State Tax Matters
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The power of knowing
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In this issue:

Administrative
South Carolina – New Law Addressing Use of Digital Assets to Purchase Goods and Services Prohibits Disparate Tax Treatment

S.B. 163, signed by gov. 5/19/26. Effective immediately, new law establishes certain protections for users of digital assets—including cryptocurrencies and non-fungible tokens (NFTs)—to purchase legal goods and services and provides that such use may not be subject to any additional tax or assessment on the sole basis of the currency medium. Specifically, the legislation states:

- an individual or business shall not be prohibited, restricted, or otherwise prevented from accepting digital assets to purchase legal goods or services or using a self-hosted wallet or hardware wallet, to maintain self-custody of digital assets; and
- digital assets used as a method of payment may not be subject to any additional tax, withholding, assessment, or charge by the State or a local government that is based solely on the use of the digital asset as the payment method.

The new law also clarifies that the State or a local government may still impose or collect a tax, withholding, assessment, or charge "that would otherwise be imposed or collected if the transaction had taken place with United States legal tender." Additionally, the legislation defines "digital assets" as "virtual currency, cryptocurrencies, natively electronic assets, including stablecoins, fungible tokens, and non-fungible tokens, and other digital-only assets that confer economic, proprietary, or access rights or powers." Please contact us with any questions.

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Income/Franchise
Multistate Tax Commission – Staff Circulates Briefing Book on Changes in Federal Taxation Affecting State Treatment of Multinational Income

Changes in Federal Taxation of Multinational Corporate Groups – Briefing Book, Multistate Tax Commission (3/13/26). A briefing book prepared by staff of the Multistate Tax Commission (MTC) addresses changes to the federal tax system affecting how multinational income is treated—including a discussion of certain changes under the federal One Big Beautiful Bill Act (commonly referenced as "OBBBA" and more formally as P.L. 119-21) involving net controlled foreign corporation tested income (NCTI) and foreign-derived deduction eligible income (FDDEI)—and some resulting state tax implications. According to MTC staff, the purpose of this briefing book is to "provide background information on the interplay of the state and federal tax systems and how the federal system affects state taxation of multinational enterprises," and it notes that "changes in the federal system will affect all states that tax business income, regardless of whether they conform to the new federal provisions." The briefing book includes a section that summarizes how state tax systems have generally treated foreign income, particularly foreign dividends, subpart F income, and "the use of 80/20 rules to determine the tax base of water's edge filing group." Another section of the briefing book provides "possible options available to state policymakers for adapting their tax systems going forward, including conforming to the new federal system or requiring mandatory worldwide combined filing." Please contact us with any questions.

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Connecticut – New Law Decouples from OBBBA's §168(n) Provisions and Delays Conformity to OBBBA's §174A Provisions

Substitute for S.B. No. 1, *signed by gov. 5/26/26; Bill Analysis for SB-1, as amended by Senate "A"*, Conn. Office of Legislative Research (5/5/26); *Press Release: Governor Lamont Signs FY 2027 State Budget, Delivering a Reliable Path Forward for Schools and Municipalities and Increasing Affordability Initiatives*, Conn. Off. of the Governor (5/26/26). Recently enacted budget legislation addresses select provisions under the federal One Big Beautiful Bill Act (commonly referenced as "OBBBA" and more formally as P.L. 119-21), including decoupling from certain OBBBA provisions pertaining to the special depreciation allowance for qualified production property under IRC section 168(n), and delaying certain conformity to the expensing of domestic research and experimental (R&D) expenditures in Internal Revenue Code (IRC) section 174A. Specifically, a related bill analysis explains that the bill decouples the Connecticut corporation business tax from the federal bonus depreciation deduction for qualified production property under IRC 168(n) beginning with the 2026 income year; in addition, the bill delays "by one year" conforming the Connecticut corporation business tax to "recent changes" in the federal deduction for domestic R&D expenditures. As a "rolling conformity" state, the legislation disallows the retroactive application of these OBBBA-related law changes for the 2022 through 2025 income years; the bill also generally exempts Connecticut corporation business taxpayers from penalties and interest on any additional tax due to these changes. Please contact us with any questions.

