mncpa
Elevate your impact.

2026–2027
MNCPA Professional Education

Multistate Tax Trends: Interstate Insights and Regional Perspectives

cpa

iscpa
IOWA SOCIETY OF CPAs

ILLINOIS CPA SOCIETY

IN CPA SOCIETY

North Dakota CPA SOCIETY

WISCONSIN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
WICPA

MNCPA

ONLINE RESOURCES

Program Materials

Most program materials are available for download before and after the event.

- Visit **www.mncpa.org/materials**.
- Log in with your MNCPA username and password.
- Materials are available for two weeks following the event date.

Note: Your registration fee must be paid in full to access materials online.

CPE Transcript (Certificate of Attendance)

Need proof of attendance? Print your official transcript from the MNCPA website.

- Visit **www.mncpa.org/transcript**.
- Log in with your MNCPA username and password.

Note: MNCPA events will appear on your transcript within two weeks after their conclusion.

CPE Log (Members only)

What CPE did you take? When? Where?
Track your credits in your personal CPE Log. It's a free, easy-to-use tool for MNCPA members.

- Visit **www.mncpa.org/cpelog**.
- Log in with your MNCPA username and password.

Midwest SALT Manual

Content provided by:

Brittany DeMolee, CPA	Eide Bailly LLP	North Dakota
Brian Kelley, CPA, MST	Sikich, LLC	Wisconsin
Dan Kidney, CPA, JD	Wipfli, LLP	Minnesota
Tyler Macik, JD	KSM CPAs & Advisors	Indiana
Chelsea Nunn	RSM US LLP	Iowa
Justin Shelman, CPA, MST	Prosperity Partners	Illinois
Stacy Watson, CPA	Lutz & Company, PC	Nebraska

Table of Contents

Illinois

Legislative updates

Chicago Lease Tax

Chicago adopted several significant indirect tax changes effective January 1, 2026.

- The personal property lease transaction tax increased from 11% to 15%, including for nonpossessory computer leases such as SaaS.
- Adopted a social media amusement tax applicable to certain large social media businesses based on Chicago consumer counts.
- Additional changes included increases to the checkout bag tax, mooring and docking tax, sports wagering tax, and a new offsite alcohol tax.

Credits/Incentives

Illinois created or expanded several credits during 2025 and 2026:

- Reimaging Energy and Vehicles ("REV") Illinois and REV Construction Jobs credits, effective for tax years beginning on or after January 1, 2025.
- Manufacturing Illinois Chips for Real Opportunity ("MICRO") Investment, MICRO Illinois, and MICRO Construction Jobs credits, effective for tax years beginning on or after January 1, 2025.
- Illinois Gives credit, effective for tax years ending on or after December 31, 2025.
- AIM for Illinois credit, effective for tax years beginning on or after January 1, 2026.
- Expansion of the Wages Paid to Returning Citizens credit, including a 15% credit rate for tax years beginning on or after January 1, 2025 and a $7,500 per-person cap for tax years ending on or after December 31, 2025, subject to statewide caps and certification requirements.
- Significant expansion and extension of the Film Production Services credit through tax years beginning before January 1, 2039.
- Illinois also extended the River Edge and Apprenticeship credits.

Tax Amnesty

A remote retailer amnesty program will be available from August 1, 2026 through October 31, 2026, covering eligible remote retailer sales from January 1, 2021 through June 30, 2026, using simplified rates of 9% for general merchandise and 1.75% for low-rate items

Sales and use tax

Changes effective July 1, 2025 include the following:

- The Hotel Operators' Occupation Tax was amended to eliminate the exclusion of short-term rentals, effectively requiring certain rental platforms to collect hotel tax on short-term rentals.
- The tax on intrastate telecommunications increases from 7% to 8.65% with the increase designated for the statewide 9-8-8 surcharge.

- The definition of tobacco products is amended to include products made or derived from tobacco, or that contain nicotine whether natural or synthetic, including nicotine pouches, lozenges, and gum. The tax rate on the wholesale price of tobacco products is also increased from 36% to 45%.
- A tax will be imposed on companies that operate online or mobile sports wagering for the privilege of doing business in Illinois. The tax will be $0.25 per wager for the first 20 million wagers and $0.50 per wager beyond that threshold.

State income taxes for partnerships, S/C Corporations and individuals; PTET

Income Tax (Individual)

Illinois updated personal exemption amounts during the period. The 2024 personal exemption was $2,775, the 2025 amount increased to $2,850, and the 2026 amount increased to $2,925. Illinois also added a Child Tax Credit to the 2024 individual return tied to Illinois earned income credit eligibility and a qualifying child under age 12. For tax year 2025, the Child Tax Credit calculation was updated to 40% on the applicable schedule.

Effective for tax years beginning on or after January 1, 2025, Illinois added an individual subtraction for medical debt relief included in federal adjusted gross income under the Medical Debt Relief Act.

