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State Tax Alert
07/10/2026

State corporate income and franchise tax developments in the second 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 through June 25, 2026. These developments are compiled from the EY Indirect/State Tax Newsletter and Indirect/State Tax Alerts issued during that period.

This document has been updated to include legislation enacted through June 30, 2026. Updated or added developments are marked with an asterisk ("") for the following states: California (updated), New Jersey (added), North Carolina (updated).*

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 update their date of conformity to the Internal Revenue Code (IRC) and 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.

Arizona: HB 4168 (enacted June 13, 2026) updates the state's date of conformity to the IRC to January 1, 2026 (from January 1, 2025), including provisions that became effective during 2025 with specific adoption of retroactive effective dates, but excluding changes to the IRC enacted after January 1, 2026. For purposes of computing income tax for tax years beginning from and after December 31, 2024, through December 31, 2025, the IRC means the IRC in effect on January 1, 2025, including provisions of the OBBBA that are retroactively effective during tax years beginning from and after December 31, 2024, through December 31, 2025. Effective for tax years beginning from and after December 31, 2025, corporate and individual taxpayers are required to addback to Arizona gross income the amount of the special depreciation allowance for qualified production property under IRC Section 168(n), to the extent not previously added.

The law also clarifies that the subtraction from Arizona gross income for corporate income taxpayers for the amount of dividend income received from foreign corporations applies to income described in IRC Section 951A (i.e., net controlled foreign corporation tested income (NCTI)), deleting the reference to global intangible low-taxed income (GILTI) – the term used prior to changes made by the OBBBA. This change applies retroactively to tax years beginning from and after December 31, 2024. (SALT Newsletter June 5, 2026 and June 13, 2026.)

Connecticut: SB 1 (enacted May 26, 2026) decouples the corporation business tax from select provisions of the OBBBA. For income tax years beginning on or after January 1, 2026, the state decouples from the special depreciation allowance for qualified production property under IRC Section 168(n). (Connecticut continues to decouple from bonus depreciation allowed under IRC Section 168(k).) Connecticut also decouples from the OBBBA's change to the treatment of domestic research and experimental (R&E) expenditures as follows:

- For income years beginning on or after January 1, 2025, and before January 1, 2026, the law disallows the deduction under IRC Section 174A.
- For income years beginning on or after January 1, 2022, the law disallows the deduction under the transition elections in OBBBA Section 70302(f).

Connecticut adopts IRC Section 174 as that provision existed on July 3, 2025, for R&E expenditures paid or incurred on or after January 1, 2023, and before January 1, 2026.

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

The law requires the tax commissioner to waive interest and penalties on estimated tax underpayments for any additional tax due as a result of the above changes, provided that the taxpayer pays the additional tax due by the later of November 15, 2026, or the due date (without regard to any filing extension) of the return on which the tax is reported. (SALT Newsletter May 15, 2026 to May 29, 2026.)

Florida: HB 7031 (enacted June 11, 2026) updates Florida's date of conformity to the IRC to January 1, 2026 (from January 1, 2025), while decoupling from select provisions of the OBBBA. The new law decouples from IRC Sections 168(n) and 174A by providing that these provisions are not included. Florida also decouples from OBBBA changes to IRC Sections 163(j), 168(k), 174(a), 179 and 274 by adopting these provisions as they were amended and in effect on January 1, 2025. These changes are retroactively effective to January 1, 2026. (SALT Newsletter June 5, 2026 to June 13, 2026.)

Hawaii: HB 2329 (enacted May 26, 2026) updates Hawaii's date of conformity to the IRC to December 31, 2025 (from December 31, 2024), effective for all tax years beginning after December 31, 2025. Hawaii law decouples from several federal tax changes made by the OBBBA. Notably, Hawaii decouples from IRC Section 174A regarding domestic R&E expenditures and adopts IRC Section 174 as that provision existed on December 31, 2024. The law also decouples from the special depreciation allowance for qualified production property under IRC Section 168(n). (The state continues to decouple from bonus depreciation under IRC Section 168(k).) Other OBBBA provisions that Hawaii decouples from include (1) IRC Section 139L – interest on loans secured by rural or agricultural real property and (2) IRC Section 1062 – gain from the sale or exchange of qualified farmland property to qualified farmers. HB 2329 took effect immediately, with the above changes applying to tax years beginning after December 31, 2025. (SALT Newsletter May 15, 2026 to May 29, 2026.)

Iowa: SF 2492 (enacted May 15, 2026) removes the statutory reference to GILTI from the state's subtraction modification for income under IRC Section 951A. As revised, the subtraction is available for income, to the extent included, under IRC Section 951A (i.e., net NCTI). This change is retroactively applicable to tax years beginning on or after January 1, 2026. (SALT Newsletter May 15, 2026 to May 29, 2026.)

Kansas: SB 300 (enacted April 27, 2026) removes the statutory reference to GILTI from the state's subtraction modification for income under IRC Section 951A. As revised, the subtraction from federal adjusted gross income (FAGI) is available for 100% of income under IRC Section 951A (i.e., NCTI), before any deduction allowed under IRC Section 250(a)(1)(B). (SALT Newsletter May 1, 2026 to May 8, 2026.)

Kentucky: HB 757 (enacted April 14, 2026) updates Kentucky's IRC conformity date to the IRC in effect on December 31, 2025 (from December 31, 2024). This change applies to tax years beginning on or after January 1, 2026. The update excludes any IRC amendments made after that date, unless the amendments extend provisions in effect on December 31, 2024, that would otherwise terminate.

For corporate and individual income taxes, HB 757 decouples from OBBBA changes to the treatment of domestic R&E expenditures. HB 869, which was subsequently enacted on April 27, 2026, clarifies these provisions.

Specifically, HB 869 amends KRS 141.039(1)(j) for tax years beginning on or after January 1, 2026, to provide the following:

- Add the amount deducted for domestic R&E expenditures under IRC Section 174A
- Subtract an amount equal to the amortization of domestic R&E expenditures computed in accordance with IRC Section 174, as that section existed on December 31, 2024

HB 757 also decouples from federal deductions related to qualified film, television, live theatrical, and sound recording production under IRC Section 181, as well as interest deducted under IRC Section 139L (amounts paid to a qualified lender for any qualified real estate loans). For purposes of determining the IRC Section 163(j) limitation on business interest, HB 757 requires taxpayers to use IRC Section 163(j) in effect on December 31, 2024, excluding any amendments made after that date.

