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State Tax Alert
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State corporate income and franchise tax developments in the fourth 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 fourth 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

Delaware, District of Columbia, Illinois, Michigan and Pennsylvania enact legislation to decouple from select OBBBA provisions

Since the enactment of the federal "One Big Beautiful Bill Act" (OBBBA)[1] on July 4, 2025, state and local jurisdictions have begun to enact legislation to decouple from, or otherwise address, select provisions of the OBBBA. These legislative developments are described directly below, and related tax administrator guidance from several states are discussed under the Administrative Developments section.

Delaware: HB 255 (enacted November 19, 2025) decouples Delaware income tax law from select provisions of the OBBBA.[2] In determining Delaware entire net income for any income year, corporate taxpayers must make the following adjustments:

- Research and experimental (R&E) expenditures (Internal Revenue Code (IRC) Sections 174 and 174A): For domestic R&E expenditures made after December 31, 2021, but on or before December 31, 2024, taxpayers are required to continue to expense R&E expenditures under the IRC in effect immediately before the enactment of the OBBBA.
- Bonus depreciation (IRC Section 168(k)): For property acquired and placed in service after January 19, 2025, and before January 1, 2031, which would otherwise be eligible for expensing under Section 70301 of PL 119-21 (i.e., full expensing for certain business property under IRC Section 168(k)), taxpayers are required to continue to amortize and depreciate such property under the IRC in effect immediately before enactment of the OBBBA.
- Special depreciation for qualified production property (IRC Section 168(n)): For qualified production property, as defined in Section 70307 of PL 119-21, placed in service before January 1, 2031, taxpayers are required to continue to amortize and depreciate such property under the IRC in effect immediately before enactment of the OBBBA.

These changes took effect upon enactment and apply to tax years beginning on or after January 1, 2022.

For individuals with business income, the law decouples from the OBBBA's provisions related to bonus depreciation and special depreciation for qualified production property. These changes take effect January 1, 2026. (See SALT Weekly November 21 and 28, 2025.)

District of Columbia: B26-0457 (enacted December 3, 2025) decouples from select federal tax changes made by the OBBBA.[3] The law modifies the gross income of a corporation, financial institution, unincorporated business and partnership (each an "entity"). Generally applicable as of January 1, 2025, an entity is allowed to deduct all

[1] Public Law [PL] 119-21. For a discussion of the state income tax implications of the OBBBA, see Tax Alert 2025-1487.
[2] See also, Del. Div. of Rev., Technical Information Memorandum 2025-2 (December 23, 2025).
[3] A temporary bill (B26-0458) including the same provisions as the emergency bill was enacted without the mayor's signature on December 20, 2025. To become law, it will next be sent to the U.S. Congress for a mandatory 30-in session day review period. Once the temporary bill becomes law, it will be effective for no more than 225 days. It is likely that these law changes will also be introduced as part of a permanent bill (i.e., a bill that goes through the full legislative process with no expiration date).

ordinary and necessary expenses paid or incurred during the tax year that are deductible under IRC Section 162(a), except as follows:

- **IRC Section 174A** – For tax years beginning after December 31, 2021, the domestic R&E expenditure deduction under IRC Section 174A is: (i) charged to the capital account, and (ii) allowed as an amortized deduction ratably over the five-year period beginning with the midpoint of the tax year in which these expenditures are paid or incurred. Taxpayers are not allowed to make an election to file an amended return "pursuant to [IRC Section] 174A(f)(1)" or make an election under "[IRC Section] 174A(f)2)."[4]
- **IRC Section 163(j)** – In calculating the business interest limitation under IRC Section 163, adjusted taxable income is determined under IRC Section 163(j)(8)(A) except that IRC Section 163(j)(8)(A)(v) does not apply. In addition, "floor plan financing interest" under IRC Section 163(j)(9) does not apply.
- **IRC Section 168(k)** – Disallows the special depreciation allowance under IRC Section 168(k).
- **IRC Section 168(n)** – Disallows the special depreciation allowance under IRC Section 168(n).
- **IRC Section 179** – Allows a deduction for the cost of property which the taxpayer has elected to be treated as not chargeable to capital account under IRC Section 179. The deduction is limited to the lesser of $25,000 or the actual cost of the property for the year in which it was placed in service.
- **IRC Section 1400Z** – Set forth the criteria that must be met for amounts invested in a qualified opportunity fund after December 31, 2026, to realize certain tax reductions under IRC Sections 1400Z-2(b) and (c).

For tax years beginning after December 31, 2024, individuals, estates and trusts must include any income or gain excluded from federal gross income under IRC Section 1202(a) (i.e., the qualified small business stock exclusion).

As emergency legislation, B26-0457 will be effective for a 90-day period, expiring on March 3, 2026. (See Tax Alert 2025-2409.)

