



Quarterly State Income Tax Roundup

2025 Third Quarter (July – September)

Hot topics



Colorado Enacts Broad Tax Changes

On Aug. 28, 2025, Colorado enacted five bills that make significant changes to both income and nonincome taxes period.

- [H.B. 25B-1004](#): Authorizes Treasury to sell up to \$125 million in nonrefundable corporate income and insurance premium tax credits through a bidding process.
- [H.B. 25B-1001](#): Permanently decouples from IRC Section 199A for high-income filers.
- [H.B. 25B-1002](#): Expands the tax haven blacklist to include Hong Kong, Ireland, Lichtenstein, Netherlands, and Singapore.
- [H.B. 25B-1005](#): Repeals the sales tax vendor allowance starting Jan. 1, 2026.
- [H.B. 25B-1003](#): Repeals the preferential 1% insurance premium tax rate for regional home offices.

Click [here](#) for the Crowe alert on Colorado's changes.

New Jersey Creates \$500 Million Manufacturing Credit

[A.5687](#) establishes the Next New Jersey Manufacturing Program, administered by the NJ Economic Development Authority (NJEDA). The program sets aside \$500 million in transferable tax credits for eligible capital projects through 2029. Projects must invest at least \$10 million and create 20 full-time jobs. Credits may be sold in equal increments of \$25,000 at a minimum of 85% of face value and may be carried forward for up to 10 years.

Click [here](#) for the Crowe alert on New Jersey's changes.

One Big Beautiful Bill Act (OBBBA) impact

State-Level Revenue and Policy Responses

Multiple states evaluated or responded to the OBBBA's tax changes.

- **Maryland** will decouple from the act in 2025 and conform in 2026, absent legislative action. See the 60-day report from Maryland and the [comptroller's analysis of federal tax changes](#).
- **Connecticut** issued [Special Examination on H.R. 1](#), highlighting benefits to capital-intensive industries and potential for economic growth.
- **Nebraska** published "[Effects of the One Big Beautiful Bill Act on the State of Nebraska's Tax Revenue](#)," estimating \$270 million in corporate and \$130 million in individual income tax losses over four years.
- **North Dakota** issued its [2025 Legislative Recap](#), confirming automatic conformity due to federal tax income linkage.
- **Oregon**, in its [Revenue Outlook \(September 2025\)](#), forecasted \$888 million in losses tied to business provisions.
- **Pennsylvania** released "[Federal Tax Cut Reduces FY 25-26 CNIT Revenue](#)," projecting \$500 million to \$900 million in lost corporate tax revenue.
- **Colorado** detailed a \$1.2 billion impact in its [tax policy impacts report](#), prompting a special session and resulting legislation to address conformity, credit sales, and base protections.

States Providing Guidance

- **Alabama** provided [Notice on R&E Expenditures](#), allowing full expensing for state purposes while requiring federal amortization addbacks. The notice allows full expensing for state purposes while requiring federal amortization addbacks.

Reporting federal changes

Pennsylvania – Refund Claim Dispute Over IRS Audit Adjustments

In [Mission Funding Beta Co. v. Commonwealth of Pennsylvania](#) (Aug. 14, 2025), the taxpayer sought a refund after a federal audit significantly reduced its federal taxable income for 1994-2012. The Pennsylvania Department of Revenue denied the refund, asserting it was filed beyond the three-year statute of limitations. On appeal, the Board of Appeals agreed, not addressing the taxpayer's argument that the revenue agent's report (RAR) statute applied. A trial court later remanded the case back to the board to evaluate whether the RAR-related limitations period applies. A dispute also arose regarding the correct definition of "federal taxable income," with the state citing line 28 and the taxpayer arguing for line 30.



Nexus/doing business

Indiana – Receipt of Dividends Does Not Constitute Transacting Business

The Indiana Department of Revenue ruled that a bank holding company receiving only dividend income from subsidiaries was not transacting business in the state for purposes of the financial institutions tax (FIT). As a result, the company was properly excluded from the Indiana FIT combined group. The ruling was based on IC 6-5.5-1-18 and confirmed in [Letter of Findings No.18-20241499](#).

Apportionment

California Finalizes Service Revenue Sourcing Regulations

Effective for tax years beginning on or after Jan. 1, 2026, California amended [Regulation Section 25136-2](#) to provide detailed guidance on sourcing service revenue under market-based rules. The regulation outlines cascading sourcing rules based on the type of service and the nature of the customer. A new safe harbor allows professional services firms with over 250 customers to source receipts to billing addresses, unless a single customer accounts for more than 5% of receipts. Guidance also is included for sourcing income from corporate stock and pass-through entity sales.

Minnesota Supreme Court Clarifies Service Revenue Sourcing

In [Humana MarketPoint Inc. v. Commissioner of Revenue](#), the Minnesota Supreme Court held that service revenue may be sourced to Minnesota even when the direct customer receives services elsewhere, if the services ultimately are received by Minnesota-based individuals (the customer's customers). The court found that the term "received" extends beyond the direct purchaser to include the end beneficiaries of the service. This interpretation affirms that receipts from services provided to an affiliate are sourced to Minnesota if the affiliate's customers are located there.

Minnesota – Supreme Court Upholds Alternative Apportionment for DuPont

The Minnesota Supreme Court affirmed the Minnesota Department of Revenue's use of net rather than gross receipts from forward exchange contracts (FECs) in DuPont's sales factor. The court held that including gross receipts from FECs, which had no Minnesota-based activity, would distort the income apportioned to the state. [E.I. DuPont v. Commissioner of Revenue](#).

Oregon – Hedging Receipts Excluded From Sales Factor

The Oregon Tax Court ruled that a taxpayer's gross receipts from oil and gas hedging transactions were not includable in the sales factor. Although related to its primary operations, the court found they were not derived directly from its primary business activity. [Chevron U.S.A. Inc. v. Department of Revenue](#).

