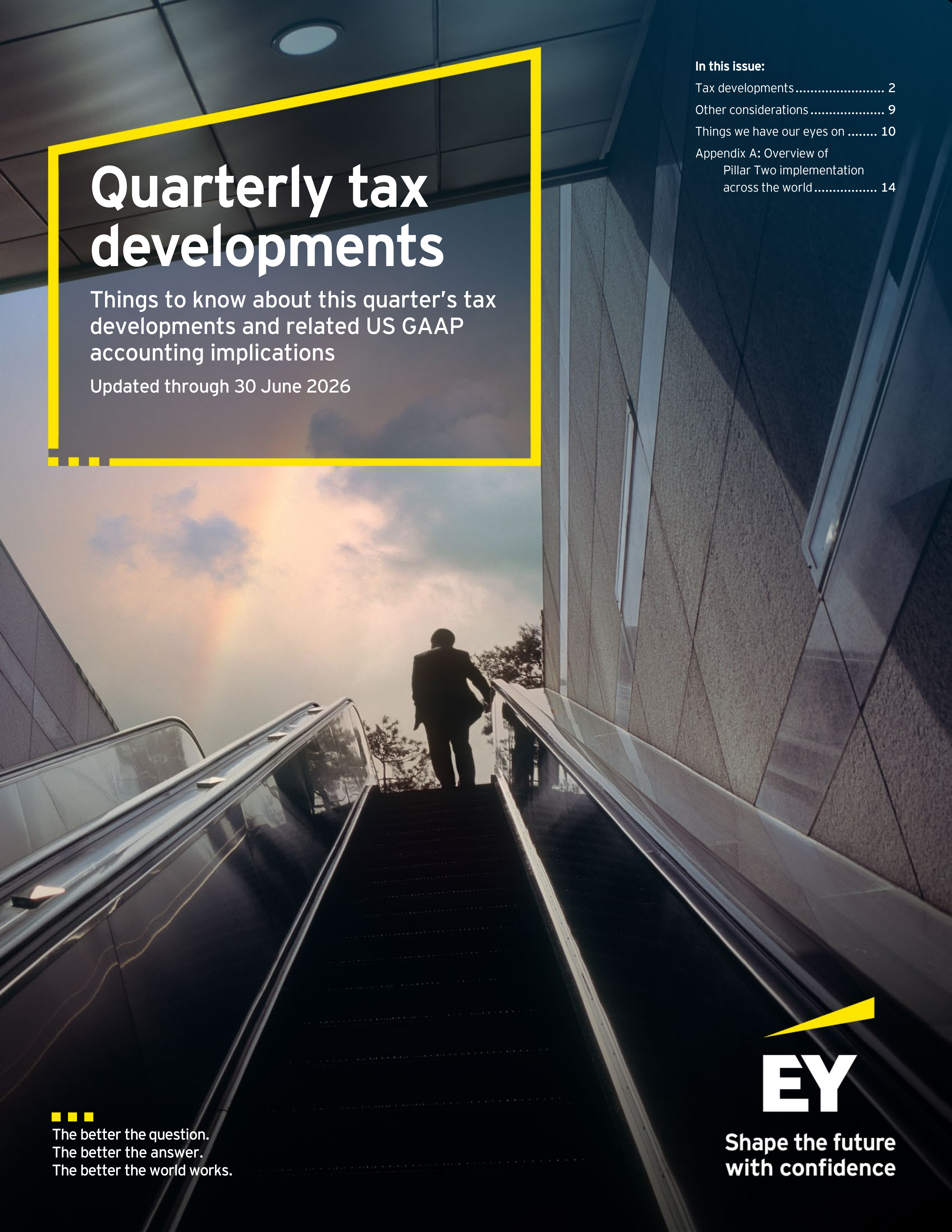

In this issue:

Quarterly tax developments

Things to know about this quarter's tax developments and related US GAAP accounting implications

Updated through 30 June 2026

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Welcome to our June 2026 Quarterly tax developments *publication. This edition is updated for certain developments identified from 15 June through 30 June 2026. New developments are designated by an asterisk (*) after the state or country name.*

Here we describe certain tax developments previously summarized in Tax Alerts or other EY publications or identified by EY tax professionals or EY foreign member firms. These developments may affect your tax provision or estimated annual effective tax rate.

We compile this information because we recognize that, for many companies, the most challenging aspect of accounting for income taxes is identifying changes in tax law and other events when they occur so the accounting can be reflected in the appropriate period. However, this publication is not a comprehensive list of all changes in tax law and other events that may affect income tax accounting.

We list EY publications that you can access through our ***Tax News Update website****, if you are registered. Anyone interested in registering should contact Amy Herlihy at* ***amy.herlihy@ey.com****.*

See our ***previous editions*** *for additional tax developments.*

Tax developments

Legislation enacted in the second calendar quarter for US GAAP purposes

Companies are required to record the total effect of tax rate and law changes on deferred tax balances, including related valuation allowances, as a component of tax expense related to continuing operations in the period of enactment, even if the assets and liabilities relate to discontinued operations, a prior business combination or items of accumulated other comprehensive income. These deferred tax effects should be recognized as a discrete event and should not be allocated to subsequent interim periods by adjusting the estimated annual effective tax rate (EAETR). The tax effect of changes in tax laws or rates on estimated taxes payable or refundable for the current year should be reflected in the computation of the annual effective tax rate beginning in the first interim period that includes the enactment date. Refer to section 8.1, Changes in tax laws and rates, and section 20.3, Effect of new tax legislation, of our Financial reporting developments publication, *Income Taxes*.

