



State Tax Matters

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Administrative

California - New Law Requires Office of Administrative Law to Report any Rule Disapprovals to Legislature

S.B. 1204, signed by gov. 7/16/26. New law amends section 11349.3 of the California Government Code (Cal. Gov't Code) to require the California Office of Administrative Law (OAL) to report a regulation disapproval, and the reasons for disapproval, to the California Legislature within 60 days of returning the disapproved regulation to the adopting agency. The report must be made in compliance with Cal. Gov't Code section 9795. Under existing state law, the OAL must review final regulations submitted by state agencies on the bases of necessity, authority, clarity, consistency, reference, and nonduplication, and must either approve or disapprove the regulation within 30 working days. If the OAL disapproves a regulation, it must return the regulation to the adopting agency with a notice specifying the reasons for disapproval. Prior to this legislation's enactment, state law did not require the OAL to notify the California Legislature of a regulation disapproval. Please contact us with any questions.

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Income/Franchise

California – Revised Rule Reflects Single Sales Factor Apportionment for Financial Institutions

Amended California Code of Regulations, Title 18, section 25128, Cal. FTB (eff. 9/16/26); *Statement of Reasons for Section 100 Changes to Title 18, Section 25128 of the California Code of Regulations*, Cal. FTB (9/16/26). The California Franchise Tax Board adopted amendments to its regulation on the apportionment of business income to reflect legislation enacted in 2025, requiring banks and financial institutions to use a single sales factor apportionment formula when apportioning business income to California for taxable years beginning on or after January 1, 2025 [see *S.B. 132 (2025)* and *previously issued Multistate Tax Alert* for more details on these law changes]. The revised rule took effect on September 16, 2026. Please contact us with any questions.

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California – New Law Conforms to Recent Federal Amendments to the Executive Compensation Deduction Limitation under IRC §162(m)

A.B. 2222, signed by gov. 9/30/26. Recently enacted legislation includes provisions that i) conform California law to two recent federal tax law changes to Internal Revenue Code (IRC) section 162(m), relating to the deductibility of certain excessive employee compensation; and ii) authorize a refundable credit under the California Personal Income Tax Law and the California Corporation Tax Law for certain qualifying local news outlets that hire qualifying journalists working in California. Prior to this legislation, California generally conformed to IRC section 162(m) as of January 1, 2025, with modifications, and did *not* conform to i) the expanded definition of covered employee as enacted by the federal American Rescue Plan Act of 2021 (ARPA), or ii) the controlled group aggregation rule enacted by the federal One Big Beautiful Bill Act (commonly referenced as “OBBBA” and more formally as P.L. 119-21). Under this new law i) California Revenue and Taxation Code (Cal. Rev. & Tax. Code) section 24343, a California Corporation Tax Law provision, is revised to provide that the amendments made by section 70603 of the OBBBA apply, and ii) Cal. Rev. & Tax. Code section 17271, a California Personal Income Tax Law provision, is revised to provide that IRC section 162(m)(3)(C) applies.

Please contact us with any questions.

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Indiana – Proposed Rule Changes Reflect Current Law on Apportionment and Business Income, Doing Business, NCTI, and RAR Filing Deadlines

[LSA Document #26-311](#), Ind. Dept. of Rev. (9/23/26); [Notice of Public Hearing: LSA Document #26-311](#), Ind. Dept. of Rev. (9/23/26). The Indiana Department of Revenue (Department) is soliciting public comment on several proposed rule changes that, among else, i) reflect Indiana's use of a single sales factor apportionment formula to calculate Indiana's corporate adjusted gross income tax; ii) make some revisions related to the federal One Big Beautiful Bill Act (commonly referenced as "OBBBA" and more formally as P.L. 119-21) like adding references to net controlled foreign corporation tested income (NCTI) in addition to global intangible low-taxed income (GILTI); iii) revise the definition of "doing business" for apportionment purposes to clarify some situations not covered by P.L. 86-272; iv) revise the definition of business income; v) define "state" for foreign operating companies; and vi) with respect to certain federal income tax modifications, alterations, or determinations occurring after December 31, 2025, revise the deadline for Indiana taxpayers to file corresponding "RAR adjustments" with the Department from 180 days to one year. Comments on these proposed rule changes are due by October 23, 2026, and a public hearing (to be held live and virtually) is scheduled for October 26, 2026. Please contact us with any questions.

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Louisiana – Amendments to Market-Sourcing Rules Reflect Repeal of Sales Factor Throwout Rule and Other Law Changes

[Amended Reg. sections 61:1.1135 & 61:1.1136](#), La. Dept. of Rev. (9/20/26). The Louisiana Department of Revenue adopted changes to its market-based sourcing regulations to, among other revisions, reflect legislation enacted in 2023 [see [H.B. 631 \(2023\) / Act 430](#), and [previously issued Multistate Tax Alert](#) for more details on this 2023 legislation] that generally repealed Louisiana's sales factor "throwout" rules for state corporate income tax purposes.

