



STATE & LOCAL TAX NEWSLETTER

1st Quarter 2026



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](#).



■ DISTRICT OF COLUMBIA

The District Addresses its Conformity to the I.R.C.

Under [H.J.Res.142](#), enacted February 18, 2026 and effective for tax year 2025, the Congressional joint resolution (signed by the President on February 18, 2026) nullifies the legislation enacted by the District on December 20, 2025, which had decoupled the District from several OB3 provisions, including I.R.C. §§ 163(j), 174A, and 168(n). Please note that the District had previously specifically and separately decoupled from I.R.C. §

168(k). Given the District is a rolling conformity jurisdiction, the nullification would appear to recouple the District to all the provisions of the OB3 effective tax year 2025. However, on February 24, 2026, DC's Attorney General issued an [opinion](#) concluding that DC's decoupling legislation does apply for tax year 2025 as the language in the Congressional joint resolution was insufficient to apply retroactively. Updates will continue to be monitored as the year progresses given that the matter may be challenged in the courts.



■ FLORIDA

Circuit Court Reaffirms Cost-of-Performance Sourcing and Rejects DOR's Market-Based Approach.

In [Case 2024 CA 001026](#), decided March 6, 2026, an out-of-state provider of electronic bill payment services challenged the FL DOR's assessment sourcing its service receipts to Florida for corporate income tax apportionment purposes. The court held that under Florida's "unambiguous" COP rule (Rule 12C-1.0155), the taxpayer's income producing activities took place almost entirely, "if not entirely", outside Florida, and therefore 100% of the receipts must be sourced outside the state. "Income producing activity" is determined

by the transactions and activities of the taxpayer itself, not its clients or its clients' customers. The court rejected the DOR's attempt to look to the location of Florida end-users to apply market-based sourcing. The court also rejected the DOR's alternative argument that a special sourcing rule for database access applied, finding the taxpayer was paid for moving money, not providing database access. The decision continues the line of FL circuit court decisions (Target Enterprise, and Billmatrix) consistently enforcing COP over the DOR's administrative preference for market-based sourcing. The litigation process is not yet final, and an appeal may be filed after final judgment is issued.



■ GEORGIA

Conformity Advanced to January 1, 2026 with Added Decoupling from § 174A.

Under [H.B. 1199](#), enacted March 20, 2026 and effective for tax year 2025, Georgia has enacted legislation updating its conformity to the I.R.C. as enacted on or before January 1, 2026, extending the prior conformity date of January 1, 2025. This update applies to taxable years beginning on or after January 1, 2025. While the state's conformity now encompasses OB3, Georgia continues to specifically decouple from the following provisions: I.R.C. §§ 163(j), 168(k), 168(n), and 174. Upon enactment, Georgia will also decouple from I.R.C. § 174A.



■ IDAHO

IRC Conformity Advanced to January 1, 2026; Selective Decoupling from §§ 168(n) and 174A.

Under [H.B. 559](#), enacted February 10, 2026 and retroactively effective to tax year 2025, Idaho advanced its I.R.C. conformity to reference the I.R.C. as amended and in effect on January 1, 2026. While the state generally adopts the provisions of OB3, the legislation specifically decouples the state from I.R.C. § 168(n) and the aspects of I.R.C. § 174A related to prior years. Specifically, R&E expenditures from tax years 2022 through 2024 will follow federal provisions in effect immediately before the enactment of OB3, while Idaho will follow federal treatment for immediate expensing of current-year domestic R&E expenditures. Note that the bill does not impact the state's prior decoupling from I.R.C. § 168(k).



■ INDIANA

Conformity Date Advanced to January 1, 2026; New Decoupling from §§ 168(n) and 174A

Under [S.B. 243](#), enacted March 5, 2026 and effective for tax year 2025, Indiana updated its statutory references to the I.R.C. to generally conform to the federal I.R.C. as in effect on January 1, 2026, updated from January 1, 2023. The state's decoupling from I.R.C. §§ 163(j), 168(k) & 174 was not impacted by S.B. 243. The new law does add decoupling from I.R.C. §§ 168(n) & 174A. Additionally, references to GILTI and FDII were updated to NCTI and FDDEI.



■ LOUISIANA

Franchise Tax Repeal Triggers New UET Penalty Enforcement.

Per [Information Bulletin 26-006](#), posted January 13, 2026 and effective for tax year 2026, the state had not typically enforced Underpayment of Estimated Tax penalties due to income and franchise taxes being reported together. Because the corporate franchise tax is repealed and no longer effective as of January 1, 2026, the state will begin to enforce and assess an Underpayment of Estimated Tax penalty. Estimated payments are required if expected tax is \$1,000 or more, with quarterly installments due on the 15th of the 4th, 6th, 9th, and 12th months. The penalty rate is 12% per year on underpayment, and safe harbors are available based on prior-year liability, prior-year income at current rates, or annualized current-year income.



