



Shape the future
with confidence

State Tax Alert
04/08/2026

State corporate income and franchise tax developments in the first quarter of 2026

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 first quarter of 2026. These developments are compiled from the EY Indirect/State Tax Weekly and Indirect/State Tax Alerts issued during that period.

Key developments

Several states update their conformity to the Internal Revenue Code, with selective decoupling from the One Big Beautiful Bill Act

State and local jurisdictions continue to enact legislation to decouple from, or otherwise address, select provisions of the "One Big Beautiful Bill Act" (OBBBA).¹ These legislative developments are described directly below; related tax administrator guidance is discussed under the Administrative Developments section.

District of Columbia: The District of Columbia ("District") City Council and [District Attorney General](#) determined Temporary bill [B26-0458](#) became law as of February 11, 2026, despite federal disapproval of the temporary bill via H.J. Res. 142. B26-0458 decouples from select federal tax changes made by the OBBBA as follows.

- For tax years beginning after December 31, 2021, the domestic research and experimentation (R&E) expenditure deduction under Internal Revenue Code (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)."²
- 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.
- Disallows the special depreciation allowance under IRC Section 168(k).
- Disallows the special depreciation allowance under IRC Section 168(n).
- 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.
- Sets forth the criteria to realize certain tax reductions under IRC Sections 1400Z-2(b) and (c) for amounts invested in a qualified opportunity fund after December 31, 2026.

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 a temporary bill, B26-0458 is effective for 225 days, expiring on September 25, 2026. These same changes were enacted under emergency legislation that expired on March 3, 2026. (See Tax Alert [2025-2409](#).)

Georgia: [HB 1199](#) (enacted March 20, 2026) updates the state's date of conformity to the IRC as of January 1, 2026 (from January 1, 2025). Georgia decouples from select OBBBA provisions, including IRC Sections 174A, 179(e), 224 and 225. Georgia continues to decouple from several other federal provisions, including IRC Sections 168(k), 168(n), 179(d)(1)(B)(ii), while IRC Sections 163(j) and 174 continue to be treated as they were in effect before the 2017 enactment of the Tax Cuts and Jobs Act. These changes apply to tax years beginning on or after January 1, 2025. (See SALT Weekly for March 20 and March 27, 2026.)

¹ Public Law [PL] 119-21. For a discussion of the state income tax implications of the OBBBA, see Tax Alert [2025-1487](#).

² While IRC Section 174A(f) does not exist, these elections are allowed under Sections 70302(f)(1) and (f)(2) of the OBBBA.

Idaho: [HB 559](#) (enacted February 10, 2026) updates Idaho's conformity to the IRC and decouples from certain provisions of the OBBBA. HB 559 changes Idaho's IRC conformity date to January 1, 2026 (from January 1, 2025), and it conforms Idaho to the tax changes contained in the OBBBA, except for: (1) bonus depreciation provisions under IRC Section 168(k) (which Idaho has historically decoupled from) and IRC Section 168(n); and (2) the deduction for R&E expenditures incurred in tax years beginning on or after January 1, 2022, and before January 1, 2025. Those expenditures already being amortized will continue until the end of their five-year amortization schedule. Idaho will conform to the deduction for R&E expenses incurred in 2025 and later. With the enactment of HB 559, businesses cannot use the same R&E expenses for both a deduction and Idaho tax credit for research activities. HB 559 is effective retroactive to January 1, 2025. (See Tax Alert [2026-0578](#).)

Indiana: [SB 243](#) (enacted March 5, 2026) updates Indiana's IRC conformity date to January 1, 2026 (from January 1, 2023), with the following OBBBA-related modifications.

Bonus depreciation: SB 243 decouples Indiana from IRC Section 168(n) bonus depreciation for certain qualified production property as of July 4, 2025. Indiana's decoupling from IRC Section 168(k) remains in place. Taxpayers must add or subtract any amounts that reflect the depreciation that would have been allowed had bonus depreciation not been elected in the year the eligible asset was placed in service.

R&E expenditures: For tax years beginning on or after December 31, 2024, SB 243 updates the state's existing law concerning the treatment of R&E to reference OBBBA provisions for domestic R&E expenditures. SB 243 requires an addition to taxable income for amounts deducted under IRC Section 174A(b)³ and amounts deducted under the transition rule election concerning amortization of R&E expenditures incurred in 2022-24. Indiana continues to require the expensing of both domestic and foreign R&E expenditures in the year paid or accrued.