Federal, state and territories

Arizona* — On 13 June 2026, Arizona updated the state's date of conformity to the Internal Revenue Code (IRC) to 1 January 2026 from 1 January 2025. For tax years beginning from and after 31 December 2025, corporations are required to include the special depreciation allowance for qualified production property under IRC Section 168(n) in their Arizona tax base, to the extent not previously included.

Other changes include:

- Clarifying that the subtraction from the Arizona tax base for dividend income received from foreign corporations applies to net controlled foreign corporation tested income (NCTI), as defined by the One Big Beautiful Bill Act (OBBBA), rather than global intangible low-taxed income (GILTI) (applies retroactively to tax years beginning from and after 31 December 2024)
- Precluding eligible corporations from obtaining refunds for unused credits for increased research activities (effective for tax years beginning from and after 31 December 2025)

Arkansas — On 6 May 2026, Arkansas enacted legislation reducing the highest corporate income tax rate to 4.1% from 4.3%. The rate applies to corporations with net income exceeding $11,000 and is effective for tax years beginning on or after 1 January 2027.

California* — On 29 June 2026, California enacted legislation that extends its temporary $5 million limitation on business tax credits through 2029. Beginning in 2030, the new law also permanently limits the use of such credits to the greater of $5 million per company per year or 70% of a corporation's tax liability. See **Tax Alert 2026-1375,** dated 25 June 2026, and **Tax Alert 2026-1414**, dated 6 July 2026.

Colorado — On 3 June 2026, Colorado enacted legislation making worldwide combined reporting the default filing methodology for tax years beginning on or after 1 January 2027. Companies can make a water's-edge election, which is binding for 10 years, on their timely filed original return. For electing taxpayers, the water's-edge group consists of all domestic members of the affiliated group, including:

- Domestic 80/20 corporations
- Foreign corporations with at least 20% of their property and payroll in the US
- Domestic international sales corporations
- Export trade corporations
- Corporations incorporated in tax-haven jurisdictions

The water's-edge return includes income (and related apportionment factors) effectively connected with a US trade or business of otherwise excluded members. The water's-edge return also includes the income (and related apportionment factors) of an affiliated entity that is resident of a country that does not have a treaty with the US and earns more than 20% of its net income from payments for services and intangibles that are deductible from the income of the water's-edge group members.

The new law also:

- Allows companies to eliminate dividends, subpart F income and NCTI between members of the combined group from their Colorado tax base
- Removes Liechtenstein from Colorado's list of tax havens and requires the Department of Revenue to periodically evaluate whether each of the listed jurisdictions should remain on the list
- Repeals the deduction for wages and salary expenses that are not deductible for federal income purposes under IRC Section 280C
- Requires companies to include in their state tax base any capital gain or appreciation that is otherwise excluded from federal gross income and related to an opportunity fund (except for gain or appreciation from a Colorado Qualified Opportunity Fund)

The changes are effective 1 January 2027. For a discussion of the legislation after its approval in the legislature, see **Tax Alert 2026-1129**, dated 26 May 2026.

Connecticut — On 26 May 2026, Connecticut enacted legislation decoupling from the following federal tax provisions as modified by the OBBBA:

- IRC Section 174A on domestic research and experimentation (R&E) expenditures (for years beginning on or after 1 January 2025 and before 1 January 2026)
- The transition elections under Section 70302(f) of the OBBBA
- IRC Section 168(n) on a special depreciation allowance for qualified production property (for years beginning on or after 1 January 2026)

Connecticut adopts IRC Section 174 as that provision existed on 3 July 2025 for R&E expenditures paid or incurred on or after 1 January 2022 and before 1 January 2026.

Florida* — On 11 June 2026, Florida updated its date of conformity to the IRC to 1 January 2026 from 1 January 2025, while decoupling from the following provisions as amended by the OBBBA:

- IRC Section 163(j) on the limitation on deductions of business interest expense
- IRC Section 168(k) on a special depreciation allowance for qualified property and qualified improvement property (QIP)
- IRC Section 174 on amortization of foreign R&E expenditures
- IRC Section 179, which allows immediate expensing of certain business property
- IRC Section 274, which disallows certain deductions for meals, entertainment and other expenses that would otherwise be allowable under IRC Section 162

The new law conforms to these provisions as they existed on 1 January 2025. The new law also decouples from IRC Sections 168(n) (special depreciation allowance for qualified production property) and 174A (domestic R&E expenditures). The changes are retroactively effective to 1 January 2026.

Georgia — On 11 May 2026, Georgia enacted legislation reducing the corporate income tax rates to 4.99% from 5.19%, effective for tax years beginning on or after 1 January 2026. Starting in 2027, the rate will decrease by 0.125% annually until it reaches 3.99%. The annual rate reduction will be delayed by one year for each year that certain conditions are met.

The new law also repeals various corporate tax credits, including tax credits for:

- Manufacturers of personal protective equipment
- Manufacturers of medical equipment and supplies, pharmaceuticals and medicine
- Alternative fuel, low-emission and zero-emission vehicles and electric vehicle chargers
- Businesses headquartered in the state that create new full-time jobs
- Businesses engaged in manufacturing cigarettes for exportation

The repeal is effective for tax years beginning on or after 1 January 2026.

