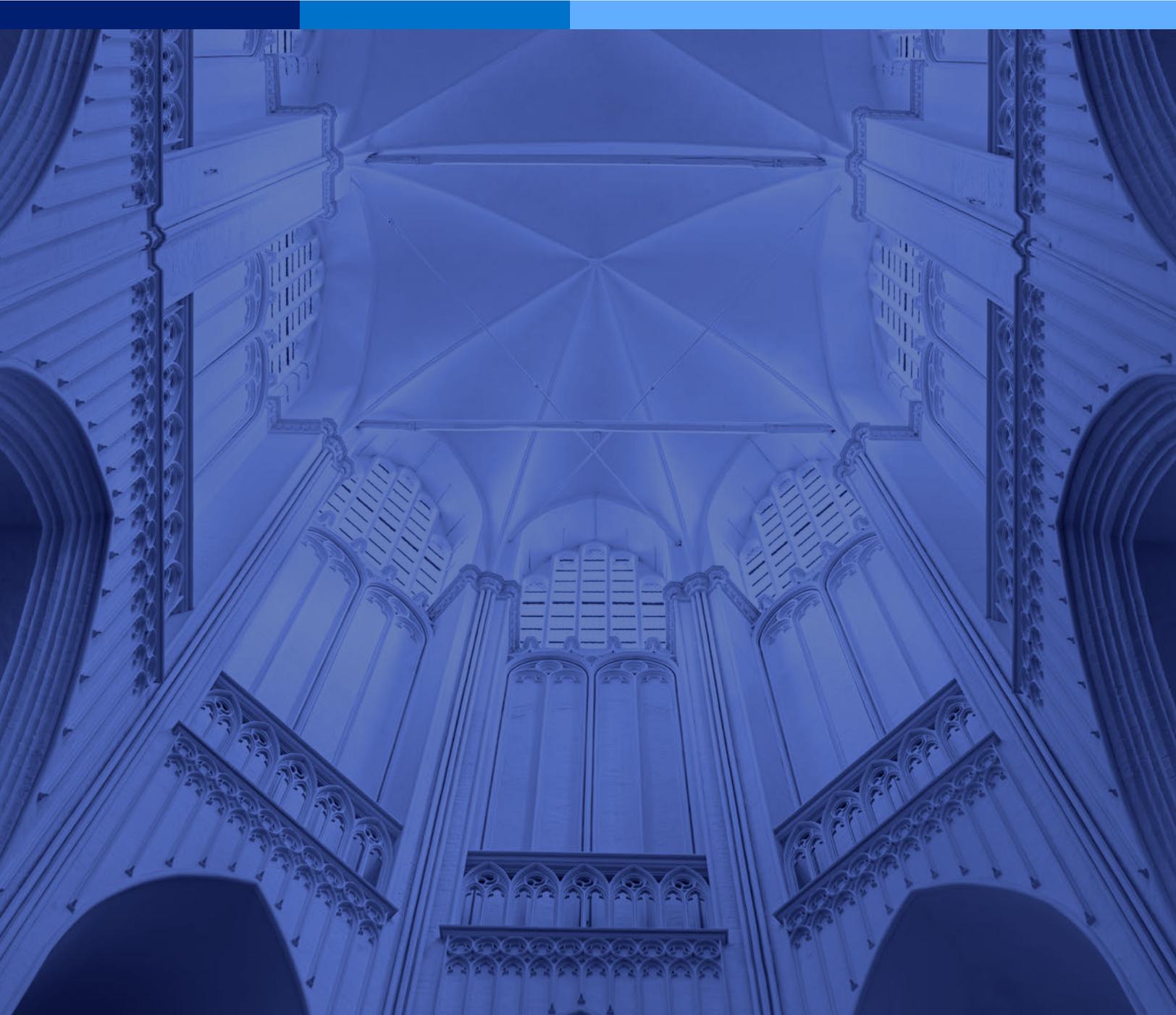




STATE & LOCAL TAX NEWSLETTER

4rd Quarter 2025



KBF's quarterly newsletter updates clients on state and local income/franchise tax news, developments, and trends. Note that this newsletter is for discussion purposes only; for specific guidance, consult with your KBF service team or find a KBF tax professional [here](#).



■ CALIFORNIA

California Updates I.R.C. Conformity Date to January 1, 2025

For both corporations and individuals, California has moved its I.R.C. conformity date from Jan. 1, 2015, to Jan. 1, 2025. While general conformity has moved up ten years, the state continues to decouple from many of the provisions of the TCJA and the current conformity date predates OBBBA.