Beginning with tax year 2025, certain retirement payments to retired partners and beneficiaries moved to Schedule M reporting.

Income Tax (Entity)

Illinois adopted the Finnigan method for unitary combined reporting for tax years ending on or after December 31, 2025. Under prior Joyce treatment, nexus was tested member-by-member; under Finnigan, if any member of the unitary group is taxable in a state, the group is treated as taxable there for purposes of numerator inclusion and throwback/throwout analysis.

Illinois changed the sourcing of gains and losses from sales or exchanges of Subchapter S corporation shares and partnership interests, other than investment partnerships. For tax years ending on or after June 16, 2025, those gains or losses are allocable to Illinois if the pass-through entity is taxable in Illinois, based on the average of the entity's Illinois apportionment factor for the year of sale and the two preceding tax years. This is a change from current law, which requires a nonbusiness gain or loss from the sale of a pass-through entity to be sourced to the taxpayer's state of commercial domicile. Investment partnerships are exempt from this rule.

For tax years ending on or after December 31, 2025, Illinois narrowed the related-party interest and intangible expense addback exceptions for tax years ending on or after December 31, 2025. The state removed two safe-harbor exceptions and retained only limited exceptions, including a conduit-type exception, an unreasonable-adjustment exception proved by clear and convincing evidence, and relief where an agreed alternative apportionment method applies.

Illinois aligned its treatment of certain interest expense subject to IRC Section 163(j) with federal consolidated return ordering concepts and IRC Section 59A(c)(3), requiring the reduced deductible interest to be allocated first to non-foreign affiliates and then to foreign affiliates. This tends to preserve more foreign-related-party interest for Illinois addback purposes.

For tax years ending on or after December 31, 2025, Illinois limited the foreign dividend deduction for GILTI to 50% of the amount recognized for tax years ending on or after December 31, 2025, regardless of ownership percentage. Schedule J was revised for this change.

For tax years beginning on or after January 1, 2026, Illinois decoupled from federal 100% bonus depreciation under IRC Section 168(n). Taxpayers must add back the federal depreciation not allowed for Illinois purposes using Form IL-4562. This change creates a new state-federal depreciation difference and may require separate fixed asset tracking.

Late-2025 legislation removed the expiration date for the Illinois pass-through entity tax, effectively making the regime permanent. This provides certainty for pass-through owners seeking a state-level workaround to the federal limitation on the deduction for state and local taxes.

Illinois also removed the expiration date for the deduction of excess business losses for trusts and estates, preserving this state tax treatment beyond its prior sunset.

For corporations other than S corporations, the Illinois net loss deduction was capped at $500,000 for tax years ending on or after December 31, 2024 and before December 31, 2027. This temporary limitation may materially affect taxpayers with significant loss carryforwards.

Selling goods and services online; Nexus and allocation apportionment

Beginning January 1, 2026, Illinois eliminated the 200-transaction economic nexus threshold for remote retailers and marketplace facilitators. The remaining threshold is $100,000 of cumulative gross receipts. This simplifies nexus analysis, although taxpayers exceeding the receipts threshold must still comply with Illinois registration and collection obligations.

Illinois expanded destination-based sourcing and “Leveling the Playing Field” concepts to the Service Occupation Tax and Service Use Tax. These changes affect servicemen and marketplace facilitators selling services into Illinois and reflect a broader move toward destination-based indirect taxation.

Effective June 16, 2025, Illinois may impose a tax equal to 15% of gross receipts when a taxpayer fails to provide records needed to determine the Illinois delivery location for Retailers’ Occupation Tax sourcing. This amount applies in lieu of a penalty and underscores the importance of maintaining sourcing documentation.

Indiana

Legislative updates

Income Tax

Federal Modifications and Indiana Amended Returns: Effective Jan. 1, 2026, if a modification occurs on a federal income tax return of a C Corporation, financial institution, individual, estate, or trust and affects either federal or Indiana income tax liability, a notice (in the form and manner prescribed by the department) and an amended Indiana return must be submitted to the Indiana Department of Revenue (DOR) within one year, if the modification occurs after Dec. 31, 2025. This is extended from the current 180-day deadline.

Citation: SEA 243, § 19, P.L.128-2026, IC 6-3-4-6.

Federal Partnership Audit Adjustments: Effective Jan. 1, 2026, the deadline for tier 1 partnership entities that receive a final federal adjustment to make the required adjustments and file an Indiana amended return is extended from 180 days to one year, if the final federal determination is received after Dec. 31, 2025. The deadline for the Indiana DOR to issue a report of proposed partnership adjustments arising from final federal adjustments to direct and indirect parts is extended to 1 year.

Citation: SEA 243, §§ 21-22, P.L.128-2026, IC 6-3-4.5-2 and IC 6-3-4.5-14.

Composite Return Penalty: Effective March 3, 2026, Indiana limits the $500 composite return penalty for pass-through entities to situations where the entity fails to include nonresident partners or shareholders that have a distributive share of Indiana-source income greater than $0.