The above changes apply to tax years beginning on or after January 1, 2026, unless otherwise noted. (See Tax Alert 2026-0815.)

Maine: LD 2212 (enacted April 10, 2026) updates Maine's date of conformity to the IRC to December 31, 2025 (from December 31, 2024). While Maine generally conforms to the OBBBA, it decouples from select provisions.

- Maine over multiple years phases-in conformity to the IRC Section 174A deduction for domestic R&E expenditures. During the phase-in period, a corporation's federal taxable income (FTI) and an individual's FAGI is increased by the amount of the deduction claimed under IRC Section 174A(a) or Section 70302(f)(2) of the OBBBA, multiplied by the applicable percentage. For tax years beginning on or after January 1, 2025, and before January 1, 2031, a subtraction modification, as described by the law, is allowed.
- Maine decouples from the special depreciation allowance for qualified production property under IRC Section 168(n), requiring taxpayers to add back the amount of the net deprecation attributable to the deprecation deduction claimed under IRC Section 168(n).
- Maine, under LD 2188 (enacted April 13, 2026), continues to decouple from bonus depreciation under IRC Section 168(k). For tax years beginning on or after January 1, 2025, taxpayers are required to add back an amount equal to the net increase in depreciation attributable to the depreciation deduction claimed under IRC Section 168(k). For such years, the new law no longer references special rules on property for which a Maine capital investment credit was claimed.

LD 2212 requires taxpayers add back gain excluded from federal gross income under IRC Section 1400Z-2(a) with respect to amounts invested in qualified opportunity zones after December 31, 2026. When property acquired after December 31, 2026, is sold, taxpayers must add back an amount equal to any increase in basis made by the taxpayer under IRC Sections 1400Z-2(b)(2)(B)(iii) or 1400Z-2(c). A subtraction modification is allowed to the extent the amount of gain subject to addback is included in FTI/FAGI in a prior tax year.

LD 2212 removes the statutory reference to GILTI from the state's subtraction modification for income under IRC Section 951A. As revised, the subtraction from federal gross income is available for 50% of income under IRC Section 951A (i.e., NCTI), net of related expenses and deductions. (SALT Newsletter May 1, 2026 to May 8, 2026.)

Maryland: SB 284 (enacted April 8, 2026) decouples from the special depreciation allowance for qualified production property under IRC Section 168(n). The law also modifies IRC Section 168(k) bonus depreciation for manufacturers by limiting the additional allowance under to 20% of the adjusted basis of the qualified property and qualified improvement property, along with corresponding adjustments to the state tax base. These changes apply to all tax years beginning after December 31, 2025. (SALT Newsletter April 3, 2026 and April 10, 2026.)

Massachusetts: HB 5470 (enacted June 12, 2026) phases-in conformity to certain OBBBA provisions[2] and revises IRC conformity provisions to automatically decouple from federal tax changes under certain conditions.

OBBBA decoupling: The law disallows the deductions for domestic R&E expenditures created by OBBBA Section 70302(f), applicable to tax years beginning on or after January 1, 2022. The law also disallows the deductions allowed by IRC Section 174A. Instead, taxpayers may deduct any R&E expenditures paid or incurred as allowed under IRC Section 174 as in effect on July 3, 2025. Consequently, for the 2025 tax year Massachusetts effectively adopts the federal rules related to the deduction and capitalization of R&E expenditures under the Tax Cuts and Jobs Act (TCJA). The decoupling provision applies to tax years beginning on or after January 1, 2022. The disallowance provision is repealed for tax years beginning on or after January 1, 2026.

Massachusetts decouples from OBBBA changes to the following IRC sections for tax years beginning in 2025 and 2026:

- IRC Section 163(j)(8)(A)(v) modification of limitation on business interest
- IRC Section 179(b) increased dollar limitation for expensing certain depreciable business assets

[2] HB 5470 tied future decoupling from certain OBBBA provisions to the outcome of a proposed ballot measure that would lower the state's personal income tax. On June 18, 2026, however, the Massachusetts Supreme Judicial Court rejected the 2026 ballot initiative, "25-18 Initiative Petition for a Law Relative to Reducing the State Personal Income Tax Rate from 5% to 4%," and enjoined the Secretary of State from placing the measure on the ballot for the November statewide election.

- IRC Section 168(n), the special depreciation allowance for qualified production property

For tax years beginning in 2025 or 2026, taxpayers may apply IRC Section 1400Z-2 as in effect for tax years beginning before January 1, 2026. The new law also defines a "qualified opportunity zone" as "an area located entirely within the commonwealth that is designated as a qualified opportunity zone under [IRC Section 1400Z-2]." This change applies to tax years beginning on or after January 1, 2026.

The law includes penalty and interest relief for underpayments or late payments of tax for tax years beginning in 2025, where the taxpayer filed their return before these changes were enacted, provided that the taxpayer files an amended return that takes these changes into consideration.

IRC conformity: HB 5470 also revises IRC conformity provisions to automatically decouple from certain amendments to the IRC that otherwise would apply under chapter 62 (income tax) or chapter 63 (corporate excise tax) if such amendments affect the determination of Massachusetts gross income or deductions under chapter 62 or gross income or net income under chapter 63. This change applies to tax years beginning on or after January 1, 2026. (See Tax Alert 2026-1331.)

Minnesota: HF 2438 (enacted May 27, 2026) updates Minnesota's conformity date to the IRC to May 1, 2026 (from May 1, 2023). The change is effective the day following final enactment of HF 2438, except that the changes in federal law are effective retroactively at the same time the changes were effective for federal purposes. While Minnesota generally conforms to the OBBBA, the state decouples from select provisions, including:

- IRC Section 174A on domestic R&E expenditures (requiring an 80% addback with a ratable four-year amortization period, applied retroactively to tax years beginning after December 31, 2024)
- The transition elections under Section 70302(f) of the OBBBA (requiring certain addition and subtraction adjustments delaying the timing of deduction)

HF 2438 also introduces a Minnesota-specific NCTI calculation, treating such income as dividend income subject to the state's 50% dividends received deduction and creating a new subtraction modification related to qualified business asset investment. The new law also requires that Minnesota NCTI and subpart F income are determined without regard to the OBBBA's permanent extension of the look-through rule.

