State Tax Matters
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The power of knowing
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Income/Franchise

Louisiana – Due to Franchise Tax Repeal, DOR Says Penalties for Underpayment of Estimated Corporate Income Tax Will Now be Enforced

Revenue Information Bulletin No. 26-006, La. Dept. of Rev. (1/13/26). The Louisiana Department of Revenue (Department) issued a bulletin announcing that pursuant to legislation enacted in 2024 [see *H.B. 3 (2024)*, and *previously issued Multistate Tax Alert* for more details on this 2024 legislation] that repeals Louisiana's corporate franchise tax as of January 1, 2026, the penalty for underpayment of estimated corporation income taxes (UET penalty) "will now be enforced." In doing so, the Department explains that "in the past, the UET penalty was not assessed because corporation income and franchise taxes were reported together on Form CIT-620." However, because the corporate franchise tax is repealed and no longer effective as of January 1, 2026, "the UET penalty will be assessed against all entities which are taxed as a corporation beginning with the 2026 Form CIT-620, and all future returns." The bulletin states that corporations expecting to owe $1,000 or more in income taxes for the year generally are required to make estimated tax payments under state law, and it explains how such corporate taxpayers must calculate their estimated income taxes. Please contact us with any questions.

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Michigan – State High Court Denies Reviewing Case Involving Insurance Affiliates and Combined Filing but Adds Commentary

Case No. 167608, Mich. (review denied 1/16/26). The Michigan Supreme Court denied review of a 2024 Michigan Court of Appeals decision [see *Case No. 364790*, Mich. Ct. App. (6/20/24), and *State Tax Matters, Issue 2024-26*, for more details on this decision], which essentially held in the taxpayer's favor that a unitary business group (UBG) of insurance companies must file a combined return for calculation of Michigan premiums tax and related credits under Chapter 12 of the Michigan Income Tax Act, and because the retaliatory tax under the Michigan Insurance Code is incorporated into Chapter 12 of the Michigan corporate income tax (CIT), it also must be filed on a combined basis.

In denying review of the Michigan Court of Appeals' decision in this case, a concurring judge on the Michigan Supreme Court nevertheless highlighted that the Michigan Department of Treasury "raises important questions regarding the inclusion of insurance companies in the UBG scheme," and that the Court of Appeals' holding might negate a retaliatory tax provision and the specific requirements for insurance tax filings. According to the judge, "while the mandate to file a single return for UBGs is likely workable for other business entities, insurance is a unique scheme and includes the retaliatory tax as well as other unique credits." She further acknowledged that "there appears to be a workability problem, and if the goal of the retaliatory insurance tax was to ensure that Michigan taxes out-of-state insurance companies in the same manner that other states tax Michigan-based companies, the Legislature should revisit the UBG provisions." Please contact us with any questions.

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New York – Introduced Budget Would Extend Top Corporate Tax Rate and PTET Election Deadline and Decouple from Some OBBBA Provisions

FY 2027 Executive Budget Legislation, N.Y.S. Div. of the Budget (1/20/26). New York Governor Kathy Hochul introduced her FY 2027 Executive Budget, which proposes no increases to New York State's personal income or corporate tax rates; however, it does propose a three-year extension of the State's top corporate tax rate of 7.25% – which currently is scheduled to revert to 6.5% next year. The FY 2027 Executive Budget also proposes to extend the capital tax, which is set to sunset at the end of this year.

Furthermore, the FY 2027 Executive Budget includes a proposed extension to the deadline for electing into New York State's and New York City's pass-through entity taxes (PTETs) from March 15 to September 15, as well as corresponding changes to estimated payment deadlines. Additionally, the FY 2027 Executive Budget proposes to decouple from certain provisions of the federal One Big Beautiful Bill Act (commonly referenced as "OBBBA" and more formally as P.L. 119-21), including the amended tax treatment of research and experimental expenditures and the newly enacted immediate expensing of certain qualified production property.

Over the next 30 days, Governor Hochul may submit amendments to refine her FY 2027 Executive Budget, which potentially may include responding to updated fiscal data and other developments.

Over the next couple of months, the New York State Senate and Assembly each are expected to develop their "One-House" budget bills, which would reflect each chamber's respective budget proposals. After those are released, the New York State Governor, Senate Majority Leader, and Assembly Speaker typically begin negotiations to reach a final budget. While the final budget is due April 1, 2026, these negotiations potentially may continue beyond that date through extensions. For example, last year, Governor Hochul signed the final budget bill into law on May 9, 2025. Please contact us with any questions.