■ NEW MEXICO

Selective Decoupling from OB3 and Elimination of GILTI Subtraction Beginning Tax Year 2027.

[S.B. 151](#) was enacted March 11, 2026 and is effective for tax year 2027. Through its rolling conformity framework, the state had conformed to many of the provisions of OB3. Beginning tax years on or after January 1, 2027, the new law will decouple the state from various OB3 provisions, including I.R.C. §§ 163(j), 168(k) and 168(n). Specific to I.R.C. §§ 168(k) and 168(n), the state will now require an addback of federal special depreciation

and provide a deduction from the amounts that would have been allowable under I.R.C. § 168(a)-(j). Specific to its decoupling from I.R.C. § 163(j), the state will decouple from the amendments to I.R.C. § 163(j)(8)(A) made by OB3. Additionally, the law eliminates New Mexico's prior subtraction modification for GILTI and updates language to reference NCTI, meaning net NCTI will effectively be included in the New Mexico tax base. To the extent a CFC's income is included in net income, the CFC's apportionment factors must also be included in the apportionment calculation.



OHIO

Conformity Date Advanced to Capture OB3; Bridge Election Available for Gap-Period Filings.

Under [S.B. 9](#), enacted and effective March 5, 2026, Ohio now generally conforms to OB3. The new law updates Ohio's static I.R.C. conformity date under Section 5701.11 to the effective date of S.B. 9, advancing the state's conformity from H.B. 14's March 7, 2025 date. A bridge election is available for gap-period taxable years, under which taxpayers may irrevocably elect to use current federal rules rather than the older Ohio-adopted I.R.C.; filing without reversal adjustments constitutes the election, and the election is available for 2025 tax years and short periods ended before March 5, 2026. Ohio does not impose a traditional corporate income tax on C corporations, but conformity flows through to municipal income taxes via Section 718.01(l) and to the personal income tax.



OREGON

Selective Decoupling from Three OB3-Related Provisions.

Under [S.B. 1507](#), effective for tax year 2026, Oregon decouples from I.R.C. §§ 168(k) and 1202, as well as OB3's auto loan interest deduction. The bill passed the state's Senate and House during Q1 2026 and was subsequently signed by the Governor in Q2 2026. Please see the published [KBF article](#) outlining the changes in more detail.



■ TEXAS

Franchise Tax Rule §3.587 Amended and Policy Memo Updates the One-Time Net Depreciation Adjustment.

Texas' amended [Rule §3.587](#) was adopted February 20, 2026 and effective for report year 2026. The Texas Comptroller adopted amendments to its franchise tax rule which formalize a significant shift in how Texas conforms to the federal I.R.C. and is consistent with the Comptroller's policy change announced in December 2025. Starting with the 2026 report year, taxpayers must use the current federal tax rules (not the I.R.C. as it existed in 2007) to compute certain income and deductions on their franchise tax returns. The adopted rules specifically provide that the subtraction for foreign royalties and dividends (including amounts under I.R.C. §§ 78 and 951–964) does not extend to GILTI, FDII, or their OB3 successors NCTI and FDDEI. In other words, those international income categories remain in the Texas margin calculation and are not subtractable. Additional changes in the adoption include guidance on how federally disregarded entities should compute total revenue, rules for adjusting cost of goods sold or compensation for excluded uncompensated care costs, updated terminology replacing "staff

leasing service company" with "professional employer organization," and expanded guidance on flow-through fund exclusions from total revenue.

Separately, [Memo 202603002M](#), dated March 12, 2026 and effective for tax year 2025, updates and replaces the December 2025 policy memo (202512012M), with the key clarification relating to the one-time net depreciation adjustment ("NDA") which applies to all taxpayers with qualifying assets, regardless of whether those assets were disposed of in the 2026 reporting period. As an equitable remedy, taxpayers may calculate a one-time NDA for qualifying assets (those in service before the 2026 reporting period and not yet disposed of). The calculation works as follows: for each year the asset was in service through the 2025 report period, compute the difference between federal depreciation claimed and Texas COGS depreciation claimed. If no depreciation was claimed for Texas COGS in a given year, the adjustment for that year is zero. Sum the yearly differences, and if the total is negative, the NDA is zero. The NDA is included in COGS on the 2026 report but cannot reduce margin below zero; any unused amount carries forward to consecutive reports until exhausted.



■ UTAH

Corporate and Individual Income Tax Rates Reduced from 4.50% to 4.45%.

Under [S.B. 60](#), enacted March 23, 2026 with an effective date of May 6, 2026, Utah has enacted legislation lowering both its corporate and individual income tax rates from 4.50% to 4.45%. While the law was enacted March 23, 2026 and is applicable to taxable years beginning on or after January 1, 2026, it has an effective date of May 6, 2026 following the state's constitutional effective date requirement. However, the legislation passed in such a way that veto by referendum would not appear to be available, and as such, the full legislative process was effectively completed as of March 23, 2026.



■ VIRGINIA

Transition from Rolling to Static Conformity with Selective OB3 Decoupling.

