



State Tax Matters

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Income/Franchise

California – Trial Court Issues Final Decision Confirming Agribusiness Eligibility for Three-Factor Apportionment

Case No. 21STCV39637, Cal. Super. Ct., County of Los Angeles (4/28/26). In a case involving a hog production and harvesting business, a California superior court (Court) has issued its final statement of decision overruling the California Franchise Tax Board's objections to the Court's earlier proposed statement of decision [see [previously issued Multistate Tax Alert](#) for details on the Court's earlier proposed statement of decision in this case]. The Court reaffirmed its determination in the taxpayer's favor that, based on the submitted facts for the 2014 California corporate income tax year at issue, the taxpayer: i) qualified as an agricultural business under Cal. Rev. & Tax Code section 25128(b) and therefore was required to utilize a special industry three-factor formula to apportion its income; and ii) independently satisfied the requirements for alternative apportionment under Cal. Rev. & Tax Code section 25137, demonstrating that California's single-sales factor formula did not fairly represent its in-state business activity and that a three-factor formula was reasonable. This decision is subject to appeal. Please contact us with any questions.

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Idaho – State High Court Says 2021 Legislation Lowering Corporate Tax Rate Applies to Taxpayer's Entire FY2021

Docket No. 52584, Idaho (4/23/26). In a case involving an Idaho combined return taxpayer that files its Idaho corporate income tax return based on a fiscal year commencing on October 1 and ending on September 30, the Idaho Supreme Court (Court) affirmed a 2024 district court ruling and held that 2021 legislation lowering Idaho's corporate income tax rate from 6.925% to 6.5% [see [H.B. 380 \(2021\)](#) and [State Tax Matters, Issue 2021-19](#), for more details on this Idaho legislation enacted mid-year in 2021] – but which contained an internal statutory reference date (*i.e.*, applicable for “taxable years commencing on and after January 1, 2001”) that differed from the 2021 legislation's effective date (*i.e.*, “retroactively to January 1, 2021”) – permitted the taxpayer to apply the lower 6.5% tax rate for its entire 2021 fiscal year. In doing so, the Court reasoned that Idaho's statute at the time in question (*i.e.*, Idaho Code section 63-3025 (2021)) unambiguously imposed a 6.5% corporate tax rate for all taxable years commencing on and after January 1, 2001, effective as of January 1, 2021 – and emphasized that “it is not this Court's role to rewrite an unambiguous statute even if its literal interpretation seems ‘absurd,’” and it will “assume that the legislature meant what it said.” According to the Court, construing the 2021 statutory tax rate change to only apply to tax years *commencing* on or after January 1, 2021, as was argued by the Idaho State Tax Commission (Commission), “would render the 2001 internal reference date in the text superfluous.”

Rejecting the Commission's claims that subsequently enacted Idaho legislation in 2022 and 2025 [see [H.B. 436 \(2022\)](#) and [State Tax Matters, Issue 2022-6](#); [H.B. 1 \(2022\)](#) and [State Tax Matters, Issue 2022-36](#); and [H.B. 479 \(2025\)](#) and [State Tax Matters, Issue 2025-14](#), for more details on this 2022 and 2025 Idaho legislation] signified attempts to clarify the ambiguities it believed existed in the 2021 statutory amendments, the Court concluded that these subsequent amendments to Idaho Code section 63-3025 were *not* curative acts, and it could not presume that the Idaho legislature intended them to retroactively "cure" the statute's meaning for periods predating their own respective retroactive effective dates. Please contact us with any questions.

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Illinois – Proposed Rule Changes Reflect New Law on Addback of Intercompany Interest and Intangible Expenses

[Proposed Amended 86 Ill. Adm. Code 100.2430](#), Ill. Dept. of Rev. (4/24/26). The Illinois Department of Revenue (Department) is proposing to amend its rule on "Addition and Subtraction Modifications for Transactions with 80/20 and Noncombination Rule Companies" to reflect certain statutory changes enacted into law in 2025 [see [H.B. 2755 \(Public Act 104-0006\)](#) and [previously issued Multistate Tax Alert](#) for more details on the 2025 Illinois legislation]. According to the Department, the statutory provisions at issue "require taxpayers, subject to certain exceptions, to make addition modifications in the computation of base income in amounts equal to the federal deductions allowed for interest or intangible expenses or costs paid to 80/20 affiliates." The Department explains that its proposed rule changes reflect the following two Illinois statutory changes:

- for taxpayers whose interest expense deduction is limited under the provisions of Internal Revenue Code section 163(j), the new Illinois law deems any disallowed interest deduction as relating first to interest paid to unrelated parties; and
- the new Illinois law repeals two "exceptions" to the addition modification for intercompany interest and one of the "exceptions" for intercompany intangible expenses.

The proposed rulemaking includes additional examples that illustrate application of these newer statutory provisions. Comments on the proposed rule changes are due no later than 45 days after their April 24 publication. Please contact us with any questions.

