changes apply to income tax periods beginning on or after January 1, 2026.

HB 567 makes the Louisiana Work Opportunity tax credit permanent by repealing the June 30, 2025 sunset date. (See SALT Weekly for June 20 and June 27, 2025.)

Minnesota: HF 9 (enacted June 14, 2025) makes the state's R&D tax credit partially refundable starting with tax year 2025. The refundability rate is 19.2% for tax year 2025 and 25% for tax years 2026 and 2027. Beginning in tax year 2028, the refundability rate will be determined by formula. If the Minnesota Department of Revenue determines that the total amount of refunds paid will exceed $25 million for the immediately succeeding tax year, the refundability rate must be adjusted so that the projected amount of refunds will approximate $25 million or less. (See Tax Alert 2025-1349.)

New York: A. 3009-C/S. 3009-C (enacted May 9, 2025) includes a variety of tax law changes that will affect corporate and individual taxpayers across various industries. Most notably, the bill:

- Limits an institutional real estate investors interest and depreciation deductions for covered properties
- Extends the Excelsior Jobs Program through 2029
- Expands the Excelsior Jobs Program for the semiconductor industry, with enhanced benefits for semiconductor supply chain businesses and two new programs — the semiconductor R&D project program and the semiconductor manufacturing workforce training incentive program
- Repeals the employee training incentive program effective December 31, 2028
- Increases the statewide limitation on the aggregate amount of low-income housing tax credits
- Provides enhanced tax credits for employing persons with disabilities and veterans
- Enhances and extends the New York State historic tax credits, allowing the credit to be transferred
- Imposes new reporting requirements for federal partnership adjustments, intended to align with the IRS's audit regime enacted under the Bipartisan Budget Act of 2015

(See Tax Alert 2025-1100.)

Philadelphia, PA: Bill No. 25019900 (enacted June 13, 2025) gradually reduces the net income portion of the Business Income and Receipts Tax (BIRT) and gradually phases-out the gross receipts portion of the BIRT. In 2025 the net income portion of the BIRT is reduced to 5.71% (from 5.81%) and to 5.65% in 2026, with 0.05% reductions in each year 2027 through 2030, when it reaches a 5.45% rate. In 2031 the rate is reduced to 5.30% with a 0.35% reduction in each year 2032 through 2037, when it reaches a rate of 3.20%. The rate is further

reduced to 2.80% in 2038 and thereafter. In 2025 the gross receipts portion of the BIRT is reduced to 1.410 mills (from 1.415 mills) and to 1.395 mills in 2026, with 0.005 mill reductions in each year 2027 through 2029, when it reaches a 1.380 mills rate. In 2030 the rate is reduced to 1.255 mills and to 1.130 mills in 2031. The rate is recued to 0.955 mills in 2032 and by 0.175 mills in each year 2033 through 2037 when it reaches a rate of 0.080 mills. In 2038 and thereafter the rate is 0 mills. (See SALT Weekly for June 20 and June 27, 2025.)

Rhode Island: HB 5076 Sub A (enacted June 29, 2025) modifies the definition of "net income" for purposes of the Business Corporation Tax. For tax years beginning on or before January 1, 2025, a corporate taxpayer is required to add to its taxable income the amount of any income, deduction or allowance that would be subject to federal income tax but for the enactment of the "One Big Beautiful Bill Act"[3] or similar Congressional enactment (collectively, federal bill). Enactment of a federal bill and any Internal Revenue Service changes to forms, regulations and processing that take effect during the current tax year or within six months of the beginning of the next tax year will be sufficient to adopt emergency rules and regulations "to effectuate the purpose of preserving the Rhode Island tax base under Rhode Island law" with respect to the federal bill. This provision took effect upon passage.

HB 5076 Sub A sunsets and modifies various tax credits. The following credits sunset for tax years beginning on or after January 1, 2026: (1) the elective deduction for R&D facilities; (2) the credit for R&D property acquired, constructed or reconstructed or erected after July 1, 1994; (3) the employment tax credit; (4) the tax incentive for capital investment in small businesses; and (5) the wage credit. The sunsetting R&D credits allowed on or before December 31, 2025, may be carried forward into tax years beginning in 2026. Effective for tax years beginning on or after January 1, 2026, the credit allowed for qualified research expenses may not reduce the tax due for that year by more than 50% of the tax liability and, in the case of a corporation, to not less than the minimum tax imposed by R.I. Gen. Laws Section 44-11-2. Excess credit may be carried over for up to 15 years. (See SALT Weekly July 4 and July 11, 2025.)