A small-business taxpayer electing to amend a prior-year federal income tax return under OBBBA provisions allowing retroactive deduction of certain domestic R&E expenditures must amend the Indiana corporate income tax return to add back those amounts to Indiana taxable income, if the taxpayer deducted those expenditures on a prior-year Indiana return. If the taxpayer does not make the retroactive federal election, the R&E expenses are treated as capitalized for federal purposes and must be added back to taxable income in the year the amortized amounts are deducted for federal purposes.

Net CFC tested income (NCTI): SB 243 updates state law reference from global intangible low-taxed income (GILTI) to NCTI, such that the IRC Section 250(a)(1)(B) deduction remains disallowed for Indiana purposes and must be added back to taxable income. (See Tax Alert [2026-0714](#).)

Before enactment of SB 243, Indiana enacted a limited IRC conformity update bill – [SB 212](#) (enacted January 29, 2026). SB 212 updated Indiana's IRC conformity date to July 4, 2025, to adopt a few provisions in the OBBBA, including IRC Section 168(e)(3)(B)(vi) (accelerated cost recovery system) (see Tax Alert [2026-0392](#)).

New Mexico: [SB 151](#) (enacted March 11, 2026) decouples from select provisions of the OBBBA. Taxpayers in computing base income are required to add back amounts: (1) deducted under IRC Sections 168(k) and 168(n) in excess of the deduction amount that would have been allowed by IRC Sections 168(a) through 168(j); and (2) additional interest deducted as a result of the change to IRC Section 163(j)(8)(A) made by the OBBBA. Such disallowed interest is eligible for carryforward under IRC Section 163(j)(2). SB 151 eliminates the subtraction for amounts included under IRC Section 951A*i.e.*, NCTI (formerly GILTI). SB 151 also allows a corporation to include in its apportionment calculation the factors of a controlled foreign corporation (as defined by IRC Section 957) to the extent its income is included in net income. These changes apply to tax years beginning on or after January 1, 2027. (See SALT Weekly for March 20 and March 27, 2026.)

Oregon: [SB 1510](#) (enacted March 31, 2026) updates statutory references from GILTI to NCTI, to reflect changes made by the OBBBA. (See SALT Weekly for April 3 and April 10, 2026.)

³ For tax years beginning after December 31, 2024, SB 243 references foreign R&E expenditures as defined in IRC Section 174(b).

Virginia: [HB 29](#) (enacted February 20, 2026) changes how the state conforms to the IRC, moving from rolling conformity to fixed-date conformity, and conforms to most provisions in the OBBBA.

Virginia now conforms to the IRC as it existed on December 31, 2025. The law also conforms to any amendment to federal law that extends the expiration date of a federal tax provision to which Virginia conforms, or has previously conformed, with certain exceptions. Accordingly, and as explained by the Virginia Department of Taxation,⁴ Virginia conforms to provisions of the OBBBA to the extent the provisions affect the computation of federal taxable income (corporations) or federal adjusted gross income or federal itemized deductions (individuals).

Virginia, however, specifically decouples under HB 29 from the following OBBBA provisions:

- Special depreciation allowance for qualified production property under IRC Section 168(n)
- Immediate expensing of domestic R&E expenditures, including retroactive and “catchup” provisions (these R&E expenditures will continue to be subject to the applicable amortization period)
- Increased dollar limitation for expensing certain depreciable business assets under IRC Section 179

Virginia continues to decouple from the bonus depreciation provisions under IRC Section 168(k).

HB 29 decreases Virginia’s deduction for disallowed business interest expenses under IRC Section 163(j). Effective for tax years beginning on and after January 1, 2025, the state deduction for disallowed business interest decreases to 20% (from 50%) of interest disallowed on the federal return.

The law also modifies the subtraction from federal taxable income for amounts included under IRC Section 951A⁵ by changing GILTI to NCTI, aligning to changes under the OBBBA.

These changes are effective on February 20, 2026, unless otherwise noted. (See Tax Alert [2026-0614](#).)

