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

California to Tax Electronically Delivered Software and SaaS Starting in 2027

California enacted S.B. 122, L. 2026, ch. 23, as part of its 2026 budget legislation. Effective January 1, 2027, California expands its sales and use tax base to include certain "digital products," including prewritten computer software transferred on tangible media, transferred electronically, or accessed remotely, which generally brings SaaS within the tax base. The law continues to exclude custom computer software and excludes certain electronically provided services that primarily involve human effort.

Illinois Says Marketplace Inventory Does Not Always Create Physical Presence Nexus

In General Information Letter ST 26-0024-GIL, the Illinois Department of Revenue explained that a remote seller's inventory at a marketplace facilitator's Illinois location does not create physical presence nexus when the inventory is used only to fulfill marketplace orders and the facilitator meets the state's $100,000 threshold. The result changes if the seller uses Illinois inventory to fulfill any of its own orders. In that case, the seller is no longer treated as a remote retailer and has physical presence nexus in Illinois.

Kentucky Taxes Data Brokering Services and Drops Transaction Count From Nexus Threshold

Kentucky enacted sales tax changes effective August 1, 2026, including the taxation of data brokering services. Data brokering services are defined as collecting, aggregating, and analyzing personal data for sale to a third party while possession of the personal data is maintained by the service provider or by the third party. The law also removes the 200-transaction prong from Kentucky's economic nexus test, leaving the $100,000 gross receipts threshold for remote retailers and marketplace providers.

Maryland Top Court Sides With Utility on Equipment Tax Exemption

The Supreme Court of Maryland held that Potomac Edison's conductor, substation, and transformer equipment qualified for Maryland's sales and use tax production activity exemption under Md. Code Ann. Tax-Gen. § 11-210(b)(1). The Court agreed that the equipment was used directly and predominantly in processing electricity because it changed electricity's voltage, making long-distance transmission and ultimate customer use possible. This treatment is consistent with Maryland's production exemption framework, which treats generating electricity for sale as a production activity and defines "used directly and predominantly" as use that is integral and essential, occurs where production is carried on, and occurs during the production activity.

West Virginia Updates Capital Improvement Guidance for Contractors

The West Virginia Tax Division revised its capital improvement guidance for construction trades in July 2026. The publication explains when contractors must collect sales tax on labor and materials and when work qualifies as nontaxable contracting because it results in a capital improvement. It also addresses the integrated manufacturer-contractor rule and several pass-through exemptions. The update includes a new exemption, effective July 1, 2026, for purchases of services and building materials for the construction, alteration, repair, or improvement of a public school facility, when the purchaser is a qualifying public school entity.

INCOME TAX

New Jersey Caps Net Operating Loss Deductions at $1 Million Through 2030

New Jersey enacted A5322 as part of its fiscal year 2027 budget, temporarily limiting the net operating loss deduction available to corporation business taxpayers. For privilege periods ending on or after July 31, 2026, but before July 31, 2030, the NOL deductions generally may not exceed $1 million per tax year, prorated for short tax years. Public utilities are excluded from the cap. For privilege periods ending on or after July 31, 2030, but before July 31, 2032, previously disallowed deductions may reduce allocated entire net income by no more than 75%. Any deduction reduced or disallowed under these limits may be carried forward for six additional privilege periods beyond its original expiration.

North Carolina Budget Phases In Personal Income Tax Rate Cuts

Governor Josh Stein signed North Carolina's 2025 Appropriations Act, Senate Bill 257, on July 7, 2026. The law keeps the individual income tax rate at 3.99% for 2026, reduces it to 3.49% for 2027 through 2029 and to 3.24% for 2030 through 2032, and sets a 2.99% rate for taxable years beginning after 2032. Additional revenue-based triggers may further reduce the rate for later years, subject to a 2.49% floor.

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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