Beginning with tax year 2027, HF 2438 also will require corporate taxpayers to: (1) add opportunity zone deferred capital gain income to FTI and allow a subtraction adjustment in the year the gain is recognized for federal income tax purposes; (2) add interest income earned by qualified lenders on loans secured by rural or agricultural real property excluded by IRC Section 139L to their FTI or to their FAGI, effective retroactively to the time the corresponding provision under federal law was effective; and (3) to add back business meal expenses exceeding the 50% limitation in IRC Section 274(n)(2)(C) and all expenses allowed as a deduction under IRC Section 274(e)(8), effective for tax years beginning after December 31, 2025. (See Tax Alert 2026-1193.)

New York: A.10009-C / S.9009-C (enacted May 28, 2026), the 2026-2027 New York State (NYS) budget bills, modify NYS and New York City (NYC) business taxes. The budget bills, among other provisions:

- Retroactively decouple from the following federal tax provisions as modified by the OBBBA:
  - IRC Sections 174 and/or 174A on R&E expenditures, for NYS and NYC taxes (note that the NYS and NYC rules differ)
  - IRC Section 168(n) on the special depreciation allowance for qualified production property, for NYS and NYC tax purposes
  - IRC Section 163(j) on the limitation on business interest expense deductions, for NYC tax purposes
  - IRC Section 179 on expensing certain business property or computer software, for NYC tax purposes
- Establish interest and penalty relief for underpayments associated with decoupling from retroactive provisions of the OBBBA
- Modify NYC apportionment factor rules, replacing references to net GILTI with references to net NCTI
- Allow individuals that elect to be subject to tax at the corporate rate under IRC Section 962 to subtract from FAGI the amount of any distribution included in FAGI under IRC Section 962(d), applicable to tax years beginning on or after January 1, 2026. (See Tax Alert 2026-1238.)

Oregon: SB 1507 (enacted April 9, 2026) updates the state's IRC conformity date to December 31, 2025 (from December 31, 2023), effective for tax years beginning on or after January 1, 2026. SB 1507 also adjusts the amount allowed as an IRC Section 168(k) deduction. Taxpayers must add back 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) in effect on December 1, 2017. Rather, such amounts are deducted under the IRC Section 168(k) in effect on December 1, 2017. This change applies to property placed in service in tax years beginning on or after January 1, 2026. (SALT Newsletter April 3, 2026 and April 10, 2026.)

Rhode Island: HB 7127 (enacted June 12, 2026) modifies the definition of "net income" for purposes of the Business Corporation Tax. For tax years beginning on or before January 1, 2026, a corporate taxpayer is required to add to its taxable income the amount of the deduction taken for domestic R&E expenditures under IRC Section 174A less the amount of the deduction that would have been allowed as a domestic R&E expenditure under IRC Section 174 before enactment of the OBBBA. For tax years beginning on or after January 1, 2026, a deduction is allowed in the amount that would have been allowed under IRC Section 174A on July 4, 2025, but would not have been allowed as a deduction under IRC Section 174 immediately before the enactment of OBBBA. The cumulative modification amount for each amortized expenditure cannot exceed 100% of said expenditure's expense amount.

For tax years beginning on or before January 1, 2027, a corporate taxpayer is required to add to its taxable income the amount of any deduction allowable for depreciation, amortization or depletion under IRC Section 163(j)(8)(A)(V). (SALT Newsletter June 5, 2026 to June 13, 2026.)

Vermont: HB 933 (enacted June 18, 2026) updates the state's date of conformity to the IRC to December 31, 2025 (from December 31, 2024) but decouples from select federal changes made by the OBBBA.

Taxpayers are required to add back to Vermont net income (corporations), or taxable income (individuals, trust and estates), an amount equal to the federal bonus depreciation deduction under IRC Section 168(k) or Section 168(n). In a tax year in which federal bonus deprecation is claimed, a state tax deduction is allowed in an amount equal to the depreciation deduction that would be allowed on the property if the taxpayer had made the election under IRC Section 168(k)(7) or Section 168(n)(6) to not claim bonus depreciation on that property. An additional deduction will be allowed in the tax year that the property is sold or otherwise disposed.

HB 933 decouples from OBBBA changes to the treatment of domestic R&E expenditures as follows:

- Taxpayers that do not qualify as an eligible taxpayer[3] are required to add back to Vermont net income or taxable income an amount equal to any federal deduction for the tax year under IRC Section 174A and Section 70302(f)(2) of the OBBBA and may deduct from their Vermont net income or taxable income an amount equal to the deduction that would be allowed under IRC Section 174 applied as this provision was in effect on December 31, 2024.
- Taxpayers who qualify as an eligible taxpayer for the tax year and made a federal tax election under Section 70302(f)(1) of the OBBBA, may for state purposes elect to deduct, starting in 2025, any remaining unamortized amount of domestic R&E expenditures paid or incurred after December 31, 2021, and before January 1, 2025, or to deduct such amount ratably over a two-tax year period beginning with the first tax year beginning after December 31, 2024. The new rules address treatment of a taxpayer who qualifies as an eligible taxpayer for the current tax year but made an addition modification in a prior tax year in which the taxpayer did not qualify as an eligible taxpayer.

Taxpayers are required add back to Vermont net income an amount equal to the amount of income deducted under IRC Section 250 for the tax year, to the extent deducted from net income.

The above IRC conformity update and OBBBA-related changes are retroactively effective on January 1, 2026, and apply to tax years beginning on and after, January 1, 2025. (SALT Newsletter June 19, 2026 to June 26, 2026.)

[3] An "eligible taxpayer" is any taxpayer, other than tax shelters prohibited from using the cash receipts and disbursements method of accounting under IRC Section 448(a)(3), that meet the gross receipts test of IRC Section 448(c) for the tax year.

Legislative developments

Alabama: HB 379 (enacted April 15, 2026) expands and modifies the Entertainment Industry Incentive Act by creating a new incentive program for small productions, clarifying the eligibility of compensation of loan out companies, and extending the deadline for the review and evaluation of Entertainment Industry Incentive Act. (SALT Newsletter April 17, 2026 to April 24, 2026.)