Hawaii — On 21 May 2026, Hawaii enacted legislation limiting availability of the income tax credit for renewable energy technologies to tax years beginning before 1 January 2030. The legislation also repeals various income tax credits, including:

- The tax credit for renewable fuels production (repealed for tax years beginning after 31 December 2028)
- The tax credit for technology infrastructure renovation (repealed on 1 January 2028)
- The business investment tax credit for high technology (repealed on 1 January 2029)
- The tax credit for research activities (repealed on 1 January 2029)

On 26 May 2026, Hawaii enacted legislation updating its date of conformity to the IRC to 31 December 2025 (from 31 December 2024), effective for all tax years beginning after 31 December 2025. Hawaii law decouples from federal tax provisions as modified by the OBBBA, including:

- IRC Section 174A on domestic R&E expenditures
- IRC Section 174 on amortization of foreign R&E expenditures (provision adopted as it existed on 31 December 2024)
- IRC Section 168(n) on a special depreciation allowance for qualified production property

The changes are effective upon enactment and apply to tax years beginning after 31 December 2025.

Illinois* —On 16 June 2026, Illinois enacted legislation that gradually increases the cap on its net loss deduction (NLD). As modified, the NLD cap is the greater of $500,000 or:

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

See **Tax Alert 2026-1374**, dated 25 June 2026.

Iowa — On 15 May 2026, Iowa enacted legislation allowing companies to subtract NCTI from their state income tax base. Specifically, the law change removes the reference to GILTI. The change applies to income included under IRC Section 951A and applies retroactively to tax years beginning on or after 1 January 2026.

Kansas — On 27 April 2026, Kansas repealed statutory references to GILTI in state adjustments for income under IRC Section 951A. Taxpayers must subtract 100% of income under IRC Section 951A from their state tax base before claiming a deduction under IRC Section 250(a)(1)(B). The changes apply to tax years beginning on or after 1 January 2027.

Kentucky — On 14 April 2026, Kentucky enacted legislation updating its date of conformity to the IRC to 31 December 2025 from 31 December 2024. The new law aligns Kentucky with the tax changes in the OBBBA, except for decoupling from the following federal tax provisions as modified by the OBBBA:

- IRC Section 174A on domestic R&E expenditures
- IRC Section 181 on the deduction for qualified film, television, live theatrical and sound recording productions
- IRC Section 163(j) on the limitation on deductions of business interest expense

The legislation also delays the deferred tax deduction for certain combined taxpayers (i.e., publicly traded companies and certain affiliates) by another two years to tax years beginning on or after 1 January 2028. See **Tax Alert 2026-0815**, dated 7 April 2026.

Subsequently, on 27 April 2026, the state enacted legislation clarifying that taxpayers may subtract domestic R&E expenditures under IRC Section 174, as it existed on 31 December 2024, from their Kentucky tax base.

Maine — On 10 April 2026, Maine enacted legislation updating its date of conformity to the IRC to 31 December 2025 from 31 December 2024. The new law aligns Maine with the tax changes in the OBBBA, except for decoupling from the following federal tax provisions as modified by the OBBBA:

- IRC Section 174A on domestic R&E expenditures (by phasing-in conformity over multiple years)
- IRC Section 168(k) on a special depreciation allowance for qualified property and QIP
- IRC Section 168(n) on a special depreciation allowance for qualified production property
- IRC Section 1400Z opportunity zones (requires taxpayers to add back gain excluded from federal gross income under IRC Section 1400Z-2(a) from investments in qualified opportunity zones after 31 December 2026)

The new law also updates the state statutory references to IRC Section 951A inclusions by changing the reference to GILTI to NCTI.

Maryland — On 8 April 2026, Maryland enacted legislation decoupling from the special depreciation allowance for qualified production property under IRC Section 168(n). The new law also modifies the special depreciation allowance for qualified property and QIP under IRC Section 168(k) for manufacturers by limiting the additional allowance under IRC Section 168(k) to 20% of the adjusted basis of the qualified property, along with corresponding adjustments to the state tax base. These changes apply to all tax years beginning after 31 December 2025.

Massachusetts* — On 12 June 2026, Massachusetts enacted legislation decoupling from changes made by the OBBBA to the following federal tax provisions, beginning in 2025 and 2026:

- IRC Section 163(j) on the limitation on business interest expense
- IRC Section 168(n) on a special depreciation allowance for qualified production property
- IRC Section 174A on domestic R&E expenditures
- IRC Section 179 on the increased dollar limitation for expensing certain depreciable business assets

The new law allows a deduction for any R&E expenditures allowed under IRC Section 174 as in effect on 3 July 2025. For tax years beginning in 2025 or 2026, corporations may also apply IRC Section 1400Z-2 as in effect for tax years beginning before 1 January 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 1 January 2026.

The new law also revises Massachusetts law to automatically decouple from federal tax changes that affect the determination of the Massachusetts tax base. This change applies to tax years beginning on or after 1 January 2026. See **Tax Alert 2026-1331**, dated 19 June 2026.

Minnesota — On 27 May 2026, Minnesota enacted legislation updating its date of conformity to the IRC to 1 May 2026. The new law aligns Minnesota to the tax changes contained in the OBBBA, except for decoupling from the following federal tax provisions as modified by the OBBBA:

- 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 31 December 2024)
- The transition elections under Section 70302(f) of the OBBBA (requiring adjustments to the state tax base delaying the timing of deduction)

The new law also introduces a Minnesota-specific calculation for NCTI, treating that income as dividend income subject to the state's 50% dividend received deduction and effectively allowing investments in qualified business assets to be subtracted from the state tax base. The new law also requires Minnesota NCTI and subpart F income to be determined without regard to the OBBBA's permanent extension of the look-through rule.