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Hawaii – New Law Updates State Conformity to IRC But Decouples from Some OBBBA Provisions

H.B. 2329, signed by gov. 5/26/26. Effective immediately, new law updates statutory references to the Internal Revenue Code (IRC), providing that applicable for taxable years beginning after December 31, 2025, references to the IRC in Hawaii income tax laws generally refer to the federal law in effect as amended as of December 31, 2025. However, the legislation decouples Hawaii's income tax from some aspects of the federal One Big Beautiful Bill Act (commonly referenced as "OBBBA" and more formally as P.L. 119-21), including the OBBBA provisions pertaining to:

- the election to expense prior-year unamortized domestic research and experimental (R&D) expenditures in IRC section 174A; and
- the special depreciation allowance for qualified production property under IRC section 168(n).

In addition, the legislation provides that with respect to Hawaii's conformity to IRC section 174 on the amortization of R&D expenditures, Hawaii will conform to IRC section 174 "in the form that it existed as of December 31, 2024." Note that Hawaii continues to decouple from various other specified IRC sections (e.g., IRC section 168(k) bonus depreciation). Please contact us with any questions.

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Hawaii – New Law Creates 13% Personal Income Tax Rate Bracket for Some Household Incomes Exceeding $1M, and Revises and Repeals Several Credits

S.B. 3125, signed by gov. 5/21/26. Applicable to taxable years beginning after December 31, 2026, recently signed legislation creates a new 13% state personal income tax rate bracket on Hawaii taxable income exceeding $1 million for certain households (or exceeding $750,000, if filing as head of household; or exceeding $500,000, if filing on an individual basis).

Additionally, for taxable years beginning after December 31, 2025, Hawaii's "Renewable Energy Technologies" income tax credit ("RETITC") now includes an adjusted gross income limitation of $175,000 if filing as an individual, or $350,000 if filing jointly. Moreover, beginning after December 31, 2026, the legislation imposes additional reporting requirements to claim the RETITC, and the total amount of RETITC permitted annually is capped at $40 million. Lastly, the RETITC is now scheduled to sunset at the end of December 31, 2029.

The legislation also repeals some Hawaii tax credits as follows: i) the "Capital Goods Excise Tax Credit" for taxable years beginning after December 31, 2027; ii) the "Renewable Fuels Production Tax Credit" and "Technology Infrastructure Renovation Tax Credit" for taxable years beginning after December 31, 2028; and iii) the "High Technology Business Investment Tax Credit" for taxable years beginning after December 31, 2029. Please contact us with any questions.

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Hawaii – Department of Taxation Proposes New Rules Implementing Pass-Through Entity-Level Tax

Proposed New Administrative Rules 18-235-51.5-01 through 18-235-51.5-08, and 18-235-91.5-01, Haw. Dept. of Tax. (5/26); *Notice of Public Hearing: Proposed amendment of Hawaii Administrative Rules sections 18-235-51.5-01 through 18-235-51.5-08 and 18-235-91.5-01 adopting rules for Pass-Through Entity (PTE) taxation*, Haw. Dept. of Tax. (5/26). The Hawaii Department of Taxation is repealing certain older administrative rules and proposing corresponding new administrative rules, some of which reflect state law allowing qualifying pass-through entities to make an annual election to pay an entity level state tax (PTET) applicable to taxable years beginning after December 31, 2022 [*see S.B. 1437 (2023) and previously issued Multistate Tax Alert for more details on this PTET*]. Among the topics addressed in the proposed new rules are making the PTET election, underlying income tax credit eligibility and allowance, filing and calculating the new tax, and making estimated payments. Comments on these proposed rule changes are due by June 22, 2026, and a related public hearing (which may be attended in-person or virtually) is scheduled for the same date. Please contact us with any questions.

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Illinois – DOR Announces June 5 Virtual Public Hearing on Proposed Intercompany Expense Addback Rule Changes

Public Hearing: 6/5/2026 via WebEx, Ill. Dept. of Rev. (5/26); *Proposed Amended 86 Ill. Adm. Code 100.2430*, Ill. Dept. of Rev. (4/24/26). The Illinois Department of Revenue (Department) announced that it will hold a virtual public hearing on June 5, 2026, to discuss its proposal to amend the administrative 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 also explains that the 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 (*i.e.*, by June 8, 2026). Please contact us with any questions.