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Kansas – New Law Deletes “GILTI” Reference and Adopts Single Sales Factor Apportionment for Some Liquor Manufacturers

S.B. 300, signed by gov. 4/27/26. Responding to changes under the federal One Big Beautiful Bill Act (commonly referenced as “OBBBA” and more formally as P.L. 119-21), recently enacted Kansas legislation deletes an “obsolete reference” to global intangible low-taxed income (GILTI) for individual income tax purposes. For tax years commencing on or after January 1, 2027, the legislation also authorizes certain qualifying alcoholic liquor manufacturers meeting specified in-state property and compensation thresholds to use single sales factor apportionment to compute their Kansas taxable income [note: see [H.B. 2231 \(2025\)](#) and [previously issued Multistate Tax Alert](#) for details on Kansas legislation enacted in 2025 adopting single sales factor apportionment for most other businesses, applicable for tax years commencing on or after January 1, 2027]. Please contact us with any questions.

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Kentucky – New Law Modifies Recently Enacted Bill that Decouples from OBBBA’s IRC §174A Provisions

H.B. 869, signed by gov. 4/27/26. New law modifies recently enacted Kentucky legislation [see [H.B. 757, enacted without governor’s signature on 4/14/26](#), and [previously issued Multistate Tax Alert](#) for more details on this earlier legislation] that decouples from some aspects of the federal One Big Beautiful Bill Act (commonly referenced as “OBBBA” and more formally as P.L. 119-21) for taxable years beginning on or after January 1, 2026 – specifically, Kentucky’s decoupling from the OBBBA provisions pertaining to the expensing of domestic research and experimental (R&D) expenditures in Internal Revenue Code (IRC) section 174A. Under the new law, for taxable years beginning on or after January 1, 2026, Kentucky taxpayers must still include in income amounts deducted for domestic R&D expenditures under IRC section 174A; however, this legislation now clarifies a permitted subtraction adjustment equal to the amortization of domestic R&D expenditures computed in accordance with IRC section 174 as it existed on December 31, 2024. Please contact us with any questions.

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Sales/Use/Indirect

Illinois – Comptroller of the Currency Says Federal Law Preempts State Law that Bans Certain Interchange Fees

[OCC Bulletin 2026-17 - Preemption of Illinois Interchange Fee Prohibition Act: Interim Final Order](#), U.S. Dept. of Treas., Office of the Comptroller of the Currency (4/24/26); [OCC Bulletin 2026-18 - National Bank Non-Interest Charges and Fees: Interim Final Rule](#), U.S. Dept. of Treas., Office of the Comptroller of the Currency (4/24/26). The Office of the Comptroller of the Currency (OCC) – an independent bureau of the U.S. Department of the Treasury – recently announced an interim final order concluding that federal law preempts the Illinois Interchange Fee Prohibition Act (IFPA), which was scheduled to take effect on July 1, 2026, and sought to prevent certain banks and federal savings associations from collecting interchange fees (often called “swipe fees”) on certain tax and tip amounts of credit or debit card transactions. As such, “national banks and federal savings associations are neither subject to nor required to comply with this state law.” According to the OCC, the IFPA purports to:

- prohibit national banks and federal savings associations from charging or receiving interchange fees on the tax and gratuity portions of payment card transactions; and
- restrict the use of payment card transaction data.

However, the OCC determined that “the National Bank Act, the Home Owners’ Loan Act, and the regulations promulgated thereunder preempt the IFPA’s interchange fee prohibition and, separately, the IFPA’s data use limitation with respect to national banks and Federal savings associations.” The interim final order complements the OCC’s concurrently released interim final rule clarifying “national banks’ power to charge non-interest fees and charges, including interchange fees from payment card activity, regardless of whether those fees are set by the bank or a third party.”

Comments on the interim final order and interim final rule must be received no later than 30 days after they are published in the *Federal Register*. Both the interim final order and interim final rule are scheduled to take effect on June 30, 2026.

See [State Tax Matters, Issue 2026-6](#), for details on litigation concerning the IFPA. Please contact us with any questions.

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South Dakota – DOR Addresses Penny Shortage, Rounding in Cash Transactions, and Sales Tax Calculation

News Release: The U.S. Treasury Has Stopped Minting Pennies – Penny Elimination, S.D. Dept. of Rev. (4/24/26). Addressing the federal government’s decision to end production of the penny and the potential resulting penny shortages in cash transactions, a South Dakota Department of Revenue (Department) news release clarifies that while retailers may round the total cash amount to the nearest nickel to accommodate, “this change does not affect how sales tax is calculated.” That is, “retailers must continue to compute sales tax by multiplying the taxable price—the total amount of all taxable items in a single transaction—by the applicable tax rate, then rounding the tax to the nearest cent using standard rounding rules.” The Department notes that “retailers should also be aware that other state or federal laws may affect their rounding policies, and they should consult legal counsel to determine any compliance requirements.” Please contact us with any questions.

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