Beginning with tax year 2027, the new law requires corporations to add deferred capital gains from opportunity zones to their state tax base. To avoid double taxation, a corporation may subtract the gains from their state tax base in the year they recognize the gain for federal income tax purposes. See **Tax Alert 2026-1193**, dated 4 June 2026.

Nebraska — On 16 April 2026, Nebraska enacted legislation narrowing the definition of a "foreign adversarial company" to mean a company that:

- Is organized under the laws of a foreign adversary
- Has its principal place of business within a foreign adversary
- Is owned in whole or in part, operated, or controlled, directly or indirectly, by the government of a foreign adversary

  or

- Is a direct or indirect subsidiary of any company previously described

The new law also precludes companies that are not foreign adversarial companies from using Nebraska incentives against the income taxes of unitary group members that are foreign adversarial companies. The tax liability attributable to group members that are foreign adversarial companies is determined using the apportionment formula used to determine the tax due. See **Tax Alert 2026-0959**, dated 30 April 2026.

New Jersey* — On 30 June 2026, New Jersey enacted legislation temporarily capping its deduction for net operating losses at $1 million. The cap applies to tax years ending on or after 31 July 2026 and before 31 July 2030.

New York — On 28 May 2026, New York enacted legislation modifying state business taxes. The new law retroactively decouples from the following federal tax provisions as modified by the OBBBA:

- IRC Sections 174 and 174A on R&E expenditures for state business taxes
- IRC Section 168(n) on a special depreciation allowance for qualified production property

The new law extends the current top corporate tax rate of 7.25% through tax years beginning before 1 January 2030 (previously through tax years beginning before 1 January 2027) for corporations with business income over $5 million. The current 0.1875% capital base rate is also extended for three years, through tax years beginning before 1 January 2030 (previously through tax years beginning before 1 January 2027). See Tax Alert 2026-1238, dated 9 June 2026.

Oregon — On 9 April 2026, Oregon enacted legislation updating its date of conformity to the IRC to 31 December 2025 from 31 December 2023, effective for tax years beginning on or after 1 January 2026.

The new law also requires adjustments when applying the IRC Section 168(k) special depreciation allowance for qualified property and QIP as amended and in effect on 1 December 2017. This change applies to property placed in service in tax years beginning on or after 1 January 2026.

Rhode Island* — On 12 June 2026, Rhode Island enacted legislation decoupling from changes made by the OBBBA to the following federal tax provisions:

- IRC Section 174A on domestic R&E expenditures

The new law requires an addition to the Rhode Island tax base for any depreciation, amortization or depletion included in the calculation under IRC Section 163(j)(8)(A)(V). The change applies for tax years beginning on or before 1 January 2027.

Vermont* — On 18 June 2026, Vermont enacted legislation updating the date of its IRC conformity to 31 December 2025 from 31 December 2024, while decoupling from the following provisions as amended by the OBBBA:

- IRC Section 168(k) on a special depreciation allowance for qualified property and QIP
- IRC Section 168(n) on a special depreciation allowance for qualified production property

- IRC Section 174A on domestic R&E expenditures
- IRC Section 174 on amortization of foreign R&E expenditures
- IRC Section 250, which allows a deduction for NCTI and foreign-derived deduction-eligible income

Corporations claiming federal bonus deprecation may claim depreciation for Vermont tax purposes, but the depreciation will equal the deduction that would be allowed if the corporation had elected under IRC Section 168(k)(7) or 168(n)(6) not to claim bonus depreciation on that property. An additional deduction may be claimed in the tax year that the property is sold or otherwise disposed.

The extent to which corporations may deduct R&E expenditures for state purposes depends on whether the company qualifies as an eligible taxpayer and made a federal tax election under Section 70302(f)(1) of the OBBBA. Ineligible taxpayers may only deduct what would be allowed under IRC Section 174 as it applied on 31 December 2024. Eligible taxpayers that made a federal tax election under Section 70302(f)(1) of the OBBBA, may, for state tax purposes, either:

- Elect to deduct, beginning in 2025, any remaining unamortized domestic R&E expenditures paid or incurred after 31 December 2021 and before 1 January 2025

or

- Deduct those expenditures ratably over two tax years starting with the first tax year that begins after 31 December 2024

Other changes include increasing Vermont's research and development (R&D) tax credit. The new credit equals 75% (formerly 27%) of the federal research tax credit available for qualifying R&D expenses incurred in the state.

The IRC conformity update and OBBBA-related changes are retroactively effective on 1 January 2026 and apply to tax years beginning on and after 1 January 2025.

International

Canada — On 18 June 2026, Canada enacted legislation allowing companies to elect accelerated depreciation, in the form of an enhanced first-year deduction, for eligible greenhouses acquired after 3 November 2025 and available for use before 2034. The size of the deduction depends on when the greenhouse becomes available for use. Other changes include modifying the definition of a zero-emission vehicle to preclude Canadian businesses from claiming both accelerated depreciation on zero-emission vehicles and rebates on the same vehicles under the Electric Vehicle Affordability Program. This change is retroactively effective as of 16 February 2026. See **Tax Alert 2026-1330**, dated 19 June 2026.

Finland — On 24 April 2026, Finland enacted legislation with detailed rules for attributing income to a permanent establishment (PE), consistent with guidance from the Organisation for Economic Co-operation and Development (OECD). The changes are effective 1 January 2027. See **Tax Alert 2026-1071**, dated 14 May 2026.

