Accounting for Income Taxes

Quarterly Hot Topics

In this issue:

US Federal

Tax News & Views, published by the Deloitte Tax LLP Tax Policy Group in Washington, DC, provides a compact, reader-friendly perspective on the latest tax developments coming out of Congress affecting businesses and high-wealth individuals.

For updates and perspective on the latest tax developments coming out of Congress, please subscribe to Tax News and Views.

One Big Beautiful Bill Act (OBBBA) – A closer look: Inside the new tax law

Deloitte Tax released a report providing an analysis of key themes and policy objectives in the One Big Beautiful Bill Act. The report contains useful resources to help understand what changes have been made to the tax code.

For additional details, please access the report, A closer look: Inside the new tax law.

Treasury and IRS announce withdrawal of proposed regulations on spin-off transactions and issue Rev. Proc. 2025-30

On September 29, 2025, Treasury and the IRS announced the withdrawal of the following two sets of proposed regulations that were issued in January 2025:

- REG-112261-24 on certain matters relating to section 355 spin-offs, section 351 transactions, and section 368 reorganizations (the "Substantive Proposed Regulations"), and
- REG-116085-23 on multi-year reporting for section 355 spin-off transactions (the "Reporting Proposed Regulations" and, together with the Substantive Proposed Regulations, the "Proposed Regulations").

In addition, on September 29, 2025, the IRS issued Rev. Proc. 2025-30, which supersedes Rev. Proc. 2024-24, and provides procedures for taxpayers requesting private letter rulings from the IRS after September 29, 2025, regarding certain issues relating to section 355 transactions, including representations, information, and analysis that taxpayers requesting these rulings should submit to the IRS. In particular, Rev. Proc. 2025-30 restates the guidance originally provided in Rev. Proc. 2018-53, which provided ruling request guidelines for certain deleveraging transactions undertaken in connection with section 355 transactions (for example, debt-for-debt exchanges). In addition, Rev. Proc. 2025-30 restates certain guidance originally provided in certain representations set forth in Rev. Proc. 2017-52.

For additional details, please refer to the Deloitte tax@hand article dated October 1, 2025.

Treasury, IRS provide guidance for Opportunity Zone investments in rural areas under the One Big Beautiful Bill

The Department of the Treasury and the Internal Revenue Service issued Notice 2025-50 on September 30, 2025, on Qualified Opportunity Zone investments in rural areas as provided for under the One Big Beautiful Bill.

Treasury and IRS issue interim guidance on CAMT

On September 30, 2025, Treasury and the IRS released Notice 2025-46 and Notice 2025-49, providing interim guidance on the application of the corporate alternative minimum tax (CAMT). The notices announce the intent of Treasury and the IRS to partially withdraw existing proposed CAMT regulations (REG-112129-23) and issue revised proposed CAMT regulations similar to the guidance described in the notices. Taxpayers generally may rely on the interim guidance in both notices for taxable years beginning before such revised proposed CAMT regulations are published.

Notice 2025-46 provides interim guidance regarding the application of the CAMT to domestic corporate transactions, financially troubled companies, and tax consolidated groups.

Notice 2025-49 provides interim guidance regarding (i) applicability dates and reliance rules provided in the existing proposed CAMT regulations, and (ii) adjustments to adjusted financial statement income for certain regulated utilities, certain items measured at fair value, shipping companies subject to the tonnage tax regime, certain depreciation deductions that previously gave rise to a net operating loss carryover for regular tax purposes, non-life insurance companies that carry back a net operating loss for regular tax purposes, section 197 amortization with respect to goodwill acquired in certain transactions, and accounting principle change adjustments and restatements of a prior-year applicable financial statement.

For additional details, please refer to the Deloitte tax@hand articles on Notice 2025-46 and Notice 2025-49 dated October 4, 2025.

OBBBA: Critical provisions for employers

On 4 July 2025, US President Trump signed into law an "Act to provide for reconciliation pursuant to title II of H. Con. Res. 14.," which is commonly referred to as the One Big Beautiful Bill Act (OBBBA). The act extends key provisions of the 2017 Tax Cuts and Jobs Act (TCJA) and adds several new and impactful provisions. This article summarizes specific provisions under the act that may affect individuals and employer-sponsored mobility and rewards programs.

For additional details, please refer to the Deloitte tax@hand article dated September 25, 2025.

OBBBA elections and method of accounting changes for sections 174, 174A expenditures

On 28 August 2025, the US Treasury Department and the Internal Revenue Service issued Rev. Proc. 2025-28, which provides procedural guidance for taxpayers implementing changes in their method of accounting for research and experimental (R&E) expenditures to comply with new section 174A introduced under Public Law 119-21, 139 Stat. 72, commonly known as the One Big Beautiful Bill Act (OBBBA), enacted on 4 July 2025.

Rev. Proc. 2025-28 also updates the procedural guidance for making changes to the treatment of R&E expenditures governed by as well as procedures to implement transitional relief provided in the OBBBA, including procedures for small businesses to elect to retroactively apply section 174A, as well as for taxpayers to deduct previously capitalized, unamortized domestic R&E expenditures.