Illinois: SB 1911 (enacted December 12, 2025) modifies the state's income tax laws to address select changes made by the OBBBA. Of note, SB 1911 does the following:

- Continues to decouple from bonus depreciation under IRC Section 168(k)
- Decouples from special depreciation for qualified production property under IRC Section 168(n), applicable to tax years 2026 and after
- Modifies the statutory state deduction for 50% of global intangible low-taxed income (GILTI) to include net controlled foreign corporation tested income (NCTI), specifically stating: "[f]or taxable years ending on or after December 31, 2025, 50% of the amount of [GILTI] or [NCTI] received or deemed received or paid or deemed paid under [IRC] Sections 951 through 965"
- Makes the elective pass-through entity tax (PTET) permanent by removing its sunset date; without this change, the elective PTET would have been limited to tax years ending on or after December 31, 2021, and starting before January 1, 2026
- Removes the expiration date of the subtraction for the taxpayer's excess business loss disallowed as a deduction under IRC 461(l)(1)(B); without this change, the subtraction would have been limited to tax years beginning after December 31, 2018, and before January 1, 2026

SB 1911 took effect upon becoming law. (See SALT Weekly December 5 and 12, 2025.)

Michigan: HB 4961 (enacted October 7, 2025) decouples from select federal tax changes enacted by the OBBBA. For tax years beginning after December 31, 2024, for corporate income tax purposes, a taxpayer's federal taxable income (FTI) is calculated as though: (1) IRC Sections 168(k), 168(n) and 174A were not in effect; and (2) IRC Sections 163(j), 174 and 179 were in effect on December 31, 2024. For tax years beginning after December 31, 2024, for individual income and trust and estate income tax purposes, a taxpayer's adjusted gross income (AGI) is calculated as though: (1) IRC Sections 168(n) and 174A were not in effect; and (2) IRC Sections

[4] While IRC Section 174A(f) does not exist, these elections are allowed under Sections 70302(f)(1) and (f)(2) of the OBBBA. Under Section 70302(f)(1) of the OBBBA, small businesses can elect to apply IRC Section 174A retroactively to domestic R&E expenditures incurred in tax years beginning after December 31, 2021. Under Sections 70302(f)(2) of the OBBBA, all taxpayers can elect to accelerate certain unamortized domestic R&E expenditures (those incurred and capitalized in tax years beginning after December 31, 2021, and before January 1, 2025) over one or two years (the first year, or first and second years, beginning after December 31, 2024).

163(j), 168(k), 174 and 179 were in effect on December 31, 2024. For tax years beginning after January 1, 2021, a taxpayer's FTI/AGI is calculated as if the transition rules under Section 70302 of the OBBBA, including provisions related to IRC Section 174A, do not apply. HB 4961 took effect immediately. (See Tax Alert 2025-2077.)

Pennsylvania: HB 416 (enacted November 12, 2025) decouples Pennsylvania's corporate net income tax from the following provisions in the OBBBA:

R&E expenditures: Applicable to tax years beginning after December 31, 2024, the law expands the definition of Pennsylvania "taxable income" to include:

- The amount of amortization deduction for R&E expenditures claimed under IRC Sections 174 or 59(e).
- The amount deducted for any R&E expenditures claimed under IRC Section 174A, and the amount of the amortization deduction for any R&E expenditures claimed under IRC Section 174A.
- The amount of any deduction claimed under IRC Section 481 related to R&E expenditures originally made by the taxpayer in tax years beginning after December 31, 2021, and before tax years beginning after December 31, 2024.

When R&E expenditures are included in taxable income, an additional deduction for R&E expenditures is allowed until the total amount deductible under IRC Sections 174, 59(e) or 174A has been claimed, with the deduction limited to 20% of (1) the remaining unamortized qualified R&E expenditures (IRC Sections 174 or 59(e)) or (2) the qualified R&E expenditures (IRC Section 174A). If amounts related to a change in a taxpayer's accounting method for purposes of IRC Section 481 were included in taxable income (i.e., if a taxpayer makes a federal election under Section 70302(f)(2) of the OBBBA), an additional deduction is allowed until the total amount originally amortizable under IRC Section 174 has been claimed. The additional deduction is equal to 20% of the remaining unamortized qualified R&E expenditures originally subject to amortization.

The law makes clear that the total amount of the additional deductions under any of these provisions may not be more than the remaining unamortized qualified R&E expenditures under IRC Sections 174 and 59(e) or the qualified R&E expenditures allowable under IRC Section 174A or originally allowable under IRC Section 174.

IRC Section 168(n) qualified production property: Effective immediately, the law expands the definition of "taxable income" to include the amount of the deduction for depreciation of qualified production property claimed under IRC Section 168(n). If such deduction was included in taxable income, an additional deduction for such property is allowed until the total amount included has been claimed. The additional deduction equals the depreciation on the qualified production property for the tax year, as determined under IRC Sections 167 and 168, without application of IRC Section 168(n). If the qualified production property is sold or disposed of during the tax year for which depreciation was included in taxable income, an additional deduction is allowed to the extent the depreciation has not been recovered.

IRC Section 163(j) business interest expense limitation: Applicable retroactively to tax years beginning after December 31, 2024, the law requires taxpayers in calculating their Pennsylvania taxable income to apply the federal business interest expense limitation provisions under IRC Section 163(j) as they were in effect on December 31, 2024. (See Tax Alert 2025-2403.)

Legislative developments

California: SB 711 (enacted October 1, 2025) updates California's conformity to the IRC for both corporate and individual income tax purposes. Generally, California selectively incorporated specific provisions of the IRC as of a specified date. SB 711, effective immediately, updates California's specified IRC conformity date to January 1, 2025 (from January 1, 2015). While California now conforms to many of the federal tax changes enacted since January 1, 2015, the state continues to decouple from several changes enacted by the federal Tax Cuts and Jobs Act (TCJA). SB 711 did not address the OBBBA. (See Tax Alert 2025-2032.)