Citation: SEA 259, P.L.48-2026, IC 6-3-4-12, IC 6-3-4-13, and IC 6-3-4-15.

Expansion of Local Income Tax: During the 2025 legislative session, Indiana changed its local income tax structure to allow municipalities (cities and towns) to impose their own local income tax of up to 1.2% and to cap the combined county and municipal rate at 2.9%. These changes were originally scheduled to take effect in 2028.

In the interim, counties were allowed to impose an additional replacement local income tax rate of up to 0.3% to offset a county property tax decrease, and that authority was set to expire on Jan. 1, 2028.

Effective retroactive to July 1, 2025, Indiana delays the new municipal rate framework until 2029. In conjunction with this delay, the interim 0.3% replacement rate now remains available through Jan. 1, 2029.

Citation: HEA 1210, P.L.157-2026, IC 6-3.6-3-3, IC 6-3.6-6-2, and IC 6-3.6-6-3.1.

Nonresidents With a Principal Place of Employment in Indiana: Effective Jan. 1, 2029, Indiana clarifies that nonresidents with a principal place of employment in an Indiana county remain subject only to the county local income tax. The municipal component of the local income tax does not apply to nonresidents under the principal place of employment rule.

Citation: HEA 1210, P.L.157-2026, IC 6-3.6-2-13 and IC 6-3.6-6-22.

Tax Year 2025 Conformity Updates:
IRC Conformity: For tax year 2025, Indiana's static IRC conformity date remains Jan. 1, 2023.

Citation: SEA 212, P.L.1-2026, IC 6-3-1-11.

Conformity to Federal Deductions: Starting with the 2025 tax year, Indiana follows three new income tax deductions enacted under the OBBB. These include deductions for qualified adoption expenses (IRC 23), accelerated depreciation for certain biomass property and renewable generation equipment ((IRC 168(e)(3)(B)(vi)), and high-deductible health plans that cover telehealth and other remote care services without requiring a deductible (IRC 223(c)(2)(E)).

Citation: SEA 212, P.L.1-2026, IC 6-3-1-11.

Research and Experimental Expenses (IRC 174 and 174A):

Beginning Jan. 1, 2025, Indiana adds new rules for taxpayers that make the federal election provided by the OBBB to recover domestic research expenses that were capitalized for the 2022–2024 tax years. If a taxpayer elects to prospectively deduct the remaining unamortized balance over one or two years on their federal return(s), Indiana requires an adjustment that adds back any federal amortization deduction for domestic research expenses.

For federally qualifying "small business taxpayers" that instead elect to deduct 2022–2024 research costs in the year incurred by filing amended federal returns, Indiana will follow the federal treatment. In that case, the taxpayer must amend all affected Indiana returns for any year in which the taxpayer reported Indiana's Section174 modifications or filed an amended federal return with the IRS.

For domestic research and experimental expenditures incurred during tax year 2025 and thereafter, Indiana continues to allow for a current deduction in the year paid or incurred.

Citation: SEA 243, § 9, P.L.128-2026, IC 6-3-2-29.

Qualified Bonus Property and Qualified Production Property (IRC 168(k) and IRC 168(n)): Indiana continues to decouple from federal bonus depreciation, and beginning Jan. 1, 2025, Indiana also decouples from the OBBB's accelerated depreciation rules for qualified production property. Taxpayers that claim these federal depreciation benefits will need to recompute depreciation for Indiana purposes and report an adjusted gross income modification for the difference between the federal depreciation claimed and the depreciation allowed under Indiana rules.

Citation: SEA 243, § 10, P.L.128-2026, IC 6-3-2-30.

Business Interest Expense Limitation (163(j)): Indiana continues to decouple from the federal business interest expense limitation. Taxpayers may subtract the amount of business interest disallowed at the federal level in the year the interest was first paid or accrued. Taxpayers must also continue to add back any interest previously deducted for Indiana purposes when that interest later becomes deductible for federal purposes.

Citation: SEA 243, § 25, P.L.128-2026, IC 6-3-1-3.5.

Section 179 Expenses: Indiana continues to decouple from the federal Section 179 expensing limit. Even though the OBBB increased the federal limit, Indiana's cap remains $25,000 per taxable period.

Citation: SEA 243, § 25, P.L.128-2026, IC 6-3-1-3.5.

Tax Year 2026 Conformity Updates:

IRC Conformity: For tax year 2026, Indiana has a new static IRC conformity date of Jan. 1, 2026. However, Indiana continues to decouple from certain federal provisions, including:

- IRC Section 163(j) – Business interest limitation
- IRC Section 168(k) – Bonus depreciation
- IRC Section 179 – Expensing

- IRC Section 168(n) – New OBBB depreciation provisions

Citation: SEA 212, P.L.1-2026, IC 6-3-1-11; and SEA 243, § 10 and 25, P.L.128-2026, IC 6-3-2-30 and IC 6-3-1-3.5.