For additional details, please refer to the Deloitte tax@hand article dated September 03, 2025.

Guidance on beginning of construction rules for applicable wind and solar facilities

On 15 August 2025, the Treasury and the IRS released Notice 2025-42 to provide guidance on the beginning of construction (BOC) rules for purposes of determining if solar and wind facilities are subject to the credit termination provisions applicable to Internal Revenue Code (IRC) sections 45Y and 48E. Treasury and the IRS released Notice 2025-42 in direct response to Executive Order 14315, *Ending Market Distorting Subsidies for Unreliable, Foreign-Controlled Energy Sources*, issued on 7 July 2025. Taxpayers must apply the rules set forth in Notice 2025-42 for this purpose for any applicable wind and solar facilities that begin construction on or after 2 September 2025. Prior to 2 September 2025, taxpayers are permitted to follow the BOC rules set forth in section 5 of Notice 2022-61.

For additional details, please refer to the Deloitte tax@hand article dated August 27, 2025.

Treasury and IRS release Notice 2025-45 announcing their intent to issue proposed regulations modifying the "identity of stock ownership" requirement under section 368(a)(1)(F)

On August 19, 2025, Treasury and the IRS released Notice 2025-45 (the "Notice") announcing their intent to issue proposed regulations to clarify that the qualification of a transaction as a reorganization under section 368(a)(1)(F) (an "F reorganization") would not be affected by certain dispositions of stock in either the transferor corporation or the resulting corporation that occur while the F reorganization is being effectuated.

The Notice also announces proposed changes to regulations under sections 897(d) and (e) pertaining to the Foreign Investment in Real Property Tax Act rules for certain inbound F reorganizations by foreign publicly traded corporations.

Interim guidance simplifying application of CAMT to partnerships released (updated)

On 29 July 2025, the Treasury" and the IRS issued Notice 2025-28 announcing the government's intention to partially withdraw certain corporate alternative minimum tax (CAMT) proposed regulations (the "CAMT proposed regulations," published in the Federal Register on 13 September 2024, REG-112129-23, with technical corrections published in the Federal Register on 26 December 2024) with respect to partnerships, and issue, in part, revised proposed regulations similar to the interim guidance in the notice with respect to partnership investments, including with respect to the distributive share adjustment and transactions between partnerships and their partners.

Very generally, the CAMT proposed regulations provide two regulations specific to partnerships: (i) adjustments to adjusted financial statement income (AFSI) for a CAMT entity partner's distributive share of partnership AFSI under Proposed Treasury Regulations (Prop. Treas. Reg.) section 1.56A-5, and (ii) AFSI adjustments resulting from contributions and distributions of property to and from partnerships under Prop. Treas. Reg. section 1.56A-20.

The interim guidance provided in Notice 2025-28, which is divided into nine sections, is generally retroactive and can be applied by taxpayers, including for purposes of filing amended returns or partnership administrative adjustment requests, to any taxable year beginning before the date the forthcoming proposed regulations are published. In addition, taxpayers may rely on the interim guidance in the notice prospectively, if certain requirements are met.

For more background on the CAMT proposed regulations, please refer to the Deloitte tax@hand article dated September 24, 2024.

For additional details, please refer to the Deloitte tax@hand article dated August 8, 2025.

US Multistate

State Tax Matters

State Tax Matters provides a weekly snapshot of multistate tax developments featuring the latest updates, key state tax concepts, and notifications of upcoming public symposiums and forums. To keep you informed, please sign up for Deloitte's State Tax Matters today!

Alabama

DOR Explains Decoupling from IRC §174 R&D Deduction Changes Under TCJA and OBBBA Implications

A recently posted Alabama Department of Revenue (Department) notice explains that effective retroactively for expenditures incurred on or after January 1, 2024, Alabama law [see H.B. 163 (2025) and State Tax Matters, Issue 2025-20, for details on the underlying Alabama statutory changes enacted earlier this year] decouples from certain Internal Revenue Code (IRC) section 174 provisions regarding the deduction of research and experimental (R&D) expenses as modified under the federal Tax Cuts and Jobs Act (TCJA) by providing an option to either currently deduct all R&D expenditures or treat the expenses in the same manner as IRC section 174 before the TCJA amendments took effect in tax year 2022. The notice explains that to claim a deduction on the Alabama return for the R&D expenditures made on or after January 1, 2024, the full amount of the R&D expenses can be taken as a deduction on the Alabama return, and the annual amount amortized and deducted on the federal income tax return must be added back to taxable income for Alabama purposes for each year until the remaining amount is fully amortized.

For additional details, please refer to the September 19, 2025 edition of State Tax Matters.

