LBMC

STATE & LOCAL TAX INSIGHTS

Stay ahead of shifting state and local tax developments with LBMC's SALT newsletter. Each edition delivers timely updates, legislative highlights and actionable insights to help businesses navigate evolving compliance requirements and uncover potential tax savings. Whether you operate in one state or across multiple jurisdictions, our state and local tax specialists keep you informed on the trends and policy changes that impact your business.

SALES TAX

Alabama Sets Requirements for County and Municipal Sales and Use Tax Exemptions

Effective May 6, 2025, Alabama Act 280 says new or updated sales and use tax exemptions apply only to state tax unless a county or municipality separately adopts them. To do that, the local government must approve the exemption, make it effective September 1, state how long it will last, and notify the Alabama Department of Revenue by July 1. Local governments can also repeal an exemption using the same timing and notice process.

Arkansas Debuts New Sales Tax Exemption Card for Farmers

Arkansas's Department of Finance and Administration (DFA) has launched the Farmers Sales Tax Exemption Card to make it easier for farmers to claim sales tax exemptions when making purchases.

Chicago Enacts New Social Media Amusement Tax and Raises Personal Property Lease Transaction Tax Rate

Effective January 1, 2026, Chicago imposed a new social media amusement tax on certain social media businesses that collect data from more than 100,000 Chicago consumers in a calendar year. The city also increased the personal property lease transaction tax rate to 15% from 11%.

Kentucky Clarifies That AI-Enabled Prewritten Software Is Not Exempt Custom Software

Kentucky's Department of Revenue stated that sales and use tax applies to prewritten computer software and prewritten software access services, including SaaS, even when those products include artificial intelligence features. The guidance makes clear that AI components do not turn prewritten software into exempt custom software.

Oklahoma Rules Third-Party Warehouse Inventory Alone Did Not Create Nexus for Online Retailer

In a January 7, 2026, letter ruling, the Oklahoma Tax Commission concluded that an online retailer did not have nexus with Oklahoma when its only in-state presence was inventory stored in third-party marketplace facilitator warehouses that it did not control or manage. The ruling also explains that, under Oklahoma law, inventory stored in a third party's warehouse by itself does not create physical nexus when the seller has no control over that location.

Utah Clarifies That Digital Products Are Taxable Whether Streamed or Downloaded

Effective July 1, 2026, Utah sales and use tax will apply to digital products and services regardless of how they are delivered. The new law makes clear that taxable items include streamed or subscription-based access to digital audiovisual works, digital audio works, digital books, gaming services, electronically delivered prewritten software, and seller-hosted software. It also clarifies the exemption for transactions already taxed under Utah's Multi-Channel Video or Audio Service Tax Act.

Utah Enacts Targeted Advertising Tax

Utah enacted S.B. 287, which imposes a new targeted advertising tax on certain large advertising businesses beginning January 1, 2027. The tax is based on the portion of the entity's gross receipts attributed to Utah.

Washington Amends Rule on Taxation of Medical Substances, Devices and Supplies

Washington's Department of Revenue adopted amendments to WAC 458-20-18801 addressing the sales tax treatment of medical substances, devices, and supplies for humans. The changes reflect 2025 legislation that revised how medical supply vendors must state and collect sales tax on certain qualifying sales.

Washington Offers Temporary Penalty Relief for Newly Taxable Services

Washington's Department of Revenue announced a temporary program that may waive certain penalties for businesses that did not collect or pay tax on services that became taxable under ESSB 5814. Examples of newly taxable services include advertising services, IT training, technical support, help desk services, and custom website development. The relief applies to qualifying retail sales or use tax liabilities for periods from October 1, 2025, through December 31, 2026, and businesses must apply by September 30, 2027.

Washington Rules That Implementation Changes and Related Reimbursements Are Taxable as Part of Digital Automated Services

In a March 6, 2026, determination, Washington's Department of Revenue held that a SaaS provider's time-and-materials charges tied to implementing its platform were taxable because they were provided exclusively in connection with taxable digital automated services. The ruling also concluded that reimbursements for travel, lodging, and meal expenses related to that implementation work were taxable in the same manner.

INCOME TAX

California Court Issues Proposed Decision on Agricultural Business Status and Alternative Apportionment

On February 26, 2026, a California trial court issued a proposed decision concluding that Smithfield qualified as an agricultural business and therefore should use an evenly weighted three-factor apportionment formula. The court also concluded that alternative apportionment relief would be appropriate if the agricultural business rule did not apply. The proposed decision is not yet final and remains subject to objections and further proceedings.

Florida Court Finds Service Revenue Was Properly Sourced Outside Florida Under Cost-of-Performance Standard

In a March 6, 2026, ruling, a Florida circuit court concluded that revenue from an electronic bill payment service should be sourced outside the state because nearly all of the taxpayer's income-producing activity occurred outside Florida under the state's cost-of-performance methodology. The court also rejected the Department's view that sourcing should depend on the in-state activities of the taxpayer's customers or their customers. (Checkfree Services Corporation v. State of Florida Department of Revenue, No. 2024 CA 1026 (Fla. 2d Jud. Cir., Leon County, Mar. 6, 2026).)