South Africa* — On 1 April 2026, South Africa enacted legislation clarifying the definition of interest for purposes of the limitation on deductions for business interest expense. The legislation also relaxes the rules for determining contributed tax capital to exclude certain legitimate corporate finance transactions. Other changes include:

- Extending South Africa's anti-avoidance rules to third-party-backed shares
- Requiring the transferor in a listed share-for-share reorganization to own less than 20% of the target company for the reorganization to qualify for rollover relief (i.e., a step-up in the shares' basis that results in the deferral of tax on gains on the shares)
- Retroactively extending the Urban Development Zone Tax Incentive through 31 March 2030 from 31 March 2025
- Broadening the definition of equity share to include foreign dividends and foreign returns of capital

- Amending the controlled foreign company (CFC) rules to take into account tax refunds received by shareholders (including intermediate holding company CFCs) when determining whether the CFC qualifies for a comparable tax exemption
- Clarifying the deferral of foreign exchange gains and losses on long-term related party debt
- Taxing dividends on certain hedging instruments
- Clarifying that interest paid on "first loss after capital" instruments issued by designated financial institutions is deductible

In general, the changes are retroactively effective to 1 January 2026.

Legislation effective in the second calendar quarter

International

Japan — For fiscal (not calendar) years beginning on or after 1 April 2026, companies are subject to a 4% special defense surtax on their corporate tax liability. The changes were enacted 31 March 2025.

Treaty changes

Tax treaties are agreements between countries that typically address withholding tax rates or exemptions on dividends, interest and royalties paid in multiple jurisdictions. Exceptions may apply based on the tax treaty (for instance, reduced rates may apply to certain categories of investors, capital gains from immovable property or property-rich companies may be taxable). All of the following tax treaty changes were effective in the second calendar quarter, except where indicated.

Countries involved		Summary of changes
Andorra	United Kingdom	Exempts dividends, interest, royalties and capital gains/chargeable gains from tax (effective as of 1 January 2026, in Andorra; effective as of 1 February 2026 and 1 April 2026 for withholding and capital gains taxes in the United Kingdom, respectively).
Armenia	Hong Kong	Provides general withholding tax rate of 5% on dividends, interest and royalties; exempts capital gains from tax (effective as of 1 January 2026 in Armenia and 1 April 2026 in Hong Kong).
Bahrain	Hong Kong	Provides general 5% withholding tax rate on royalties; exempts dividends, interest and capital gains from tax (effective as of 1 January 2026 in Bahrain and 1 April 2026, in Hong Kong).
India	Qatar	Provides general withholding tax rate of 10% on dividends, interest, royalties and technical services; taxes capital gains from the sale of shares under domestic law, applies an exemption otherwise (effective as of 1 January 2026 in Qatar and 1 April 2026 in India).
Peru	United Kingdom	Provides general withholding tax rates of 10% on dividends and interest;15% on royalties; exempts capital gains/chargeable gains from tax (effective as of 1 January 2027 for withholding taxes and 1 April 2026 for capital gains taxes in the United Kingdom).
Portugal	United Kingdom	Provides general withholding tax rates of 10% on dividends and interest and 5% on royalties; exempts capital gains/chargeable gains from tax (effective as of 1 January 2026 for withholding taxes and 1 April 2026 for capital gains taxes in the United Kingdom).
Romania	United Kingdom	Provides general withholding tax rates of 5% on dividends and 3% on interest and royalties; exempts capital gains from tax.

Other considerations

Court decisions, regulations issued by tax authorities and other events may constitute new information that could trigger a change in judgment in recognition, derecognition or measurement of a tax position. These events also may affect your current or deferred tax accounting.

Federal, state and territories

Federal – In a revenue procedure, the Internal Revenue Service (IRS) reestablished a program allowing taxpayers to request letter rulings on "significant issues" arising in certain corporate transactions under IRC Sections 332, 351, 355, 368 and 1036. The IRS reserves the right to rule on additional issues related to the transaction, including issuing an adverse ruling, if doing so is determined to be in the interest of sound tax administration. See **Tax Alert 2026-1026**, dated 8 May 2026.

Rhode Island – In a permanent regulation, the Department of Revenue, Division of Taxation, addressed modifications to Rhode Island net income due to the state's decoupling from the OBBBA. The regulation was previously adopted on an emergency basis and sunset on 16 April 2026. The permanent regulation is effective from 16 April 2026.

Texas – The Comptroller of Public Accounts amended the state's cost-of-goods-sold regulations 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 that case, the taxable entity must compute those amounts using the 2007 IRC. The amended rule takes effect on 21 June 2026.

Tax amnesties

This table shows tax amnesties that were announced or went into effect in the second calendar quarter of 2026.

Jurisdiction	Amnesty period	Taxes covered	Reference
Indiana	15 July 2026 – 9 September 2026	Corporate income taxes (among others) owed for tax periods beginning before 1 January 2024	See **Tax Alert 2026-1025**, dated 8 May 2026.

International

Canada – The Canada Revenue Agency announced that it has further delayed the date by which Canadian resident corporations must begin withholding tax on reimbursements paid to a foreign company for services performed in Canada by the company's subcontractors. The withholding requirement now applies to reimbursements of subcontractor fees made after 31 March 2027, rather than 30 June 2026. See **Tax Alert 2026-1278**, dated 15 June 2026.

Cyprus – In a circular, the Tax Department identified 11 jurisdictions that are considered low-tax jurisdictions for purposes of (1) applying the 5% withholding tax on dividends paid to associated companies in those jurisdictions and (2) denying deductions for interest and royalties paid to associated companies in those jurisdictions. The list will be updated annually. See **Tax Alert 2026-0878**, dated 16 April 2026.