HB 517 (enacted April 16, 2026) creates a tax credit that can offset state income tax and financial institution excise tax of an eligible employer that allows a qualified employee to serve as a career and technical education (CTE) programs instructor at an eligible educational institution. A credit is also available to qualified employers that donate to community development foundation to support a designated CTE program or to supplement salaries of CTE program instructors. The credit, which can be claimed starting in 2027, cannot reduce a taxpayer's tax liability by more than 50%. Unused credits may be carried forward for up to five years, but they may not be transferred. The amount of tax credit available to any single taxpayer is limited to $250,000 per year. (SALT Newsletter May 1, 2026 to May 8, 2026.)

Arizona: HB 4168 (enacted June 13, 2026), effective for tax years beginning from and after December 31, 2025, repeals the following tax credit provisions:

- the provision in Arizona law that allowed eligible income taxpayers to obtain refunds for unused credits for increased research activities
- the income tax credit for net increases in full-time employees residing in the state and hired into qualified employment positions, but with a savings clause in effect for existing credits to be carried forward against subsequent tax liabilities
- the corporate income tax credit for purchases of pollution control equipment, but with a savings clause in effect for existing credits to be carried forward against subsequent tax liabilities

For tax years beginning from and after December 31, 2025, the law limits to $10,000 the amount of the deduction for state and local taxes. (SALT Newsletter June 5, 2026 to June 13, 2026.)

Arkansas: HB 1001 (enacted May 6, 2026) reduces the highest corporate income tax rate, which is imposed on corporations with net income exceeding $11,000, from 4.3% to 4.1% effective for tax years beginning on or after January 1, 2027. SB 1 took effect immediately. (SALT Newsletter May 1, 2026 to May 8, 2026.)

***California:** SB 122 (enacted June 29, 2026) extends the existing $5 million business tax credit utilization limitation through tax years beginning before January 1, 2030. As under current law, the carryforward period for unused credits resulting from the limitation is extended by an additional year for each year the limitation affects the credit. Provisions allowing a taxpayer to make an irrevocable election to receive an annual refundable credit amount (equal to 20% of the qualified credits that would have otherwise been available but for the $5 million limitation) are extended through tax years beginning before January 1, 2030. The annual refundable credit amount will be allowed as a credit beginning the third tax year after the election is made. Effective for tax years beginning on or after January 1, 2030, SB 122 limits business tax credit utilization to the greater of 70% of the total taxes imposed or $5 million per tax year, with only a narrow exclusion for certain business tax credits.(See Tax Alert 2026-1375 and 2026-1414.)

Colorado: HB26-1289 (enacted June 3, 2026) make changes to corporation income tax provisions, including those related to combined reporting, tax havens and computation of net income tax.

For tax years beginning on or after January 1, 2027, worldwide combined reporting is the default combined reporting filing methodology, with the option to make a water's-edge election. The water's-edge election, which is made on a timely filed original return, is binding for 10 years.[4] The water's-edge group includes all domestic

[4] Upon expiration of the 10-year period, the combined group can withdraw the water's-edge election on a timely-filed original return for the first tax year after the end of the 10-year binding period. If not withdrawn, the election is binding for a new 10-year period. If withdrawn, the withdrawal is binding for 10 years. Withdrawals of a water's-edge election, or reinstatements

members of the affiliated group (including domestic 80/20 corporations), foreign corporations if they have at least 20% of their property and payroll in the United States, domestic international sales corporations, export trade corporations and corporations incorporated in tax-haven jurisdictions. The new law eliminates dividends, subpart F income and NCTI between members of the combined group. The water's-edge return includes income and apportionment factors of other otherwise excludable affiliates to a limited extent. The new rules bring in effectively connected income (and related factors) of excluded members and include the income (and related factors) of an entity that is a resident of a country that does not have a treaty with the US and earns more than 20% of its net income from amounts paid by water's-edge group members for services and intangibles.

Colorado uses a listed jurisdiction approach in its tax-haven rules. Starting in tax year 2027, HB26-1289 removes Lichtenstein from Colorado's list of tax havens.

The law modifies the computation of corporate net income for tax years beginning on or after January 1, 2027, by: (1) repealing the deduction for wages and salary expenses that are not deductible in the calculation of FTI pursuant to IRC Section 280C, and (2) requiring taxpayers to add back to their FTI any capital gain or appreciation related to an opportunity fund otherwise excluded from federal gross income that is not from an investment in a Colorado Qualified Opportunity Fund.[5] (See Tax Alert 2026-1129.)

HB26-1014 (enacted May 29, 2026) extends Colorado's annual job growth incentive tax credit through tax years beginning before January 1, 2035 (from January 1, 2027). (SALT Newsletter June 5, 2026 to June 13, 2026.)

Connecticut: SB 1 (enacted May 26, 2026) creates an income tax credit for qualified small businesses[6] that incur eligible research and development (R&D) spending in Connecticut. For tax years beginning on or after January 1, 2026, an eligible qualified small business may claim the credit against its personal income tax liability. The credit is equal to 6% of R&D expenses paid or incurred by the qualified small business during the tax year. The annual limit on the credit is $1.5 million per business. If the amount of credit exceeds the taxpayer's tax liability, the taxpayer may apply to the revenue commissioner to exchange the excess credit for a refund of 90% of the excess if the taxpayer is a biotechnology business or 65% of the excess for other qualified small businesses.

The law also creates the Individual Coverage Health Reimbursement Arrangement (ICHRA) tax credit. The credit is available to qualified small business,[7] and it may be taken against the insurance companies and health care centers tax, the corporation business tax, and the income tax. The amount of credit allowed for the year is the lesser of (1) the sum of the qualified contribution made by the business during the year, or (2) $1,000 per covered employee. Credit not used in the year in which it was earned will expire; it is not refundable. The credit is allowed in the first year in which the business offered an individual arrangement and the immediately succeeding year; the credit is not allowed for other years. (SALT Newsletter May 15, 2026 to May 29, 2026.)

Georgia: HB 463 (enacted May 11, 2026) reduces the corporate, pass-through entity (PTE) 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 repeals various tax credits, including tax credits for: (1) eligible teleworking expenses; (2) manufacturers of personal protective equipment; (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. (SALT Newsletter May 1, 2026 to May 8, 2026.)

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of a withdrawn water's-edge election, within the 10-year binding periods is possible upon a showing of reasonable cause based on extraordinary hardship due to unforeseen changes in state tax laws or policies.

[5] A Colorado Qualified Opportunity Fund is an opportunity fund that holds at least 90% of its assets in Colorado opportunity zones.

