State Tax Matters
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The power of knowing
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State Tax Matters

The power of knowing

In this issue:

Multistate/Indirect Tax Alert
Georgia 2026 Job Tax Credit Program county tier designations release delayed

The release of Georgia's 2026 Job Tax Credit Program county tier designations has been *delayed* due to a delay in the release of key data needed from the U.S. Departments of Commerce and Labor. The new publication date is expected to be April 1, 2026. This Multistate Tax Alert summarizes the development and offers some next steps.

URL: *https://www.deloitte.com/content/dam/assets-zone3/us/en/docs/services/tax/2026/georgia-2026-job-tax-credit-program-county-tier-designations-release-delayed.pdf*
[Issued January 22, 2026]

Income/Franchise
Iowa – Adopted Rules Reflect New Law Allowing Banks to Elect Including Investment Subs on Franchise Tax Return

Amend Rules 701—304.16(422), 701—501.16(422), 701—602.20(422) and New Rule 701—602.33(422), Iowa Dept. of Rev. (eff. 2/25/26). The Iowa Department of Revenue (Department) adopted new and amended rules reflecting legislation enacted in 2024 [see *S.F. 2442 (2024)* and *State Tax Matters, Issue 2024-18*, for more details on this 2024 legislation] that allows financial institutions subject to the Iowa franchise tax that have investment subsidiaries to elect to file combined Iowa franchise tax returns with those investment subsidiaries applicable for tax years beginning on or after January 1, 2025 [see *State Tax Matters, Issue 2025-46*, and *State Tax Matters, Issue 2025-41*, for details on the earlier proposal and regulatory analysis for this rulemaking]. Accompanying guidance related to this adoption explains that financial institutions making this election "are not required to add back expense to carry the investment subsidiaries on their Iowa return," and the rulemaking also makes conforming amendments to rules implementing the franchise tax credit. The adopted changes include definitions and additional guidance for taxpayers choosing to elect to file combined Iowa franchise tax returns with their investment subsidiaries. Please contact us with any questions.

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New York City - ALJ Rejects the Aggregate Method in Favor of the Entity Method to Compute UBT Business Allocation Percentage

TAT (H)19-16(UB), N.Y.C. Tax App. Trib., ALJ Div. (12/16/26). In a ruling involving a New York partnership engaged in business as a broker-dealer in New York City (City) and which owned interests in various entities (*i.e.,* "subsidiaries") that were classified as partnerships for federal income tax purposes, an administrative law judge with the City Tax Appeals Tribunal held in the City Department of Finance's (Department) favor that for City Unincorporated Business Tax (UBT) purposes:

- the Department correctly disallowed the aggregation of the broker-dealer partnership's property, payroll and gross income with its shares of the allocation factors of its subsidiaries (including the non-City subsidiaries); and
- the broker-dealer partnership's unincorporated business income (UBI) allocated to the City is aggregated with its share of the subsidiaries' UBI allocated to the City computed separately based on the allocation factors for each subsidiary.

According to the judge, the Department's adjustments were consistent with its "Partnership Allocation Rule" (*i.e.*, entity method), and simultaneously had the effect of removing the non-City subsidiaries' allocation factors from inclusion in the calculation of the broker-dealer partnership's BAP. Rejecting the broker-dealer partnership's claim that the U.S. Supreme Court decision in *Loper Bright Enterprises* limits judicial deference to an executive branch agency's authority to issue regulations, the judge also concluded that the Partnership Allocation Rule is valid and the Department has the proper authority to issue it. Please contact us with any questions.

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Gross Receipts

Georgia – State High Court Denies Review of Case Holding that Company Owes Atlanta Business Occupation Tax Based Only on Allocated Percentage of Gross Receipts

Case No. S25C1481, Ga. (*review denied 1/21/26*). The Georgia Supreme Court denied the City of Atlanta, Georgia's (City) request to review a 2025 Georgia Court of Appeals decision [see *Case No. A25A0120*, Ga. Ct. App. (6/17/25) and *State Tax Matters, Issue 2025-24*, for more details on this 2025 decision], which affirmed that a company with several offices located nationwide, including one in Georgia within the City, owed the City's business occupation tax based only on an allocated percentage of its total Georgia gross receipts – specifically, its total Georgia gross receipts must be divided by the total number of offices nationwide contributing to those receipts. Please contact us with any questions.