Illinois Highlights Income Tax Changes, Including Finnigan Apportionment and GILTI Updates

An Illinois Department of Revenue bulletin summarizes several significant income tax changes enacted in 2025. Among other updates, the legislation shifts Illinois combined reporting from the Joyce method to Finnigan for apportionment purposes, removes certain exceptions to the related-party interest and intangible expense addback rules, aligns some state treatment with the federal Section 163(j) interest limitation, and limits the dividends received deduction for net controlled foreign corporation tested income, formerly known as GILTI.

Louisiana Updates Mobile Workforce Rule to Reflect New 30-Day Nonresident Withholding Threshold

Louisiana amended its mobile workforce rule to reflect a 2025 law change increasing the nonresident employee threshold from 25 days to 30 days. As a result, nonresident employees who work in Louisiana for 30 or fewer days during the calendar year may remain exempt from Louisiana income tax, and their employers generally are not required to withhold Louisiana income tax for those employees during that period.

Missouri Adopts Revised Rule on Consolidated Corporate Income Tax Returns

Missouri's Department of Revenue adopted amendments to its consolidated corporate income tax return rule that update the rule for changes in the state's apportionment framework and the treatment of intercompany transactions. Among other revisions, the amended rule reflects Missouri's move to apportionable and nonapportionable income concepts and the use of a single receipts factor for most taxpayers, and it incorporates the rule that transactions between members of a Missouri consolidated group are eliminated for apportionment purposes. The amendments also revise election timing and other administrative provisions to align with later caselaw and updated forms and instructions.

Philadelphia Explains How Disregarded Entities Must Register for City Tax Purposes

Philadelphia's Department of Revenue released guidance explaining how disregarded entities should register through the Philadelphia Tax Center. The guidance explains that the owner or parent company must already have a Philadelphia Business Income and Receipts Tax (BIRT) account before the disregarded entity can be registered online. It also outlines a three-step process: establish the parent account if needed, register the disregarded entity using the proper entity classification, and then link the accounts so both can be accessed under one username.

Texas Supreme Court Affirms Franchise Tax Sourcing Rule for Dock Sales

The Texas Supreme Court held that sales of tangible personal property are sourced to Texas for franchise tax purposes when the buyer takes possession and control of the goods in Texas, even if the property is later used or consumed elsewhere. In upholding the Comptroller's rule, the court rejected the argument that sourcing should depend on the buyer's ultimate destination or use of the goods.

Washington Enacts New Tax on Washington Taxable Income Over $1 Million

Washington enacted ESSB 6346, which creates a new 9.9% tax on Washington taxable income exceeding $1 million. The bill was signed on March 30, 2026, as Chapter 238, Laws of 2026.

West Virginia Issues Guidance on Nonbusiness Income for Corporate Net Income Tax Purposes

West Virginia's Tax Division issued guidance explaining how corporations should distinguish nonbusiness income from business income for corporate net income tax purposes. The publication states that nonbusiness income generally includes income not earned in the regular course of the taxpayer's trade or business and, for multistate corporations, must be allocated to the state where it is earned, while remaining business income is apportioned using West Virginia's single-sales-factor method. The guidance also includes examples of potentially allocable nonbusiness income, such as certain rents, royalties, and capital gains.

Wisconsin Bulletin Summarizes Ruling Sourcing Software Sales to In-State Intermediary Rather Than End Users

The Wisconsin Department of Revenue summarized a 2025 Tax Appeals Commission ruling holding that software sales were sourced to Wisconsin based on the location of the in-state intermediary that contracted with the seller, rather than the location of the ultimate end users. The ruling turned on the absence of contracts between the software company and the end users, with the commission concluding that the intermediary — not the end users — was the relevant customer for sourcing purposes. The bulletin also notes that the taxpayer has appealed the decision.

GROSS RECEIPTS TAXES

Washington Court of Appeals Sources Insurance and Escrow Service Receipts to Washington

In Chicago Title Insurance Co. v. Department of Revenue, the Washington Court of Appeals held that escrow and insurance-related service receipts earned from Washington customers were properly sourced to Washington. The court concluded that the receipts fell under Washington's market-based sourcing rules, reversing the lower court and directing judgment in the Department's favor.

Tennessee Ruling Says Crypto ATM Receipts and Related Fees Are Not Subject to Business Tax

In Letter Ruling No. 25-10, the Tennessee Department of Revenue concluded that a cryptocurrency ATM operator's receipts from virtual currency sales were not subject to Tennessee business tax because virtual currency is treated as intangible personal property. The ruling also concluded that fees earned from those transactions were not taxable because receipts from currency exchange services are specifically excluded from the tax.

AMNESTY

Indiana Tax Amnesty Program Starts July 15th, 2026

Indiana's upcoming tax amnesty program will run from July 15, 2026, through September 15, 2026, and offers eligible taxpayers a waiver of penalties, interest, and collection fees on qualifying unpaid liabilities. Under S.B. 243, the program now applies to listed taxes that were due for tax periods ending before January 1, 2024, expanding the prior eligibility window.

Learn More About LBMC's SALT Practice

Navigating the complex and evolving landscape of state and local taxation oftentimes leaves businesses overpaying tax to state and local taxing authorities, driving a negative impact on operations and financial performance. Refund reviews and strategic appeals can unlock historical overpayments and help businesses proactively manage cash flow. LBMC's State and Local Tax (SALT) team can assist your business by providing a data-driven review of state and local tax payments, identifying overpayments, working with taxing authorities to recover value, and implementing an optimized tax strategy that ensures compliance while mitigating future overpayments and exposure.

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