West Virginia: [SB 393](#) (enacted March 2, 2026) updates West Virginia’s IRC conformity date for corporate net income tax purposes to federal changes made after December 31, 2024, but before January 1, 2026 (from federal changes made after December 31, 2023, but before January 1, 2025). No amendment to the IRC made on or after January 1, 2026, will be given any effect. This change is effective retroactive to the extent allowable under federal income tax law. (See SALT Weekly for March 6 and March 13, 2026.)

Legislative developments

Indiana: [SB 243](#) (enacted March 5, 2026) extends eligibility for the upcoming tax amnesty program, which is set to run July 15, 2026 through September 9, 2026,⁶ by one additional year and will now include unpaid tax liabilities due for tax periods ending before January 1, 2024 (from January 1, 2023). SB 243 also makes a technical correction to a provision on the pass-through entity tax (PTET), allowing credits for out-of-state income-tax payments to be applied to the PTET. (See Tax Alert [2026-0714](#).)

[SB 256](#) (enacted March 5, 2026) among its provisions, denies tax benefits to individuals or entities that are designated an affiliate of a foreign terrorist organization. (See Tax Alert [2026-0714](#).)

New Jersey: [A.6307](#) (enacted January 20, 2026) makes several changes to the film and digital media content production tax credit program requirements. Provisions regarding out-of-state producer fees are modified to exclude producer fees received for services performed in New Jersey that otherwise qualify as qualified film production expenses. Among other changes, the law provides that out-of-state producer fees and script costs incurred/written outside the state will qualify as qualified film production expenses even if New Jersey gross income was not withheld from wages, salaries or other compensation paid or incurred for such services. A.6307 took effect immediately and applies retroactively to the effective date of prior law changes that meet certain criteria. (See SALT Weekly for January 23 and January 30, 2026.)

⁴ Va. Dept. of Taxn., [Tax Bulletin 26-1](#) (February 20, 2026).

⁵ Va. Code Ann. Section 58.1-402 (C)(7).

⁶ See Ind. Dept. of Rev., [Webpage “Tax Amnesty 2026”](#) (April 2026).

New Mexico: [HB 154](#) (enacted March 3, 2026) modifies the definition of “advanced energy product” for purposes of the advanced energy equipment tax credit, which may be claimed against the corporate and individual income taxes. Before 2026, the definition of “advanced energy product” is tied primarily to products eligible for the federal advanced manufacturing production credit under IRC Section 45X. As revised, and effective for tax years beginning on and after January 1, 2026, the reference to IRC Section 45X is replaced with a state-specific list of eligible products, including (1) components for solar energy, wind energy and battery, (2) a fusion machine and the components of a fusion machine that can transform atomic nuclei through the fusion process into different elements, isotopes or other particles, (3) critical mineral if converted or purified to specified purities or forms, and (4) an inverter that is an end product, which can convert direct current energy from one or more solar module or certified distributed wind energy systems into alternating current electricity. The law list examples of such items. (See SALT Weekly for March 6 and March 13, 2026.)

Oregon: [SB 1510](#) (enacted March 31, 2026) extends the elective PTET through tax years beginning before January 1, 2028 (from before January 1, 2026). (See SALT Weekly for April 3 and April 10, 2026.)

South Dakota: [SB 19](#) (enacted February 13, 2026) updates the South Dakota bank franchise tax date of conformity to the IRC to January 1, 2026 (from January 1, 2025). This change takes effect July 1, 2026. (See SALT Weekly for February 20 and February 27, 2026.)

[SB 18](#) (enacted February 13, 2026) amended the bank franchise tax by repealing certain adjustments to taxable income related to bad debt deductions. Prior to repeal, the adjustments required taxpayers to: (1) add to taxable income (a) bad debt deductions in excess of credits deemed worthless and charged off within the tax year and (b) any amount subsequently received on account of a bad debt previously charged off as a deduction; and (2) subtract any adjustment to taxable income because of a change in the method used to compute the federal bad debt deduction when the deduction was already included in taxable income for bank franchise tax purposes. SB 18 takes effect July 1, 2026. (See SALT Weekly for February 20 and February 27, 2026.)

Utah: [SB 60](#) (enacted March 23, 2026) reduces the corporate income tax rate to 4.45% (from 4.5%). SB 60 takes effect on May 6, 2026, and applies retroactive to tax years beginning on or after January 1, 2026. (See SALT Weekly for March 20 and March 27, 2026.)