South Carolina: HB 507 (enacted May 22, 2025) updates South Carolina's conformity to the IRC to December 31, 2024 (from December 31, 2023). If IRC sections adopted by South Carolina expired (in full or in part) on December 31, 2024, are extended (but not amended) by federal enactment during 2025, they also will be extended for South Carolina income tax purposes in the same manner as extended for federal income tax purposes. HB 507 took effect on May 22, 2024. (See SALT Weekly for May 16 through May 30, 2025.)

Tennessee: HB 635/SB 439 (enacted May 2, 2025) modifies the excise tax to allow a taxpayer, at its discretion, to add back to net earnings: (1) any amounts taken as deductions from its federal taxable income that are also allowed as a deduction in determining the taxpayer's net earnings, and (2) any amounts subtracted from net earnings under present law. These discretionary additions to net earnings may be made, adjusted or removed at the taxpayer's discretion for any tax year on any timely filed original or amended return. HB 635/SB 439 took effect upon becoming law. (See SALT Weekly for May 16 through May 30, 2025.)

Texas: SB 2206 (enacted June 17, 2025) replaces the R&D franchise tax credit for certain R&D expenses with a new franchise tax credit for R&D expenses.[4] Taxpayers with qualified research expenses (QREs) are allowed to claim the new R&D tax credit against their franchise tax reports originally due on or after January 1, 2026. Under the new law, a taxable entity's Texas R&D credit will be calculated based on the amount reported on IRS Form 6765 (subject to Texas QREs) and the relevant federal income tax law in effect for the applicable tax year (rolling conformity to the federal R&D credit). The new law defines QREs as the amount reported as QREs on IRS Form 6765 that are attributable to research conducted in Texas. The new law also allows the use of statistical sampling procedures permitted by the IRS in the determination of Texas QREs. The law also increases the amount of the R&D credit. (See Tax Alert 2025-1301.)

SB 2774 (enacted May 24, 2025) modifies the classification of certain entities as primarily engaged in retail trade for purposes of the franchise tax. Effective January 1, 2027, the definition of "retail trade" is expanded to include "activities involving the rental of industrial uniforms, industrial garments, and industrial linen supplies that are classified as Industry 7353 of the 1987 Standard Industrial Classification Manual …." (See SALT Weekly for May 16 through May 30, 2025.)

[3] Formally, "An Act to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14" (H.R. 1).
[4] SB 2206 accelerates the sunset of the R&D credit, which was scheduled to expire on December 31, 2026.

SB 1058 (enacted May 13, 2025) clarifies the application of the Texas franchise tax to stock exchanges by excluding certain securities transaction payments from the total revenue of a taxable entity that is a registered securities market operator. Specifically, the exclusion applies to rebate payments made by the operator to a broker or dealer as part of a securities transaction. SB 1058 takes effect January 1, 2026, and it applies to reports originally due on or after that date. (See SALT Weekly for May 16 through May 30, 2025.)

SB 263 (enacted June 20, 2025) clarifies that franchise tax provisions related to the computing of the cost of goods sold by an entity whose principal business activity is broadcasting applies to television broadcasting as well as radio broadcasting. For purposes of this provision, "television or radio broadcasting" means television or radio broadcasting under a license issued by the Federal Communications Commission. This change took effect immediately. (See SALT Weekly for June 20 and June 27, 2025.)

Vermont: HB 493 (enacted May 21, 2025) updates Vermont's conformity to the IRC as amended through December 31, 2024 (from December 31, 2023). This change took effect on January 1, 2025, and applies to tax years beginning on and after January 1, 2024. (See SALT Weekly for May 16 through May 30, 2025.)

Virginia: HB 1600 (enacted May 2, 2025) extends the period in which the PTET election can be made to tax years beginning on and after January 1, 2022, but before January 1, 2027 (from before January 1, 2026).

HB 1600 also modifies the exception to Virginia's rolling conformity to the IRC. Virginia general conforms to the IRC, except when the projected impact of the federal amendment will increase or decrease general fund revenues by a specific amount. As amended, the exception applies to federal amendments enacted on or after January 1, 2025, but before January 1, 2027, that have a projected impact, or a cumulative projected impact, that would increase or decrease general fund revenues by any amount in the fiscal year in which the amendment was enacted or any of the succeeding four fiscal years. This provision does not apply to any amendment to federal law that is subsequently adopted by the Virginia General Assembly or is a federal tax extender. (See SALT Weekly for May 2 and May 9, 2025.)