SB 302 (enacted October 1, 2025) excludes from a taxpayer's gross income refund payments for specified federal environmental credits and payments received by a transferor as consideration for a transfer of the value of the credits. Applicable to tax years beginning on or after January 1, 2026, and before January 1, 2031, gross income does not include: (1) any payment made under IRC Section 6417, as added by PL 117-169, related to elective payments of applicable federal environmental credits; or (2) any payment made under IRC Section 6418, as added by PL 117-169, relating to the transfer of certain federal environmental credits. Payments made under IRC Section 6418 include the value of a credit received by a transferee. (See Tax Alert 2025-2021.)

San Francisco, CA: Ordinance No. 187-25 (enacted October 6, 2025) effective January 1, 2026, reduces the gross receipts tax rates on gross receipts from telecommunications business activities (NAICS[5] Code 517) by reclassifying such activities from Category 5 (tax rates range from 1% up to 1.68%) to Category 4 (tax rates range from 0.25% up to 1.512%). The law also modifies the tax credit for opening a physical location in a designated area so that taxpayers retain eligibility to take the credit. (See SALT Weekly October 24 and 31, 2025.)

District of Columbia: B26-0265 (became law on December 6, 2025) delays the net deferred tax liability deduction, applicable for a combined group whose net deferred tax liability was increased as a result of the enactment of the combined reporting provisions. The change replaces the phrase "For the [seven]-year period beginning with the 15th year of the combined filing" with the phrase "For the first [seven] tax years beginning after December 31, 2029."[6] (See SALT Weekly December 5 and 12, 2025.)

B26-0053 (became law on October 1, 2025) creates the vacant and blighted property rehabilitation credit. Effective for tax years beginning after December 31, 2026, the credit may be claimed against corporate income taxes. The amount of credit is equal to 50% of eligible development costs that have been certified by the mayor. The aggregate amount of credit that can be approved by the mayor is capped at $2 million each fiscal year. The amount of credit that exceeds that taxpayer's liability is refundable to the taxpayer. (See SALT Weekly September 16, 2025 and October 3, 2025.)

Illinois: SB 1911 (enacted December 12, 2025) extends the Film Production Services Tax Credit Act of 2008 through 2038; specifically, taxpayers will not be awarded any credits under this Act for tax years beginning on or after January 1, 2039 (from January 1, 2033). SB 1911 also modifies various provisions of the film production services tax credit, including those related to withholding tax on compensation paid to a loan out company. SB 1911 increases and enhances the amount of credit for an accredited production commencing on or after July 1, 2025, modifies the definition of "Illinois labor expenditure" and limits the wages paid to nonresidents that will qualify as Illinois labor expenditures, applicable to productions commencing on or after July 1, 2025. (See SALT Weekly December 5 and 12, 2025.)

Michigan: HB 4961 (enacted on October 7, 2025) changes Michigan's date of conformity to the IRC to the IRC in effect on January 1, 2025 (from January 1, 2018). The statute retains the provision that gives taxpayers the option to use the IRC in effect for the tax year. (See Tax Alert 2025-2077.)

Pennsylvania: HB 416 (enacted November 12, 2025) establishes an affordable housing tax credit and expands and extends select Keystone Opportunity Zone credits. (See Tax Alert 2025-2403.)

Texas: On November 4, 2025, Texas voters approved Proposition 2 (SJR 18), a Texas Constitutional amendment that prohibits 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. (See SALT Weekly November 7 and 14, 2025.)

Administrative developments

Alabama: The Alabama Department of Revenue (AL DOR) issued a report[7] that examines key tax provisions in the OBBBA and analyzes how these provisions will impact Alabama's tax system, specifically corporations,

[5] North American Industry Classification System.
[6] This change was previously enacted under an emergency bill, B26-0340. In the District, an emergency bill is only effective for a 90-day period. B26-0340 expired on December 2, 2025.
[7] Ala. Dept. of Rev., "The One, Big, Beautiful Bill Act Analysis and Tax Provisions" (updated November 10, 2025). The AL DOR noted that this report is not a comprehensive, it is "not meant to provide tax guidance but rather is meant to provide general guidance on the OBBBA provisions in relation to Alabama income and financial institution tax laws," and that the conclusions in the report are subject to revisions as additional information (e.g., federal guidance) becomes available.

financial institutions and individuals, but not pass-through entities or trusts. The report provides a short summary of each relevant OBBBA provision and indicates whether Alabama is tied to that provision. The AL DOR indicated that the state was “tied to federal” for corporate income tax purposes to certain OBBBA provisions, including: (1) full expensing for certain business property (IRC Section 168(k)); (2) full expensing of domestic R&E expenditures (IRC Section 174A); (3) business interest limitation (IRC Section 163(j)); (4) increased limitation for expensing certain depreciable business assets (IRC Section 179); and (5) special depreciation allowance for qualified production property (IRC Section 168(n)). The report discusses several OBBBA provisions related to foreign income and foreign corporations, including provisions under IRC Sections 904(b), 951, 960, 250(a) and (b), 951(A), 954(c)(6)(C) and 59A, relating to foreign tax credit limitations, NCTI, foreign-derived deduction eligible income (FDDEI), deduction eligible income, deemed intangible income, controlled foreign corporations and the base erosion and anti-abuse tax. (See SALT Weekly November 7 and 14, 2025.)