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Virginia – Receipts from Refueling Services Deemed Sitused Outside Virginia to Foreign Business Locations

Public Document No. 25-112, Va. Dept. of Tax. (11/7/25). The Virginia Department of Taxation (Department) issued a lengthy ruling in the taxpayer's favor that because a refueling services provider maintained definite places of business in a foreign country at or near certain U.S. military installations, it may situs receipts from its refueling services to these out-of-state locations under the provided facts for Virginia business, professional, and occupational license (BPOL) tax purposes, because they were either performed at these foreign locations or, if performed elsewhere, were "directed and controlled" from these foreign country sites. In doing so, the ruling rejected the Virginia county's attempt to treat the taxpayer's in-state headquarters as the proper situs of 100% of the gross receipts at issue. The Department noted that although it may have been true that the taxpayer's work in the county involved negotiating and winning the underlying contracts, the actual services that were the subject of those contracts, and which ultimately generated the taxable gross receipts, were performed in the foreign country. The Department further explained that it is reasonable to conclude that a U.S.-based company cannot realistically run overseas fuel-refueling contracts without steady access to the foreign country fuel sites, trucking operations, and hands-on managers. Please contact us with any questions.

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Sales/Use/Indirect

Illinois – Adopted Rule Changes Reflect Taxation of Receipts from Leases and Rentals of TPP

Amended Rule 130.101, New Rule 130.102, New Rule 130.103, Amended Rule 130.110, Amended Rule 130.115, Amended Rule 130.201, Amended Rule 130.205, Amended Rule 130.210, Amended Rule 130.220, Amended Rule 130.305, Amended Rule 130.311, Amended Rule 130.330, Amended Rule 130.340, Amended Rule 130.350, Amended Rule 130.351, New Rule 130.454, Amended Rule 130.455, Amended Rule 130.1934, Amended Rule 130.1946, Amended Rule 130.1947, Amended Rule 130.1948, Amended Rule 130.1957, Amended Rule 130.2010, Amended Rule 130.2011, Amended Rule 130.2012, Amended Rule 130.2013, and New Rule 130.ILLUSTRATION E, Ill. Dept. of Rev. (1/23/26). The Illinois Department of Revenue (Department) adopted various amended and new administrative rules reflecting legislation enacted in 2024 [*see H.B. 4951 (2024)*, *and previously issued Multistate Tax Alert for more details on this 2024 legislation*] that generally imposes Illinois sales and use tax upon certain leases of tangible personal property entered into or renewed on or after January 1, 2025. Under Illinois law, as of January 1, 2025, if a business leases or rents tangible personal property in the ordinary course of its business, it is considered a "retailer" subject to Illinois' sales and use tax laws and must register with the Department and pay tax on its lease and rental receipts. The adopted rule revisions took effect on January 8, 2026. Please contact us with any questions.

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Kentucky – DOR Says that AI-Powered Applications Generally Constitute Taxable Prewritten Software

Sales Tax Facts Winter 2025-2026, Ky. Dept. of Rev. (1/20/26). A Kentucky Department of Revenue sales and use tax newsletter generally explains that Kentucky sales and use tax applies to sales of "prewritten computer software" and "prewritten computer software access services," including those with artificial intelligence (AI) components. Specifically, the newsletter provides "in Kentucky, sales tax applies to prewritten computer software—including AI-powered applications—whether delivered as a download or accessed remotely as Software as a Service (SaaS)," and that "AI features that adapt based on user data do not qualify as custom software and remain fully taxable." The newsletter clarifies that while many AI software programs contain the ability to alter their responses or output based on the data they receive from the users without being explicitly programmed, this capability does *not* constitute exempt custom software. Please contact us with any questions.