Judicial developments

New York: In *American Catalog Mailers Association*[5] a New York Supreme Court ruled that 20 NYCRR Section 1-2.10 (hereafter, regulation), which identifies protected and unprotected internet activities under P.L. 86-272, is not preempted by federal law, but the regulation may only be applied prospectively from when issued (i.e., as of December 2023) and not retroactively to 2015. (See Tax Alert 2025-1023.)

Wisconsin: In *Skechers USA, Inc.*,[6] the Wisconsin Court of Appeals (Court) upheld a determination by the Wisconsin Tax Appeals Commission (WTAC) that certain intercompany royalty and interest expenses paid to a wholly owned subsidiary were not deductible expenses. The Court found the WTAC's determination that the evidence associated with the formation of the subsidiary "pointed to one reason for its creation – 'tax savings'" was "amply supported by the record," which showed that the specific transfer and license transactions did not have a valid nontax business purpose. (See Tax Alert 2025-1307.)

Administrative developments

Indiana: An Indiana Department of Revenue updated bulletin, General Tax Information Bulletin #200 (updated April 2025), describes the state's financial institutions tax. The update adds language on adjustments that may be made when a combined return does not fairly reflect Indiana source income, adds information on the PTET, describes calculations for NOLs when there is a discharge of indebtedness, and explains modifications to federal returns. (See SALT Weekly for April 4 and April 11, 2025.)

Maine: The Maine Revenue Services (MRS) adopted amendments to Rule 801, "Apportionment," to modify provisions regarding sales other than sales of tangible personal property. Receipts from the performance of

[5] *American Catalog Mailers Association v. Dept. of Taxn. and Fin.*, Index No. 903320-24 (N.Y. Sup. Ct., Albany Cnty., April 28, 2025).

[6] *Skechers USA, Inc. v. Wisconsin Dep't of Rev.*, Wis. Ct. App., No. 2024AP957 (Wis. Ct. of App. June 4, 2025).

services generally are sourced to the state where the services are received.[7] The amended rule provides that a service "may be received by a person other than the person who contracted for or paid for the service." The determination of where services are received will be based on all available facts and not be limited to the books and records of the taxpayer and related parties. The amended rule clarifies that a taxpayer may petition for, or the assessor may require, the use of an alternative apportionment method. The amended rule includes several examples of sourcing receipts from the performance of services under the general rule, including for: (1) in-person services, (2) services concerning real property, (3) services concerning tangible personal property, (4) services concerning teaching and training, (5) advertising and related services, (6) cable TV services, and (7) pharmacy benefit management services. The amended rule was adopted on June 25, 2025. (See SALT Weekly for June 20 and June 27, 2025.)

Michigan: The Michigan Department of Treasury (MI DOT) issued a notice describing the state's new R&D tax credit, which is created for tax years beginning on and after January 1, 2025. Topics covered by the notice include: (1) credit eligibility requirements, including a definition of "qualifying R&D expenses;" (2) the unadjusted credit amount, which is calculated each year based on R&D expenses incurred during the calendar year; (3) the tentative claim requirement under which an eligible claimant must timely submit a tentative claim that identifies the unadjusted credit amount and include information required to administer the credit; (4) adjustment of credit when the tentative claim exceeds the statutory limit; and (5) the process for claiming the R&D credit — a claimant may not assign or transfer any portion of the credit. For R&D expenses incurred in the 2025 calendar year, the MI DOT said that all claimants with a tax year beginning in 2025 must submit their tentative claims by April 1, 2026. (See SALT Weekly for April 4 and April 11, 2025.)

New Jersey: The New Jersey Division of Taxation has adopted proposed regulations that create new and amend existing corporate business tax (NJ CBT) regulations. These amendments implement recent statutory changes to the NJ CBT. The adopted changes, among other things: (1) clarify the treatment of NOL and their carryovers, more closely aligning the state's provisions with IRC Section 172, and establish a pooling system for combined group members; (2) incorporate the new bright-line nexus rule and clarify whether activities of unitary partnerships are considered when determining nexus at the corporate owner level; (3) modify and add new definitions related to combined returns; (4) repeal prior rules that set forth the ordering of tax credits and replace them with a simplified method for the use of tax credits; (5) prospectively incorporate parts of, and expand on, the MTC's updated guidelines on P.L. 86-272; (6) clarify that financial products, instruments and services are not considered tangible personal property; (7) clarify the treatment of IRC Section 959 (previously taxed earnings and profits) dividends; (8) clarify how to source capital gains when they are integrated or not integrated in business and operational income; (9) clarify that capital gains from the sale of bonds, digital assets, or other financial products/instruments sold for trading purposes are not treated as capital gains and includable in the receipts fraction; and (10) clarify that a place of business in New Jersey also includes employees who routinely work from home. The regulations take effect on June 16, 2025. (See Tax Alerts 2025-1364 and 2025-0561.)