Select California conformity updates as a result of the law change include election of an alternative simplified credit method (percentages adjusted for CA purposes), treatment of loan expenses under PPP, I.R.C. § 267A transactions, and alimony. I.R.C. § 1031

like-kind exchanges are limited to real property only. The state is also increasing catch-up contributions and providing deductions for IRA contributions for individuals age 70½ and older, as well as limitation on gain exclusions for sales to ESOPs under I.R.C. § 1042(h), which is applicable to tax years beginning on/after Jan. 1, 2028.

The state generally continues to decouple from: I.R.C. §§ 163(j), 168(k), 199A, 172, 174, 367(a), 381(c)(20), 382(d)(3) & 382(k)(1), 245A, 951A, and 250(a)(1)(A), 250(a)(1)(B) & 274.

Bill: [S.B. 711](#). Enacted: Oct. 1, 2025. Effective: Tax year 2025 (unless stated otherwise).



■ DELAWARE

Delaware Decouples from Select OBBBA Provisions for Corporate Income Tax

The state enacted legislation which decouples the state from various federal provisions, including the expensing of research and experimental (R&E) expenditures under I.R.C. § 174A. Amounts unamortized from expenditures in tax years 2022 through 2024 will continue to be amortized for Delaware purposes (thus decoupling from federal acceleration of these deductions). Delaware will follow the OBBBA changes allowing current domestic R&E expenditures to be deducted.

Delaware will follow the federal provisions as they existed prior to OBBBA as it relates to Bonus Depreciation under I.R.C. § 168(k). For Delaware purposes, assets that would otherwise fall under I.R.C. § 168(n) will have to be depreciated using the I.R.C. provisions in place prior to the enactment of OBBBA.

Bill: [H.B. 255](#). Enacted: Nov. 19, 2025. Effective: Tax Year 2025.



■ ILLINOIS

Illinois Addresses NCTI Treatment and Decouples from Special Depreciation

The state's bill addresses conformity to various OBBBA provisions. The state continues to decouple from I.R.C. § 168(k) and will now decouple from the new special depreciation deduction under I.R.C. § 168(n). The state had previously changed its treatment of GILTI, this bill provides for the same treatment for NCTI (e.g., inclusion of 50% of gross NCTI in the tax base).

Bill: [S.B. 1911](#). Enacted: Dec. 12, 2025. Effective: Tax Year 2026.



■ IOWA

Iowa Clarifies NCTI Will Be Included in Taxable Income Absent Future Legislation

While Iowa adopted specific provisions to exclude GILTI from Iowa taxable income, the state's recent guidance provides that the GILTI subtraction will NOT apply to NCTI. Further, the guidance affirms that NCTI will not be subject to the state's DRD rules. Thus, absent action taken by the legislature, net NCTI will be included in Iowa taxable income to the extent it is included in federal taxable income.

The state's guidance confirms that OBBBA's change from FDII to FDDEI will not impact the state's allowance of the deduction under I.R.C. § 250 in 2026 and beyond.

[Iowa's Guidance](#). Posted: Nov. 4, 2025. Effective: Tax Year 2026.