Denmark – The Supreme Court held that nonresidents could claim a refund of withholding tax paid on dividend and royalty payments. The Court reasoned a five-year statute of limitations applied, rather than the three-year statute of limitations advocated by Danish tax authorities, making the refund claim timely. See **Tax Alert 2026-1259**, dated 11 June 2026.

India – The Delhi Bench of the Income Tax Appellate Tribunal held that a Canadian company providing remote maintenance services for theater systems in India was not subject to Indian corporate income tax. The Tribunal reasoned that the company's remote access to the theater systems and engagement of an Australian vendor to provide in-person maintenance and support in India for 67 days were insufficient to establish either a fixed place PE or a service PE. In support of these conclusions, the Tribunal noted that the Canadian company did not control the theater systems nor conduct any business activity through them, and the presence of the vendor's employee did not exceed the 90-day threshold under the India-Canada income tax treaty. See **Tax Alert 2026-1258**, dated 11 June 2026.

Things we have our eyes on

National, state and local governments continue to seek to increase their revenues. Companies should continue to monitor developments in this area. Some of these potential tax law changes are summarized here.

Federal, state and territories

Federal — A bill introduced by Ways and Means Committee members would allow builders to immediately deduct up to $150,000 per unit in construction costs, rather than depreciating the costs over 27.5 years. The bill would also provide an enhanced deduction of up to $250,000 per unit for projects that include income-restricted units reserved for working families. The Senate version of the bill was previously introduced in March 2026. See **Tax Alert 2026-1126**, dated 22 May 2026.

Ways and Means member Kevin Hern introduced a bill that would allow regulated investment companies to earn income from precious metals without that income jeopardizing their favorable tax status. See **Tax Alert 2026-1168**, dated 1 June 2026.

In newly proposed regulations under IRC Section 892, Treasury and the IRS would revise the applicability dates of proposed IRC Section 892 regulations issued on 15 December 2025 (the 2025 proposed regulations). The updated applicability dates would allow current guidance under IRC Section 892 to remain in effect for foreign governments and sovereign wealth funds. If finalized as proposed, the 2025 proposed regulations could significantly restrict a foreign government's ability to qualify for the IRC Section 892 exemption on investment income from certain common investment structures or transactions. See **Tax Alert 2026-1176**-, dated 2 June 2026.

Alaska — On 20 May 2026, the legislature approved a bill that would amend the state's apportionment rules to move to market-based sourcing. See **Tax Alert 2026-1211**, dated 5 June 2026.

Illinois — The Department of Revenue has proposed amending its regulations to reflect recent statutory changes related to (1) the addition of certain interest and intangible expenses or costs paid to 80/20 affiliates to the state tax base, (2) the ordering rules for limitation on the deduction for interest expense deduction limited under IRC Section 163(j), and (3) the repeal of certain exceptions to the state addback rules.

International

Australia — In an exposure draft, the Treasury proposed numerous changes to Australia's capital gains tax regime for foreign residents, including:

- Broadening the definition of taxable Australian real property to include assets closely connected to land and natural resources, which would subject gains from these assets to capital gains tax (proposed to apply to gains arising on or after 12 December 2006)
- Basing the determination of whether capital gains tax applies to a foreign investor's sale of an indirect Australian real property interest on whether the entity in which the investor owns a 10% or greater interest was land-rich at any time in the 12 months preceding the sale, rather than at the time of the sale
- Taxing only 50% of gains from the disposal of eligible Australian renewable assets, until 30 June 2030

See **Tax Alert 2026-0908**, dated 20 April 2026.

In the 2026-27 federal budget, the government proposed allowing eligible companies to carry tax losses from income years beginning on or after 1 July 2026 back two years. It would also make permanent a first-year deduction of AU$20,000 for eligible businesses under the simplified depreciation rules (i.e., instant asset write-off).

Other proposals would:

- Reform R&D tax incentive by increasing the minimum R&D expenditures needed to qualify for the incentive to AU$50,000 from AU$20,000 and the maximum R&D expenditure to AU$200 million from AU$150 million, among other changes
- Preclude investors in existing rental properties from deducting losses from those properties against their other income (excludes investors in properties already owned at 12 May 2026 or for which contracts have been entered but not settled)

See **Tax Alert 2026-1070**, dated 14 May 2026.

Canada – In the Spring Economic Update, the Minister of Finance and National Revenue provided implementation details on proposed accelerated depreciation rates for eligible liquefied natural gas equipment and related buildings acquired after 3 November 2025 and before 2035. This measure was first proposed in the 2025 federal budget introduced in November 2025. See **Tax Alert 2026-0962**, dated 30 April 2026.

Parliament is also considering legislation that would allow immediate expensing for eligible manufacturing buildings acquired after 3 November 2025 and first used in manufacturing or processing (M&P) before 2030. Eligible manufacturing buildings first used from 2030 through 2033 will be eligible for an accelerated first-year rate of depreciation (similar to M&P machinery and equipment). Other proposals would:

- Narrow the definition of Canadian exploration expenses by excluding expenses related to determining the economic viability or engineering feasibility of a mineral resource, which would apply as of 4 November 2025
- Determine foreign accrual tax, foreign tax credits and various surpluses for a taxpayer with a foreign affiliate that has foreign accrual property income and pays income or profits tax to a foreign jurisdiction under a domestic minimum top-up tax regime, effective as of 31 December 2023
- Amend Canada's global minimum tax rules by implementing the undertaxed profits rule, the side-by-side safe harbor and the ultimate parent entity safe harbor, among other things (various application dates apply)
- Make a technical amendment that would affect reorganizations involving a public corporation (applicable on royal assent of the amending legislation)
- Indefinitely suspend the Canada-Russia income tax treaty as of 18 November 2024

