



State Tax Matters

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Alert

California taxes digital products and extends the business tax credit limitation

On June 29, 2026, California Governor Gavin Newsom signed [Assembly Bill 109](#) (A.B. 109), the Budget Act of 2026, along with [Senate Bill 110](#) (S.B. 110) and [Senate Bill 111](#) (S.B. 111), which amended the Budget Act of 2026. Governor Newsom also signed [Senate Bill 122](#) (S.B. 122) and [Senate Bill 125](#) (S.B. 125), taxation trailer bills enacted in connection with the Budget Act of 2026. S.B. 122 extends California's sales and use tax to digital products, extends and modifies the limitation on business tax credits, and reduces the first-year annual tax for certain entities. S.B. 125 imposes a managed care organization provider tax. S.B. 122 and S.B. 125 each take effect immediately as bills that provide for appropriations related to the budget, with individual provisions operative on the dates described in this Multistate Tax Alert.

This Multistate Tax Alert summarizes some of the relevant tax provisions of S.B. 122 and S.B. 125.

URL: <https://www.deloitte.com/content/dam/assets-zone3/us/en/docs/services/tax/2026/california-taxes-digital-products-and-extends-the-business-tax-credit-limitation.pdf>

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Income/Franchise

California – New Law Extends and Modifies the Limitation on Business Tax Credits

[S.B. 122](#), signed by gov. 6/29/26. Recently enacted legislation extends California's existing \$5 million annual limitation on business tax credits, which previously applied to taxable years beginning on or after January 1, 2024, and before January 1, 2027, through taxable years beginning before January 1, 2030, subject to specified exceptions. The legislation also extends the election to receive an annual refundable credit amount through taxable years beginning before January 1, 2030. For taxable years beginning on or after January 1, 2030, the legislation modifies the limitation so that business credits may not reduce tax by more than the greater of 70% of the applicable tax or \$5 million.

See [recently issued Multistate Tax Alert](#) for more details on this legislation and these provisions, and please contact us with any questions.

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Indiana – Bulletin Addresses State Treatment of OBBBA Changes Involving R&D Expenses

Income Tax Information Bulletin #127, Ind. Dept. of Rev. (6/26). An Indiana Department of Revenue bulletin addresses Indiana’s income tax modifications for specified research expenditures, including the implementation of Indiana Code section 6-3-2-29, which was first enacted pursuant to 2023 legislation [see *S.B. 419 (2023)* and *State Tax Matters, Issue 2023-19*, for more details on this state legislation] and recently revised to address some implications of the federal One Big Beautiful Bill Act (commonly referenced as “OBBBA” and more formally as P.L. 119-21) involving Internal Revenue Code sections 174 and 174A [see *S.B. 243, signed by gov. 3/5/26*, and *State Tax Matters, Issue 2026-10*, for more details on this state legislation]. Among its topics, the bulletin generally explains the Indiana tax treatment of specified research expenditures incurred from 2022 through 2024, as well as foreign research expenditures incurred in 2025 and later. Separately, the bulletin also explains the Indiana tax treatment of domestic research expenditures incurred in taxable years 2025 and later. Illustrative numerical examples are included. Please contact us with any questions.

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New Jersey – New Law Caps CBT NOL Deduction at \$1 Million until July 31, 2030

A.B. 5322 / S.B. 4536, signed by gov. 6/30/26. Effective immediately, and applicable to New Jersey corporation business tax (CBT) privilege periods ending on or after July 31, 2026, new law imposes a temporary \$1 million cap on use of net operating loss (NOL) deductions. Specifically, the legislation provides that the amount of any NOL deduction claimed by a CBT taxpayer shall not, in the aggregate, exceed \$1 million for a privilege period ending on or after July 31, 2026, but before July 31, 2030. The legislation includes potential interest and penalty relief for certain underpayments due to these new NOL limitations.

See forthcoming Multistate Tax Alert for more details on these provisions, and please contact us with any questions in the meantime.

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Virginia – Noncodified Provisions Related to Intangible Expense “Addback” Statutes Remain in Effect

Ch. 1 (H.B. 30), Laws 2026, Special Session I, signed by gov. 6/29/26. Similar to state budget bills enacted in previous years (since 2014), applicable retroactively for taxable years beginning on and after January 1, 2004, Virginia’s new budget includes non-codified provisions that limit the “subject to tax” statutory exception to Virginia’s intercompany intangible expense addback statute – regarding income that is subject to a tax based on or measured by net income or capital imposed by Virginia, another state, or a foreign government – to the portion of intercompany expense payments to the related member that owns the intangible property that corresponds to the portion of the related member’s income where it has sufficient nexus to be subject to taxes based on or measured by net income or capital in other states – *i.e.*, on a post-apportionment basis. Also retroactively for taxable years beginning on and after January 1, 2004, the new budget includes non-codified provisions that limit the unrelated party “safe harbor” statutory exception to Virginia’s intercompany intangible expense addback statute to the portion of such income derived from licensing agreements for which the rates and terms are comparable to the rates and terms of agreements that the related member that owns the intangible property has entered into with unrelated entities. In this respect, these various non-codified provisions are essentially being continued with this most recent budget legislation enactment. Please contact us with any questions.

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Sales/Use/Indirect

California – New Law Taxes Sales of Electronically Delivered Prewritten Software Beginning January 1, 2027

S.B. 122, signed by gov. 6/29/26. Recently enacted legislation amends California sales and use tax law by subjecting to tax beginning as of January 1, 2027, the permanent or temporary transfer of the right to open, view, access, download, copy, update, possess, store, manipulate, or otherwise use certain defined digital products transferred electronically or accessed remotely, where such a “digital product” includes prewritten computer software. Note that California’s existing taxability exclusion for sales of custom computer software is retained.

See [recently issued Multistate Tax Alert](#) for more details on this legislation and these provisions, and please contact us with any questions.

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Hawaii – New Law Addresses Penny Shortage and Required Rounding in Cash Transactions

S.B. 3255, signed by gov. 6/25/26. Addressing the federal government’s decision to end production of the penny, recently enacted Hawaii legislation provides those persons selling goods or services with precise rules for rounding the “total transaction amount” to the nearest multiple of five cents in certain cash transactions. For such purposes, the legislation defines the “total transaction amount” as including “fees, surcharges, and taxes.” Please contact us with any questions.

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Illinois – New Law Postpones Effective Date of State Law Banning Certain Interchange Fees to July 1, 2027

S.B. 3645, signed by gov. 6/26/26. New law postpones the effective date of the Illinois Interchange Fee Prohibition Act (IFPA) – which seeks 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 – from July 1, 2026, to July 1, 2027.

See [State Tax Matters, Issue 2026-17](#), and [State Tax Matters, Issue 2026-6](#), for details on federal law preemption and controversy concerning the IFPA. Please contact us with any questions.

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