Qualified Overtime Wages (IRC Section 225): For taxable years beginning after Dec. 31, 2025, and ending before Jan. 1, 2027, Indiana allows individual taxpayers to claim an adjusted gross income deduction for qualified overtime wages, equal to the amount allowed for federal purposes under the OBBB.

Citation: SEA 243, § 12, P.L.128-2026, IC 6-3-2-32.

Qualified Tips (IRC Section 224): For taxable years beginning after Dec. 31, 2025, and ending before Jan. 1, 2027, Indiana allows individual taxpayers to claim an adjusted gross income deduction for qualified tips, equal to the amount allowed for federal purposes under the OBBB.

Citation: SEA 243, § 11, P.L.128-2026, IC 6-3-2-31.

Qualified Passenger Vehicle Loan Interest (IRC Section 163(h)(4)): For taxable years beginning after Dec. 31, 2025, and ending before Jan. 1, 2027, Indiana allows individual taxpayers to claim an adjusted gross income deduction for qualified passenger vehicle loan interest, equal to the amount allowed for federal purposes under the OBBB.

Citation: SEA 243, § 13, P.L.128-2026, IC 6-3-2-33.

Sales Tax

Rules Surrounding the Phaseout of the Penny: Effective Jan. 1, 2027, Indiana will require cash transactions to be rounded under the state's penny phase out rules. For purposes of retail sales tax, food and beverage tax, and other state or local tax that is imposed on a transaction and that is required to be withheld by a person or entity acting as an agent or trustee for the state or a local unit, the tax will still be calculated under existing rules on the unrounded transaction amounts, and the rounding adjustment will apply only to the final cash amount due, including tax. The final cash amount may be rounded down to the next $0.05, rounded up to the next $0.05, or rounded to the nearest $0.05 under Indiana's statutory nickel-rounding convention.

Citation: SEA 243, § 1-2, P.L.128-2026, IC 5-36.5 and IC 6-2.5-1-5.

Rebuttable Presumption for Certain Out-of-State Vehicle and Trailer Purchases: Effective retroactively to July 1, 2023, Indiana creates a rebuttable presumption that the sales tax exemption for cargo trailers, recreational vehicles, motor vehicles, aircraft, and watercraft registered for use outside Indiana does not apply when:

- The item is purchased by a business with an Indiana resident member, partner, or officer owner and is titled in the business's state of organization, if that state does not impose a sales and use tax; and
- An Indiana resident owner transfers the property to such a business and the item is titled in the business's state of organization in a state without a sales and use tax.

Citation: SEA 243, § 4, P.L.128-2026, IC 6-2.5-9-12.

The presumption may be rebutted by evidence such as the following, among other facts and circumstances:

- The property is insured for primary use at an address outside Indiana;\
- The property will be permanently stored or garaged at a physical address outside Indiana; or

- The Indiana resident owns a secondary residence in the state in which the property is titled or registered.

  Citation: SEA 243, § 4, P.L.128-2026, IC 6-2.5-9-12.

Qualified Data Center User Electricity Contribution Requirement: Effective July 1, 2026, to be able to use a specific transaction award certificate permitting exempt purchases of qualifying data center equipment, a qualified data center user that receives will be required to pay an amount equal to not more than one percent (1%) of the state gross retail and use taxes not paid on the facility's total electricity billed (as a result of using the transaction award certificate) each calendar quarter to the awarding municipality.

Citation: HEA 1210, § 100, P.L.157-2026, IC 6-2.5-15-15.5.

Manufactured Home Sales Tax Exemption Expanded: Indiana has expanded the definition of "manufactured home" for purposes of the partial-sales tax exemption. Under this change, a structure that otherwise meets the manufactured home requirements is treated as a qualifying manufactured home for sales tax purposes if it is more than 35 body feet in length.

Citation: HEA 1210, § 99, P.L.157-2026, IC 6-2.5-5-29.

Local Taxes Authorized for Northwest Indiana Stadium Authority Projects:

City of Hammond Admissions Tax: Effective Feb. 26, 2026, the fiscal body of the city of Hammond may impose an excise tax of up to twelve percent (12%) on admissions to events held at a facility with a seating capacity exceeding 40,000, excluding personal seat licenses.

Citation: SEA 27, P.L.44-2026, IC 6-9-78.

Administrative Changes

Multiple Delivery Methods, Including Electronic Delivery: Effective March 5, 2026, the Indiana DOR has additional ways it may now deliver certain documents to taxpayers. In addition to traditional postal methods, taxpayers may receive correspondence from the department electronically, including exclusively via INTIME accounts. Furthermore, registered taxpayers may affirmatively request delivery of all documents to be sent exclusively through INTIME in lieu of receiving notices in the mail. Additional guidance is expected from the DOR regarding the form of such affirmative request.

Citation: SEA 243, § 68, P.L.128-2026, IC 6-8.1-3-11.