San Francisco, CA: Adopted final Regulation 2025-1 (adopted October 24, 2025) outlines how businesses should allocate gross receipts from services, intangible property and financial instruments under the Business and Tax Regulations Code Sections 956.1(e) and 956.1(f). The final regulations are effective for tax years beginning on or after January 1, 2025. (See Tax Alert 2025-2398.)

Indiana: The Indiana Department of Revenue issued guidance on the new Railroad Tax Credit for Qualified Infrastructure Investment, describing the credit for qualified new rail infrastructure expenditures (new rail credit) and the credit for qualified rail expenditures (rail expenditure credit). The two credits, the IN DOR noted, have different qualifications and different caps.[8] Credits are claimed against the taxpayer’s state adjusted gross income tax liability. (See SALT Weekly December 5 and 12, 2025.)

Iowa: The Iowa Department of Revenue (IA DOR) updated its guidance (revised November 4, 2025) on GILTI and foreign derived intangible income (FDII) to address certain OBBBA changes. Beginning January 1, 2026, there will be no subtraction from Iowa taxable income for IRC Section 951A income due to changes in the OBBBA from GILTI to NCTI. For tax years beginning on or after January 1, 2019, Iowa Code 422.35(12) provided a subtraction for GILTI to the extent included in the Iowa tax base under IRC Section 951A. Under the OBBBA, effective January 1, 2026, IRC Sections 951A and 250 are revised to include NCTI under IRC Section 951A in the federal tax base subject to a 40% deduction under IRC Section 250. Because Iowa law provides no exclusion or other adjustment for NCTI, the 60% of NCTI still included in federal taxable income after the application of the IRC Section 250 deduction will be subject to Iowa income tax. As with GILTI, Iowa law does not treat NCTI as a foreign dividend, or as subpart F income, and no portion of NCTI may be used in calculating a corporate taxpayer’s Iowa foreign dividends received deduction. The IA DOR also indicated that the state fully conforms with the federal deduction for FDII for 2019 through 2025 and to FDDEI for 2026 and after. (See Tax Alert 2025-2365.)

The IA DOR certified that the corporate income tax rate will not be reduced for tax year 2026 because the revenue threshold for recalculating the corporate income tax rate was not met.[9] Accordingly, the corporate income tax rate for tax years beginning on or after January 1, 2026 are as follows: (1) for income of $100,000 or less, the tax rate is 5.5%, and (2) for income over $100,000, the tax rate is 7.1%. (See SALT Weekly October 24 and 31, 2025.)

Kansas: The Kansas Department of Revenue issued a notice concerning legislation enacted in 2025 (SB 269), which provided for future income and privilege tax rate reductions, contingent on revenue thresholds being met. Because the amount of total fiscal year adjusted general revenue collections from FY 2025 are not in excess of the inflation adjusted base year revenues for FY 2025, there will be no rate reduction for tax year 2026.[10] (See SALT Weekly September 16, 2025 and October 3, 2025.)

Louisiana: The Louisiana Department of Revenue issued guidance on the work-based learning tax credit, which can be claimed against the income tax. Starting in 2026, the nonrefundable credit is available to employers who hire eligible apprentices, interns and youth workers.[11] (See SALT Weekly November 7 and 14, 2025.)

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[8] Ind. Dept. of Rev., Income Tax Information Bulletin #125 (December 2025).
[9] Iowa Dept. of Rev., Order 2025-02 (October 21, 2025).
[10] Kan. Dept. of Rev., Notice 25-06 “Decreases of Income and Privilege Tax Rates – Contingent on Revenue” (October 2, 2025).
[11] La. Dept. of Rev., Revenue Information Bulletin No. 25-028 (November 10, 2025).

Maine: The Maine Revenue Service (MRS) issued a tax alert to provide guidance on the state's conformity with federal tax law changes made by the OBBBA for the 2025 tax year.[12] The MRS said the 2025 Maine tax forms and instructions will reflect conformity to certain OBBBA provisions, including: (1) IRC Section 179 expensing, (2) the business interest deduction, and (3) certain R&E expenses. The forms and instructions will reflect nonconformity to (1) accelerated depreciation for qualified production property, and (2) accelerated expensing of R&E expenditures incurred after 2021. Regarding R&E expenses, the state does not conform with accelerated expensing for tax years beginning after 2024, but it will allow certain small businesses that file amended federal returns for tax years 2022, 2023 or 2024 to claim a deduction for unamortized R&E expenditures incurred after 2021 and before 2025. The MRS also noted that the state continues to decouple from accelerated or bonus depreciation; instead, taxpayers claim depreciation over the normal life of the asset. (See SALT Weekly October 10 and 17, 2025.)

Massachusetts: Amended regulation, 830 CMR 63.39.1: Corporate Nexus (adopted October 10, 2025), adds an example of when in-state internet activities conducted by a vendor through a website accessible by persons within Massachusetts may not be entirely ancillary to the solicitation of orders of tangible personal property, such that the activity would not fall under the protection of PL 86-272. Internet activity that may not be entirely ancillary include "the placement of Internet cookies onto the computers or other electronic devices of in-state customers that gather customer search information used to adjust production schedules and inventory amounts, develop new products, or identify new items to offer for sale." (See SALT Weekly October 10 and 17, 2025.)

