

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.

DIGITAL ADVERTISING TAX

Maryland Tax Court Strikes Down the State's Digital Advertising Tax

In separate rulings for Apple, Google, and Peacock TV, the Maryland Tax Court struck down the state's digital advertising gross receipts tax, finding that it violates the Internet Tax Freedom Act, the dormant Commerce Clause, and the Due Process Clause. The court ordered the Comptroller to refund the tax paid by all three companies, with interest. The Comptroller has 30 days to appeal.

SALES TAX

California Lawmakers Advance Bill to Tie Contractor Licenses to Unpaid Sales Tax

California legislators passed S.B. 1165, which allows the California Department of Tax and Fee Administration to share taxpayer information with the Contractors State License Board. Armed with that information, the board could refuse to issue, reinstate, reactivate, or renew a contractor's license, or suspend one outright, when the licensee owes outstanding tax liabilities assessed by CDTFA, which administers the state's sales tax along with several other business taxes and fees.

Colorado Clarifies When Promotional Giveaway Inventory Is Taxable

Colorado General Information Letter GIL-26-003 addresses the sales and use tax treatment of tangible personal property purchased tax free for resale and later withdrawn from inventory in Colorado for use as a promotional item or giveaway. When a retailer withdraws property from resale inventory for this purpose, the retailer is treated as the user or consumer of the property and is responsible for remitting Colorado use tax. The use tax is calculated based on the retailer's original purchase price for the item.

North Carolina Gives Small Remote Sellers More Time to Register

Effective July 2, 2026, a remote seller whose only connection to North Carolina is exceeding the state's \$100,000 economic nexus threshold is not required to begin collecting until the first day of the first calendar month beginning at least 60 days after the threshold is exceeded.

Pennsylvania Delays Enforcement of New Local Sales Tax Sourcing Rules Until October 1

Act 21 of 2026 shifted Philadelphia's 2% and Allegheny County's 1% local sales tax from origin-based to destination-based sourcing, retroactive to tax years beginning after December 31, 2025. Vendors delivering taxable goods or services into either jurisdiction must now collect the local tax regardless of where the vendor is located. The Department of Revenue will not begin enforcing the new sourcing rules until October 1, 2026, to give businesses time to adjust their systems.

INCOME TAX

Alabama Confirms Withholding Applies Only to Alabama-Source Wages

A new Alabama Department of Revenue notice confirms that employers must withhold Alabama income tax from a nonresident employee's wages only to the extent the work is physically performed in the state, and that having an Alabama-based employer alone doesn't trigger withholding. The notice also points to Alabama's 30-day safe harbor under Act 2025-334, which may exempt certain nonresident employees from Alabama income tax and withholding when they perform services in the state for 30 or fewer days during the calendar year. The Department noted it will not follow a 2023 Tax Tribunal ruling on remote workers to the extent that ruling conflicts with this guidance.

Maine Issues Guidance on Its New Pass-Through Entity Tax

Maine Revenue Services released guidance on the state's new elective pass-through entity tax, available for tax years beginning on or after January 1, 2026. Eligible partnerships and S corporations can elect to pay Maine tax at the entity level at the top individual rate of 7.15% and owners receive a 90% refundable credit on their personal returns for the tax the entity paid. The guidance addresses how the election affects 2026 returns and estimated payments.

New Hampshire's Highest Court Blocks Cross-Member Capital Loss Offset

In *Hologic, Inc. v. Commissioner*, the New Hampshire Supreme Court held that a water's-edge combined group could not apply a long-term capital loss carryback generated by one member against capital gains generated by another member for Business Profits Tax purposes. The court reversed the lower court's decision allowing the offset, concluding that New Hampshire law requires capital losses and gains to be determined at the individual member level before the members' income is combined.

New York City Cuts UBT Credit for Higher-Income Residents, Retroactively

The New York City Council enacted Int. No. 972, cutting the personal income tax credit that city residents can claim for Unincorporated Business Tax paid. For residents with city taxable income between \$1 million and \$1.25 million, the credit now phases down from 23% to 15%, and it's capped at 15% for income above \$1.25 million. The change is retroactive to January 1, 2026, so affected taxpayers may need to revisit estimated payments already made.

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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