

Get the state and local tax updates that matter to your business. Each edition of LBMC's SALT newsletter brings you recent legislative changes, compliance reminders and practical takeaways to help you stay compliant and find opportunities to save. Whether you operate in one state or many, our SALT team breaks down what's new and what it means for you.

SALES TAX

Alabama Expands Sales Tax Exemption for Value-Added Agricultural Products

The Alabama Department of Revenue amended Rule 810-6-3-.01, effective October 15, 2026, to clarify how the state's sales and use tax exemptions apply to agricultural products and to add a new exemption for producer value-added agricultural products sold between October 1, 2022, and September 30, 2027.

Alabama Clarifies Sales Tax Treatment of Credit Card Transaction Fees

Beginning September 1, 2026, a credit card transaction fee is excluded from Alabama's sales and use tax base when the fee is separately stated and identifiable from the other charges. New Rule 810-6-3-.50, effective October 15, 2026, provides guidance on the treatment of those fees.

California Issues Guidance on New Sales Tax for Digital Products

The California Department of Tax and Fee Administration issued a special notice addressing S.B. 122, enacted June 29, 2026, which expands the definition of tangible personal property to include digital products, including prewritten software, effective January 1, 2027. The expanded definition covers the permanent or temporary right to open, view, access, download, copy, update, possess, store, manipulate, or otherwise use qualifying digital products delivered electronically or accessed remotely, and primarily affects software sellers, SaaS providers, and businesses that license or provide remote access to software. For local and district tax purposes, the place of sale is generally the customer's address, and the place of use is the location of the person accessing the product. The notice excludes cryptocurrency and other digital assets, digital audio and audiovisual works, eBooks, digital infrastructure such as cloud platforms, digital video games, and digital visual works from the new definition.

Georgia Rules DNA Testing Services Nontaxable, Test Kits Subject to Use Tax

In Letter Ruling SUT-2026-02, the Georgia Department of Revenue held that an online provider of ancestral and health history reports generated from customer saliva samples processed at its in-state laboratory provides a nontaxable service rather than a taxable bundled transaction, even though the company also supplies physical collection kits shipped from an out-of-state distribution center. Because the company is considered the consumer of the collection kits it uses to provide the service, it is liable for Georgia use tax on the cost of the kits, subject to credit for similar tax already paid to another state.

Missouri Amends Rule on Sales Tax Treatment of Third-Party Shipments

The Missouri Department of Revenue amended Rule 12 CSR 10-113.200 to address transactions in which merchandise is shipped by a third-party carrier. Under the amended rule, when an out-of-state seller approves an order from an in-state location and a third-party common or contract carrier delivers the goods to Missouri, title transfers in Missouri, the transaction is not considered interstate commerce, and sales tax applies. The Department added several examples to illustrate the rule's application. The amendment, adopted as proposed in June 2026, is scheduled to take effect October 30, 2026.

New York Tribunal Upholds Tax on Bundled Data Management Services

In Case No. 850246, the New York Tax Appeals Tribunal affirmed a 2025 administrative law judge determination that a taxpayer's data management, storage, and security services constituted a taxable sale of prewritten software bundled with services, rather than a nontaxable cloud computing service such as infrastructure-as-a-service or standalone data storage. Both parties cited a separate 2026 Appellate Division decision in support of their positions, and the losing party in that case has sought leave to appeal to the Court of Appeals. The Tribunal also agreed that because the taxpayer could not substantiate the proportion of software used inside versus outside New York during the audit period, it failed to establish that the tax should be apportioned based on user location.

North Carolina Finds Ad Agency's Bundled Digital Property Charges Fully Taxable

In a redacted private letter ruling, SUPLR 2026-0004, the North Carolina Department of Revenue held that a remote, independent contractor providing marketing and graphic design services, who also delivers digital assets to clients electronically through a cloud platform or email, is liable for sales tax on its entire charge. Because the taxpayer functioned as an advertising agency whose deliverables included taxable digital audiovisual works, and because its professional service fees were not separately stated from those taxable charges, the Department concluded that the full sales price is subject to North Carolina sales and use tax.

Oklahoma Rules SaaS Subscription Charges Exempt From Sales Tax

In Letter Ruling LR-26-012, the Oklahoma Tax Commission's Office of General Counsel ruled that a company providing a hosted, web-based platform for managing and tracking surplus property may treat its monthly, annual, and other subscription charges as exempt sales of electronically delivered prewritten software. Separately stated charges for implementation, configuration, training, and customer support are also exempt, provided the company does not furnish taxable tangible personal property as part of those services.