Nebraska: The Nebraska Department Revenue issued guidance on a recently enacted statutory provision, Nebraska Rev. Stat. Section 77-3,114, which, effective October 1, 2025, prohibits certain entities from receiving benefits from Nebraska tax incentive programs. The new law prohibits "foreign adversarial companies" from receiving any benefit from Nebraska incentive programs. This includes entities applying for credits, investors who would claim the entity's credits on their tax returns, and all other taxpayers who would claim incentive credits from said companies. A "foreign adversarial company" is defined as any corporation, partnership, association, organization or other combination of persons that: (1) is organized under the laws of a foreign adversary; (2) has its principal place of business within a foreign adversary; (3) is owned in whole or in part, operated, or controlled by the government of a foreign adversary; or (4) is a subsidiary or parent of any company otherwise described. The guidance indicates that the new law will apply retroactively to any credits or incentives from past years that have been carried forward. The foreign adversarial company will not earn any future credits. (See Tax Alert 2025-2317.)

New Hampshire: The New Hampshire Department of Revenue Administration (NH DRA) issued guidance[13] on the state's tax amnesty program, which runs December 1, 2025, through February 15, 2026.[14] The tax amnesty program applies to taxes administered and collected by the NH DRA that were due but unpaid on or before June 30, 2025. Applicable taxes include, but are not limited to, the Business Enterprise Tax, the Business Profits Tax, and the Interest and Dividends Tax. Eligible taxpayers that report and pay such taxes in full and pay one-half the interest due during the amnesty period will have all penalties and 50% of applicable interest waived. (See SALT Weekly November 21 and 28, 2025.)

New Jersey: The New Jersey Division of Taxation (NJ DOT) updated its technical bulletin[15] on the state's research and development (R&D) tax credit that can be claimed against the state's Corporation Business Tax (CBT) to add guidance related to the OBBBA. The NJ DOT explained that the OBBBA allows for a different timing application for the deduction of New Jersey research expenditures. If there is a timing difference in deducting New Jersey research expenditures, taxpayers will account for this difference on their CBT return by deducting their New Jersey research expenditures in accordance with N.J.S.A. 54:10A-4(k)(11). Taxpayers who amend their federal returns under IRS Rev. Proc. 2025-28 also must amend their New Jersey CBT return. (See SALT Weekly November 21 and 28, 2025.)

[12] Maine Rev. Serv., Maine Tax Alert (Vol. 35, Issue 14, October 2025-#2).
[13] N.H. Dept. of Rev. Admin., TIR 2025-006 (November 21, 2025).
[14] New Hampshire's tax amnesty program was established by HB 2, NH Laws 2025.
[15] N.J. Div. of Taxn., TB-114 "The New Jersey Research and Development Tax Credit" (revised November 25, 2025).

In response to the renaming of GILTI as NCTI and FDII as FDDEI under the OBBBA, the NJ DOT said on its website that treatment of these concepts for CBT purposes is unchanged.[16] The NJ DOT said that treatment "remains as set forth in the published guidance and regulations" and that "[w]hen reviewing prior materials … any reference to GILTI refers to NCTI and any reference to FDII refers to FDDEI." (See SALT Weekly December 5 and 12, 2025.)

The NJ DOT revised its technical bulletin on the IRC Section 163(j) limitation for CBT filers to add references to the OBBBA. The NJ DOT said that "[t]here is no change to the way [IRC Section 163(j)] income is reported on New Jersey returns."[17] (See SALT Weekly December 5 and 12, 2025.)

The NJ DOT said on its website that New Jersey conforms to federal changes made by the OBBBA for charitable contribution deductions to the extent they are consistent with the CBT.[18] The NJ DOT explained that the starting point for taxable income under the CBT is entire net income (ENI) before net operating losses (NOLs) and special deductions, with specific statutory modifications. The OBBBA's changes to charitable contribution deductions affect total deductions that are above ENI before NOLs and special deductions. (See SALT Weekly December 5 and 12, 2025.)

The NJ DOT issued a technical bulletin to describe a casino licensee's CBT obligations.[19] The NJ DOT explained that before the state's enactment of mandatory combined reporting, casino licensees, licensed to operate in New Jersey, were required to file consolidated New Jersey CBT returns. Under mandatory combined reporting, every casino licensee, regardless of entity type, is included on the combined group return as a taxable member of the New Jersey combined group. The bulletin describes the combined group income or loss, including filing methods, allocation methods for combined returns, market-based sourcing, and NOLs. (See SALT Weekly October 10 and 17, 2025.)

Rhode Island: Emergency regulation 280-RICR-20-25-16 (adopted December 15, 2025) provides guidance on modifications to Rhode Island net income due to the state's temporary decoupling from the OBBBA. The regulation states that it will be "liberally construed" to allow the RI DOT to effectuate the purposes of the decoupling provisions under R.I. Gen. Laws Section 44-11-11(a)(1)(viii). Under the decoupling provision, "any income, deduction, or allowance that would be subject to federal income tax for taxable years beginning on or before January 1, 2025, but for the enactment of [OBBBA], must be included in net income for Rhode Island Business Corporation Tax [BCT] purposes…" Items subject to addback include: (1) business interest expense under IRC Section 163(j) – the emergency regulation describes how partnerships, S corporations and C corporations should reflect the addback on their returns; (2) treatment of certain qualified sound recording productions in IRC Sections 168(k) and 181; (3) full expensing of domestic R&E under IRC Section 174A – i.e., provisions that (a) allow all businesses to accelerate the expensing of these expenditures starting in tax year 2025, and (b) allow small business to retroactively accelerate expensing of these expenditures for tax years 2022, 2023 and 2024 – the emergency rule includes examples; and (4) increased dollar limitation for expensing certain depreciable business assets under IRC Section 179(b). The emergency regulation describes how partnerships, S corporations and C corporations should reflect the addback of these items on their returns. The emergency rules are effective for 120 days, unless they are extended to 180 days. See also, R.I. Dept. of Rev., Div. of Taxn., ADV 2025-20 (October 2, 2025).[20] (See SALT Weekly for December 19 and 26 and SALT Weekly September 16, 2025 and October 3, 2025.)