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Pennsylvania – DOR Explains New Law Decoupling from OBBBA Provisions Pertaining to R&D Expenses, §163(j), and §168(n)

Act 45 of 2025: Corporate Net Income Tax (CNIT) provisions, Pa. Dept. of Rev. (1/26). A new Pennsylvania Department of Revenue (Department) webpage addresses legislation enacted in 2025 [see *H.B. 416 (Act 45)*, *signed by gov. 11/12/25*, and *previously issued Multistate Tax Alert* for more details on this legislation] that decouples Pennsylvania's corporate net income tax (CNIT) from some aspects of the federal One Big Beautiful Bill Act (commonly referenced as "OBBBA" and more formally as P.L. 119-21), including OBBBA provisions pertaining to:

- the expensing of domestic research and experimental (R&D) expenditures in Internal Revenue Code (IRC) section 174A and related sections;
- the modifications of adjusted taxable income (ATI) and the limitation on business interest under IRC section 163(j); and
- the special depreciation allowance for qualified production property under IRC section 168(n).

The Department provides some related general guidance for CNIT taxpayers and notes that 2025 CNIT tax forms will be updated for some of the resulting adjustments, as needed. Please contact us with any questions.

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Credits/Incentives
Colorado – Application Deadline to Grandfather Business Facilities into Previous EZ Boundaries Extended through January 31, 2026

Enterprise Zone Redesignation, Col. Off. of Econ. Dev. & Int'l Trade (1/26). Colorado recently completed a redesignation of its enterprise zone boundaries which may result in many facilities that previously were in Colorado Enterprise Zones (EZs) losing their EZ designations starting January 1, 2026. However, facilities located in a Colorado EZ during 2025, but no longer within the designated boundaries for 2026, may file an application to have their location potentially "grandfathered" into the previous Colorado EZ boundaries if action is taken by January 31, 2026 [previously, the announced application deadline was December 31, 2025; see *State Tax Matters, Issue 2025-47*, for details on the earlier deadline].

If approved, taxpayers requesting to be grandfathered into the previous Colorado EZ boundaries potentially may receive continued eligibility for certain Colorado EZ tax credits for up to an additional ten tax years. To qualify for this extension, a taxpayer must jointly certify with the EZ administrator that plans were in place for job creation, investment in job training programs, or capital expansion before the announcement of the zone termination. Additionally, detailed business planning documentation supporting the planned investment and job increases must be kept with the taxpayer's tax records and supplied to the EZ administrator or the Colorado Department of Revenue upon request. Please contact us with any questions.

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Sales/Use/Indirect
Kentucky – DOR Addresses Terminated Penny Production and Resulting Rounding Implications

Penny Shortage, Ky. Dept. of Rev. (1/8/26). Referencing the federal government's decision to end production of the penny, the Kentucky Department of Revenue (Department) posted guidance stating that for retailers that choose to round the amount collected on cash transactions, the rounding must not impact calculation of the 6% Kentucky sales and use tax because, regardless of the form of payment, this tax must be calculated to the nearest penny as required under Ky Rev. Stat. section 139.230.

For retailers that choose to round the amount collected on cash transactions, the Department recommends using the following "standard rounding rules" – and still highlights that such rounding occurs "only after the calculation of the sales tax:"

- If the last digit is 1, 2, 6, or 7 cents - round down to the nearest nickel; and
- If the last digit is 3, 4, 8 or 9 cents - round up to nearest nickel.

The guidance also clarifies that non-cash transactions, as well as sales tax remittance to the Department, "should not be impacted by the shortage." Please contact us with any questions.

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New York – Appellate Court Affirms SaaS Provider's Vendor Management System Fees Constitute Taxable Software Licensing

Case No. CV-24-1494, N.Y. App. Div. (1/15/26). In a case involving a taxpayer providing a seamless, automated and efficient system of fulfilling and monitoring its customers' temporary employment needs through a "web based application delivered through a software-as-a-service model," the New York Supreme Court, Appellate Division, Third Department (Court) affirmed both the New York Tax Appeals Tribunal (Tribunal) ruling and underlying administrative law judge ruling [see *State Tax Matters, Issue 2024-20*, for details on the earlier rulings] that the taxpayer's charged vendor management system (VMS) fees constituted taxable licensing of prewritten software via a bundled transaction. In doing so, the Court explained that the Tribunal's determination was rationally based upon and supported by substantial evidence, and it found no grounds to disturb the Tribunal's ultimate determination that the license provided by the taxpayer was the core function of the transactions at issue, thus rendering them subject to tax as sales of tangible personal property. Acknowledging the taxpayer's claims regarding the amount of effort expended during the onboarding process; the implementation of the VMS for its clients' use; and, relatedly, that the VMS software is not sold separately from the services it provides, the Court nevertheless concluded that such facts did not preclude the Tribunal's determination that the software "had market value distinct from the services rendered." Please contact us with any questions.

