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 Excludes Credit Card Transaction Fees from Sales and Use Tax

Alabama enacted S.B. 221 (Act 587), effective September 1, 2026, which excludes credit card and debit card transaction fees from the calculation of state and local sales and use taxes. Under prior Department of Revenue policy, merchants who passed those fees on to customers were required to include them in the taxable sales price. The new law resolves that question by statute, providing that such fees are not part of the taxable price of goods or services.

Georgia Enacts Sales and Use Tax Exemption for Construction Materials Near Certain Convention Facilities

Georgia H.B. 1209, signed May 11, 2026, provides a sales and use tax exemption for tangible property and construction materials used to build or furnish facilities located on a wharf lot situated between 1,500 and 5,000 feet from a state-owned convention or meeting facility with between 150,000 and 750,000 square feet of meeting space, on an island in a river forming the state's boundary. Purchasers must pay the tax at the time of purchase and file a claim for refund; no interest accrues on approved refunds. The exemption applies from July 1, 2026, through June 30, 2033, or until aggregate refunds reach $7 million, whichever comes first.

Kentucky Removes 200-Transaction Nexus Threshold, Taxes Data Brokering Services

Kentucky H.B. 757, enacted over Governor Beshear's veto during the 2026 Regular Session, makes several significant tax changes. Effective August 1, 2026, Kentucky eliminates the 200-transaction prong of its economic nexus standard, leaving the $100,000 gross receipts threshold as the sole measure for remote sellers and marketplace facilitators. That same date, sales and use tax begins to apply to data brokering services, with an exception for services provided by state and local government agencies.

Louisiana Issues Guidance on Contractor Tax Exemptions for Public Projects

The Louisiana Department of Revenue issued Revenue Information Bulletin No. 26-010 (March 17, 2026) clarifying which purchases qualify for the governmental sales and use tax exemption extended to contractors and subcontractors by Act 384 of the 2025 Regular Session. Eligible purchases are limited to materials and equipment rentals that will be incorporated into the finished project and owned by the public entity upon completion. Items that remain contractor property — such as tools, fuel, and safety equipment — do not qualify. Purchases related to payment in lieu of taxes (PILOT) agreements executed after July 1, 2025, are not automatically exempt and require approval from both the Louisiana Department of Revenue and Louisiana Economic Development.

Maryland Enacts Exemption for Intercompany Sales of Digital Products and Information Technology Services

H.B. 898 / S.B. 388, signed by the governor May 12, 2026, provides that Maryland's sales and use tax does not apply to intercompany sales of information technology services, digital codes, and digital products when both the seller and buyer are members of the same affiliated group as defined under IRC Section 1504, including related parties described under IRC Sections 267(b)(10), (11), and (12).

Minnesota Updates Guidance on Direct Mail and Fulfillment Services

The Minnesota Department of Revenue has updated its guidance explaining how state sales and use tax applies to direct mail and fulfillment services. Under the updated guidance, printing charges remain taxable, including all steps to prepare a piece for printing. Separately stated charges to deliver or distribute direct mail are not taxable, and separately stated fees for services to prepare direct mail for delivery or distribution are also exempt. When taxable and nontaxable items are sold together, the bundled transaction rules apply.

Ohio — On Remand, BTA Finds True Object of Bank's Electronic Accounting Transactions Is Taxable Computer Services

Cincinnati Fed. Sav. & Loan v. Harris, No. 2018-2247, Ohio Bd. of Tax App. (May 11, 2026). On remand from the Ohio Supreme Court's 2022 decision, the Ohio Board of Tax Appeals applied the true object test to charges paid by Cincinnati Federal Savings & Loan to a financial technology provider for automated general ledger access. The Board found that the true object of those transactions was daily, real-time access to account and transactional data processed entirely by automated systems, with no cognitive involvement by the vendor's employees. Accordingly, the charges constituted taxable automatic data processing and electronic information services rather than nontaxable personal or professional services.

INCOME TAX

Arkansas Supreme Court Affirms Nonbusiness Income Treatment for Liquidation Sale Gain

Hudson v. United States Beef Corp., 2026 Ark. 63 (Apr. 16, 2026). The Arkansas Supreme Court affirmed that gain from a complete business liquidation constitutes nonbusiness income allocable to the taxpayer's commercial domicile rather than apportionable business income subject to multistate apportionment. U.S. Beef Corporation, an Oklahoma company operating Taco Bueno and Arby's franchises in nine states, sold all its assets in 2018 in a transaction that ended its operations. The court held that because selling franchises was not part of the company's regular business activity, the gain did not meet the functional test for business income under the pre-2026 version of Arkansas's Uniform Division of Income for Tax Purposes Act. Note that Arkansas amended its business income definition effective January 1, 2026, which would affect the treatment of similar transactions going forward.