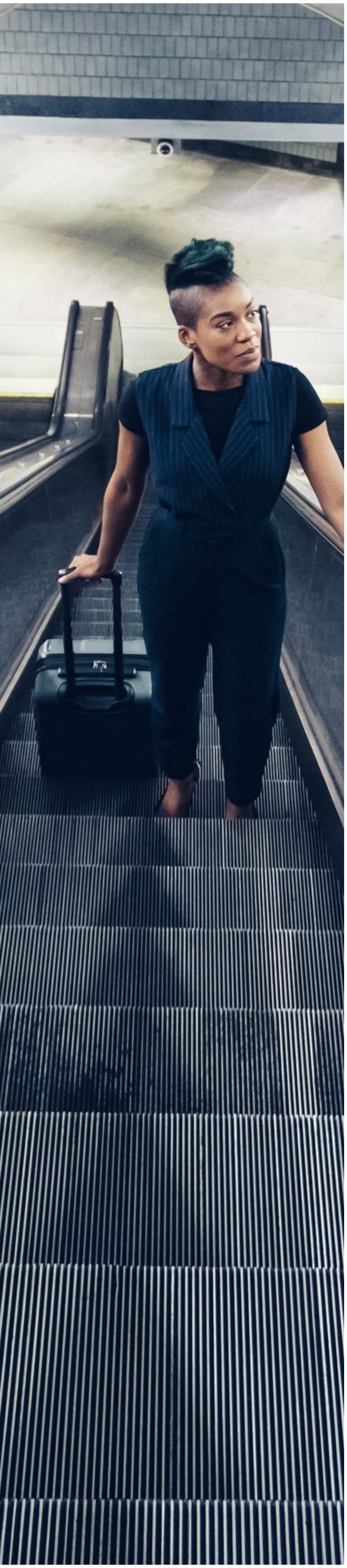
See Tax Alerts **2026-1073**, dated 15 May 2026, and **2026-1130**, dated 26 May 2026.

Chile – In a comprehensive tax reform bill, the government proposed gradually reducing the corporate income tax rate to 23% from 27% by 2029. It also proposed removing the current limits on a shareholder's ability to credit income taxes paid by the Chilean company against taxes owed on dividends paid to the shareholder. This change would particularly benefit foreign investors that are resident in jurisdictions without an income tax treaty with Chile and currently subject to a higher effective tax rate. This change would be implemented gradually and would effectively return Chile to a fully integrated corporate tax system by tax year 2030.

Other proposals include:

- Allowing companies to apply an optional 10% substitute tax to historical accumulated profits (including legacy retained earnings and balances from prior regimes) for a limited period, without triggering additional dividend withholding tax upon distribution of those profits to shareholders
- Replacing the existing tax credit for corporate training expenses with a new employment tax credit based on an employee's total monthly remuneration, which could offset corporate income tax liabilities, among others
- Repealing the 10% capital gains tax on disposals of publicly traded securities
- Creating a new tax stability regime under which the tax liabilities of eligible domestic and foreign investors that invest $50 million or more in Chile (large-scale investments) would remain constant for 25 years upon commencement of the investment project

See **Tax Alert 2026-1004**, dated 6 May 2026.



Colombia — In a press release, the Constitutional Court announced that the temporary tax measures enacted during the 2025 State of Economic and Social Emergency were unconstitutional. The temporary tax measures include:

- An increase in the corporate surtax for financial institutions, insurance companies and reinsurance companies, stockbrokers and similar entities to 15 percentage points from 5 percentage points, increasing their total corporate income tax rate to 50% from 40%
- The inability to deduct royalty payments in 2026 for the use of nonrenewable resources, except in limited circumstances

The Court's official decision is still pending. See **Tax Alert 2026-0895**, dated 17 April 2026.

Curaçao — The government announced that it will implement an income inclusion rule (IIR) but not a qualified domestic minimum top-up tax or an undertaxed profits rule (UTPR). Currently, the IIR is intended to apply to fiscal years beginning on or after 1 January 2025, subject to the parliamentary process and enactment. See **Tax Alert 2026-1104**, dated 20 May 2026.

Kenya — In Finance Bill 2026, the National Treasury Cabinet Secretary proposed broadening the definition of management or professional fee to include interchange fees and merchant service fees on credit card transactions, which would subject them to withholding tax. The Secretary also proposed broadening the definition of royalty to include payments to providers of payment platforms and related services, which would subject them to withholding tax. Other proposals include:

- Reintroducing a 1.5% withholding tax on sales of scrap metal
- Introducing a 30% withholding tax on rental income earned by a nonresident landlord on immoveable property (15% for property other than immoveable property)
- Revising the definition of "immoveable property" to make it easier to tax income from land-based interests separately from income from extractive and petroleum rights
- Permitting non-deposit-taking institutions that are engaged in either lending or leasing (but not both) to fully deduct interest expense
- Aligning the definition of an ultimate parent entity with the definition in the OECD's transfer pricing guidelines
- Introducing a minimum limit on the amount of dividends that tax authorities may deem distributed for income tax purposes
- Repealing the withholding tax exemption for payments made by a national carrier to nonresidents for certain support services not available in Kenya
- Exempting from income tax any capital gains arising from the transfer of property to a real estate investment trust
- Clarifying that companies must claim investment allowances on industrial buildings (i.e., depreciation) at a rate of 10% annually
- Repealing the 15% corporate rate for certain companies constructing residential units, which would increase their tax rate to the standard 30%
- Taxing capital gains from a nonresident's alienation of shares, if certain conditions apply
- Imposing a 15% repatriation tax on income earned in Kenya by a nonresident operating under a mining license or holding a mining license

See **Tax Alert 2026-1063**, dated 13 May 2026.