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Pennsylvania – IRRC Posts Comments on Proposed CNIT Rules Addressing Sourcing Sales from Services

Comments of the Independent Regulatory Review Commission: Department of Revenue Regulation #15-464 (IRRC #3494) - Sales Factor Sourcing Sales of Tangible Personal Property and Sales Factor Sourcing Sales of Services, Penn. Independent Regulatory Review Comm. (9/23/26). Pennsylvania's Independent Regulatory Review Commission (IRRC) recently submitted comments to the Pennsylvania Department of Revenue (Department) on the Department's proposed amended and new state corporate net income tax (CNIT) rules on sourcing revenue from sales of services [see *Proposed Amended and New Regulation 61 Pa. Code §§ 153.26 and 153.26a*, Penn. Dept. of Rev. (7/13/26) and *State Tax Matters, Issue 2026-28*, for more details on the Department's proposed sourcing rules], listing "topics and sections of the proposed rulemaking identified by the regulated community as problematic that we believe warrant further consideration by the Department because those topics or sections deviate or conflict with Act 52 or lack clarity." Among the comments from the IRRC, is that the Department should remove the "look through" approach that is incorporated in the Department's proposed rulemaking and adopted in the Multistate Tax Commission's related model rule. Please contact us with any questions.

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Sales/Use/Indirect

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

A.B. 1793, signed by gov. 9/30/26. Addressing the federal government's decision to end production of the penny, recently enacted California legislation provides defined merchants selling goods or services with precise rules for rounding the "total transaction price" to the nearest amount of cents divisible by five in certain cash transactions. For such purposes, the legislation defines the "total transaction price" as including "any applicable taxes, fees, or surcharges, or tax, fee, or surcharge reimbursement."

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Illinois – DOR Posts Draft Proposed Rules to Implement Newly Enacted Digital Asset Tax with Comments Due October 30

Draft proposed rules prior to 1st Notice, Ill. Dept. of Rev. (9/28/26). The Illinois Department of Revenue has posted for comment draft proposed rules that would implement Illinois' new "Digital Asset Tax" on the privilege of receiving digital asset business activity by a customer in Illinois that is to be collected and remitted by "digital asset brokers" beginning January 1, 2027 [see [S.B. 3019 \(Public Act 104-0468\)](#) and [previously issued Indirect Tax Alert](#) for more details on this new tax]. The draft proposed rules include several relevant definitions and illustrative examples, as well as underlying sourcing rules. Comments on these draft proposed rules are due by October 30, 2026. Also, see [State Tax Matters, Issue 2026-29](#), and [State Tax Matters, Issue 2026-34](#), for details on pending litigation concerning this new Illinois tax. Please contact us with any questions.

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Missouri – Transfer of Digital Cosmetic Items is Not Taxable and Service Provider is Not a Marketplace Facilitator

[Letter Ruling No. LR8408](#), Mo. Dept. of Rev. (9/24/26). In a letter ruling involving an in-state limited liability company (LLC) operating an “online peer-to-peer marketplace” for digital cosmetic items associated with a third-party’s online multiplayer video game and digital distribution platform, the Missouri Department of Revenue (Department) concluded that, based on the provided facts, the LLC is *not* operating as a “marketplace facilitator” under Missouri law, because its transfers of digital cosmetic items to Missouri users do not constitute taxable sales of tangible personal property or services under state law. The Department also concluded that similar to its digital transfer services, because the LLC’s software subscription services are not enumerated as taxable services under Missouri law, there are no taxable measures or sourcing rules in Missouri for it to apply to its transactions concerning such software access. Under the submitted facts, the LLC i) provides in-state and out-of-state users with “listing, search, offer, auction, checkout, transaction-status, dispute, and seller-payout interfaces;” ii) “may charge users with marketplace fees;” and iii) “separately offers optional monthly, annual, and one-time access for online software features accessible through the website and an associated browser extension.” A separate third-party corporation maintains the account and digital transaction system by which users purchase and sell the digital cosmetic items at issue. Another financial service company processes the LLC’s user payments, and the LLC does *not* at any point “take custody of the digital items.” Please contact us with any questions.

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Texas – Comptroller Says Online Marketplace Fees Must be Removed from Taxable Data Processing Services

[News Release: Comptroller Don Huffines Ends Hidden Double Tax on Texas Families and Small Businesses](#), Tex. Comptroller of Public Accounts (9/30/26). A recently posted news release announces that Texas Comptroller of Public Accounts, Don Huffines, (Comptroller) has signed “an executive order to abolish a hidden tax that hit Texans twice when they ordered food, booked a ride, or shopped online.” According to the news release, this executive order “directs the agency to publish a proposed amendment to Rule 3.330 to remove marketplace and platform fees from the definition of taxable data processing services.” The news release states that this proposed rule amendment will be filed with the Texas Secretary of State and published in the Texas Register, followed by a 30-day public comment period where “Texans can submit comments to the Comptroller’s office during that window.” The news release also explains that in 2025, “the previous leadership of this office adopted a new interpretation of an old tax rule affecting data processing services that swept in marketplace fees — the fees a business pays a platform to reach customers online,” which the Comptroller now believes is an incorrect interpretation of Texas law [see [State Tax Matters, Issue 2025-12](#), for details on the related rule changes from 2025]. The Comptroller additionally states that “his office will continue to review how the data processing tax is interpreted and may propose additional changes in the future” [see [State Tax Matters, Issue 2026-36](#), for details on the Comptroller’s recent roundtable discussion with businesses on how the State’s “data processing services tax” is impacting their businesses].

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