[6] A qualified small business is a partnership or S corporation with gross income in the prior tax year not exceeding $70 million and has not exceeded such gross income threshold through related person transactions.

[7] A qualified small business is a business with fewer than 50 in-state employees on the date of its credit application and that has adopted an individual coverage health reimbursement arrangement (individual arrangement) in lieu of a traditional employer-provided health insurance plan.

Hawaii: HB 3125 (enacted May 21, 2026) modifies the renewable energy technologies income tax credit and repeals select tax credits. The law caps the aggregate amount of renewable energy technologies tax credits available to $40 million in each calendar year 2027, 2028, 2029 and 2030. Beginning January 1, 2031, no money will be allocated for this credit. The new law includes a certification requirement, under which, taxpayers, by March 1 of each year in which a renewable energy technology system was installed and placed in service in the prior tax year, must submit a written, certified statement containing specified information to the Hawaii State Energy Office of the Department of Business, Economic Development and Tourism, which will certify a taxpayer's eligibility to claim the credit.

HB 3125 adds sunset dates to the following tax credits: (1) the capital goods excise tax credit does not apply to tax years beginning after December 31, 2027; and (2) the renewable fuels production tax credit does not apply to tax years beginning after December 31, 2028. The technology infrastructure renovation tax credit under Haw. Rev. Stat. Section 235-110.51 is repealed on January 1, 2028. The high technology business investment tax credit under Haw. Rev. Stat. Section 235-110.9 and the tax credit for research activities under Haw. Rev. Stat. Section 235-110.91 are repealed on January 1, 2029. (SALT Newsletter May 15, 2026 to May 29, 2026.)

Illinois: SB 3019 (enacted June 16, 2026) modifies the Illinois net loss deduction (NLD) cap, phasing in the amount that can be claimed. As modified, the NLD cap is the greater of $500,000 or:

- 15% of net income for tax years ending on or after December 31, 2027, and before December 31, 2028
- 30% of net income for tax years ending on or after December 31, 2028, and before December 31, 2029
- 50% of net income for tax years ending on or after December 31, 2029, and before December 31, 2030
- 65% of net income for tax years ending on or after December 31, 2030, and before December 31, 2031
- 80% of net income for tax years ending on or after December 31, 2031

Similar to current law, taxpayers will not count, for purposes of the NLD carryover period, any year in which the NLD to be used would have been restricted.

The law also modifies the elective pass-through entity tax (PTET). Effective for tax years ending on or after December 31, 2026, a partnership making the PTET election may elect to determine its tax base under one of the following methods:

1. the Illinois-sourced income method (the previous method used), under which the partnership computes and pays tax only on the portion of each partner's distributive share of net income derived from or attributable to sources in Illinois
   or
2. the full distributive share method, under which the partnership computes and pays tax on the resident partners' full distributive share of net income, while the apportioned business income is used to determine the tax paid on behalf of nonresident partners

Consistent with the PTET election, this election is made annually and applies to all partners of the partnership for the tax year. The election is irrevocable for the tax year. (See Tax Alert 2026-1374.)

Kansas: SB 300 (enacted April 9, 2026) requires certain manufacturers of alcoholic liquor to apportion business income to the state using a single sales factor formula (SFF). Effective for tax years beginning on or after January 1, 2027, the requirement to use a SSF apportionment applies to qualifying Kansas investors who, during the tax year, have (1) an average value of real and tangible personal property owned or rented and used in Kansas with an average value of at least $5 million, and (2) a total amount of compensation paid in Kansas exceeding $2 million. General manufacturers, including all other manufacturer of alcoholic liquor, must continue to use the three-factor (property, payroll and sales) apportionment formula. (SALT Newsletter May 1, 2026 to May 8, 2026.)

HB 2464 (enacted April 9, 2026) extends the angel investor tax credit program through 2031 (from 2026). (SALT Newsletter May 1, 2026 to May 8, 2026.)

Kentucky: HB 757 (enacted April 14, 2026) delays implementation of the corporate income tax deferred tax deduction. When Kentucky adopted mandatory combined reporting in 2019, the legislature enacted a deferred tax deduction to reduce the effect on certain tax attributes from the transition from the prior nexus consolidated filing regime to combined reporting. This deduction, originally scheduled to start with the combined group's first tax year beginning on or after January 1, 2024, was delayed until January 1, 2026, and, under HB 757, has been delayed to the combined group's tax year beginning on or after January 1, 2028. (See Tax Alert 2026-0815)

HB 869 (enacted April 27, 2026) enhances the Kentucky Business Investment Program by: (1) expanding the definition of "eligible company" to include a company that is engaged in R&D activities; (2) modifying the definitions of "eligible costs;" (3) expanding the definition of "start-up costs" to include recurring software subscriptions or licensing fees covering a period not to exceed one year from activation of the project, and the initial software and licensing costs association with each new full-time job created; and (4) increasing the wage target to 200% (from 125%) of the federal minimum wage in heritage counties, and to 300% (from 150%) of the federal minimum wage in any other county. Companies receiving preliminary approval after July 1, 2026, for certain incentives under the Business Investment Program may be eligible to receive additional incentives.

HB 869 increases the cap on the skilled training investment tax credit. A company may claim 50% of the amount of approved costs incurred in connection with its program of occupational upgrade training and skills upgrade training, with a cap of $4,500 (from $2,000) per trainee for an approved company in a heritage county and $3,500 per trainee for an approved company located in any other county. A company has three years (up from one year) to complete such training programs.

HB 869 creates a new certified mixed-use rehabilitation credit that is available for tax years beginning on or after January 1, 2028, but before January 1, 2032. The credit is refundable and transferable. The credit equals 20% of eligible rehabilitation expenses incurred during the tax year and is limited to $25 million per eligible taxpayer for each calendar year. (SALT Newsletter May 1, 2026 to May 8, 2026.)

Maine: LD 2212 (enacted April 10, 2026), for tax years beginning on or after January 1, 2026, allows a pass-through entity (generally, partnerships and S corporations)[8] to elect to be subject to tax at the entity level (the PTET). The amount of the PTET is equal to the "taxable income" of the electing PTE multiplied by the highest marginal tax rate on individuals.[9] Credits available in chapter 822 of the Maine tax code may not reduce the PTET for the entity. (SALT Newsletter May 1, 2026 to May 8, 2026.)