California

FTB Adopts Market-Based Sourcing Rule Changes that Apply to TYs Beginning on or after January 1, 2026

The California Franchise Tax Board (FTB) adopted amendments to its market-based sourcing regulation for sales other than sales of tangible personal property under California Code of Regulations, Title 18 (CCR) section 25136-2. These formally adopted rule changes follow six Interested Parties Meetings (IPMs) held by the FTB during 2017 through 2021 that addressed draft changes to CCR section 25136-2, as well as subsequent iterations of proposed modified text [see State Tax Matters, 2025-20, State Tax Matters, Issue 2025-1, and Multistate Tax Alert (September 24, 2024) for details on earlier versions of the proposed modified text]. The newly amended version of the market-based sourcing regulation was approved by the California Office of Administrative Law and filed with the California Secretary of State on August 27, 2025; takes effect on October 1, 2025; and applies to taxable years beginning on or after January 1, 2026.

For additional details, please refer to the September 12, 2025 edition of State Tax Matters.

Connecticut

Comptroller releases report on state impact of federal One Big Beautiful Bill Act

Comptroller Sean Scanlon Releases Special Examination On One Big Beautiful Bill Act, Off. of the State Comptroller (7/22/25); Special Examination on H.R.1: One Big Beautiful Bill Act, Off. of the State Comptroller (7/25). Responding to an influx of questions about the Connecticut budgetary and economic impact of the recently enacted federal One Big Beautiful Bill Act (commonly referenced as "OBBBA" and more formally as P.L. 119-21), the Connecticut Comptroller issued a report that attempts to address such questions in a "neutral manner," as well as identify issues that may require further study and consideration. The report discusses critical parts of the OBBBA and its implications for Connecticut residents, businesses, and state government.

For additional details, please refer to the August 1, 2025 edition of State Tax Matters.

District of Columbia

Legislation Postpones Net Deferred Tax Liability Deduction Related to Combined Reporting Shift

District of Columbia (District) Mayor Muriel Bowser signed the "Fiscal Year 2026 Budget Support Act of 2025," which is subject to a 60-day congressional review period before taking effect and includes provisions that amend the deduction afforded to unitary combined reporting groups where the unitary combined reporting regime applicable to tax years after December 31, 2010, resulted in an increase to the unitary combined group's net deferred tax liability. Originally, the District had allowed a deduction of the net increase in the taxable temporary difference to be taken equally over a seven-year period (1/7th) commencing with the fifth year of the combined filing (i.e., tax year 2015); however, the District subsequently postponed this deduction to the tenth year of the combined filing under the "Fiscal Year 2017 Budget Support Act of 2016, A21-0488" (i.e., to tax year 2020), and then again to the fifteenth year of the combined filing under the "Fiscal Year 2021 Budget Support Act of 2020" (i.e., to tax year 2025). Under this recently signed legislation, the deduction is postponed further to the "first 7 tax years beginning after December 31, 2029.

For additional details, please refer to the September 12, 2025 edition of State Tax Matters.

Illinois

DOR grants taxpayer's request to change from one permitted apportionment methodology to another

In a private letter ruling involving a company applying for permission to change its apportionment computation method for reinsurance premiums pursuant to an Illinois administrative rule allowing requests in these instances to change from one permitted apportionment method to another, the Illinois Department of Revenue (Department) granted the company's request based on the provided facts. In doing so, the Department agreed that the company may switch from a "look-through" sourcing method that attributes revenue to the policyholder locations of the ceding insurance company to the method that sources revenue to the actual customer location, which in this case, is the ceding insurance company's domicile. Under the facts, the ceding insurance company is the company's actual customer base, and the company has no interaction with or contractual responsibility to the ceding insurance company's policyholders. The company claimed that the revised apportionment method would more accurately reflect the economic reality of its business operations, as well as simplify the filing of its Illinois combined corporate income and replacement tax return.

For additional details, please refer to the August 15, 2025 edition of State Tax Matters.

Upcoming tax amnesty program offers potential 100% interest and penalty waiver

Newly posted Illinois Department of Revenue (Department) guidance addresses its upcoming tax amnesty program and, pursuant to recently enacted legislation [see H.B. 2755 (Public Act 104-0006), signed by gov. 6/16/25, states that it will run from October 1, 2025, through November 17, 2025, and apply to most Illinois taxes (e.g., state corporate and personal income taxes, and sales and use taxes). In exchange for participating in this program, qualifying tax amnesty applicants potentially may receive a waiver of all related penalties and interest. According to the Department, a tax liability that is eligible under this amnesty program is a liability that was not reported or paid for tax periods ending after June 30, 2018, and prior to July 1, 2024, and the tax liability and accompanying return must be paid and filed during the amnesty program period to qualify for penalty and interest waiver. The Department also states that an "informational bulletin and additional instructions are under development and will be posted soon."

For additional details, please refer to the July 25, 2025 edition of State Tax Matters.