Note: Exclusive notification through INTIME is an efficient and effective way to receive information from the department only to the extent that registered taxpayers maintain access to their INTIME accounts. KSM recommends clients conduct regular checks on their INTIME account access and passwords if opting into exclusive notification through INTIME. Additionally, regularly monitoring and updating contact information provided to the department, including mailing addresses and email addresses can assist in ensuring all correspondence is timely received.

Expanded Tax Warrant Process: Effective July 1, 2026, Indiana clarifies that a tax warrant judgement lien applies statewide, rather than being tied to a single county. Although the lien applies statewide, tax warrants are recorded and released through county judgment records. The new provision provides that when tax warrants are recorded in multiple counties, taxpayers must file affidavits in each county where a warrant was filed.

The law also expands the circumstances in which the department may file a tax warrant with the Marion County circuit court clerk. In addition to the existing rule allowing the department to file in Marion County when the taxpayer does not own property in Indiana or the department cannot determine whether or where the taxpayer owns property in Indiana, the department may now also file in Marion County if the taxpayer does not reside in Indiana, is not domiciled in Indiana, or the department cannot determine the taxpayer's residence or domicile.

Citation: SEA 243, § 75, P.L.128-2026, IC 6-8.1-8-2.

Simplified Expungement Process: Effective July 1, 2026, Indiana also codifies a formal process for requesting expungement of a tax warrant. First, there is a procedural requirement. The taxpayer must submit a department-prescribed form and supporting documentation. This is not automatic relief.

The department has three independent grounds to grant expungement:

- The warrant was filed in error;
- Expungement is in the state's best interest; or
- Expungement will facilitate collection of outstanding liabilities

Expungement is considered "in the best interest of the state" if and when:

- All liabilities (tax, interest, penalties) tied to the warrant are fully paid;
- All required returns have been filed;
- The taxpayer is currently compliant on all other filings and payments; and
- There is no pending litigation on the warrant

Even if compliant, department retains broad discretion to deny relief and may evaluate additional factors, such as:

- Size and age of the liability;
- Existence of other liabilities or warrants;
- Whether the taxpayer had notice;
- Efforts to resolve before the warrant;
- Whether delays were the taxpayer's fault;
- Procedural defects or invalidity of the warrant; or
- Overall filing compliance

Once a decision is made, the department must formally issue a written approval or denial, so the process results in a documented determination. Finally, the commissioner can deny expungement if the warrant arose from fraudulent, intentional, or reckless conduct, regardless of other factors.

Citation: SEA 243, § 75, P.L.128-2026, IC 6-8.1-8-2.

Expanded Tax Amnesty Program: Indiana's upcoming tax amnesty program was originally enacted during the 2025 legislative session and applied to unpaid tax liabilities of any tax type for tax years ending before Jan. 1, 2023. In the 2026 legislative session, Indiana expanded the program to include unpaid tax liabilities of any tax type for tax years ending before Jan. 1, 2024. Participation is expected to eliminate interest and penalties related to the disclosed tax liability.

Citation: SEA 243, § 69, P.L.128-2026, IC 6-8.1-3-17.

Taxes Held in Trust and Responsible Persons: Effective July 1, 2026, Indiana added two new sections to clarify the personal liability rules for "taxes held in trust" and the definition of "responsible person."

"Taxes held in trust" means a listed tax that is collected or received from customers; withheld for amounts paid or credited to any individual or other entity; or held in trust or as an agent of the sate under the applicable listed tax, which upon receipt or accrual becomes property of the state.

“Listed taxes” includes, among others, sales and use tax, state and local income tax withholding, financial institutions tax withholding, gasoline and special fuel taxes, auto rental excise tax, aviation fuel excise tax, heavy equipment rental excise tax, vehicle sharing excise tax, electronic cigarette tax, innkeeper’s taxes, and local food and beverage taxes.

Citation: SEA 243 § 66, P.L.128-2026, IC 6-8.1-1-4.7.

A “responsible person” is defined as:

- An individual, including a sole proprietor or an employee, contractor, officer, or member of an applicable business entity; and
- Who has a duty to remit listed taxes held in trust for the state.

The determination of “responsible person” shall be made separately for each listed tax. Additionally, a taxpayer and each responsible person are jointly and severally liable for the payment of those trust taxes, including any related penalties and interest.

Additional guidance from the Indiana DOR is expected.

Note: These changes extend potential personal liability associated with Indiana taxes by expanding the taxes to which responsibility applies beyond the traditional “trust taxes” of sales/use and withholding and by expanding the definition of who qualifies as a responsible person beyond officers or owners. In addition to owners and officers, those operating in positions where filing or paying Indiana taxes or consulting on the filing or paying of Indiana taxes is part of their role should be aware of these changes.

Citation: SEA 243, §§ 66-67, P.L.128-2026, IC 6-8.1-1-4.7 and IC 6-8.1-1-11.