[HB 77](#) (enacted March 23, 2026) expands the definition of “Utah unrelated business income” for corporate franchise and income tax purposes to include unrelated business income allocated to Utah (the definition already included unrelated business income apportioned to Utah). HB 77 also removes the sunset date of the elective PTET. (See SALT Weekly for March 20 and March 27, 2026.)

Virginia: [HB 29](#) (enacted February 20, 2026) makes permanent the elective PTET. Without this action, the election would only have been available for tax years beginning before 2027. HB 29 also makes permanent Va. Code Ann. Section 58.1-332(C)(2), which deems the PTE’s individual owners to have paid the state income tax paid by a pass-through entity (PTE) under the law of another state that is substantially similar to Virginia’s elective PTET. (See Tax Alert [2026-0614](#).)

Washington: [SB 6346](#) (enacted March 30, 2026) creates a new income tax on individuals starting in 2028. The income tax will be imposed on individuals “on the receipt of Washington taxable income.” The tax equals 9.90% multiplied by an individual’s Washington taxable income. The law provides a \$1 million standard deduction, among other credits that can be claimed against the tax and modifications that must be made in determining Washington taxable income. SB 6346 also creates an elective PTET, which a pass-through entity can elect in to starting January 1, 2028.

Administrative developments

Iowa: The Iowa Department of Revenue [adopted 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 (hereafter, “amended

regulation”).⁷ Such election can be made for tax years beginning on or after January 1, 2025. A shareholder or member of a financial institution that has elected to have its income taxed directly to its shareholders or members is allowed a credit equal to their pro rata share of franchise tax paid by the financial institution. The amended regulation describes how the credit is calculated by combined return filers. The amended rule takes effect on February 25, 2026. (See SALT Weekly for January 23 and January 30, 2026.)

Maryland: The Maryland Comptroller (MD Comptroller) issued [guidance](#) on the state’s automatic decoupling from certain provisions of the OBBBA.⁸ The MD Comptroller explained that Maryland decouples from full expensing of domestic R&E expenditures under IRC Section 174A(a) as it applies to a tax year beginning in calendar year 2025, as well as from the elections under OBBBA Section 70302(f) for domestic R&E expenditures for any tax year preceding 2025. For Maryland tax purposes, taxpayers must add back the amount of the federal deduction claimed under IRC Section 174A(a) that exceeds the amount allowed under the IRC before the enactment of IRC Section 174A. Instead, such R&E expenditures must be capitalized and claimed as a deduction over a five-year amortization period. Deductions for domestic R&E expenditures incurred or paid in a tax year before 2025 also must continue, on the Maryland return, to be claimed over the remaining portion of the five-year amortization period.

Maryland also decouples from the OBBBA’s modification to the limitation on business interest under IRC Section 163(j)(8)(A)(v) and the new special depreciation allowance for qualified property under IRC Section 168(n). For any taxable year beginning in calendar year 2025, taxpayers are required to add back to federal adjusted gross income or federal taxable income: (1) any amount of depreciation, amortization or depletion used to calculate a business’s adjusted taxable income in determining the deductible business interest limitation; and (2) any amount deducted on the federal return as special depreciation for qualified production property under IRC Section 168(n). The guidance includes several examples and explains how to report these modifications on the Maryland income tax returns. (See SALT Weekly for January 9 and January 16, 2026.)

Massachusetts: The Massachusetts Department of Revenue on March 25, 2026, updated its [guidance](#) on the differences between the state corporate excise tax and federal tax law, listing federal deductions that are disallowed for state tax purposes.⁹

Michigan: The Michigan Department of Treasury (MI DOT) issued a [taxpayer notice](#)¹⁰ on provisions of the OBBBA Michigan decoupled from via Act 24 of 2025, with a focus on adjustments related to the 2025 tax year. The guidance addresses Michigan decoupling adjustments for the business interest expense limitation in IRC Section 163(j), bonus depreciation under IRC Section 168(k), bonus depreciation for qualified production property under IRC Section 168(n), R&E expenses under IRC Sections 174 and 174A and transition rules under OBBBA Section 70302, and IRC Section 179 deduction. (See SALT Weekly for February 20 and February 27, 2026.)