Tennessee: The Tennessee Department of Revenue (TN DOR) issued a notice on the federal bonus depreciation conformity. Tennessee conforms to federal bonus depreciation provisions that exist and apply under the TCJA; applicable to assets purchased on or after January 1, 2023, for which the taxpayer has taken federal bonus depreciation. Under the TCJA, bonus depreciation phases-out by 2027 (80% in 2023, 60% in 2024, 40% in 2025,

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[16] N.J. Div. of Taxn., "Federal Renaming for GILTI and FDII Under the One Big Beautiful Bill Act for Corporation Business Tax" (last updated December 4, 2025).
[17] N.J. Div. of Taxn., TB-87(R) "Guidance for Corporation Business Tax Filers on the IRC §163(j) Limitation" (revised December 4, 2025).
[18] N.J. Div. of Taxn., "One Big Beautiful Bill Act (OBBBA) - Changes to Charitable Contribution Deductions" (last updated December 1, 2025).
[19] N.J. Div. of Taxn., TB-117 "Casino Licensees' Corporation Business Tax Obligations" (October 9, 2025).
[20] Rhode Island Department of Taxation guidance on the state's decoupling from the OBBBA, focusing on the 2025 tax year. The emergency regulation reflects the same treatment as described in the advisory.

20% in 2026 and 0% in 2027 and after). The OBBBA provides for 100% bonus depreciation for qualified property acquired after January 19, 2025. Tennessee does not conform to the OBBBA's bonus depreciation provisions as it "remains coupled with the TCJA bonus depreciation provisions." Accordingly, taxpayers taking federal bonus depreciation deductions under the OBBBA will have to adjust their Tennessee excise tax return and apply the applicable bonus deprecation percentage set forth in the TCJA. The TN DOR further stated that the state does not conform to the OBBBA's bonus deprecation for qualified production property (IRC Section 168(n)), noting that this provision does not exist in the TCJA. Because Tennessee does not conform to this provision, for excise tax purposes such property is depreciated in accordance with federal Modified Accelerated Cost Recovery System depreciation provisions applicable to nonresidential real property. Taxpayers may need to adjust their excise tax returns. Tenn. Dept. of Rev., Notice #25-36 "Federal Bonus Depreciation Conformity" (December 2025). (See SALT Weekly December 5 and 12, 2025.)

The TN DOR also updated its Franchise and Excise Tax Manual to discuss provisions of the OBBBA that may affect the determination of net earnings subject to Tennessee excise tax.[21] In addition to the OBBBA's bonus depreciation and qualified production property provisions, discussed above, OBBBA provisions examined in the manual include the following:

- R&E expenditures – Tennessee allows full expensing, as the state decoupled from the TCJA version of IRC Section 174 to allow taxpayers to continue to apply full expensing of R&E expenditures for excise tax purposes, and it conforms to IRC Section 174A "via the state's general rolling conformity with the [IRC], as amended." The TN DOR noted that taxpayers should not amend their 2022, 2023 or 2024 excise tax returns unless they did not adjust Schedule J to fully expense their R&E expenditures paid or incurred in those years.
- Business interest expense limitation under IRC Section 163(j) – Tennessee allows full expensing as the state conforms to the pre-TCJA version of IRC Section 163(j); the TN DOR said taxpayers who are limited in deducting business interest expense under the OBBBA will have to make appropriate addback and deduction adjustments on Schedule J of the excise tax return to reverse the federal deduction and to deduct all business interest paid or incurred during the year.
- IRC Section 179 expensing – Tennessee conforms to this provision via its general rolling conformity with the IRC.
- NCTI – Tennessee requires a special adjustment (discussed below).
- FDDEI – Tennessee conforms to this provision via its general rolling conformity to the IRC (discussed below).
- Qualified opportunity zones and funds (QOZF) – Tennessee conforms to the OBBBA's gain deferral and subsequent recognition provisions related to QOZF provisions via its general rolling conformity to the IRC.
- Charitable contributions floor limitations – Tennessee decouples from this provision and requires special adjustments.

Regarding NCTI, the TN DOR explained that the state conforms to IRC Section 951A via its rolling conformity with the IRC, but, for purposes of taxing NCTI, it does not conform to the related deduction for such income under IRC Section 250. Taxpayers with NCTI inclusion must make two special adjustments on the excise tax return Schedule J: (1) the deduction of the NCTI inclusion amount included in the excise tax starting point, and (2) the add back of 5% of the taxpayer's NCTI without the related IRC Section 250 deduction.