LD 2149 (enacted April 13, 2026), effective for tax years beginning on or after January 1, 2026, allows a corporate or individual income taxpayer to subtract any capital gain recognized on the sale of a greater-than-50% ownership interest in a qualified property, if such property was transferred to a cooperative affordable housing corporation or municipal housing authority (or its affiliate). The deduction is limited to $750,000. If the capital gain from the sale is recognized by multiple taxpayers or multiple years, the gain must be aggregated for purposes of applying the limit. (SALT Newsletter April 17, 2026 to April 24, 2026.)

LD 2116 (enacted April 15, 2026) extends the sunset date of the affordable housing income tax credit through 2036 (from 2028). (SALT Newsletter April 17, 2026 to April 24, 2026.)

Maryland: SB 284 (enacted April 8, 2026) modifies PTET provisions by revising the definition of "pass-through entity's taxable income" for resident members to mean the PTE's income that is (1) equal to the member's distributive or pro rata shares of the PTE, or (2) at the election of the PTE, derived from or reasonably attributable to the PTE's trade or business in Maryland. The law sets forth how to calculate tax due based on whether the PTE makes an election to use the second method to calculate the PTE's taxable income and whether the member is a resident or nonresident or an individual or a corporation.[10] Changes to the PTET provisions apply to all tax years beginning after December 31, 2026. (SALT Newsletter April 3, 2026 and April 10, 2026.)

SB 388 (enacted May 12, 2026) extends and/or sunsets the following tax credits: (1) the job creation tax credit is extended to January 1, 2032 (from 2027); (2) the R&D tax credit may not be approved for a tax year beginning

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[8] Financial institutions subject to the Maine franchise tax and publicly traded partnerships are not eligible "pass-through entities" permitted to make the PTET election.
[9] The new income tax surcharge is not considered in determining the PTET rate.
[10] See also, Md. Comp., "Changes to Tax Year 2026 Pass-Through Entity Estimated Payments" (April 13, 2026) (describes the alterations to the calculation of a PTE's taxable income and the affect this change has on 2026 PTE quarterly estimated payments).

after December 31, 2030; (3) the employer security clearance costs tax credit is extended through tax years beginning before January 1, 2033 (from before January 1, 2028); and (4) the build our future grant program ends on June 30, 2030.

The law also modifies the income tax credit available to businesses in a focus area for wages paid to focus area employees. Businesses that do not claim an enhanced tax credit for a focus area employee may claim a credit of up to: (1) $3,000 of the wages paid to each qualified employee who is an economically disadvantage individual and is not hired to replace an individual whom the business employed in that or any of the three prior tax years; or (2) $1,000 of the wages paid to each qualified employee who is not an economically disadvantaged individual and is not hired to replace an individual whom the business employed in that or any of the three prior tax years. Businesses that satisfy the enhanced tax credit requirements may qualify for a credit of up to: (1) $4,500 of wages paid to each focus area employee who is an economically disadvantaged individual and is not hired to replace an individual whom the business employed in that year or any of the three prior tax years; and (2) $1,500 of the wages paid to each focus area employee who is not an economically disadvantaged individual and is not hired to replace an individual whom the business employed in that or any of the three prior tax years. (SALT Newsletter May 1, 2026 to May 8, 2026.)

Massachusetts: HB 5470 (enacted June 12, 2026) creates an elective PTET that applies to the surtax on high-income earners. Applicable to tax years beginning on or after January 1, 2026, new chapter 63E allows eligible PTEs to make an annual election to pay an excise tax on its qualified taxable income at a 4% rate. Qualified members of a PTE making this election are allowed a refundable credit against the PTET; the credit is limited to 90% of the PTET. All members of the electing PTE are bound by the election, which is irrevocable for the year made. (See Tax Alert 2026-1331.)

Minnesota: HF 2438 (enacted May 27, 2026) extends Minnesota's elective PTET for tax years 2026 and 2027. The PTET expires for tax years beginning after December 31, 2027. Effective for tax year 2026 only, HF 2438 will not impose an addition to tax penalty for failing to make estimated payments due to the retroactive reinstatement of the PTET. (See Tax Alert 2026-1193.)

Nebraska: LB 1096 (enacted April 16, 2026) builds on legislation (LB 644) enacted in 2025 that prohibited certain entities from receiving benefits from tax incentives programs.[11] The prior version of the applicable statutory provision had been applied by the Department of Revenue as covering any company that had a subsidiary based in a foreign adversarial country. LB 1096 amends the law by narrowing the definition of a "foreign adversarial company" to mean a company 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, directly or indirectly, by the government of a foreign adversary; or (4) is a direct or indirect subsidiary of any company, otherwise described above. In the context of combined reporting, LB 1096 provides that a company that is not a foreign adversarial company may use only Nebraska incentives against income taxes of the members of the same group of companies that are not foreign adversarial companies. The tax liability attributable to members of a unitary group that are foreign adversarial companies is determined using the apportionment formula used to determine the amount of tax due. (See Tax Alert 2026-0959.)

LB 1165 (enacted April 16, 2026) establishes the Grow the Good Life Act, which provides incentives to encourage large in-state employers to keep their workforce and headquarters in the state and to relocate workforce to the state when there is a material change in ownership or control due to a merger or combination with an out-of-state company. The wage retention credit is equal to 5% of the total compensation paid by the employer in the year to all retained Nebraska employees who are paid wages at a rate equal to at least 100% of the Nebraska statewide average hourly wage for the year of application. Wage retention credit earned but not used may be carried over to the end of the usage period. Application under the Grow the Good Life Act may be filed starting January 1, 2027, through May 31, 2029. The law also amends provisions of the ImagiNE Nebraska Act related to wage and investment credits earned under certain program levels, providing an additional 1% wage and 1% investment credit at all levels of the ImagiNE Nebraska Act. The credit percentages will be increased by an additional one percentage point for taxpayers that meet certain employment thresholds. LB 1165 took effect upon becoming law. (SALT Newsletter April 17, 2026 to April 24, 2026.)

[11] See Tax Alert 2025-2317.