■ MAINE

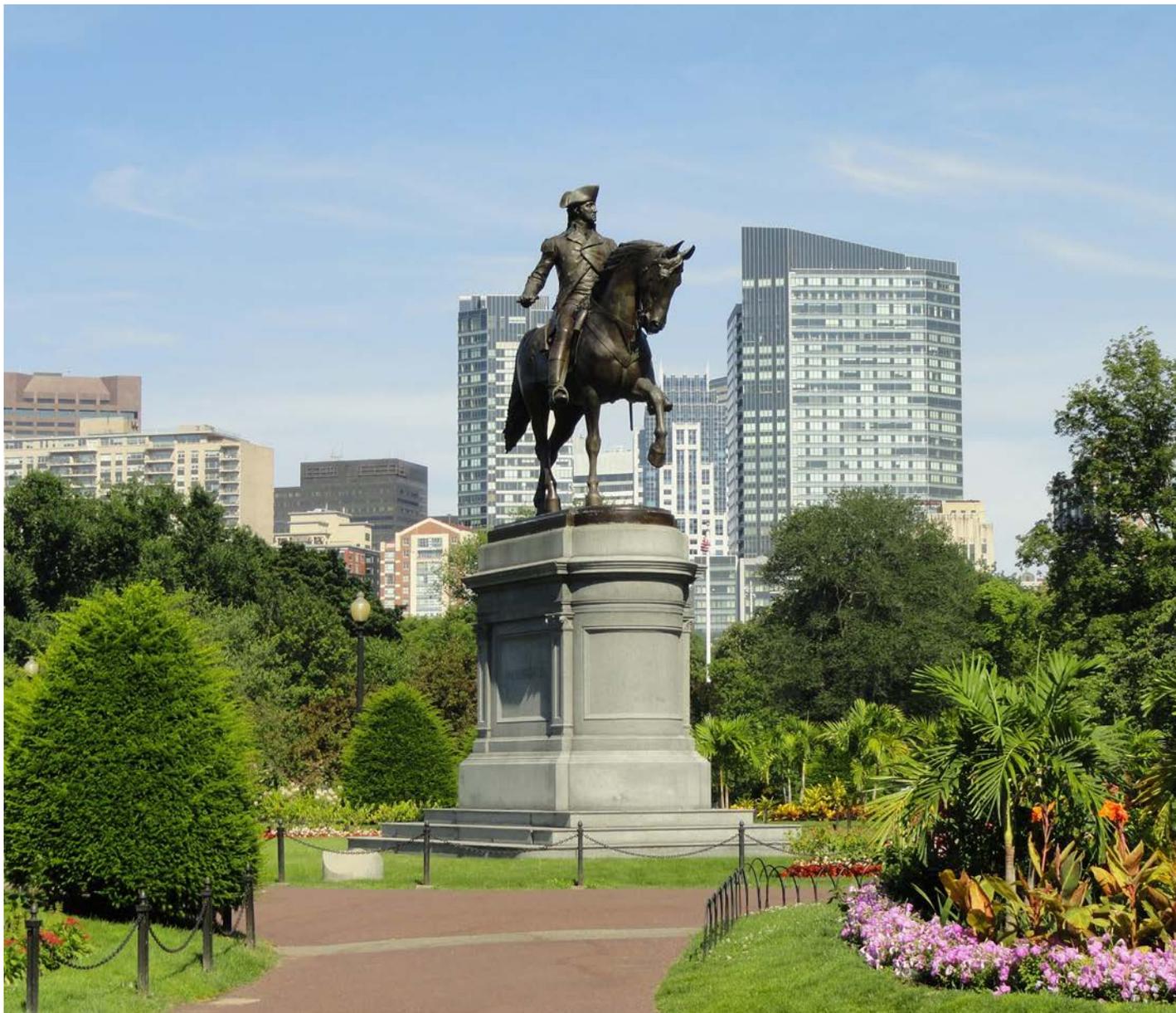
Maine Governor Issues Conformity Determination for Tax Year 2025

The Maine Act (enacted/effective Sep. 24, 2025) provides the state with a procedural route to adjust the state's conformity when the Maine legislative body does not have time to address federal amendments before a filing season. Through the procedure provided by the Maine Act, on Oct. 1, 2025, the Governor issued her Determination and Direction to the State Tax assessor to adjust select conformity.

For the 2025 tax year, Maine will conform to the following provisions,

including: IRC § 179 expensing, business interest deduction, research and development expenses (small business amended returns only), qualified disaster loss, and qualified farm property. Maine will decouple from the following provisions, including: research and development expenses (tax year 2025 and beyond expenses only), accelerated depreciation for qualified production property, and bonus depreciation. The legislature will need to address conformity beyond 2025 when it returns to session.

[Governor's Determination & Direction](#). Posted: Oct. 1, 2025. Effective: Tax Year 2025.



■ MASSACHUSETTS

Massachusetts Adopts Amended Corporate Nexus Regulations

The state adopted amended regulations governing corporate nexus and the application on PL 86-272. The adopted regulation now includes *“in state activities that are conducted by a vendor through an Internet website accessible by persons in the state may include activity that is not entirely ancillary to the solicitation of orders of tangible personal property, such as the placement of Internet cookies onto the computers or other electronic devices of in-state customers that gather customer search information used to adjust production schedules and inventory amounts, develop new products, or identify new items to offer for sale”*. The new rules will be applied prospectively to all years which include Oct. 10, 2025, or commence after that date.

Reg.: [830 CMR 63.39.1](#). Adopted: Oct. 10, 2025. Effective: Oct. 10, 2025.



■ MICHIGAN

Michigan Decouples from Select OBBBA Provisions for Corporate Income Tax

Through the state's budget bill, Michigan will decouple from various aspects of OBBBA for corporate income tax purposes, including I.R.C. §§ 174A, 168(n), 168(k), 163(j), and 179. Specifically, for tax years beginning after Dec. 31, 2024: Michigan taxable income will be computed without regard to I.R.C. §§ 168(k), 168(n) and 174A. Michigan will also apply I.R.C. §§ 163(j), 174 and 179 in accordance with federal law in effect on Dec. 31, 2024.