Texas: In STAR No. 202506007L (June 3, 2025) the Texas Comptroller of Public Accounts said that for franchise tax purposes the sale of bitcoin is the sale of intangible property. Because this is a sale of intangible property, the costs for acquiring bitcoin are not eligible for the cost of goods sold deduction and the sale of an intangible asset is sourced to the payor's location. (See SALT Weekly for June 20 and June 27, 2025.)

Developments to watch

Federal: H.R. 1 (enacted July 4, 2025) contains numerous tax provisions, including extensions of many TCJA provisions expiring at the end of 2025. (See Tax Alerts 2025-1391 and 2025-1487.)

Alaska: On May 9, 2025, the Alaska legislature passed SB 113, which would: (1) generally adopt Multistate Tax Compact provisions relating to the allocation and apportionment of income by updating definitional provisions, (2) adopt market-based sourcing for services and intangible property, and (3) adopt single sales factor apportionment

[7] Based on public comments, the MRS removed a proposed change that would have added after the word received the phrase "that is, where the services are acquired or experienced." to the end of the first sentence of Rule 801 subsection .06(F)(1). Although the MRS intended the additional language to provide clarity to the term "received," based on public comments the additional language "was a source of confusion."

for "highly digitized businesses." SB 113 will be sent to Governor Mike Dunleavy for his consideration. If enacted, the provisions of SB 113 would take effect January 1, 2026. (See Tax Alert 2025-1046.)

California: The California Franchise Tax Board (FTB) on May 20, 2025, issued a Second Notice of Modifications to Text of Proposed Regulation to adopt amendments to its market-based sourcing rules for California corporate franchise and income tax purposes, to be codified at California Code of Regulations, title 18, (CCR) Section 25136-2 (Proposed Regulation). Notably, the FTB modified the applicable date of the Proposed Regulation, which now is intended to apply for tax years beginning on or after January 1, 2026. The FTB also made clarifying edits based on public comments. Changes in the latest version of the draft language fix inconsistent references to “benefit of a service” and “benefit of the service” so that “benefit of the service” is consistently used. Clarifying edits were made to “reflect the proper application of the four presumption rules” in CCR Section 25136-2(c)(1)(A) and how they interact with the other rules in CCR Section 25136-2(c)(1). (See Tax Alert 2025-1286.)

San Francisco, CA: The San Francisco tax collector issued Proposed Regulation 2025-1, which would provide guidance on how gross receipts from services, intangible property, and sales of financial instruments are allocated to the city for gross receipts tax purposes. The proposed regulation would apply to the allocation of gross receipts effective for tax years beginning on or after January 1, 2025. (See Tax Alert 2025-0823.)

Illinois: The Illinois Department of Revenue has proposed amendments to 86 Ill. Adm. Code 100.3405 and 100.9710 to modify the apportionment method for investment income of financial organization as provided by Pub. Act 103-0592).[8] The proposed changes provide guidance on which receipts from investment assets and activities and trading assets and activities are included in the receipts factor for tax years ending before December 31, 2025, and for tax years ending on or after December 31, 2024. Additionally, proposed amendments would update the limit for an entity engaged in business as a “small loan company” to making loans in a principal amount not exceeding $40,000 (from $25,000). (See SALT Weekly for June 6 and June 13, 2025.)

Maine: LD 48 (enacted July 1, 2025) updates the state date of conformity to the IRC to December 31, 2024 (from December 31, 2023). This change applies to tax years beginning on or after January 1, 2024, and to any prior tax year specifically provided by the IRC of 1986 and amendments to the IRC as of December 31, 2024. LD 48 took effect upon approval. (See SALT Weekly for July 4 and July 11, 2025.)

Texas: Approved Joint Resolution (SJR 18) proposes an amendment to the Texas Constitution, that if approved by voters, would prohibit the legislature from taxing the realized or unrealized capital gains of an individual, family, estate or trust, including a tax on the sale or transfer of a capital asset payable by the individual, family, estate or trust selling or transferring the asset. This constitutional amendment will be submitted to voters to consider during the election to be held on November 4, 2025. (See SALT Weekly for May 16 through May 30, 2025.)

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[8] See Tax Alert 2024-1178.

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