The MI DOT issued [Revenue Administrative Bulletin 2026-4](#) (March 27, 2026) to provide guidance on the state’s research and development (R&D) tax credit available under the state’s corporate income tax and the withholding tax. The bulletin provides an overview of the credit and who may claim it, describes qualifying Michigan R&D expenses and the base amount used in determining eligibility and calculating the credit, and discusses the process for claiming the credit, the tentative claim requirement and adjustments to the credit. The process for claiming the credit varies based on whether the claimant is a corporate income taxpayer or a flow-through entity subject to withholding. The bulletin includes several illustrative examples. (See SALT Weekly for March 20 and March 27, 2026.)

Minnesota: [Revenue Notice No. 26-01](#) (issued February 2, 2026) outlines the Minnesota Department of Revenue’s (MN DOR) position on when a foreign corporation has taxable income in Minnesota. The MN DOR explained that Minnesota’s use of constitutional nexus to determine that state’s jurisdiction to tax foreign

⁷ Iowa Admin. Bulletin, [Iowa Admin. Regs. 701-304.16, 701-501.16 and 701-602.20](#) (Vol. XLVIII, No. 16, January 21, 2026).

⁸ Md. Comp., Maryland Tax Alert “Maryland Impacts of the One Big Beautiful Bill Act (PL 119-21)” (January 6, 2026).

⁹ Mass. Dept. of Rev., Webpage “Differences Between MA State and Federal Tax Law for Corporate Excise” (last updated March 25, 2026).

¹⁰ Mich. Dept. of Treas., Taxpayer Notice: “Decoupling Michigan’s Income Taxes from Certain Internal Revenue Code (IRC) Provisions” (February 25, 2026).

corporations differs from the IRC test used to establish when a foreign corporation is subject to tax¹¹ and can result in a different calculation of taxable income. The notice discusses two common examples of when this occurs – the “not effectively connected” example and the “foreign treaty” example. (See Tax Alert [2026-0436](#).)

The MN DOR [announced](#) that it has updated its Minnesota tax forms and instructions to reflect federal changes made by the OBBBA. Minnesota currently conforms to the IRC as amended through May 1, 2023. Accordingly, taxpayers may need to adjust their income because Minnesota has not adopted the federal changes made by OBBBA.¹² The MN DOR has posted specific guidance on [bonus depreciation](#).¹³ Because the state has not adopted the federal changes made by the OBBBA, taxpayers must calculate bonus depreciation allowed under IRC Section 168(k) based on the law in effect before the OBBBA. Under prior federal law, 40% bonus depreciation would have been allowed in tax year 2025. (See SALT Weekly for March 6 and March 13, 2026.)

Missouri: The Missouri Department of Revenue adopted amendments to its consolidated income tax return rule, [12 CSR 10-2.045](#). The adopted amendments update the method of determining interstate apportionment for certain consolidated filers and update the rule’s references to apportionment methods, among other changes.¹⁴ The amended rule takes effect April 30, 2026. (See SALT Weekly for March 6 and March 13, 2026.)

North Carolina: The North Carolina Department of Revenue (NC DOR) [discussed](#)¹⁵ the impact of federal tax law changes on state individual and corporate income tax returns for tax year 2025, including changes made by the OBBBA, the Federal Disaster Tax Relief Act of 2023 and the Disaster Related Extension of Deadlines Act. The NC DOR said that the state currently conforms to the IRC as of January 1, 2023. Thus, in computing North Carolina income taxpayers cannot include in adjusted gross income (individuals) and federal taxable income (corporations) the federal tax changes made by these federal laws. (See SALT Weekly for February 20 and February 27, 2026.)

Pennsylvania: The Pennsylvania Department of Revenue issued general [guidance](#) on PA Act 45 of 2025¹⁶ decoupling from certain OBBBA provisions for corporate net income tax purposes – specifically R&E expenditures, depreciation of qualified production property and business interest expense limitation.¹⁷ The guidance describes how Pennsylvania decouples from these provisions, how adjustments related to these provisions should be reported, and on which form such adjustments must be reflected, and which forms will be updated for these adjustments. (See SALT Weekly for January 23 and January 30, 2026.)