Indiana

Combined Filer's NOL Carryforwards are Subject to Limitations and Cannot Include Foreign Source Dividends

An Indiana Department of Revenue (Department) corporate income tax letter of findings involving a multinational conglomerate conducting business both within and outside of Indiana and filing a state combined return held that the taxpayer could not carry forward certain previously earned net operating losses (NOLs) to the tax years at issue because they were either:

- subject to Indiana's fifteen-year carryforward limitation and thus no longer utilizable, or
- depleted as the taxpayer had erroneously included foreign source dividend (FSD) deductions in its NOL carryover calculation.

In doing so, the Department clarified that FSD deductions must be excluded from and cannot be used to increase or decrease a taxpayer's Indiana NOLs under state law.

For additional details, please refer to the September 26, 2025 edition of State Tax Matters.

Financial institution tax ruling says removal of entities from combined return is appropriate

An Indiana Department of Revenue (Department) financial institution tax (FIT) letter of findings involving an out-of-state bank holding company receiving dividends from its subsidiaries held that the Department's removal of some entities from the company's Indiana combined filing group, as well as the resulting FIT assessment, was appropriate because merely "receiving dividends as a holding company does not constitute transacting business in Indiana" under state law. Moreover, the Department held that the taxpayer failed to provide sufficient documentation to show other intercompany transactions between the bank holding company and various affiliates. According to the ruling, "while the taxpayer is part of the unitary group, because it does not transact business in the state of Indiana, it is not a unitary business." Under the taxpayer's submitted facts, the bank holding company "is not a traditional bank, but rather it provides financial services to institutions, corporations, and individual investors," and earns much of its income from fee revenue from custody services, net interest income, and clearing services.

For additional details, please refer to the August 8, 2025 edition of State Tax Matters.

Minnesota

State High Court Affirms Sourcing of Services Under Cascading Rules is Not Limited to Direct Customers

In a market-based sourcing case involving a pharmacy benefit management company and its affiliates that filed a Minnesota combined corporate franchise tax return for the tax year at issue where the company, pursuant to an agreement, provided its health insurance affiliate with a wide range of services—including the administration of retail, mail order, and specialty drug pharmacy benefits for eligible members, as well as point-of-care, physician office communications, cost containment services, and other services it developed and implemented—the Minnesota Supreme Court (Court) affirmed [see Case No. 9570-R, Minn. Tax Ct. (11/21/24), and State Tax Matters, Issue 2024-49, for details on the 2024 Minnesota Tax Court ruling in this case] that certain receipts from such services must be sourced to Minnesota based on the in-state location of the insurance affiliate's plan members rather than sourced together entirely out-of-state (in this case, entirely to Wisconsin) to its affiliate as a "direct recipient" of the services. In doing so, the Court concluded that the meaning of "received" under Minn. Stat. section 290.191, subdivision 5(j), is not limited to receipt by a taxpayer's direct customer. The Court also explained that because the parties in this case had agreed that the service receipts at issue must be sourced together, the taxpayer needed to prove that all of the services were received outside of Minnesota to be entitled to summary judgment. Because the undisputed facts showed that the services were received by both plan members in Minnesota and its affiliate in Wisconsin, the Court reasoned that the Minnesota Tax Court did not err when it concluded that the taxpayer failed to sufficiently show the affiliate's services were received entirely outside of Minnesota.

For additional details, please refer to the September 26, 2025 edition of State Tax Matters.

State high court affirms taxpayer must use alternative apportionment to account for foreign currency hedging

In a case involving a multinational company that managed its foreign currency exchange exposure by buying and selling forward exchange contracts (FECs), the Minnesota Supreme Court (Court) affirmed a 2024 Minnesota Tax Court decision [see Case No. 9485-R, Minn. Tax Ct. (6/24/24) and State Tax Matters, Issue 2024-26, for details on the Minnesota Tax Court's 2024 ruling in this case], which held that use of the Minnesota Department of Revenue's (Department) alternative apportionment method – that is, excluding FEC gross receipts from the apportionment factor but including net income from FEC transactions—was appropriate for the state corporate franchise tax years at issue. In doing so, the Court concluded that the Minnesota Tax Court did not commit legal or factual error in determining that the Department had met its statutory burden in demonstrating that the general apportionment method under Minn. Stat. section 290.191 did not fairly represent the taxpayer's in-state business activities, and that under Minn. Stat. section 290.20, the Department's alternative apportionment formula did. In its 2024 ruling, the Minnesota Tax Court had noted that while the FEC transactions at issue constituted an ordinary business activity for the taxpayer, they only played a supportive risk management function—which was "distinct from its other business practices." Moreover, the Minnesota Tax Court had reasoned that including FEC gross receipts in the taxpayer's Minnesota apportionment factor substantially distorted its income arising from taxable business activities in Minnesota.

For additional details, please refer to the August 29, 2025 edition of State Tax Matters.