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Illinois – DOR Denies Taxpayer's Alternative Apportionment Request to Either Incorporate Property and Payroll Factors or Exclude Throwback Sales

General Information Letter IT 26-0002-GIL, Ill. Dept. of Rev. (3/30/26). In a recently posted general information letter, the Illinois Department of Revenue (Department) denied an Illinois corporate taxpayer's request to deviate from the use of Illinois' standard single-sales factor apportionment formula that includes "throwback sales" by either i) employing an equally weighted property, payroll, and sales factor apportionment formula that includes throwback sales; *or* ii) maintaining use of the single-sales factor apportionment formula but excluding certain throwback sales from its apportionment factor calculation. In doing so, the Department explained that an alternative apportionment method may not be invoked, either by the Department or by a taxpayer, merely because it reaches a different apportionment percentage than the required standard statutory formula. The Department concluded that based on the facts provided in its petition, the taxpayer failed to adequately show that Illinois' standard statutory apportionment provisions did not fairly represent its in-state activities and the market for its goods, services, and other sources of business income. Please contact us with any questions.

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Minnesota – New Law Updates State Conformity to IRC, Decouples from Some OBBBA Provisions, and Extends PTET Election 2 More Years

H.F. 2438, signed by gov. 5/27/26; Tax Law Changes: 2026 Legislative Session, Minn. Dept. of Rev. (5/24/23). Recently signed omnibus tax legislation incorporates several changes to Minnesota corporate income/franchise tax and individual income tax laws, including generally updating Minnesota's definition of the Internal Revenue Code (IRC) to the IRC of 1986, as amended through May 1, 2026 (previously, May 1, 2023), and providing that any changes to the IRC incorporated by federal legislation are retroactively effective to when the changes were effective for federal purposes. However, the legislation decouples Minnesota's income tax from some aspects of the federal One Big Beautiful Bill Act (commonly referenced as "OBBBA" and more formally as P.L. 119-21), including certain OBBBA provisions pertaining to the election to expense prior-year unamortized domestic research and experimental (R&D) expenditures in IRC section 174A. Additionally, the legislation adds references to net controlled foreign corporation tested income (NCTI) in place of global intangible low-taxed income (GILTI), and provides that NCTI as computed for Minnesota purposes, is dividend income and therefore eligible for Minnesota's 50% dividend received deduction. The legislation defines NCTI as the amount under IRC section 951A less the amount computed under IRC section 951A(b)(2)(A) in effect as of May 1, 2023.

Regarding Minnesota's annual election for some qualifying pass-through entities to pay Minnesota income tax at the entity level (PTET) available for tax years beginning after December 31, 2020 and before January 1, 2026 [see *previously issued Multistate Tax Alert (July 6, 2021)* and *previously issued Multistate Tax Alert (May 30, 2023)* for more details on Minnesota's PTET], the legislation extends the ability to make this PTET election through to tax years through December 31, 2027.

The Minnesota Department of Revenue has since stated that it is reviewing these various tax law changes and their implications, and it will update its webpage accordingly "as more information is available."

See recently issued Multistate Tax Alert for more details on this omnibus tax legislation, and please contact us with any questions.

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Wisconsin – State High Court Denies Reviewing Case that Held Intercompany Royalties Had No Business Purpose or Economic Substance

Case No. 2024AP957, Wis. (*review denied 5/20/26*). The Wisconsin Supreme Court denied the taxpayer's request to review a 2025 Wisconsin Court of Appeals corporate franchise tax decision involving a parent company and its created wholly-owned intellectual property (IP) subsidiary that licensed transferred IP back to the parent in exchange for royalties where the Wisconsin Court of Appeals had affirmed that the parent failed to show it had a valid nontax business purpose for entering into the licensing transactions and that the transactions had economic substance [see *Appeal No. 2024AP957*, Wis. Ct. App. (6/4/25), and *State Tax Matters, Issue 2025-23*, for details on the 2025 appellate court decision]. Please contact us with any questions.

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