Under [H.B. 29](#), enacted February 20, 2026 and effective for tax year 2025 (see also [Tax Bulletin 26-1](#)), Virginia enacted legislation updating its conformity to the I.R.C., transitioning from a modified rolling conformity approach to a static conformity framework that fixes the state's I.R.C. reference date at December 31, 2025. The legislation generally conforms to OB3 but specifically decouples from (a) the immediate expensing under I.R.C. § 168(n),

(b) the immediate expensing of domestic R&E expenditures under I.R.C. § 174A, "including retroactive and catchup provisions", and (c) the increases to the expensing limits for certain depreciable business assets under I.R.C. § 179. Virginia will continue to decouple from I.R.C. § 168(k) and the bill updated the terminology of § 951A from GILTI to reference NCTI. Virginia conforms to § 163(j) under OB3. However, for taxable years beginning in 2025 and thereafter, Virginia reduces its subtraction for disallowed business interest from 50% to 20% of the amount disallowed on the federal return.



■ WASHINGTON

Millionaires' Tax and Conditional B&O Relief Enacted Together.

Under [S.B. 6346](#), enacted March 30, 2026, the new law imposes a 9.9% tax on WA taxable income exceeding \$1 million per household, effective for tax year 2028. Base income starts with federal AGI, modified by state-specific adjustments including excluding long-term capital gains already subject to WA capital gains tax, adding back state/local income taxes and B&O taxes deducted federally, and adding income from incomplete non-grantor trusts for WA residents. Additionally, there will be a \$1M standard deduction per individual or household (prorated for nonresidents), a \$100K cap on charitable contribution deductions, and the standard deduction will be indexed for inflation beginning October 2029. The bill creates an elective pass-through entity tax (PTET) at 9.9%, available to partnerships, LLCs, and S corporations beginning TY 2028. The PTET election is made annually, is irrevocable for the year to which it applies, and participating owners receive a

nonrefundable credit for their share of entity-level tax paid with no carryforward or carryback of unused credits. Constitutional challenges have been filed and additional challenges are anticipated.

Note that this same legislation also makes several changes to the B&O effective January 1, 2029: (a) the filing threshold is increased from \$125,000 to \$250,000 for annual B&O tax return filing; (b) the small business B&O credit is doubled (non-service businesses from \$55 to \$110/month, and service businesses from \$160 to \$320/month); (c) the B&O surcharge on large businesses (0.5% on WA taxable income >\$250M, enacted in 2025) expires one year early (January 1, 2028 instead of January 1, 2029); and (d) the new law removes sales/use tax and retailing B&O tax on certain B2B services that became taxable October 1, 2025 under SB 5814. All of these provisions are tied to the "void in entirety" clause, such that if the Millionaires' Tax is struck down by a court of final jurisdiction, these B&O relief measures fall with it.



■ WEST VIRGINIA

State Broadly Adopts Provisions of OB3.

Under [S.B. 393](#), enacted March 2, 2026 and effective from passage, the state's legislature advanced the state's static conformity date to include all I.R.C. amendments through December 31, 2025, capturing OB3. The new law gives effect to federal changes "to the same extent those changes are allowed for federal income tax purposes, whether the changes are retroactive or prospective," meaning the state will follow the federal effective dates for each applicable provision and the conformity to OB3 will retroactively apply

to tax year 2025 (and earlier years as applicable under I.R.C. § 174A). There is no selective decoupling, as the state maintains its historical blanket conformity approach, in contrast to the growing number of states that have carved out specific OB3 provisions to protect revenue. The state's conformity window closes at January 1, 2026, and any federal technical corrections or additional legislation enacted in calendar year 2026 will not be recognized for WV purposes until the Legislature advances the date in a future session.



"KBF" is the brand name under which KBF CPAs - Audit, LLP ("KBF Audit") and KBF Advisory, LLC ("KBF Advisory") provide professional services. KBF Audit and KBF Advisory practice in an alternative practice structure in accordance with the AICPA Code of Professional Conduct and applicable law, regulations, and professional standards. KBF Audit is a licensed independent CPA firm that provides attest services to its clients, and KBF Advisory provides tax and business consulting services to its clients. KBF Advisory is not a licensed CPA firm.

ABOUT US

KBF is a growing professional services firm that offers a comprehensive range of tax, assurance and advisory services. KBF is a recognized leader in Accounting for Income Tax (ASC 740) and GAAP advisory services. KBF serves hundreds of public, private equity-owned and venture-backed companies, as well as select dynamic privately-held businesses.

This material is not a formal opinion of the tax consequences and as such, it does not contain a full description of all the facts or a complete analysis of all relevant tax issues and authorities. The information referenced herein, as well as current tax laws and published tax authorities in effect are subject to change. This material is only for general informational purposes, if you need assistance regarding income/franchise taxes, please contact Nick McMahon at nmcmahon@kbfadvisory.com and George Rendziperis at grendziperis@kbfadvisory.com.