OECD — In new administrative guidance on the global minimum tax, the OECD/G20 Inclusive Framework clarified that the transitional UTPR safe harbor applies to multinational groups with a 53-week fiscal year ending on or before 3 January 2027. See **Tax Alert 2026-1109**, dated 20 May 2026.

In a public consultation document, the OECD proposed updates to its transfer pricing guidelines on intra-group services to improve clarity on the transfer pricing principles for service arrangements, including by providing examples. See **Tax Alert 2026-1203**, dated 5 June 2026.

Spain — Spain and Brazil have agreed that Brazilian interest on net equity will be treated as interest for purposes of the Spain-Brazil tax treaty. Consequently, Brazilian interest on net equity is subject to tax in Spain, though a 20% tax credit may be applied, which is higher than the 15% withholding tax paid in Brazil. See **Tax Alert 2026-1062**, dated 13 May 2026.

In a draft order, the Minister of Finance proposed removing Gibraltar and Barbados from its list of 24 noncooperative jurisdictions. Inclusion on the list may result in limitations on exemptions or special regimes, restrictions on deductibility and/or the application of specific anti-avoidance rules for companies making payments to businesses in those jurisdictions. See **Tax Alert 2026-1128**, dated 26 May 2026.

United Kingdom — In a policy proposal, the government announced that forthcoming legislation would exclude profits and losses of foreign PEs of UK-resident companies from the UK corporate tax. The change would be effective for tax years beginning after 1 January 2027. For UK resident companies with foreign PEs involved in the extraction or exploration for oil and gas, the change would be effective beginning 1 September 2026. See **Tax Alert 2026-1258**, dated 11 June 2026.

Appendix A

Overview of Pillar Two implementation across the world

Final legislation	
Jurisdiction	**Rules covered**
European Union	QDMTT, IIR, UTPR
Australia	QDMTT, IIR, UTPR
Austria	QDMTT, IIR, UTPR
Bahamas	QDMTT
Bahrain	QDMTT
Barbados	QDMTT
Belgium	QDMTT, IIR, UTPR
Brazil	QDMTT
Bulgaria	QDMTT, IIR, UTPR
Canada	QDMTT, IIR
Croatia	QDMTT, IIR, UTPR
Cyprus*	DMTT, IIR, UTPR
Czech Republic	QDMTT, IIR, UTPR
Denmark	QDMTT, IIR, UTPR
Finland	QDMTT, IIR, UTPR
France	QDMTT, IIR, UTPR
Germany	QDMTT, IIR, UTPR
Gibraltar	QDMTT, IIR
Greece	QDMTT, IIR, UTPR
Guernsey	QDMTT, IIR
Hong Kong	QDMTT, IIR, UTPR
Hungary	QDMTT, IIR, UTPR
Indonesia	QDMTT, IIR, UTPR
Ireland	QDMTT, IIR, UTPR
Isle of Man	QDMTT, IIR
Israel	QDMTT
Italy	QDMTT, IIR, UTPR
Japan	QDMTT, IIR, UTPR
Jersey	DMTT, IIR
Kenya	QDMTT

Final legislation	
Jurisdiction	**Rules covered**
Kuwait	QDMTT
Liechtenstein	QDMTT, IIR, UTPR
Luxembourg	QDMTT, IIR, UTPR
Malaysia	QDMTT, IIR
Mauritius	QDMTT
Montenegro	QDMTT
Netherlands	QDMTT, IIR, UTPR
New Zealand	IIR, UTPR
North Macedonia	QDMTT, IIR, UTPR
Norway	QDMTT, IIR, UTPR
Oman	QDMTT, IIR
Poland	QDMTT, IIR, UTPR
Portugal	QDMTT, IIR, UTPR
Qatar	QDMTT, IIR
Romania	QDMTT, IIR, UTPR
Singapore	QDMTT, IIR
Slovakia	QDMTT
Slovenia	QDMTT, IIR, UTPR
South Africa	QDMTT,IIR
South Korea	IIR, UTPR, QDMTT
Spain	QDMTT, IIR, UTPR
Sweden	QDMTT, IIR, UTPR
Switzerland	QDMTT, IIR
Thailand	QDMTT, IIR, UTPR
Turkey	QDMTT, IIR, UTPR
United Arab Emirates	QDMTT
United Kingdom	QDMTT, IIR, UTPR
Uruguay	QDMTT
Vietnam	QDMTT, IRR
Zimbabwe	DMTT

Draft legislation	
Jurisdiction	**Rules covered**
Cabo Verde	QDMTT
Canada	UTPR
Curaçao	QDMTT, IIR
Iceland	QDMTT, IIR
Lithuania	QDMTT, IIR, UTPR

Indicates new in Q2

Acronyms: IIR (Income Inclusion Rule), UTPR (Undertaxed Profits Rule), DMTT (Domestic Minimum Top-up Tax), QDMTT (Qualified Domestic Minimum Top-up Tax).

* Cyprus has introduced DMTTs that are not anticipated to meet QDMTT status as part of the peer review.

Source: EY BEPS Developments Tracker Base Erosion and Profit Shifting (BEPS) 2.0 | EY – global

Note: *Developments Tracker cut-off date, as of 16 June 2026.*