South Carolina Excludes Additional Charges From Admissions Tax Base

As outlined in SCDOR Information Letter #26-21, a budget proviso in effect from July 1, 2026, through June 30, 2027, changes how South Carolina calculates its admissions tax. Charges that appear as separate line items on top of the base ticket price, rather than as part of the admission price itself, no longer factor into the taxable amount.

Tennessee Rules Certain Medical Products Exempt, Diagnostic Kits Taxable

In Revenue Ruling #26-06, the Tennessee Department of Revenue found that medicated wound dressings, irrigation solutions, inhalation solutions, and IV solutions purchased by for-profit healthcare facilities qualify for the state's prescription drug exemption. The Department reached the opposite conclusion for prescribed diagnostic testing kits for COVID-19 and RSV, holding that the kits, which bundle swabs, tubes, reagents, and other components, do not qualify as a compound, substance, or preparation for direct human use and therefore remain taxable.

Tennessee Updates Voluntary Disclosure, Addresses Vehicle Tax Avoidance Scheme

The Tennessee Department of Revenue updated its voluntary disclosure agreement guidance and issued a related warning about a scheme advertised online that claims taxpayers can avoid sales tax on vehicles purchased for use in Tennessee by forming an out-of-state LLC, often in Montana, Alaska, or New Mexico. The Department confirmed that forming or locating an LLC outside Tennessee does not exempt a vehicle from sales or use tax if the vehicle is purchased for use in the state, and that taxpayers not yet contacted by the Department may still request a voluntary disclosure agreement to report and pay the tax due.

INCOME TAX

Alabama Appellate Court Affirms "Subject to Tax" Does Not Apply to Intercompany Interest

The Alabama Court of Civil Appeals affirmed a trial court decision holding that Alabama's intercompany expense addback "subject-to-tax" exception did not excuse interest an Alabama corporate taxpayer paid to a related member in Ireland. The interest ultimately flowed through to affiliates in Luxembourg, where it was undisputed that the payments were not subject to tax. The Court agreed that the Irish recipient's inclusion of the interest on its own return, net of a deduction later taken when the funds moved to Luxembourg, was insufficient to satisfy the statute's subject-to-tax requirement.

California Updates Internal Revenue Code Conformity Provisions

Governor Newsom signed S.B. 1435 (Chapter 236 of 2026), updating California's references to the Internal Revenue Code for personal income tax and corporation tax purposes. In addition to technical corrections removing references to repealed federal provisions, the law makes permanent California's continued conformity to IRC Section 215 as it read on January 1, 2015, for support payments other than those made under divorce or separation instruments executed after December 31, 2025. The law took effect September 14, 2026, and applies retroactively to tax years beginning on or after January 1, 2025.

Louisiana Updates Corporate Income Tax Sourcing Regulations

The Louisiana Department of Revenue amended its corporate income tax regulations governing the sourcing of sales in the apportionment formula, LAC 61:I.1135 and 1136, effective September 20, 2026, to implement Act 430 of the 2023 Regular Session. Under the amended rules, sales other than tangible personal property, including services and intangibles, are sourced to Louisiana when the market for the sale is located in the state. Taxpayers previously had to carve unassignable sales out of the sales factor on both sides of the fraction; that carve-out requirement has been removed. The amendments also provide guidance on reasonable approximation and on sourcing receipts from sales of real property and the lease or license of intangible property.

Tennessee Updates Franchise and Excise Tax Manual on Loss Carryforwards in Reorganizations

The Tennessee Department of Revenue's June 2026 update to its franchise and excise tax manual clarifies the treatment of net operating loss and tax credit carryforwards in conversions, mergers, and reorganizations. The manual reiterates that "each taxpayer is considered a separate entity for Tennessee franchise and excise tax purposes," so a successor entity generally may not use loss carryovers generated by a predecessor, and when businesses merge, only the surviving corporation's losses carry forward. An exception applies when a business merges into a shell entity where the successor is essentially the same taxpayer as the predecessor, in which case the successor may deduct the predecessor's loss carryover. The manual includes examples illustrating the exception.

Wisconsin Court Requires In-State Sourcing of Licensed Software Sales

A Wisconsin circuit court largely affirmed a 2025 Wisconsin Tax Appeals Commission decision holding that InterSystems Corporation must source to Wisconsin the income it receives from licensing its database management system software to an in-state software developer, even though the developer's own software, built using the licensed technology, is ultimately sold to end users outside the state. The court agreed that InterSystems does not license its software directly to the developer's end users, and that the situs of the sale, the location where the developer is billed for the license, is in Wisconsin. That location, rather than the location of the developer's end users, controls the sourcing analysis.

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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