LB 901 (enacted April 7, 2026) sunsets the renewable energy tax credit available to producers of electricity generated by a new renewable electric generation facility on June 30, 2026. The law also modifies the Nebraska Advantage R&D Act by eliminating the ability to use the credit as a refundable credit claimed on the taxpayer's income tax return. It also modifies the ImagiNE Nebraska Act by removing waste treatment and disposal (NAICS[12] 5622) from the list of "qualified location" (i.e., a location at which the majority of the business activities conducted are within one or more of the specified NAICS codes or descriptions. These changes take effect July 1, 2026. (SALT Newsletter April 3, 2026 and April 10, 2026.)

*__New Jersey__: AB 5322 (enacted June 30, 2026) imposes a temporary $1 million cap on corporate net operating loss deductions (NOLDs) for privilege periods ending on or after July 31, 2026, but before July 31, 2030. The new cap does not affect public utilities. For corporate taxpayers with a privilege period of less than 12 months, the $1 million cap is prorated based on the number of months in the short tax year. If the temporary cap prevents a taxpayer from claiming a portion of any NOLD, the taxpayer may carry forward and apply the unused deduction to future privilege periods subject to further limitations. Specifically, for a privilege period ending on or after July 31, 2030 but before July 31, 2032, a taxpayer with a disallowed NOLD may claim the amount of the NOLD unused due to the cap; the deduction, however, may not reduce the taxpayer's allocated entire net income by more than 75% for the privilege period. Taxpayers with a NOLD reduced or disallowed because of these caps may carry over any remaining unused NOLD for an additional six privilege periods immediately following the privilege period in which the NOLD would have otherwise expired. Interest and penalties will not be assessed for the underpayment of estimated taxes for installments due and payable after December 31, 2025, and before January 1, 2027, if the underpayment results from the NOLD cap. AB 5322 took effect immediately and applies to any privilege period ending on or after July 31, 2026. (See Tax Alert 2026-1456.)

New York: A.10009-C / S.9009-C (enacted May 27, 2026), for taxpayers with business income over $5 million, extends the current top corporate franchise tax rate of 7.25% through tax years beginning before January 1, 2030 (from before January 1, 2027). The current 0.1875% capital base rate is extended for three years, through tax years beginning before January 1, 2030 (from before January 1, 2027). (See Tax Alert 2026-1238.)

Oklahoma: HB 4028 (enacted May 3, 2026) extends through 2031 (from 2026) the deduction from Oklahoma taxable income or Oklahoma adjusted gross income equal to the amount of qualified equity investment in an eligible Oklahoma venture capital entity made by an accredited investor. (SALT Newsletter May 1, 2026 to May 8, 2026.)

HB 4426 (enacted May 5, 2026) extends the sunset date of the income tax credit for qualified economic development expenditures through tax years ending December 31, 2032 (from December 31, 2027). (SALT Newsletter May 1, 2026 to May 8, 2026.)

Rhode Island: HB 7127 (enacted June 12, 2026) creates a tax amnesty program that will run for a 75-day period ending on February 15, 2027. Amnesty applies to taxes and interest due for any tax period ending on or before December 31, 2025. For those participating in, and complying with the terms of, the amnesty program, the tax administrator will waive otherwise applicable penalties and reduce interest by 25%. Amnesty will not be granted to taxpayers who are under criminal investigation or who are party to any civil or criminal proceedings for fraud in relation to any Rhode Island tax that is collected by the tax administrator.

HB 7127 also modifies PTET withholding provisions to consider the new 1% high-income surtax imposed on individual's taxable income over $1 million. The 1% tax rate applies to 2027, with the tax rate increasing to 2% in 2028 and to 3% in 2029; in 2028 and 2029 the $1 million threshold is adjusted for inflation. For tax years beginning on or after January 1, 2027, any reference to the highest marginal rate is the sum of the highest marginal rate imposed on individuals and the high-income surtax. The law modifies the elective PTET to provide that for tax years beginning on or after January 1, 2027, a PTE electing to pay the PTET may also elect to pay the state tax at the entity level on income equal to or exceeding the amount subject to the high-income surtax at the high-income surtax rate. (SALT Newsletter June 5, 2026 to June 13, 2026.)

South Carolina: SB 556 (enacted May 19, 2026) creates a tax credit for renewable natural gas, that will be available for tax years beginning after 2025 and ending before tax year 2030. The credit may be claimed against

[12] North American Industry Classification System.

the income tax or license fees, or both. The credit is equal to 25% of the costs incurred by a taxpayer for the purchase and installation of equipment used to produce renewable natural gas for commercial purposes. Such costs must be certified as having been incurred by the State Energy Office. The credit may be claimed in the year in which the equipment is placed in service and may be claimed for all expenditures incurred for the purchase and installation of the equipment, including related engineering, permitting and other necessary services. The amount of credit a taxpayer may claim in a year is limited to the lesser of 25% or $5 million of the credit. The credit is nonrefundable. A taxpayer may carry forward unused credit earned before the end of 2030 for 15 years from the year in which the credits were earned. The taxpayer may transfer the credit to another person who is eligible to use the credit. (SALT Newsletter May 15, 2026 to May 29, 2026.)

Vermont: HB 933 (enacted June 18, 2026) increases the amount of the R&D tax credit a taxpayer may claim against tax to 75% (from 27%) of the amount of the federal tax credit for eligible R&D expenditures under IRC Section 41(a) that are made within Rhode Island. This change takes effect on, and applies to tax years beginning on and after, January 1, 2027. (SALT Newsletter June 19, 2026 to June 26, 2026.)

Virginia: SB 612 (enacted April 13, 2026) extends the motion picture production tax credit to tax years beginning before January 1, 2031 (from January 1, 2027). SB 612 takes effect on July 1, 2026. (SALT Newsletter April 17, 2026 to April 24, 2026.)

West Virginia: HB 4784 (enacted April 1, 2026) extends the modification reducing FTI for qualified opportunity zone businesses (QOZB). West Virginia law allows a subtraction from FTI for an amount equal to net income included in FTI that is ordinary income derived from a QOZB located in a qualified opportunity zone located in West Virginia. To qualify for this modification, the QOZB must be a newly registered business in West Virginia registered before January 1, 2033 (from January 1, 2024). These changes are retroactively effective for tax years beginning on or after January 1, 2024. (SALT Newsletter April 17, 2026 to April 24, 2026.)