Missouri

DOR Explains new law eliminating tax on capital gains for individuals and potentially corporations

The Missouri Department of Revenue (Department) reminds taxpayers of recently enacted legislation [see H.B. 594 (2025) and State Tax Matters, Issue 2025-27, for more details on this legislation] that eliminates Missouri income tax on capital gains for individuals and "provides a path for corporations in Missouri" for the same once certain revenue triggers are met—making Missouri "the first state in the nation to completely exempt such tax for individual filers." According to the Department, "corporations can deduct 100% of capital gains from their federal taxable income when the top individual income tax rate in Missouri falls to 4.5% or lower," and this "corporate subtraction will take effect in the tax year following the year in which this rate reduction occurs." The Department also explains that because Missouri's top individual income tax rate is 4.7% for tax year 2025, "corporations will not be eligible for the deduction in tax year 2025." Under Missouri law, the top individual income tax rate potentially may be reduced in future tax years if certain prescribed revenue triggers are met.

For additional details, please refer to the August 29, 2025 edition of State Tax Matters.

New Jersey

Trade Association Challenges Validity of New CBT Rule Provisions on P.L. 86-272 and Internet Activity

An industry trade association representing remote sellers has filed a suit seeking declaration that provisions within New Jersey's recently adopted state corporation business tax (CBT) rules incorporating certain parts of the Multistate Tax Commission's updated P.L. 86-272 guidelines, including those involving "internet activities" [see State Tax Matters, Issue 2025-24, for more details about the newly adopted CBT rules], are invalid in violation of the federal law (P.L. 86-272) "as applied to remote retailers and other affected businesses with no property or payroll in New Jersey and that do not engage, themselves or through others, in activities in New Jersey.

For additional details, please refer to the September 19, 2025 edition of State Tax Matters.

New York

Tax appeals tribunal affirms that federal ITFA preempts taxation of receipts from certain telecom services

In a case involving a telecommunications company and its New York transportation and transmission corporate franchise tax liability under Tax Law § 184 for the prior audit years at issue (i.e., 2008 through 2011), the New York Tax Appeals Tribunal affirmed [see Determination DTA No. 829240, N.Y. Div. of Tax App., ALJ Div. (5/4/23), and State Tax Matters, Issue 2023-19, for more details on the administrative law judge ruling in this case] that the taxpayer's receipts from certain services constituted receipts from internet access services within the meaning and intent of the federal Internet Tax Freedom Act (ITFA) and, as such, were preempted from taxation. Among its rejected arguments to the contrary, the New York Division of Taxation claimed an exemption from the ITFA's moratorium on state taxation during the tax years at issue pursuant to a grandfathering provision as applied to the company's telecommunications services.

For additional details, please refer to the August 1, 2025 edition of State Tax Matters.

Oregon

Tax court says receipts from hedging transactions must be excluded from sales factor

In an unpublished order of the Oregon Tax Court's Regular Division (Court), the presiding judge concluded that for the prior Oregon corporate excise tax years at issue (i.e., 2011 through 2013), an oil and gas company must exclude receipts from certain hedging transactions (e.g., the sale and exchange of futures, options, and swap contracts) from its sales factor in determining Oregon's apportionable share of its income. In doing so, the Court explained that the hedging receipts at issue constituted sales of intangible property rather than tangible personal property and thus must be excluded from its sales factor unless the hedging receipts were derived from the company's primary business activity. The Court concluded that because the hedging receipts were separately identified under applicable federal income tax accounting provisions, they were not "derived from" the company's primary business activity of selling tangible commodities so as to be includable in the sales factor—"notwithstanding the strong business and practical connections between the two types of receipts."

For additional details, please refer to the August 8, 2025 edition of State Tax Matters.

Pennsylvania

BFR must consider whether federal audit triggers duty to report changes if No Line 28 impact

In a case involving a California corporation subject to Pennsylvania corporate net income tax (CNIT) that filed a CNIT refund claim using Pennsylvania's form "RCT-128C" for reporting changes based on the results of a federal income tax audit, the Pennsylvania Commonwealth Court (Court) vacated an earlier Pennsylvania Board of Finance and Revenue (BFR) opinion that had denied the claim because the refund petition was not filed within three years of actual payment of the tax. In doing so, the Court has asked the BFR to consider the appropriate definition of "taxable income" as used under Pennsylvania statutes for determining whether the company had a duty to file a report of federal income tax change and thereby trigger the Pennsylvania Department of Revenue's statutory duty to adjust the company's records to conform to the revised tax. Under the facts, the company argues that while its "Line 28" federal taxable income amount was not impacted by the underlying federal income tax audit (apparently, only its "Line 30" federal taxable income amount was affected), it nevertheless triggered state law that permits a taxpayer to file a Pennsylvania report of federal changes within six months of a federal audit.

For additional details, please refer to the August 22, 2025 edition of State Tax Matters.