Michigan has generally adopted the I.R.C. as of Jan. 1, 2025, however, most taxpayers follow the state's election to use the I.R.C. in effect for the current tax year.

Bill: [H.B. 4961](#). Enacted: Oct. 7, 2025. Effective: Tax Year 2025.



■ PENNSYLVANIA

Pennsylvania Decouples from Various OBBBA Provisions

Through the state's budget bill, the state decoupled from the following provisions of OBBBA: 1) Special depreciation for qualified production property under I.R.C. § 168(n) and allowing a deduction of an amount which would have been allowed under I.R.C. §§ 167 and 168 without I.R.C. § 168(n); 2) The changes to the computation of adjusted taxable income for purposes of the business interest deduction limitation under I.R.C. § 163(j), thus continuing to adopt the version of I.R.C. § 163(j) in effect on Dec. 31, 2024; 3) Expensing of research and experimental (R&E) expenditures under I.R.C. §§ 174/174A.

The legislation now requires Pennsylvania taxpayers to add back to federal taxable income any amounts related to domestic/foreign R&E (including amortization and R&E related I.R.C. § 481 adjustments). The state then allows for a subtraction equal to 20% of the remaining unamortized R&E (under federal §174) for PA purposes, until the full amount is recovered. Note that the state's modification impacts federal R&E capitalized under § 59(e) or an election made under the transition rules of § 174A.

Bill: [H.B. 416](#). Enacted: Nov. 12, 2025. Effective: Tax Year 2025.



■ TEXAS

Texas Announces Franchise Tax Rates and Thresholds for Report Years 2026-2027

The Texas Comptroller has announced franchise tax rates, thresholds and deduction limits for report years 2026 and 2027: No Tax Due Threshold is \$2,650,000. Tax Rate (retail or wholesale) is 0.375%. Tax Rate (other than retail or wholesale) is 0.75%. Compensation Deduction Limit is \$480,000. EZ Computation Total Revenue Threshold is \$20 million. EZ Computation Rate is 0.331%.

[Website](#). Posted: Oct. 29, 2025. Effective: Report Years 2026 & 2027..

Texas Clarifies Application of Federal Tax Law for Franchise Tax Purposes

The state has a static conformity date to the I.R.C. as of Jan. 1, 2007, and historically applied this conformity date broadly. The Comptroller relies on amounts reported on the taxpayer's federal income tax return and has concluded that not all federal tax return amounts used in computing the franchise tax are expressly tied to the 2007 Internal Revenue Code. Accordingly, unless a specific IRC

provision is referenced, taxable entities must determine such amounts using federal tax law in effect for the applicable period, rather than the 2007 IRC. There are a few specific items to highlight:

- 1) Deductions for amounts under IRC §§ 78 and 951-964 are determined under the 2007 I.R.C., but other foreign royalties and dividends are deducted based on current federal law.
- 2) Beginning with the 2026 franchise tax report, a taxable entity will include the depreciation reported on its federal tax return for each asset qualifying under Section 171.1012(c)(6), including any federal bonus depreciation claimed on the federal tax return for assets placed in service on or after January 19, 2025.
- 3) The state has provided a remedy for any gain reported on the federal tax return in excess of what historically has been determined for franchise tax purposes. Specifically, a taxable entity may calculate a one-time net depreciation adjustment for each qualifying asset on its 2026 franchise tax report.

Guidance: [202512012M](#). Issued: Dec. 19, 2025. Effective: R.Y. 2026.



■ WASHINGTON D.C.

Washington D.C. Decouples from Select OBBBA Provisions

The District enacted legislation which decouples the state from the following federal provisions: **1)** Domestic research and experimental (R&E) expenditures under I.R.C. § 174A must be capitalized and amortized over years; **2)** The new law clarifies that (a) small business taxpayers cannot amend their returns to retroactively deduct R&E expenditures, and (b) taxpayers cannot accelerate unamortized domestic R&E expenditures; **3)** Special depreciation under I.R.C. §§ 168(k) and 168(n) will not be allowed for District purposes; **4)** The District selectively modifies its conformity to I.R.C. § 163(j), as modified by OBBBA. Specifically, the District will follow the adjustments made by OBBBA but for the addback of depreciation/amortization, and the treatment of floor plan financing interest.

Note that the District's decoupling law was nullified by a House Joint Resolution, signed into law by the President on Feb. 18, 2026. As developments occur, this issue will be discussed in more detail in the 1Q26 newsletter.

Bill: [A26-0214/B26-0457](#). Enacted: Dec. 3, 2025. Effective: Tax Year 2025.



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