The TN DOR also explained that the state conforms to the FDDEI deduction. Taxpayers required to file Tennessee franchise and excise tax returns on a separate entity basis must calculate the FDDEI deduction on a separate entity basis. In addition, taxpayers also must apply the taxable income limitation under IRC Section 250(a)(2) by computing their federal taxable income on a separate entity basis without regard to any Tennessee addition or subtraction modifications to net earnings.

The TN DOR noted that this discussion "is not intended to provide a comprehensive overview of all OBBBA provisions, but rather, it focuses on OBBBA provisions that are most likely to have excise tax implications." (See SALT Weekly December 19 and 26, 2025.)

[21] Tenn. Dept. of Rev., "Franchise and Excise Tax Manual" (updated December 2025).

The TN DOR also issued a notice on the state's excise tax treatment of the federal employee retention credit (ERC).[22] The TN DOR explained that federal law requires an eligible employer reduce its federal income tax deduction for wages and certain related expenses by the amount of ERC they receive. The starting point of the Tennessee excise tax considers the reduced federal deduction and, as such, the "ERC is included in the excise tax base in this manner." Further, the TN DOR said that the excise tax deduction for certain federally disallowed expenses does not apply to the ERC. Thus, federally disallowed expenses related to the ERC "cannot be deducted under this provision and are not otherwise deductible for excise tax purposes." (See SALT Weekly December 5 and 12, 2025.)

Texas: On December 19, 2025, the Texas Comptroller of Public Accounts (Comptroller) issued a memo to provide guidance on a recent policy change regarding Texas Franchise Tax conformity to the current IRC.[23]

Historically, the Comptroller required a taxpayer (referred to as a taxable entity in Texas) to use the IRC in effect for the federal tax year beginning January 1, 2007 (hereafter, 2007 IRC), when computing amounts taken from the federal tax return. The memo provides that for Texas franchise tax reports due in 2026 and forward, taxpayers should calculate Texas franchise tax using amounts from the federal income tax return under the current IRC in effect for the applicable tax year, except when the IRC is expressly referenced in the Texas statute or rule. Where the statute or rule specifically references the IRC, the taxpayer must follow the 2007 IRC.

Additionally, the Comptroller will now align its cost of goods sold (COGS) deduction depreciation rules with the bonus depreciation provisions of the OBBBA.

<u>Total Revenue:</u> As explained above, starting with the 2026 franchise tax report, a taxable entity will use federal law in effect for that year, except where a statute or rule references the IRC. When the IRC is referenced, the taxable entity must compute such amounts using the 2007 IRC. The Comptroller's memo uses Tex. Code Section 171.1011(c)(1)(B)(ii) as an example of when income or expense is determined under the current IRC or the 2007 IRC. Tex. Code Section 171.1011(c)(1)(B)(ii) provides for a subtraction from total revenue for foreign royalties and foreign dividends, including amounts determined under IRC Section 78 and Sections 951-964. The Comptroller explained that foreign royalties and foreign dividends are computed under current federal tax law but amounts under IRC Section 78 and Sections 951-964 are computed under the 2007 IRC (noting that the 2007 IRC does not include GILTI under IRC Section 951A).

<u>COGS Deduction:</u> The memo clarifies that the Comptroller will now allow federal bonus depreciation claimed on the federal tax return for assets placed in service on or after January 19, 2025 as part of a taxpayer's COGS deduction.[24] On the 2026 franchise tax report, a taxpayer may also include a one-time net deprecation adjustment in its COGS deduction for qualifying assets under Section 171.1012(c)(6).

Specifically, a taxable entity reporting gain from the sale of "depreciable assets associated with and necessary for the production of goods" for which depreciation is included in its franchise COGS deduction, should report the gain from its federal return without adjustment for differences in state and federal basis. As an equitable remedy to account for the historic differences in federal and Texas depreciation, the Comptroller is allowing taxable entities to include a one-time net depreciation adjustment in COGS for qualifying assets on their 2026 franchise tax report. Taxpayers will base the net deprecation adjustment on the difference in depreciation claimed for federal income tax and depreciation claimed for franchise tax COGS for a given asset. Any unused 2026 net depreciation adjustment may be carried forward to consecutive reports until exhausted. The memo provides additional detail as to how to calculate this adjustment.

<u>Apportionment:</u> For apportionment purposes, starting with the 2026 franchise tax report, since gross receipts equals total revenue, with certain exceptions, taxpayer's gross receipts will be based on amounts reported on taxpayer's federal tax return, without adjustments to the 2007 IRC, except when the IRC is specifically referenced by statute or rule. (See SALT Weekly December 19 and 26, 2025.)

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[22] Tenn. Dept. of Rev., Notice #25-37 "Excise Tax Treatment of Federal Employee Retention Credit" (December 2025).
[23] Tex. Comp. of Pub. Acct., STAR Doc. # 202512012M (December 19, 2025).
[24] See also, Tex. Comp. of Pub. Accts., Press Release "Acting Texas Comptroller Kelly Hancock Updates Franchise Tax Depreciation Rules to Align With Federal Provisions" (December 1, 2025).

The Comptroller also adjusted certain franchise tax thresholds and deduction limits for the 2026 and 2027 report years.[25] For the 2026 and 2027 report years, the "no tax due threshold" is increased to $2,650,000 (from $2,470,000), and the compensation deduction limit is increased to $480,000 (from $450,000). For the 2026 and 2027 report years, the following are the same as the 2024 and 2025 report years: (1) the tax rate (retail or wholesale) is 0.375%; (2) the tax rate (other than retail or wholesale) is 0.75%; (3) the EZ Computation total revenue threshold is $20 million; and (4) the EZ Computation rate is 0.331%. (See SALT Weekly November 7 and 14, 2025.)

