



State Tax Matters

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Multistate Tax Alerts

California Adopts Amended Market-Based Sourcing Regulations for Sales Other than Sales of TPP

On August 27, 2025, the California Office of Administrative Law (OAL) approved amendments to California Code of Regulations (CCR), tit. 18, § 25136-2, which assigns sales, other than sales of tangible personal property (TPP), for purposes of apportioning business income (hereinafter, the “Adopted Regulations”). The approved text was filed with the California Secretary of State and formally announced in the [California Regulatory Register](#). The Adopted Regulations have since been published in the [CCR](#). The amendments become effective on October 1, 2025, and apply to taxable years beginning on or after January 1, 2026.

This Multistate Tax Alert provides more details about the Adopted Regulations.

URL: <https://www.deloitte.com/content/dam/assets-zone3/us/en/docs/services/tax/2025/california-adopts-amended-market-based-sourcing-regulations-for-sales-other-than-sales-of-tpp.pdf>

[Issued September 10, 2025]

New Jersey Manufacturing Tax Credit Program

On August 13, 2025, New Jersey Assembly Bill 5687 was enacted into law, establishing the Next New Jersey Manufacturing Program (the “Program”). The Program is designed to encourage in-state manufacturing investment and job creation. The Program amends certain provisions of the New Jersey Economic Recovery Act of 2020 to facilitate the awarding of tax credits to eligible manufacturers and clean energy product manufacturers for capital investments in qualified business facilities.

This Multistate Tax Alert provides more details about the Program.

URL: <https://www.deloitte.com/content/dam/assets-zone3/us/en/docs/services/tax/2025/new-jersey-manufacturing-tax-credit-program.pdf>

[Issued September 8, 2025]

Income/Franchise

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

Amended California Code of Regulations, Title 18, section 25136-2, Cal. FTB (eff. 10/1/25); *Final Regulations*, Cal. FTB (updated 9/10/25); *California Regulatory Notice Register: Amended California Code of Regulations, Title 18, section 25136-2*, Cal. Off. of Admin. Register (9/5/25). 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.

Among the revisions, the amended regulation provides illustrative examples to guide taxpayers in applying California's market sourcing rules; new presumptions and revised substantiation rules for determining the location of the benefit of the services for sales of services; a new definitional and sourcing framework for gross receipts from asset management services; a new rule for assigning large-volume professional services; rules for sourcing receipts from transactions involving a combination of services and the sale or license of tangible or intangible property; and clarifications on existing sourcing rules on sales derived from marketable securities.

See recently issued [Multistate Tax Alert](#) for more details on California's amended market-based sourcing regulation, and please contact us with any questions.

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District of Columbia – Legislation Postpones Net Deferred Tax Liability Deduction Related to Combined Reporting Shift

[A26-0148 \(D.C.B. 26-0265\)](#), signed by mayor 9/4/25. 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.”

Additionally, in what appears to be an effort to alleviate any underpayment interest that a taxpayer may incur in tax year 2020 or 2025 as a result of the deferral, the new legislation provides that the estimated tax interest from the underpayment may be waived. Please contact us with any related questions.

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Maryland – Comptroller Announces New Report on State Income Tax Implications of OBBBA

News Release: Maryland Comptroller Releases Analysis of Federal Tax Changes, Md. Comptroller (9/5/25); *60-day Report*, Md. Bureau of Rev. Estimates (9/5/25). The Maryland Comptroller (Comptroller) announced the Maryland Bureau of Revenue Estimates' release of a "60-Day Report" analyzing the Maryland revenue implications of the recently enacted federal One Big Beautiful Bill Act (commonly referenced as "OBBBA" and more formally as P.L. 119-21), which projects an estimated \$189.3 million reduction in Maryland general fund revenue between fiscal year 2026 and fiscal year 2027. The report outlines provisions of the OBBBA that directly impact Maryland personal and corporate income tax revenues "with the goal of helping policymakers, businesses, and Marylanders understand the revenue effects of recent federal legislation."

The report explains that the OBBBA "extends significant federal tax reductions enacted by the Tax Cuts and Jobs Act of 2017 (TCJA), modifies existing benefits, and establishes several new tax benefits." Furthermore, in response to the changes in the federal tax code, Maryland "will automatically decouple from several provisions in the law that are expected to have a \$5 million or greater impact on state revenues in fiscal year (FY) 2026." According to the report, these business income provisions include:

- research and experimental expenses;
- a new qualified production property depreciation under Internal Revenue Code section 168(n); and
- modifications to the business interest deduction limitation.

The Comptroller clarifies that "decoupling from any provisions in the law beyond TY 2025 will require legislative action from the Maryland General Assembly," and notes that during the upcoming 2026 legislative session, the Maryland General Assembly will consider whether to permanently decouple Maryland tax law from the provisions in the OBBBA going forward. Please contact us with any questions.

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Miscellaneous/Transfer

New York City – Tribunal Partially Reverses ALJ Ruling on Step Transaction Doctrine and Real Property Transfer Tax

[TAT\(E\)20-18\(RP\)](#), [TAT\(E\)20-19\(RP\)](#), N.Y.C. Tax App. Trib. (9/3/25). In a ruling involving a deed transfer of real property to a limited liability company (LLC) by a related entity where a minority interest in the LLC was then transferred to a third-party to form an expanded joint venture, the New York City (City) Tax Appeals Tribunal (Tribunal) partially reversed a 2024 administrative law judge (ALJ) ruling [see [State Tax Matters, Issue 2024-41](#), for more details on the 2024 ALJ ruling], which had applied the “step transaction doctrine” and held that the City real property transfer tax (RPTT) did *not* apply to any of the underlying transfers as they were wholly exempt under the RPTT’s “mere change exemption.” In partially reversing the ALJ, the Tribunal explained that when the transfers in this case were collapsed under the step transaction doctrine, the grantor retained a 60% majority beneficial interest in the property and a new member received a 40% minority beneficial interest in the property; in this respect, the Tribunal concluded that 40% of the transaction was taxable under the RPTT – “not because a separate 40% transfer occurred,” but because the exemption applied only to the grantor’s 60% retained interest in the property while the new member’s 40% interest in the property was taxable under the RPTT. Contrary to the ALJ ruling, the Tribunal determined that the characterization of the transaction as a 40% beneficial interest transfer to the third-party was in accord with the underlying business deal. Please contact us with any questions.

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