Deference

Oregon Supreme Court Upholds Deference to DOR Regulation

In [PacifiCorp v. Department of Revenue](#), the Oregon Supreme Court reversed the Tax Court's ruling, holding that agency rules should be treated as controlling unless they contradict the statute. The court emphasized that Oregon's administrative law framework differs from recent federal trends, such as the *Loper Bright Enterprises v. Raimondo* decision, and confirmed the continued relevance of deference in state administrative guidance in tax valuation disputes.

Pass-Throughs

Colorado – Reporting Federal Adjustments Under MTC Model

On Aug. 18, 2025, Colorado adopted the Multistate Tax Commission's model for reporting federal partnership audit adjustments through [H.B. 23-1277](#), approved June 1, 2023. The law establishes deadlines, partner-level reporting rules, and representation procedures. Further guidance was issued in [Rule 39-22-601.5-1](#), adopted Aug. 18, 2025.



State-specific developments

California – DISA Treatment in IRC Section 355 Spin-Offs

On July 30, 2025, [Legal Ruling 2025-01](#) clarified basis allocation involving a deferred intercompany stock account (DISA) when distributed stock is involved in a Section 355 spin-off. Top Tier reduced its basis in Bottom Tier stock to offset the DISA, resulting in no gain on distribution. No income was recognized by Top or Middle Tier upon shareholder distribution.

Illinois – Tax Amnesty Program Announced

Illinois established a tax amnesty program covering tax liabilities from periods ending after June 30, 2018, and before July 1, 2024. Participation runs from Oct. 1, 2025-Nov. 17, 2025, waiving eligible penalties and interest. The program includes corporate, individual, and sales and use taxes but excludes certain nontax items. [Informational Bulletin FY 2026-01](#).

New Jersey – Mediation Pilot Program Launched

Effective Oct. 1, 2025, the New Jersey Division of Taxation introduced a two-year mediation pilot program to resolve state tax disputes outside of formal appeal. Mediation involves neutral facilitators and aims to reduce case volume before the Conference and Appeals Branch or Tax Court. [Tax Bulletin 115\(R\)](#).

Texas – Rehandling and Monitoring Costs Not COGS

The Texas comptroller determined that certain labor and monitoring costs – such as go-backs, markdown scanning, sales floor organizing, and security tagging – are not includable in cost of goods sold (COGS). These activities were deemed post-display handling or not quality-control related. [Comptroller Hearing No. 202506014H](#).

Texas – Sales-Type Lease Treatment as Wholesale

The comptroller confirmed that sales-type leases meeting FAS 13 criteria can qualify a lessor as a wholesaler eligible for the lower franchise tax rate and the COGS deduction. Classification depends on factual lease analysis. [Hearing No. 202507015M](#).

Pennsylvania – Franchise Tax Not Subject to Pennsylvania Addback

Pennsylvania's Board of Finance and Revenue held that the Texas franchise tax is not an income tax and thus not subject to the corporate income tax addback. The decision relied on statutory language and Texas tax characterization. [PA Board Docket #2422327](#).

Washington – Manufacturer Classification Affirmed

The Washington Appeals Court upheld the Department of Revenue's classification of a taxpayer as a manufacturer based on ownership of raw materials and production control. The classification subjected all manufactured sales to business and occupation tax. [Fujifilm Sonosite Inc. v. WA Department of Revenue](#).

Capital gains

Missouri – Capital Gains Deduction for Individuals and Corporations

Enacted on July 10, 2025, [H.B. 594](#) provides 100% capital gains deduction for individual taxpayers beginning in tax year 2025. The deduction applies to all capital gain income reported for federal income tax purposes.

For corporate taxpayers, the same 100% deduction will apply only in years following a tax year in which the top Missouri individual income tax rate is 4.5% or lower. Since the rate for 2025 is 4.7%, the earliest possible eligibility year for corporations is 2027, assuming statutory rate reduction triggers are met. [Missouri Department of Revenue Guidance](#).

Depreciation

Rhode Island – Obsolescence Excluded From Depreciation

On July 3, 2025, the Rhode Island Supreme Court ruled that accumulated depreciation for telecommunications property valuation does not include economic or functional obsolescence. Only physical deterioration qualifies under the statutory language. [Verizon New England Inc. v. Savage](#).



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Proposals

New York – Local Millionaire Surtax Proposed

The Fair Share Act ([A.8953](#)) would allow cities with personal income taxes to add a 2% surtax on income over \$1 million. As of Sept. 30, 2025, the bill remains in committee.

Georgia – Committee To Study Income Tax Elimination

A [new Georgia Senate committee](#) was formed to explore eliminating the state's income tax. The group held its first meeting in August 2025.

Trends

Pennsylvania – False Claims Act Advances

[H.B. 1697](#), which would enact a state *False Claims Act* without a tax exemption, passed the House and moved to the Senate in July 2025.

New Jersey – Credit Transfer Transparency Requirement

Under the Next New Jersey Manufacturing Program, NJEDA must publish on its website the material terms (buyer, seller, amount, and consideration) of every tax credit transfer. See the earlier New Jersey summary for specifics on the sale of credits.

Rates and conformity

Maine – IRC Update Enacted

[LD 48](#) updated Maine's conformity date from Dec. 31, 2023, to Dec. 31, 2024. The change applies to tax years beginning on or after Jan. 1, 2024.

Rhode Island – Temporary Decoupling From OBBBA

[H.B. 5076](#) provides that for tax years beginning on or before Jan. 1, 2025, any income or deduction excluded under the OBBBA must be included in corporate net income.

Additional Resources

[Tax News Highlights](#)

[State and Local Tax Services](#)

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