Texas: The Texas Comptroller of Public Accounts (TX Comptroller) adopted amendments to [34 Tex. Admin. Code Section Rule Section 3.587](#) “Margin: Total Revenue” (hereafter “final rule”) to incorporate a recent policy that conforms the franchise tax to the current year federal income tax provisions.¹⁸ Historically, the TX Comptroller required a taxpayer to use the IRC in effect for the federal tax year beginning January 1, 2007 (hereafter 2007 IRC) when computing federal income and deductions taken into account in determining taxable margin. The final rule 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 determined under the current IRC in effect for the applicable tax year, except where the Texas statute or rule expressly references the IRC. Where the statute or rule specifically references the IRC, the taxpayer must follow the 2007 IRC. The final rule also provides that the subtraction from total revenue of foreign royalties and foreign dividends does not include foreign-derived intangible income (FDII) or GILTI or, after the OBBBA, foreign-derived deduction eligible income (FDDEI) or NCTI.

¹¹ The IRC looks to the establishment of an “effective connection” with the conduct of a trade or business in the United States.

¹² Minn. Dept. of Rev., “[2025 Federal Nonconformity for Income Tax](#)” (last updated February 5, 2026); [Nonconformity Chart](#) “Minnesota Tax Impacts Resulting from the 2025 Federal Tax Budget and Reconciliation Bill (H.R. 1)” (February 2026).

¹³ Minn. Dept. of Rev., Webpage “[Bonus Depreciation](#)” (last updated March 5, 2026).

¹⁴ Mo. Dept. of Rev., Final Rules 12 CST 10-2.045 ([Mo. Register, Vol. 51, No. 5](#), March 2, 2026). (The rules were adopted as proposed, see [Mo. Register, Vol. 50, No. 23](#), December 1, 2025).

¹⁵ N.C. Dept. of Rev., Important Notice: Impact of Federal Law on North Carolina Individual and Corporate Income Tax Returns for Tax Year 2025 (January 8, 2026); [Webpage: Questions and Answers About the Impact of Federal Law on N.C. Individual and Corporate Income Tax Returns for Tax Year 2025](#) (last updated February 27, 2026).

¹⁶ For more on Act 45, see Tax Alert [2025-2403](#).

¹⁷ Pa. Dept. of Rev., Act 45 of 2025: Corporate Net Income Tax (CNIT) provisions (January 16, 2026).

¹⁸ See Tax Alert [2026-0177](#).

The final rule makes other modifications to incorporate recent statutory changes.

The final rule was filed with the Secretary of State on February 9, 2026, and it took effect on March 1, 2026. (See SALT Weekly for February 20 and February 27, 2026.)

Wisconsin: The Wisconsin Department of Revenue (WI DOR) in its [January 2026 tax bulletin](#) explained that for the 2025 tax year, the state follows the federal IRC as amended to December 31, 2022, with certain exceptions.¹⁹ In regard to R&E expenses, the WI DOR said that the state has not adopted Section 70302 of the OBBBA, which made changes to when R&E expenses are deductible for federal purposes. Instead, the state follows IRC Section 174 as amended to December 22, 2017. The WI DOR noted that, because there will likely be differences in deducting R&E expenses for federal and Wisconsin income tax purposes, an adjustment may be required. (See SALT Weekly for January 23 and January 30, 2026.)

Developments to watch

California: The California legislature is considering a bill, [AB 1790](#), which would repeal the water's-edge election allowed under the state's mandatory combined reporting regime in 2028, subsequently requiring a unitary business group to use the worldwide combined reporting method. The proposed bill also would include captive insurance subsidiaries in the combined return, and for tax years 2026 and 2027 would modify provisions regarding the income and apportionment factors that a taxpayer making a water's-edge election must consider. (See Tax Alert [2026-0429](#).)

Colorado: The General Assembly is considering legislative changes to its corporate income tax. [HB 1289](#) would modify the state's combined reporting provisions by eliminating the current 80-20 rules, moving to default worldwide combined reporting with the option of making a water's-edge election, allowing exclusion of foreign members that have less than 20% of payroll or property in the United States, among other proposed change. [HB 1221](#), would reduce the state's net operating loss (NOL) deduction from 80% to 70% while reducing the NOL carryforward from 20 to 10 years. [HB1222](#) would decouple from OBBBA changes made to IRC sections 168(k), 168(n), 174(a), and 163(j).

Florida: Proposed bill ([HB 7031](#)), as approved by the General Assembly on March 12, 2026, would update the state's date of conformity to the IRC to January 1, 2026 (from January 1, 2025), except: (1) IRC Sections 168(k), 174(a), 163(j), 274 and 179 are included as amended and in effect on January 1, 2025; and (2) IRC Sections 168(n) and 174(A) are not included.