Philadelphia DOR clarifies policy for taxpayers impacted by repeal of $100K BIRT exclusion

Pursuant to a recently enacted ordinance ending the City of Philadelphia, Pennsylvania's (City) business income and receipts tax (BIRT) exclusion on the first $100,000 in taxable receipts beginning for tax year 2025 (i.e., for returns due and taxes owed in 2026 and thereafter) [see Bill No. 250199, signed by mayor 6/13/25, and State Tax Matters, Issue 2025-24, for more details on these recently enacted law changes], a press release explains the City Department of Revenue's announced policy supporting businesses that will be required to file and pay the City's BIRT for the first time for tax year 2025. According to this policy, businesses that were not required to file or pay the BIRT in the past three years because their City sales fell below $100,000, generally will be treated as "new businesses." Treatment as a new business means "these businesses will not need to make an estimated payment when they file their first BIRT return in 2026—they will only pay taxes on their 2025 activity." Moreover, when these businesses file in 2027, "they will have the option to pay their second-year estimate in quarterly installments instead of paying the estimate in full on April 15." The release also explains that the City eliminated the $100,000 BIRT exemption "in response to a legal challenge."

For additional details, please refer to the August 15, 2025 edition of State Tax Matters.

Rhode Island

DOR Addresses Decoupling from IRC §174 R&D Deduction Changes Under OBBBA

The Rhode Island Department of Revenue (Department) issued guidance on the Rhode Island tax treatment of domestic research and experimental (R&D) expenditures in light of the federal One Big Beautiful Bill Act (now commonly referenced as "OBBBA" and more formally as P.L. 119-21), "from which Rhode Island decoupled in its Fiscal Year 2026 Budget" [see H.B. 5076 (2025) and State Tax Matters, Issue 2025-27, for additional details on this Rhode Island legislation]. In doing so, the Department notes that:

"For Tax Year 2025, all filers will be eligible to elect to amortize research and experimental expenditures at the federal level. Rhode Island decoupled from this tax treatment for this tax year. If a taxpayer does not amortize on the federal filing, the taxpayer will be required to amortize the expenditures on the Rhode Island return."

The guidance also indicates that the Department will issue further guidance on other provisions pertaining to the OBBBA "later this month," and that this particular guidance on the amortization of domestic R&D expenditures was expedited due to the potential retroactive implications on tax years 2022, 2023, and 2024 for some taxpayers. The guidance explains that in addition to the OBBBA allowing all businesses to accelerate expensing of these domestic R&D expenditures starting with tax year 2025, the federal law also permits certain small businesses to retroactively accelerate expensing of domestic R&D expenditures for tax years 2022, 2023, and 2024.

For additional details, please refer to the September 19, 2025 edition of State Tax Matters.

New law expressly decouples from federal One Big Beautiful Bill Act in computing corporate and individual income taxes

H.B. 5076, enacted without governor signature 6/29/25. Applicable retroactively for taxable years beginning on or before January 1, 2025, new law expressly provides that in computing "net income" for Rhode Island corporate income tax purposes, taxpayers must add back "the amount of any income, deduction or allowance that would be subject to federal income tax but for the Congressional enactment of the One Big Beautiful Bill Act or any other similar Congressional enactment." The legislation also provides that the enactment of the federal One Big Beautiful Bill Act (now commonly referenced as "OBBBA" and more formally as P.L. 119-21) and any Internal Revenue Service changes to forms, regulations, and/or processing "which go into effect during the current tax year or within six (6) months of the beginning of the next tax year shall be deemed grounds for the promulgation of emergency rules and regulations" to effectuate the purpose of "preserving the Rhode Island tax base under Rhode Island law" with respect to the OBBBA.

For additional details, please refer to the July 18, 2025 edition of State Tax Matters.

Texas

Comptroller memo addresses treatment of sales-type leases in determining franchise tax rate and COGS deduction

Tex. Comptroller of Public Accounts (7/31/25). Referencing a 2021 Texas Court of Appeals case holding that a company engaged in selling business equipment through "sales-type leases" (i) qualified for the reduced retail/wholesale Texas franchise tax rate, and (ii) may include costs related to such leases in its cost of goods sold (COGS) deduction [see Case No. 14-19-00358-CV, Tex. Ct. App. (8/31/21) and State Tax Matters, Issue 2021-35, for more details on the 2021 ruling], a recent Texas Comptroller of Public Accounts memorandum provides guidance on the treatment of sales-type leases to determine the applicable Texas franchise tax rate and expenses eligible for the COGS deduction.

For additional details, please refer to the August 8, 2025 edition of State Tax Matters.

Retail store's rehandling and mixed service costs deemed ineligible for COGS

The Texas Comptroller of Public Accounts adopted a proposal for decision issued by a Texas administrative law judge (ALJ) with the State Office of Administrative Hearings, affirming that various rehandling costs described by a store retailer (e.g., "go-backs," sales floor organizing, scanning for markdowns, and managing sales floor recovery and markdowns) are ineligible for the cost of goods sold deduction (COGS) for purposes of the Texas franchise tax margin calculation.

For additional details, please refer to the July 25, 2025 edition of State Tax Matters.

Global Pillar Two Legislative Update Tracker

To see how Deloitte can provide you with support on Pillar Two and to receive updates on legislation being introduced to implement Pillar Two, please sign up for Deloitte's Global Pillar Two Legislative Tracker today!