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Tennessee – DOR Addresses Terminated Penny Production and Resulting Rounding Implications

Important Notice #26-01, Tenn. Dept. of Rev. (1/26). Referencing the federal government's decision to end production of the penny, the Tennessee Department of Revenue (Department) posted a notice stating that for retailers that choose to round the amount collected on cash transactions, Tennessee sales tax "remains due on the sales price prior to the retailer applying rounding due to the lack of pennies" as applicable state law requires retailers to continue calculating sales tax to the exact cent – regardless of the payment method used by the customer – and remitting the exact amount of sales tax shown on the receipt or invoice. As such, "the amount of sales tax due will remain the same for cash transactions as it is for other methods of payment, such as credit card transactions."

The notice provides that if a cash transaction requires change to be given to the customer, "retailers may choose their own rounding procedures." However, the notice clarifies that applicable Tennessee law for rounding the sales tax *calculation* remains in effect—that is, "the tax computation is always carried to the third decimal place and rounded to the second decimal place," and "whenever the third decimal place is greater than four, the tax shall be rounded to the next whole cent." Please contact us with any questions.

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Property

Kentucky – Appellate Court Affirms that Machinery Used to Wrap and Label Qualifies for Favorable Manufacturing Classification

Case No. 2024-CA-0114-MR, Ky. Ct. App. (1/16/26). In a case involving a bulk manufacturer of certain food products, an unpublished opinion issued by the Kentucky Court of Appeals (Court) affirmed that certain machinery used to place packages or boxed items onto pallets for "palletizing" (*i.e.*, for wrapping in shrink wrap) and labeling qualified as "manufacturing machinery" subject to more favorable property tax treatment. In the underlying case, the Kentucky Department of Revenue (Department) had audited the company's property tax returns for the 2013 through 2015 tax years at issue and ruled that such machinery used to palletize, wrap, and label its products was not manufacturing machinery as these activities fell outside the scope of manufacturing. Affirming both the Kentucky Board of Tax Appeals' and circuit court's rulings against the Department, the Court reasoned that state law permits attributing the same meaning to "manufacturing" as interpreted for both Kentucky sales and use tax purposes and property tax purposes. In this respect, the Court explained that palletizing, wrapping, and labeling the products was "necessary" to make them "saleable" or "ready . . . to be sold" and traceable, and thus the machinery used in these functions qualified as "manufacturing machinery" subject to more favorable property tax treatment in Kentucky. Please contact us with any questions.

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Ohio – Several BTA Rulings Hold that Entity Transfer of Real Property is Best Value Indicator

Case No. 2025-370, *Case No. 2025-366*, *Case No. 2025-382*, *Case No. 2025-252*, *Case No. 2025-365*, *Case No. 2025-387*, *Case No. 2025-386*, *Case No. 2025-385*, Ohio Bd. of Tax App. (1/16/26). In several rulings involving the Ohio property tax valuation of various parcels of commercial real property, the Ohio Board of Tax Appeals (Board) held in the owner's favor that, based on the stipulated evidence, such properties may be valued at a higher amount than originally proposed by the local taxing authority. Specifically, the Board concluded that there was sufficient evidence in the record to establish that the subject real property was transferred via an entity transfer, and that the entity transfer of the subject property was the best evidence of the real property's value—much like a recent arm's length sale of real property. In doing so, the Board referenced an Ohio Supreme Court case, which recognized that an entity transfer can constitute evidence of value when it is used to effectuate a change in beneficial ownership of real property. The Board stated that in cases when it has found a transfer of an interest in the ownership entity to be a sale of real property, it relies on the parties' purchase agreements and other contracts. Moreover, if those documents make clear the entity owned no other going concern value, the Board explained that it has been willing to recognize that transfer as a "sale" for real property valuation purposes. Please contact us with any questions.

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