Georgia: Proposed bill ([HB 463](#)), as approved by the General Assembly on April 2, 2026, would reduce the corporate, pass-through entity and individual income tax rates to 4.99% (from 5.19%) effective for tax years beginning on or after January 1, 2026. Future reductions would reduce the rate by 0.125% annually starting in 2027 until the rate reaches 3.99%. The annual rate reduction would be delayed by one year for each year that certain conditions are met. HB 463 also would repeal various tax credits, including those related to: (1) eligible teleworking expenses; (2) personal protective equipment manufacturers; (3) manufacturers of medical equipment and supplies, pharmaceuticals and medicine; (4) base year port traffic increases; (5) alternative fuel, low-emission and zero-emission vehicles and electric vehicle chargers; (6) businesses headquartered in the state; (7) businesses engaged in manufacturing cigarettes for exportation; and (8) business enterprises that purchase or lease a motor vehicle to provide transportation for employee.

Illinois: The Illinois Department of Revenue has [proposed amendments](#) to 86 Ill. Adm. Code 100.3200 through 100.9720, including new section 100.3375, which would implement legislative changes adopting the *Finnigan* method for apportioning sales within a unitary business group.²⁰ (See SALT Weekly for January 9 and January 16, 2026.)

Kentucky: On April 1, 2026, the Kentucky General Assembly approved [HB 757](#), which includes several business and individual tax changes. Proposed income tax changes would update Kentucky's IRC conformity date, address

¹⁹ Wis. Dept. of Rev., "Wisconsin Tax Bulletin" (January 2026, No. 232).

²⁰ 2026 Ill. Register, Vol. 50, Issue 1, January 2, 2026.

some provisions in the OBBBA, and delay implementation of the corporate income tax deferred tax deduction. (See Tax Alert [2026-0815](#).)

Massachusetts: Proposed bill, [HB 4975](#), would decouple Massachusetts from IRC Section 174A for tax year 2025 and conform to this provision in 2026. For tax years 2025 and 2026, the state would decouple from the federal changes to IRC Sections 163(j), 179, 168(n), and opportunity zone rules. Massachusetts would conform to these provisions starting in 2027. In addition, HB 4975 would automatically decouple from federal tax changes under certain conditions and extend the state's elective PTET to include the surtax on high-income earners. (See Tax Alert [2026-0326](#).)

New York: Proposed fiscal year 2026–2027 budget bills ([S.9009](#) and [A.10009](#)) – the Governor, Senate and Assembly versions – each include various New York State (NYS) and New York City (NYC) business tax changes. The proposals would decouple NYS and NYC from certain provisions in the OBBBA. For NYS and NYC purposes, all three proposals would decouple from the bonus depreciation provisions for qualified production property in IRC Section 168(n), and from IRC Section 174A, which allows an immediate deduction of domestic R&E expenses in tax years beginning after December 31, 2024, and accelerated deductions for pre-2025 domestic R&E expenditures. For NYC tax purposes, all three proposals would decouple from OBBBA changes made to IRC Sections 163(j) and 179 and replace references to net GILTI with: IRC Section 951A(a), less the amount of deduction allowed under IRC Section 250(a)(1)(B)(i) – i.e., net NCTI. All three proposals include changes to the NYS corporate franchise tax rates, and the Senate and Assembly proposals would make increases to NYC business tax rates. (See Tax Alert [2026-0679](#).)

Oklahoma: The Oklahoma Tax Commission adopted amendments to Okla. Admin. Code Section 710:50-17-51(8), regarding a corporation's adjustments to its federal taxable income to arrive at Oklahoma taxable income – specifically, dividends, add references to NCTI, a federal provision created by the OBBBA. Under the rule, in calculating Oklahoma taxable income, GILTI included in federal income under IRC Section 951A is considered dividend income and is allocated to the taxpayer's domiciliary. The amended rule now provides that in calculating Oklahoma taxable income, foreign income inclusion under IRC Section 951A (NCTI), is considered dividend income that is allocated to the taxpayer's domicile. The adopted amended rules were [submitted](#) to the governor and legislature on January 20, 2026. Okla. Register (Vol. 43, No. 11, February 17, 2026). (See SALT Weekly for February 20 and February 27, 2026.)