International

This compilation is intended to be an overview of major international tax developments during the quarter that may have ASC 740 implications. For more summaries of other current international income tax news and developments for the current quarter please refer to the additional publications listed at the end.

IRS memo addresses branch profits tax rate for foreign reverse hybrids

Recently released AM 2025-002 (a general legal advice memorandum or GLAM) provides analysis of the extent to which a US income tax treaty entitles a foreign reverse hybrid that is owned in part by treaty country residents to a reduced rate of branch profits tax on its dividend equivalent amount.

For additional details, please refer to the Deloitte tax@hand article dated September 26, 2025.

One Big Beautiful Bill Act—US tax law impact on non-US headquartered multinational businesses

Deloitte UK issued an article providing a high-level summary of notable provisions that might be relevant to non-US headquartered multinational businesses that are included or were under consideration.

For additional details, please refer to the Deloitte tax@hand article dated July 10, 2025.

Brazil

OECD recognizes additional CSLL in Pillar Two legislation as a QDMTT

On August 18, 2025, Brazil's additional social contribution on net profits (CSLL), which was introduced by Law No. 15,079/2024, was officially recognized by the OECD as a qualified domestic minimum top-up tax (QDMTT) and was determined to meet the criteria for the QDMTT safe harbor as from January 1, 2025.

For additional details, please refer to the Deloitte tax@hand article dated August 22, 2025.

Supreme Court re-establishes increased IOF rates

On June 27, 2025, Congress approved Legislative Decree No. 176/2025, which annulled the effects of the three decrees published by the government, suspending all changes, and reinstating the previous IOF regime with lower rates.

In response, the government's executive branch filed a lawsuit before the Supreme Court, challenging the legitimacy of Congress's actions to reduce the IOF rates. On July 4, 2025, the Supreme Court issued a temporary decision suspending all four decrees.

For additional details, please refer to the Deloitte tax@hand article dated July 28, 2025.

China

New tax credit granted for foreign investors reinvesting distributed profits

On June 30, 2025, China's Ministry of Finance, State Taxation Administration, and Ministry of Commerce jointly issued the Bulletin on the Tax Credit Policy for Foreign Investors Using Distributed Profits for Direct Investment (Bulletin [2025] No. 2, hereinafter referred to as "Bulletin 2"), which grants a tax credit (hereinafter referred to as the "Tax Credit Policy") to foreign investors who use distributed profits for qualified reinvestment in China.

Overview of the Tax Credit Policy:
For profits distributed by a Chinese resident company (distributing company) to a foreign investor, if the investor directly reinvests such profits in encouraged industries from 1 January 2025 to 31 December 2028, the investor may benefit from a tax credit, provided all conditions can be met. Specifically, 10% of the investment amount (or at a lower dividend treaty rate, if applicable) can be used to offset the withholding tax payable on dividends, interest, and royalty income received by the foreign investor from the distributing company after the reinvestment date. Any unused credit can be carried forward to subsequent years indefinitely.

For additional details, please refer to the Deloitte tax@hand article dated July 14, 2025.

Germany

Upper house approves law to introduce tax incentives for investment boost

After the approval of the lower house of parliament (Bundestag) on June 26, 2025, the upper house of parliament (Bundesrat) on July 11, 2025 also approved the "Law for a tax-based immediate-action investment program to strengthen Germany as a business location." The law was then signed by the president on July 14, 2025 and published in the federal gazette on July 18, 2025. The main measures in the law include (but are not limited to) the following:

- A declining balance depreciation method (an "investment booster") for movable fixed assets that are acquired or manufactured after 30 June 2025 and before 1 January 2028 is (re-)introduced.
- The federal corporate income tax (CIT) rate of (currently) 15% is reduced by 1% annually during the five-year period from 2028 to 2032 to, eventually, 10%. The applicable CIT rate therefore looks as follows:
  - Until 2027: 15% (15.825% including solidarity surcharge);
  - 2028: 14% (14.77% including solidarity surcharge);
  - 2029: 13% (13.715% including solidarity surcharge);
  - 2030: 12% (12.66% including solidarity surcharge);
  - 2031: 11% (11.605% including solidarity surcharge); and
  - 2032 and following years: 10% (10.55% including solidarity surcharge).
- The cost basis for calculating the research and development tax incentive is increased from EUR 10 million to EUR 12 million without any time limitation starting from January 1, 2026.

For additional details, please refer to the Deloitte tax@hand article dated July 18, 2025.

India

Income-tax Act, 2025 enacted to replace Income-tax Act, 1961

The Income-tax Act is proposed to be changed and the new Income Tax Bill, 2025 was introduced by the Indian Government earlier this year. On August 21, 2025, the Income Tax Bill, 2025 received Presidential assent and is, hence, enacted as law. The new Income Tax Act (which will replace the archaic Income Tax Act, 1961) is effective from April 1, 2026.

For additional details, please refer to the Deloitte tax@hand article dated August 22, 2025.