Sales and use tax

Under IC § 6-2.5-2 and IC § 6-2.5-3, Indiana imposes a 7% sales tax on retail transactions made in Indiana and a complementary use tax on the storage, use, or consumption of tangible personal property in Indiana if the property was acquired in a retail transaction.

For remote sellers, Indiana requires registration and collection when the seller has more than $100,000 of gross revenue from sales into Indiana in the current or prior calendar year; the 200 transaction threshold was removed effective Jan. 1, 2024. Additionally, a taxpayer would have nexus in Indiana if they have physical presence in the state. All sellers that must collect Indiana sales tax must register as a registered retail merchant and collect and remit Indiana sales tax. See Indiana DOR Sales Tax Information Bulletin #89 (April 2024).

Marketplace facilitators (either physical or electronic) must register and collect Indiana sales tax on transactions into Indiana if they meet the same nexus standards as remote sellers (including both its own sales and transactions its facilitating for sellers). DOR says marketplace facilitators must register and collect and remit sales tax on behalf of sellers, and their products can include tangible personal property, specified digital products, accommodations, and enumerated services. See Indiana DOR Sales Tax Information Bulletin #89 (April 2024).

A remote seller (including a marketplace facilitator) is required to adhere to the same requirements as all other Indiana registered retail merchants, including as it pertains to transactions that are exempt from Indiana sales tax. This means it is required to obtain either an Indiana General Sales Tax Exemption Certificate (ST-105) or a Streamlines Sales Tax Agreement Certificate of Exemption from the purchaser if the purchaser is eligible for an exemption from the sales tax. See Indiana DOR Sales Tax Information Bulletin #89 (April 2024).

State income taxes for partnerships, S/C Corporations and individuals; PTET

Indiana imposes a 4.9% corporate adjusted gross income tax on general corporations/non-financial institutions doing business in Indiana, and individuals are taxed at a rate of 2.95% for 2026, scheduled to decrease to 2.90% in 2027. (IC § 6-3-2-1, IN DOR Corp. & Sales Tax History webpage).

Pass-through entities generally are not subject to Indiana income tax at the entity level unless they make Indiana's annual Pass-Through Entity Tax (PTET) election under IC § 6-3-2.1. Only pass-through entities treated as partnerships or S Corporations for federal income tax purposes are eligible for the PTET election. The PTET generally follows the individual income tax rate, so the 2026 state PTET rate is generally 2.95%; no county income tax is included in the PTET calculation. Indiana provides a refundable PTET credit equal to the portion of the PTET paid by the electing entity that reflects the entity owner's share of the electing entity's income. Indiana allows an Indiana resident a credit for taxes paid to another state for the other's state's PTET if the other state's PTET was enacted by the state after 2017. There is no owner opt-out. PTET tax base is calculated post-apportionment for nonresidents, with resident owners having the ability to elect pre- or post-apportionment, but all resident owners must use the same treatment. For Indiana tax credits that can be passed through to owners, Indiana will permit a credit against PTET. See Indiana DOR Income Tax Information Bulletin #72B (July 2025).

Indiana also requires mandatory nonresident withholding/composite filing for pass-through entities with nonresident owners unless the partner/shareholder/owner provides the pass-through entity with an Indiana Withholding and Composite Filing Opt-Out Affidavit (Schedule IN-COMPA) indicating they meet one of the exceptions to mandatory nonresident withholding/composite tax. Indiana generally requires partnerships, S Corporations, trusts and estates to file composite adjusted gross income tax returns on behalf of all nonresident partners, shareholders, or beneficiaries, respectively, under IC 6-3-4-12(i), IC 6-3-4-13(j), and IC 6-3-4-15(h). If the nonresident owner's only Indiana source income is from the pass-through entity, composite filing generally eliminates the need for a separate Indiana individual return; however, if the owner files separately for other Indiana-source income, the composite tax is treated as tax paid on that owner's behalf. Indiana's PTET election may interact with this regime because Schedule PTET can serve a composite-return function in certain cases. PTET reduces the state composite withholding tax dollar-for-dollar, but note, if composite withholding tax is due for local income tax, PTET will not reduce local income tax due. However, note that the rate for nonresident withholding/composite tax for a corporate partner/shareholder is 4.9%, which is higher than the PTET rate; thus, the composite tax will not be fully offset by the PTET credit, meaning the differential is corporate composite tax due.

Selling goods and services online; Nexus and allocation apportionment

Indiana nexus is based on whether the taxpayer derives income from Indiana sources and whether its activities constitute "doing business" in the state. Under Ind. Code § 6-3-2-1 and IC § 6-3-2-2, Indiana taxes income attributable to Indiana sources, including income from doing business in the state. Income derived from Indiana shall be taxable to the fullest extent permitted by the Constitution of the U.S. and federal law, regardless of whether the taxpayer has a physical presence in Indiana, per § IC 6-3-2-2(a). For apportionment purposes, 45 IAC 3.1-1-38 treats a taxpayer as doing business if it conducts business activity in the state, such as maintaining an office or inventory, selling or distributing goods to Indiana customers, performing services for Indiana customers, owning or renting Indiana property, accepting orders in Indiana, or engaging in activity beyond protected solicitation under P.L. 86-272.