Oregon: Proposed bill ([SB 1507](#)), as approved by the General Assembly, would update the state's date of conformity to the IRC to December 31, 2025 (from December 31, 2023), effective for tax years beginning on or after January 1, 2026. For corporate and individual income tax purposes, a taxpayer would be required to add back to federal taxable income the difference between the amount allowed as a bonus depreciation deduction under IRC Section 168(k), as applicable to the taxpayer's tax year, and the amount that would be allowed as a deduction under IRC Section 168(k), as amended and in effect on December 1, 2017. Such amounts would be deducted in accordance with IRC Section 168(k) in effect on December 1, 2017. This change would apply to property placed in service in tax years beginning on or after January 1, 2026.

For individual income tax purposes, a taxpayer would be required to add back to federal taxable income the amount of gain from the exchange or sale of qualified business stock the taxpayer received and excluded on their federal income tax return as provided for by IRC Section 1202. This change would apply to tax years beginning on or after January 1, 2026.

SB 1507, for both corporate and individual income tax purposes, would allow a taxpayer a credit based on new jobs created in the state during the tax year. The credit would equal \$1,000 for each net new job created; a taxpayer may not receive a credit for more than 10 new jobs created per tax year. To be eligible for the credit, the compensation for the employment position must be at least 150% of the applicable minimum wage. A taxpayer would be able to carryforward unused credit. The credit would be available in tax years 2026 through 2031.

Texas: The TX Comptroller issued proposed amendments to [34 Tex. Admin. Code Section Rule Section 3.558](#) "Margin: Cost of Goods Sold" to incorporate a recent policy that conforms the franchise tax to the current year federal income tax provisions, except where a statute or rule references the IRC, in which case the taxable entity must compute such amounts using the 2007 IRC. (See Texas discussion in the Administrative Developments section.) As an example of how this rule would apply, the cost of goods sold (COGS) deduction depreciation

rules, which do not expressly reference the IRC, align with the bonus depreciation provisions of the OBBBA (i.e., the current year IRC). Recovery claimed under IRC Section 197, however, would be determined under the 2007 IRC, as the IRC is specifically referenced by statute. On the 2026 franchise tax report, a taxpayer also may include in its COGS deduction a one-time net depreciation adjustment for qualifying assets. Proposed amendments would specify the proper order of applying the one-time net depreciation adjustment with other allowable costs and procedures for when the adjustment results in the entity's margin being reduced below zero. The term "qualifying assets" would be defined as "those placed in service prior to the accounting year begin date on the 2026 report, if the assets have not been disposed of prior to this date and are associated with and necessary for the production of the goods." Proposed amendments would allow any unused net depreciation adjustment to be carried forward until exhausted. For franchise tax reports before the 2026 report, an entity would use the 2007 IRC to determine the allowable depreciation, including amounts for which the entity elected to expense certain depreciable business assets under IRC Section 179. Proposed amendments also would implement recent statutory changes concerning expenses paid with qualifying grant proceeds received for broadband deployment in Texas and expenses paid with qualifying loan or grant proceeds received for COVID-19 relief, among other changes related to film and broadcasting and movie theaters. (See SALT Weekly for April 3 and April 10, 2026.)

Contacts

For additional information, contact:

- Karen Currie karen.currie@ey.com
- Dan Lipton daniel.lipton@ey.com
- Todd Carper todd.carper@ey.com
- Christy Rolland christy.rolland@ey.com
- Karen Ryan karen.ryan@ey.com
- Jess Morgan jessica.morgan@ey.com
- Scott Roberti scott.roberti@ey.com
- Rebecca Bertothy rebecca.bertothy@ey.com

©2026 Ernst & Young LLP. The information contained herein is general in nature and is not intended, and should not be construed, as legal, accounting or tax advice or opinion provided by Ernst & Young LLP to the reader. The reader also is cautioned that this material may not be applicable to, or suitable for, the reader's specific circumstances or needs, and may require consideration of non-tax and other tax factors if any action is to be contemplated. The reader should contact his or her Ernst & Young LLP or other tax professional prior to taking any action based upon this information. Ernst & Young LLP assumes no obligation to inform the reader of any changes in tax laws or other factors that could affect the information contained herein.