



TWIST-Q

Summary of developments Third quarter 2026

Checklist of State Tax Developments for Quarter 3 2026

This checklist includes developments for Quarter 3 2026 that have occurred prior to the date of publication. Please note that certain Quarter 3 items may be dated earlier as these items were first made publicly available during the second quarter of 2026. Additionally, there may be developments that occur or legislation that will be enacted after we release this checklist.

We hope you find the checklist helpful in determining the impact of state and local tax developments on your company. Please stay tuned to **TWIST** each week for other state and local corporate income and franchise tax developments that occur after this publication is released.

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IRC Conformity	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/ Comments
Effective upon the bill becoming law, North Carolina updated its conformity to the IRC as enacted as of July 5, 2025. Senate Bill 595 (signed July 2, 2026).	NC				

Tax Base	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/ Comments
Wagering excise taxes paid to other states by a multistate casino operator were not subject to Indiana's addback for state income tax when computing Indiana adjusted gross income because they are neither "based on" nor "measured by" income. <i>PENN Entertainment Inc. v. Department of State Revenue</i> (Ind. June 29, 2026).	IN				

Tax Base	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/ Comments
North Carolina has decoupled from IRC 174A (full expensing of domestic research and experimental (R&E) expenses). Taxpayers who deduct domestic R&E expenditures under IRC 174A(a) must add back 80% of the federal deduction and then claim a 25% subtraction of that addback over the next four years. The decoupling provisions are effective as follows: 1) Applicable to taxable years beginning on or after January 1, 2022, for taxpayers who make a federal election for retroactive application of IRC 174A for a taxable year beginning in 2022 through 2024; or (2) applicable to taxable years beginning on or after January 1, 2025, for taxpayers who do not make the election. Senate Bill 595 (signed July 2, 2026).	NC				
The North Carolina Department of Revenue released FAQs addressing Senate Bill 595. The FAQs provide that for the 2025 tax year, corporations must apply any federal income tax changes that became effective on or before July 5, 2025. Notably, the FAQs also clarified that a taxpayer that deducted unamortized domestic R&E expenditures paid or incurred before January 1, 2025, under the transition rule found in section 70302(f)(2)(A) of the One Big Beautiful Bill Act (OB3), should make a decoupling adjustment in their state return. <i>FAQs Regarding Recent Session Law Changes</i> (published Sep. 11, 2026).	NC				
A capital loss carryover can only be used to offset capital gain received by the entity that generated the loss; such carryovers cannot be shared among members of a combined group. This interpretation supersedes a 2025 superior court holding that New Hampshire law permitted such losses to be shared by combined group members. <i>Hologic, Inc. v. Department of Revenue</i> (N.H. August 26, 2026).	NH				

Tax Base	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/ Comments
Guidance issued by the New York City Department of Finance clarified that, pursuant to the City's nonconformity to changes made to IRC 163(j) (business interest expense limitation), a taxpayer must add back an increase in the federal interest deduction attributable to the federal addback allowed for depreciation, amortization, or depletion in determining adjusted taxable income. NYC DOF 26-2 Finance Memorandum (issued Sep. 9, 2026).	NYC				
Guidance issued by the New York City Department of Finance clarified that, pursuant to the City's nonconformity to IRC 168(n) (bonus depreciation for qualified production property), a taxpayer must add back any federal bonus depreciation claimed for qualified production property and compute depreciation as if IRC 168(n) did not apply. NYC DOF 26-2 Finance Memorandum (issued Sep. 9, 2026).	NYC				
Guidance issued by the New York City Department of Finance clarified that, pursuant to the City's nonconformity to portions of IRC 174A (full expensing of domestic R&E expenses), a taxpayer must continue to capitalize and amortize domestic R&E expenditures over five years using the midpoint convention, rather than immediately deducting those costs. However, the guidance notes that the City conforms to the transition rules for unamortized domestic R&E expenses from tax years 2022 through 2024. NYC DOF 26-2 Finance Memorandum (issued Sep. 9, 2026).	NYC				
Guidance issued by the New York City Department of Finance clarified that, pursuant to the City's nonconformity to changes to IRC 179(a) (election to expense certain depreciable business assets), a taxpayer must apply the inflation-adjusted pre-OB3 limitation, which generally caps expensing at \$1.25 million (with a \$3.13 million phaseout threshold). NYC DOF 26-2 Finance Memorandum (issued Sep. 9, 2026).	NYC				

Tax Base	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/ Comments
For purposes of the Philadelphia Business Income and Receipts Tax (BIRT) net income base, Philadelphia must conform to Pennsylvania's treatment of IRC 174/174A and 59(e). Pennsylvania requires an addback of deductions under IRC 174/174A and 59(e), followed by annual 20 percent subtraction modifications for all R&E expenses, including foreign R&E, until fully deducted. For unamortized domestic and foreign R&E expenses from tax years 2022 through 2024, Pennsylvania will require an addback of the unamortized amounts, followed by an annual 20 percent subtraction modification. Senate Bill 146 (signed July 12, 2026).	PA				
The Pennsylvania Department of Revenue issued a Corporation Tax Bulletin revising its treatment of the IRC 163(j) interest expense limitation. Previously, the Department only required a member of a federal consolidated group to apply the limitation to its separate company Pennsylvania taxable income when the limitation affected the consolidated group's federal taxable income. Under the revised guidance, the Pennsylvania interest expense limitation must be computed on a separate company basis even if the federal consolidated group was not impacted by the limit. Per Pennsylvania's conformity statute, this limitation will be computed under the Tax Cuts and Jobs Act version of IRC 163(j). This guidance will take effect for tax year 2025 and later. Corporation Tax Bulletin 2026-01 (issued September 10, 2026).	PA				