Indiana's allocation and apportionment rules are primarily found in IC § 6-3-2-2. Multistate taxpayers generally apportion business income to Indiana using a single-sales-factor formula, with Indiana receipts included in the numerator when sourced to Indiana. Regardless of the f.o.b. point or other conditions of the sale, sales of tangible personal property are generally sourced to Indiana when shipped or delivered to an Indiana purchaser, under IC § 6-3-2-2(e). Sales, other than sales of tangible personal property, such as services and intangibles, are generally sourced using market-based sourcing, under IC § 6-3-2-2(f). Indiana also permits alternative apportionment if the statutory method does not fairly reflect Indiana-source income under IC § 6-3-2-2(l)–(m).

Indiana finalized/released its updated income tax sourcing regulation, Ind. Admin. Code 3.1-1-55.5, last year. The regulation has specific rules on how to source different revenue streams, similar to those of the MTC's model rules on allocation and apportionment. Under IC § 6-3-2-2(v)(2), Indiana's regulations must be consistent with the MTC's model regulations for income tax apportionment as in effect on January 1, 2019, including any specialized industry provisions, except to the extent expressly inconsistent with IC § 6-3-2. A regulation is valid unless it is not consistent with the MTC's model regulations, and if partially valid and partially invalid, the rule remains in effect to the extent the rule is valid. In the absence of rules, or to the extent the regulation adopted is determined to be invalid, sales are to be sourced consistent with the MTC's model regulations for income tax apportionment in effect on January 1, 2019, including any specialized industry provisions, except to the extent expressly inconsistent with IC § 6-3-2.

To the extent rents and royalties from real or tangible personal property, capital gains, interest, dividends, or patent or copyright royalties constitute nonbusiness income, such receipts are allocated according to IC §§ 6-3-2-2(h) – (k).

Iowa

Iowa Landscape

- Iowa has decreased individual tax rates over the last 5 years
- FY25 Iowa pulled from rainy day funds to fill budget gaps
- FY26 spending is expected to be in excess of revenue
- Gubernatorial elections coming later in 2026
- What might the future look like?

Iowa R&D Tax Credit Program Redesign (Effective 2026)

- What changed
  - Iowa shifts from RAC (return-claimed) to an IEDA application-based credit
  - Eligibility limited to targeted industries/sectors (e.g., advanced manufacturing, bioscience, insurance/finance, technology/innovation)
  - Statewide cap: $40M/year; awards may be reduced pro-rata if claims exceed cap
  - Credit remains refundable, but is no longer transferable
- Why it matters
  - Some companies doing “qualifying” R&D (e.g., software) may be ineligible if their primary industry isn’t approved
  - Expected credit value is less predictable due to the statewide cap

R&D Continued…New Process, Documentation, and Timing: What to Do Now

- Two-step process
  - Qualified Business Certification (generally valid up to 5 years)
  - Annual credit application due Jan 31 after filing the most recent federal return
- New compliance requirements
  - Detailed Iowa QRE schedules (by entity, expense type, business component; wages by employee; vendors; etc.)
  - Independent CPA verification report included with each annual application
  - Enhanced compliance/recapture triggers (e.g., federal credit reductions, facility closures, workforce impacts)
- Credit mechanics & timing
  - Up to 3.5% of Iowa QREs, subject to the $40M cap
  - Timing delay: 2026 expenses claimed on 2027 return (gap vs. prior program)
- Action checklist
  - Confirm industry eligibility
  - Build documentation process now (employees/vendors/components)
  - Budget for CPA verification and model pro-rata cap impact

Tax Credits

- HF 2799 - Comprehensive Economic Development, Utilities, and Job Training Reform Act
  - Establishes the EDGE Program offering refundable, non-transferable tax credits to corporate headquarters projects that create/retain high-wage jobs meeting stringent eligibility and compliance criteria, including a minimum wage threshold and job quality standards.
  - Creates the Business Incentives for Growth Program Training Fund, funded by employer withholding, to reimburse approved training expenses for qualifying businesses, with safeguards against double-dipping on incentives.
  - Repeals the New Jobs Tax Credit (Section 422.11A), immediately ending the issuance of new credits but preserving rights for previously issued credits and carryforwards.
  - Overhauls the Iowa Industrial New Jobs Training Program: restricts use of new jobs credit from withholding to agreements made before June 30, 2026, reduces maximum cost deferment period for new agreements to 7 years, requires employer cost-sharing, and caps administrative expenses at 15%.
  - Requires community colleges to report bond interest annually and document eligible program costs to receive new jobs credit from withholding; prohibits use of funds for travel, conferences, or legal fees.
  - Updates the definition of 'foreign adversary' for the MEGA program and extends the program's sunset from 2027 to 2030.
  - Mandates biennial statewide electric load forecasting and transmission expansion planning by Iowa State University, with public utility data-sharing requirements and confidentiality protections; establishes a dedicated fund (financed by utility remittances) for this purpose.
  - Directs the creation of a legislative interim study committee to review the New Jobs Training Program, with broad stakeholder membership and a report due by December 15, 2026.