Wisconsin: SB 482 (enacted April 8, 2026) extends to 50 years (previously 15 years) the period for which any unused nonrefundable research tax credit may be carried forward and credited against Wisconsin income or franchise tax otherwise due. The change to the carryover period first applies retroactively to all research tax credits claimed and carried over from prior tax years that have not been used to offset tax, been refunded or expired on April 10, 2026. (SALT Newsletter April 3, 2026 and April 10, 2026.)

Judicial developments

Florida: The U.S. Supreme Court denied Florida's motion for leave to file a bill of compliant in a case brought by the Florida Attorney General, seeking to challenge the constitutionality of California's SSF apportionment provisions when 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..."[13] (SALT Newsletter June 5, 2026 to June 13, 2026.)

New York: The New York Supreme Court, Appellate Division, Third Department (court), upheld a lower court ruling in *American Catalog Mailers Association*[14] that a state regulation, which identifies protected and unprotected internet activities under PL 86-272,[15] is not preempted by federal law. In so holding, the court said that "[f]or now, it suffices to conclude that plaintiff did not demonstrate that the regulation, 'as written,' revokes franchise tax immunity where [PL] 86-272 requires it, or that the regulation obstructs the purpose for which that statute was enacted …." (SALT Newsletter May 1, 2026 to May 8, 2026.)

Administrative developments

Illinois: The Illinois Department of Revenue (IL DOR) has adopted amendments to 86 Ill. Adm. Code 100.3200 through 100.9720, including new section 100.3375, which implements legislative changes adopting the *Finnigan*

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[13] *Florida v. California and Franchise Tax Bd.*, Dkt. No. 220163 (U.S. S. Ct., review denied, June 1, 2026).
[14] *American Catalog Mailers Assn. v. N.Y. Dept. of Taxn. and Fin.*, 2026 NY Slip Op 02908 (N.Y. Sup. Ct., App. Div. 3rd Dept., May 27, 2026).
[15] PL 86-272 is a federal law that bars states from imposing income tax on out-of-state sellers if their in-state activities do not exceed soliciting orders of tangible personal property.

method for apportioning sales within a unitary business group.[16] (SALT Newsletter June 19, 2026 to June 26, 2026.)

New Jersey: The New Jersey Division of Taxation (NJ DOT) revised its technical bulletin on nexus for corporation business tax purposes to address certain uses of non-fungible tokens (NFTs). The bulletin clarifies that the use NFTs for a transaction when the sole use and purpose is to transfer the ownership of an item of tangible personal property, and not for any other purpose, is an in-state activity that does not exceed the protections of PL 86-272. The NJ DOT noted that this protection only applies when the NFT transferred is solely for a transfer of the legal ownership rights in the underlying tangible personal property, and not to transfers of intangible property, intellectual property, real estate or the purchase of a service.[17] (SALT Newsletter June 5, 2026 to June 13, 2026.)

Rhode Island: The Rhode Island Department of Revenue, Division of Taxation (RI DOT) adopted regulation 280-RICR-20-25-17, which provides guidance on modifications to Rhode Island net income due to the state's temporary decoupling from the OBBBA. 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); (2) treatment of certain qualified sound recording productions in IRC Sections 168(k) and 181; (3) full expensing of domestic R&E expenditures under IRC Section 174A; and (4) increased dollar limitation for expensing certain depreciable business assets under IRC Section 179(b). The regulation was previously adopted on an emergency basis as regulation 280-RICR-20-25-16, which sunset on April 16, 2026. The new regulation was adopted and is effective from April 16, 2026. (SALT Newsletter April 17, 2026 to April 24, 2026.)

Texas: The Texas Comptroller of Public Accounts adopted amendments to 34 Tex. Admin. Code Section 3.558 "Margin: Cost of Goods Sold" (final rule) 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.[18] As an example of how this rule applies, 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, is 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 deprecation adjustment for qualifying assets. The final rule specifies 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" is 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." The final rule allows any unused net depreciation adjustment to be carried forward to consecutive reports until exhausted.

For franchise tax reports prior to the 2026 report, an entity will 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. The final rule also implements 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. The final rule takes effect on June 21, 2026. (SALT Newsletter June 5, 2026 to June 13, 2026.)

Developments to watch

Federal: Proposed bill (HR 9244, the "Business Activity Tax Simplification Act of 2025") would expand the scope of PL 86-272 to include transactions of other than tangible personal property (e.g., all other forms property and services) that are fulfilled or distributed from a point outside the state. In addition to current prohibitions, a state would not be able to impose a net income tax on income derived within the state by any person from interstate

[16] 2026 Ill. Register, Vol. 50, Issue 25, June 22, 2026.
[17] N.J. Div. of Taxn., TB-108(R) "Nexus for Corporation Business Tax for Privilege Periods Ending on and after July 31, 2023" (revised June 5, 2026).
[18] Tex. Register, Vol. 51 No. 24, June 12, 2026.

commerce if the only business activity in the state is: (1) the furnishing of information to customers or affiliates in such state, or the coverage of events or other gatherings of information in the state by which the information is used or disseminated from a point outside the state; (2) the business activities directly related to such person's potential or actual purchase of goods or services within the state if the final determination to purchase is made outside the state; or (3) by reason of sales or transaction of a digital good or digital service.

Illinois: The IL DOR has proposed amendments to 86 Ill. Adm. Code 100.2430 to reflect recent statutory changes[19] related to the addback of certain interest and intangible expenses or costs paid to 80/20 affiliates, ordering rules for interest expense deduction limited under IRC Section 163(j), and the repeal of certain exceptions to the addback rules.[20] (SALT Newsletter May 1, 2026 to May 8, 2026.)

* **North Carolina**: SB 595 (enacted on July 2, 2026) updates the state's date of conformity to the IRC to July 5, 2025 (from July 1, 2023). Taxpayers taking a deduction for domestic R&E expenditures under IRC Section 174A(a) must add back to FTI 80% of the amount taken for that year. Taxpayers then will be allowed to deduct 25% of the addback in each of the first four tax years following the addback year. The legislation states that the purpose of these changes "is to decouple from the allowance of full first-year expensing of domestic [R&E] expenditures under [S]ection 70302 of the [OBBBA]." The law further provides that these adjustments do not result in a difference in basis of such assets for state and federal income tax purposes.

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[19] Pub. Act 104-6. See Tax Alert 2025-1374.
[20] See Business Activity Tax Simplification Act Business Activity Tax Simplification Act, Vol. 50, Issue 17 (April 24, 2026).