Apportionment	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/ Comments
The California Office of Tax Appeals (OTA) ruled that gain from an S corporation holding company's partial sale of its interest in a lower-tier operating entity was allocable nonbusiness income because the entities were no longer unitary at the time of the sale. Although the holding company's owners remained executives of the operating entity, a third-party investor's significant governance rights and actual control over major policy decisions limited the holding company's integrated executive force, while the lack of significant shared staff, intercompany financing, and operational dependence showed no substantial flow of value between the entities. <i>In re Matter of Watts</i> (Cal. OTA Feb. 28, 2025) (<i>petition for rehearing denied</i> July 14, 2026).	CA				
The California OTA ruled that gain from an S corporation's sale of its out-of-state beverage distribution division was allocable nonbusiness income because the division was not unitary with the taxpayer's transportation operations, including trucking activities in California. Although the divisions shared insurance, human resources functions, a retirement plan, and some accounting services, they lacked unity of use under the three unities test due to a lack of centralized management and substantial intercompany transactions. Further, no contribution or dependency existed because the divisions lacked common advertising, significant intercompany sales, centralized management and other evidence of a unitary relationship. <i>In the Matter of Western Distributing Co.</i> (Cal. OTA June 18, 2026).	CA				

Apportionment	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/ Comments
The Illinois Department of Revenue denied a taxpayer's alternative apportionment request to include 50 percent of Global Intangible Low-Taxed Income in the sales factor denominator, finding that the taxpayer failed to demonstrate that Illinois' statutory apportionment formula was distortive or that the proposed method more fairly represented its Illinois business activity. General Info. Ltr. IT 26-0008-GIL (issued July 28, 2026).	IL				
A shoe company was treated as a "manufacturing corporation" and required to use single-sales-factor apportionment based on its product development and prototype design activities preceding third-party mass production. The taxpayer's control over design, prototyping, materials, molds, revisions, and testing was deemed an essential part of the manufacturing process and sufficient to meet quantitative thresholds. The court further held that once a quantitative test is met, manufacturing activities are definitionally substantial and the qualitative test is only available if no quantitative test is satisfied. <i>Sketchers USA v. Commissioner of Revenue</i> (Mass. App. Ct. July 30, 2026).	MA				
Massachusetts's <i>Finnigan</i> -style reallocation rule cannot be used to include the Massachusetts receipts of a P.L. 86-272-protected corporation in the sales factor numerators of other taxable combined group members. <i>Smithfield Packaged Meats Corp. v. Commissioner of Revenue</i> (Mass. App. Tax Bd. July 22, 2026).	MA				

Apportionment	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/ Comments
A Nebraska district court held that the 2017 deemed repatriation of IRC section 965 income warranted alternative apportionment but rejected both the taxpayer's and Department's proposed methods. The court found that the Department's approach improperly included income rather than gross receipts in the sales factor denominator, while the taxpayer's approach created a temporal mismatch by comparing multiple years of CFC receipts to a single year of Nebraska sales. The matter was remanded for the Department to develop an equitable apportionment method. <i>Apple, Inc. v. Department of Revenue</i> (Neb. Dist. Ct. July 15, 2026).	NE				
A Wisconsin circuit court required a taxpayer to source receipts from licensing its software to the Wisconsin software developer with which the taxpayer directly engaged, rather than to the developer's customers who contracted for the right to use the taxpayer's software as part of their transactions with the developer. Although the taxpayer was party to an "addendum" included in the developer's contract with its customers, the court ruled that the customers were properly treated as sublicensees of the taxpayer, meaning that its receipts from their transactions were sourced to the location of the taxpayer's direct licensee (i.e., the Wisconsin software developer). <i>InterSystems Corp. v. Department of Revenue</i> (Wis. Cir. Ct. Aug. 19, 2026).	WI				

Net Operating Losses	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/ Comments
New Jersey enacted a temporary \$1 million annual cap on net operating loss deductions for Corporation Business Tax purposes for tax years ending on or after July 31, 2026 and before July 31, 2030, with disallowed NOLs receiving an additional six-year carryforward. For tax years ending on or after July 31, 2030, through July 31, 2032, previously disallowed NOLs are limited to 75 percent of allocated net income, with any remaining disallowed NOLs again eligible for a six-year extended carryforward. No interest or penalties apply to underpaid estimated tax attributable to the new cap and due before January 1, 2027. Assembly Bill 5322 (approved June 30, 2026).	NJ				

Credits	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/ Comments
Contemporaneous documentation is required to support a California research and development credit. A consulting firm testing hazardous materials relied on a third-party study asserting that qualifying activities and evidence existed, but the OTA found the taxpayer had not retained records “in sufficiently usable form and detail” to substantiate eligibility under federal conformity rules. Such studies may support eligibility, but contemporaneous documentation is required to determine the amount of the credit. <i>In the Matter of Advanced American Laboratories</i> (Cal. OTA, June 9, 2026).	CA				

Credits	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/ Comments
California has extended the existing \$5 million annual cap on business tax credits (previously set to expire at the end of 2026) through 2029. Beginning in 2030, the limitation becomes permanent and is set at the greater of \$5 million or 70 percent of tax liability per taxpayer (aggregated for combined groups), while preserving the option to elect a 20 percent refundable credit in lieu of disallowed credits. Senate Bill 122 (signed June 29, 2026).	CA				
New Hampshire increased statewide and per-taxpayer caps for the R&D tax credit. The annual statewide cap will increase to \$10 million (from \$7 million) and the per-taxpayer cap will increase to \$100,000 (from \$50,000). House Bill 1102 (veto overridden Aug. 19, 2026).	NH				

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