Arkansas Reduces Individual and Corporate Income Tax Rates

During a May 2026 special session, Governor Sarah Huckabee Sanders signed H.B. 1001 and S.B. 1 into law, reducing Arkansas's top individual income tax rate from 3.9% to 3.7%, retroactive to January 1, 2026, and reducing the top corporate income tax rate from 4.3% to 4.1%, effective January 1, 2027. The cuts represent the fourth round of income tax reductions enacted under Governor Sanders.

Georgia Reduces Corporate and Individual Income Tax Rates and Enacts Other Broad Tax Changes

Georgia H.B. 463, the "Georgia Economic Growth and Tax Relief Act of 2026," signed by Governor Kemp on May 11, 2026, reduces both individual and corporate income tax rates from 5.19% to 4.99%, effective for tax years beginning on or after January 1, 2026. Subject to state revenue triggers, the rate will decrease by an additional 0.125% per year beginning January 1, 2027, until it reaches 3.99%. The law also increases the standard deduction for individuals and married couples filing jointly, temporarily excludes up to $1,750 of qualifying overtime pay and cash tips from taxable income for 2026 through 2028, raises the retirement income exclusion for taxpayers 65 and older to $70,000 beginning in 2027, and repeals several existing tax credits and sales tax exemptions, including those for teleworking expenses, electric and hybrid vehicles, and medical equipment manufacturing.

Kentucky Delays Combined Reporting Deferred Tax Liability Deduction to 2028

As part of Kentucky H.B. 757 (see Sales Tax section above), the legislature delayed the deferred tax deduction available to corporations filing combined reports until tax years beginning on or after January 1, 2028. This is the second time Kentucky has pushed back the availability of this deduction, which was previously delayed to January 1, 2026 under H.B. 8.

New York Appellate Court Upholds Internet Activities Rule Against P.L. 86-272 Preemption Challenge

Am. Catalog Mailers Ass'n v. Dep't of Tax'n & Fin., No. CV-25-0865 (N.Y. App. Div. 3d Dep't, May 7, 2026). The New York Supreme Court, Appellate Division, Third Department unanimously affirmed a lower court ruling that New York's Internet Activities Rule, 20 NYCRR 1-2.10, is not preempted by P.L. 86-272. The American Catalog Mailers Association challenged the regulation as facially invalid, arguing it stripped P.L. 86-272 protection from out-of-state sellers regardless of whether their activities actually occurred in New York. The Appellate Division rejected that argument, noting that the regulation, read as a whole, expressly limits its scope to a corporation's activities within New York State. The court noted that as-applied challenges based on a specific company's facts remain available.

GROSS RECEIPTS TAXES

Oregon Amends Filing Due Date Rule for Corporate Activity Tax Short Period Returns

The Oregon Department of Revenue adopted amendments to OAR 150-317-1015, effective May 1, 2026, addressing corporate activity tax returns for short tax periods — meaning periods of less than 12 months. The amended rule sets a uniform due date of the 15th day of the fifth month following the end of the short tax period, with a limited exception for taxpayers joining a unitary group mid-period. The rule also clarifies how to prorate the $750,000 commercial activity registration threshold, the $1 million tax rate threshold, and the $1 million return filing threshold for short periods.

Tennessee Court Rules Software License Sales Not Subject to Business Tax; Cloud Hosting is Taxable

SAP America, Inc. v. Gerregano, No. M2024-01399-COA-R3-CV (Tenn. Ct. App., May 13, 2026). The Tennessee Court of Appeals affirmed in part and reversed in part a lower court decision, drawing a line between software licenses and cloud hosting services for business tax purposes. The court held that sales of computer software — whether downloaded or accessed remotely — constitute sales of intangible personal property and are not subject to Tennessee's business tax. However, the court reversed the trial court on cloud hosting, concluding that customers use SAP's hardware infrastructure and server platform as a service rather than leasing equipment, making those receipts taxable. The ruling may create refund opportunities for software companies that have been remitting business tax on license revenue, while confirming continued tax exposure on hosting and other cloud-based service offerings.

Learn More About LBMC's SALT Practice

Navigating the complex and evolving landscape of state and local taxation often leaves businesses overpaying tax to state and local taxing authorities, which can negatively impact 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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