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North Carolina – Product Exchanged Among Affiliates Deemed Nontaxable Intercompany Transfers

Case No. 24CV040734-910, N.C. Super. Ct. (1/21/26). A North Carolina superior court affirmed summary judgment for the taxpayer that, based on the provided facts, certain transfers of finished emulsion product to the taxpayer's affiliated entities did *not* constitute taxable sales subject to North Carolina sales tax. Under the "undisputed" evidence and facts of the case, neither affiliate paid the taxpayer the hypothetical markup amounts for the product transfers or provided any similar payment, promises, or other value with respect to the transfers. In fact, none of the affiliates or taxpayer "ever agreed to create any reciprocal transfer obligation (whether by payment, transfer of other goods, or otherwise)" specifically in return for the intercompany product transfers – and there was nothing "owed" to the taxpayer and "undisputedly no revenues to be received." Among its arguments to the contrary, the North Carolina Department of Revenue unsuccessfully claimed that because i) the transfers among affiliated companies were documented by the hypothetical markup; ii) certain intercompany accounting entries existed between them; and iii) the taxpayer was a separate limited liability company (even if disregarded for federal and state income tax purposes), North Carolina sales and use taxes were due on those related-party transfers as some form of consideration was exchanged between them. Please contact us with any questions.

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North Carolina – DOR Addresses Terminated Penny Production and Resulting Rounding Implications

SD-26-1: Sales and Use Tax Impact of Rounding Cash Transactions Due to Suspension of Penny Production, N.C. Dept. of Rev. (1/22/26). Referencing the federal government's decision to end production of the penny, the North Carolina Department of Revenue (Department) posted an administrative directive stating that for retailers that choose to round the amount collected on cash transactions, such "After-Tax Rounding" does *not* affect the amount of sales and use tax due on the transaction for North Carolina sales and use tax purposes. In this respect, retailers must calculate their North Carolina sales and use tax on the sales price of, or gross receipts derived from, taxable sales. Therefore, if a retailer engages in After-Tax Rounding, the rounding will *not* impact the calculation of the sales and use tax due, as

the retailer calculates the sales price or gross receipts from the transaction *before* rounding cash transactions. Please contact us with any questions.

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South Carolina – DOR Addresses Terminated Penny Production and Resulting Rounding Implications

SC Information Letter No. 26-6, S.C. Dept. of Rev. (1/22/26). Referencing the federal government's decision to end production of the penny, the South Carolina Department of Revenue (Department) posted an information letter stating that for retailers choosing to round the amount collected on cash transactions, the amount of South Carolina sales tax due is still based on the "gross proceeds of sales" – meaning the total amount for which tangible personal property is sold or purchased. Accordingly, if a retailer implements a system of rounding, "the sales tax due should not be recalculated based on the rounded amount." Rather, the sales tax due and payable to the Department remains the amount calculated based on the original sale before rounding. An illustrative example is provided. Please contact us with any questions.

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Texas – Manufacturer Warranty Claim Reimbursement Services Are Not Taxable Data Processing

Private Letter Ruling No. 20250710150515, Tex. Comptroller of Public Accounts (12/19/25). Responding to an inquiry submitted by a company providing services to assist motor vehicle dealers when a dealer makes a cost reimbursement claim for repairs provided to the dealer's customer under the manufacturer's warranty, a Texas Comptroller of Public Accounts private letter ruling concludes that based on the provided facts, the company's warranty claim reimbursement services do *not* constitute taxable data processing services under Texas sales tax law. In doing so, the ruling explains that because the company does *not* provide a database, store or manipulate the data, or offer a portal for the data and only reviews the claims entered in the manufacturer's system by the dealer's employees, the company is merely providing services to assist dealers in making reimbursement claims for repairs performed under a manufacturer's warranty and such "claims reimbursement services" are *not* enumerated as taxable under Texas sales tax law. Moreover, the ruling clarifies that

even though the company analyzes, advises on, and proofreads dealer claims, these "proofreading and editing services, by themselves" do *not* constitute taxable data processing services. Please contact us with any questions.

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Property

Virginia – Ice Cream Maker is a Manufacturer Subject to More Favorable Local Machinery and Tools Taxation

Public Document No. 25-114, Va. Dept. of Tax. (11/7/25). The Virginia Department of Taxation (Department) issued a ruling in the taxpayer's favor that as an ice cream maker it qualified as a "manufacturer" subject to Virginia's local machinery and tools tax, rather than local business tangible personal property tax, on the machinery and tools used directly in its ice cream manufacturing process. According to the Department, the taxpayer mixed original materials, subjected them to a transforming process, and the resultant product was substantially different from the original materials – allowing it to qualify as a manufacturer for property tax classification purposes. In doing so, the Department noted that the manufacturing process does not necessarily have to begin with "raw material" in the traditional sense and that, whatever the starting material is, a manufacturing activity occurs when the starting material is subjected to a process whereby it is changed into a substantially different material. Please contact us with any questions.

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