Italy

CJEU rules Italian IRAP incompatible with parent-subsidiary directive

On August 1, 2025, the Court of Justice of the European Union (CJEU) issued its judgment in case C-92/24 regarding the compatibility of the Italian regional tax on production activities (IRAP) with the EU parent-subsidiary directive. The CJEU ruled that the IRAP regime was contrary to the directive's exemption system.

According to the CJEU, the exemption method in the parent-subsidiary directive clearly determines that profits received by a parent company resident in one EU member state from its subsidiaries resident in other EU member states in principle cannot be taxed (subject to the 5% cap). This applies for all taxes that include in their basis those dividends or a fraction thereof, irrespective of the name of the tax. Consequently, Italy was not entitled to levy any tax on the dividends received to the extent that this would result in the dividend income brought within the charge to Italian tax exceeding the 5% threshold.

For additional details, please refer to the Deloitte tax@hand article dated August 08, 2025.

Mexico

Transfer pricing compliance options for maquiladoras regarding APA program transition

As a result of changes to the Mexican Income Tax Law (LISR), certain maquiladoras that have been basing their transfer pricing methodology on the "qualified maquiladora approach" (QMA) under an advance pricing agreement (APA) will need to change their methodology for 2025.

Currently, most maquiladoras have not yet received their APA resolution for the 2020–2024 period. Under the applicable Mexican tax regulations, once this process concludes, companies will no longer be able to renew their APA and instead will have to comply with the maquiladora tax regime through the safe harbor rules. Therefore, for fiscal year 2025, safe harbor will be the only framework available for maquiladoras to comply with transfer pricing requirements and maintain the permanent establishment exemption, thereby preserving the benefits of this operational model under the Mexican Income Tax Law (LISR).

For additional details, please refer to the Deloitte tax@hand article dated September 04, 2025.

United Kingdom

HMRC publishes Pillar Two guidance manual

The UK tax authority, HM Revenue & Customs (HMRC), on August 5, 2025 published its Pillar Two guidance manual titled Multinational Top-up Tax and Domestic Top-up Tax. The manual contains technical guidance setting out HMRC's views on the operation of multinational top-up tax and domestic top-up tax, the UK's implementation of the OECD Inclusive Framework on BEPS' Pillar Two global minimum tax rules.

For additional details, please refer to the Deloitte tax@hand article dated August 11, 2025.

Lists of jurisdictions with qualified status for Pillar Two purposes updated

On July 24, 2025, the UK tax authority, HM Revenue & Customs (HMRC) published a notice specifying Spain and Guernsey as Pillar Two territories with a qualified income inclusion rule (IIR) and a qualifying domestic top-up tax (QDMTT) that meet safe harbor standards. HMRC's notice has retroactive effect as from 31 December 2023 (Spain) and 1 January 2025 (Guernsey).

For additional details, please refer to the Deloitte tax@hand article dated July 28 2025.

Accounting Development

Accounting Considerations Related to the New U.S. Tax Legislation

On July 4, 2025, President Trump signed into law the legislation formally titled "An Act to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14" ("the Act") and commonly referred to as the One Big Beautiful Bill Act. The centerpiece of the bill is the extension of expiring —and in some cases expired—provisions of the 2017 Tax Cuts and Jobs Act ("2017 TCJA"). While many of the Act's provisions focused on tax changes for individuals, such as extending current individual tax rates originally put in place in the 2017 TCJA, the Act also adjusted a number of provisions affecting businesses that were similarly subject to sunsets, phase-outs, or phase-ins that would have taken effect in the absence of action by Congress or that have already taken effect. While most of the changes made by the Act are effective in future tax years, some of its provisions are effective in the current tax year. In certain cases, the changes introduced by the Act may also affect prior tax years. For details about specific provisions of the Act, see Deloitte's A Closer Look: Inside the New Tax Law. For additional details, please refer to the Deloitte Heads Up, Volume 32, Issue 7, dated July 15, 2025.

Up-C Structure Services

For Up-C structures, the Up-C Services group offers virtual webcasts from Deloitte specialists covering recent US federal income tax and ASC 740 developments relevant to these businesses organized as Up-Cs. Please contact Hector Gomez at hecgomez@deloitte.com (+1 469 417 2897) to be added to our virtual webcast distribution list.

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For upcoming webcasts that give you valuable insights on important developments affecting your business and feature practical knowledge from Deloitte specialists and CPE credits, please visit Dbriefs Webcasts.

For other information regarding newly issued accounting standards, exposure drafts, and other key developments, refer to our Quarterly Accounting Roundup.

Deloitte Tax Accounting Conference—December 08-12, 2025 | Virtual

More details and registration coming soon!

Learn more

Additional resources you may find helpful

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Talk to us

If you have any questions or comments about the ASC 740 implications described above or other content of Accounting for Income Taxes Quarterly Hot Topics, contact the Deloitte US Tax Accounting and Provision Services at: ustaxacctgandprovisionservices@deloitte.com

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