The Comptroller adopted amendments to 34 Tex. Admin. Code Section 3.586 "Margin: Nexus" to provide additional guidance on determining economic nexus. The current economic nexus rule provides that a foreign taxable entity that does not have a physical presence in Texas will have nexus with the state and be subject to the state's franchise tax if, during the federal income tax accounting period, it had gross receipts from business done in Texas of $500,000 or more, as sourced under 34 Tex. Admin. Code Section 3.591(e) and (f). The amended rule provides that a foreign taxable entity that apportions its margin using a method other than gross receipts must use gross receipts as sourced under 34 Tex. Admin. Code Section 3.591(e) and (f) in determining whether the economic nexus threshold has been met. The adopted amendments were filed with the Secretary of State on December 18, 2025. The amended rule takes effect on January 7, 2026. (See SALT Weekly December 19 and 26, 2025.)

Virginia: The Virginia Department of Taxation issued guidance on corporate apportionment of income for a pass-through entity (PTE), focusing on a corporation's use of blended apportionment factors when the corporation owns a PTE but the corporation and the PTE do not have a unitary relationship.[26] (See SALT Weekly October 24 and 31, 2025.)

Wisconsin: The Wisconsin Legislative Fiscal Bureau issued a report discussing federal tax law changes enacted by the OBBBA that could modify state corporate income tax liability.[27] Currently, Wisconsin generally references the IRC in effect on December 31, 2022. (See SALT Weekly October 10 and 17, 2025.)

Developments to watch

Florida: The Florida Attorney General filed a Bill of Complaint with the U.S. Supreme Court challenging California's single-sales factor apportionment provisions combined with a special rule that excludes from the sales factor "substantial amounts of gross receipts [that] arise from an occasional sale of a fixed asset or other property held or used in the regular course of the taxpayer's trade or business...". Florida is arguing that California's special rule violates the Commerce Clause, the Import-Export Clause and the Due Process Clause of the U.S. Constitution, and seeks to have the special rule declared unconstitutional and enjoin California from enforcing it.[28] (See SALT Weekly October 24 and 31, 2025.)

Iowa: The IA DOR proposed amendments to Iowa Admin. Regs., Rules 701-304.16, 701-501.16 and 701-602.20 to implement a 2024 law change allowing financial institutions subject to the franchise tax to elect to file combined Iowa franchise tax returns with related investment subsidiaries.[29] Such election can be made for tax years beginning on or after January 1, 2025. Iowa law allows a shareholder or member of a financial institution that has elected to have its income taxed directly to its shareholders or members to take a credit equal to its pro rata share of franchise tax paid by the financial institution. The proposed regulation describes how the credit is calculated by combined return filers. (See SALT Weekly October 10 and 17, 2025.)

[25] Tex. Comp. of Pub. Acct., Franchise Tax webpage update (November 2025).
[26] Va. Dept. of Taxn., Tax Bulletin 25-5 (October 28, 2025).
[27] Wis. Leg. Fiscal Bureau, "Federal Tax Law Changes Enacted in P.L. 119-21 (the One Big Beautiful Bill Act of 2025) that Could be Considered to Modify State Tax Liability" (October 8, 2025).
[28] *Florida v. California and Franchise Tax Bd.*, Dkt. No. 220163 (U.S. S. Ct., complaint filed, October 28, 2025).
[29] Iowa Admin. Bulletin, Proposed amendments Iowa Admin. Regs. 701-304.16, 701-501.16 and 701-602.20 (Vol. XLVIII, No. 9, October 15, 2025).

Massachusetts: The Massachusetts Department of Revenue issued a working draft technical information release on the state's conformity to certain provisions in the OBBBA.[30] (See SALT Weekly October 24 and 31, 2025.)

Missouri: The Missouri Department of Revenue proposed amendments to its consolidated income tax return rule, 12 CSR 10-2.045. The proposed amendments would update the method of determining interstate apportionment for certain consolidated filers and update the rule's references to apportionment methods, among other changes. (See SALT Weekly December 5 and 12, 2025.)

New York City: On October 16, 2025, the New York City (NYC or City) Department of Finance released proposed regulations under the Business Corporation Tax (BCT) focused on definitions and nexus standards. Tax Alert 2025-2152 describes key areas of nonconformity with the NYS's Article 9-A Regulations, including definitions, economic nexus, partnership interests, PL 86-272, and utility corporations and corporations conducting insurance business. The current proposed regulations do not state whether the final regulations will be retroactive to the effective date of the BCT, which applies to tax years beginning on or after January 1, 2015.

Texas: The Comptroller is amending 34 Tex. Admin. Code Section 3.587 (Total Revenue Rule) and 34 Tex. Admin. Code Section 3.588 (COGS Deduction Rule) to incorporate the changes contained in the memo regarding franchise tax alignment with federal law discussed under the Administrative Developments section. (See SALT Weekly December 19 and 26, 2025.)

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[30] Mass. Dept. of Rev., "Working Draft TIR: Massachusetts Conformity to Certain Provisions in Public Law No. 119-21" (October 21, 2025).