GILTI / NCTI

- SF 2492
  - Retroactive applicability to January 1, 2026
  - Section 422.35, subsection 12 amended to remove “global intangible low-taxed” language.
  - Will now read “Subtract, to the extent included, income under section 951A of the Internal Revenue Code.”
  - The fix was needed to maintain status quo from prior GILTI regime.

Property Tax Reform Overview – SF 2472

Key Structural Changes & Levy Limits

- 2% Levy Growth Cap
  - Applies to counties, cities, rate-limited levies, agricultural extension, and most local governments
  - Applies until FY30 and continues thereafter
  - New valuation excluded (new construction, improvements, boundary changes)
- County & City Levy Rate Caps (FY30)
  - Counties: $3.50 per $1,000 (Rural: $3.95)
  - Cities: $8.10 per $1,000
  - FY30 uses the lower of prior HF 718 caps or the new 2% growth calculation
- School & SAVE Changes
  - School foundation levy reduced:$5.10 (FY29) → $4.90 (FY30)
  - SAVE extended to 2071
  - SAVE equity transfers increased to reduce school additional levies to 25% by FY30
- Limits on Reserves
  - 35% cap on:
    - School unspent balances
    - Local government general fund reserves

Property Tax Reform: Additional Taxpayer Relief & Structural Reforms

Credits, Assessments, TIF, and Accountability

- Taxpayer Relief & Credits
  - FirstHome Iowa accounts:
    - Up to $5,500 income tax deduction per beneficiary
    - Earnings excluded from income tax
  - Rent reimbursement for elderly & disabled increased to $1,500
  - New Homestead exemption:10% exemption (min $5,500, max $20,000; indexed)
- Assessment & Appeal Reforms
  - Assessor bears burden of proof when value increases >10%
  - Required detailed explanation for significant increases
  - Prohibits ex parte communications in assessment protests
  - Expands definition of market-distorting transactions

Property Tax Reform: Additional Taxpayer Relief & Structural Reforms

- TIF & Economic Development
  - Workforce housing added as qualifying development
  - Future TIFs limited to 23 years
  - Existing perpetual TIFs limited to 60% revenue capture after 20 years
  - School districts may opt into TIF revenue
- Transparency & Accountability
  - New parcel-level property tax disclosure statements
  - Online posting allowed beginning FY28
  - Creation of task forces on:
    - Utility Replacement Tax (report due 12/31/26)
    - Payments in Lieu of Taxes (PILOTs) (report due 1/10/27)

HMO Tax

- Creates a new health care-related tax on HMOs (0.95% of taxable funds, with special higher rate of 3.5% for Jan 1–Sep 30, 2026, if federal approval is obtained), replacing the previous premium tax model.
- Defines 'taxable funds' for HMOs, including most payments received for health services, but excluding certain federal payments.
- Establishes new procedures for prepayment, credit, and refund of the HMO health care-related tax, with the possibility of license suspension or revocation for noncompliance.
- Amends crediting provisions so assessments paid by insurers may now be offset against the new HMO health care-related tax as well as the traditional premium tax.
- Strikes and replaces the old HMO premium tax section, ensuring all HMOs (including Medicaid contractors) are taxed under the new chapter 432B.
- Modifies rules for when and how much money can be transferred from the taxpayer relief fund to the general fund, and adjusts expenditure limitations accordingly for fiscal years starting July 1, 2027 and July 1, 2028.
- Transfers $347,013,889 from the taxpayer relief fund to the general fund due to federal tax law changes, and readjusts the general fund expenditure limitation for FY2026 accordingly.
- Appropriates $89,000,000 from the general fund to the Department of Health and Human Services for Medicaid reimbursement, with non-reversion of unspent amounts until the end of the following fiscal year.

Sales / Use / Excise Tax

- SF 2493: Creates a new excise tax exemption for ethanol blended gasoline with more than 85% ethanol when purchased for exclusive use in implements of husbandry used in agricultural production.
- SF 2480:
  - Creates a legal definition for 'nicotine analog' and includes these substances in alternative nicotine and vapor product regulations.
  - Expands the definition of 'alternative nicotine product' and 'vapor product' to include products containing nicotine analogs and clarifies included/excluded products and components.
  - Imposes a new excise tax: 5¢ per container (up to 20 units) for alternative nicotine products, 5¢ per unit beyond 20, and 5¢ per milliliter (or fraction) for vapor products with nicotine or analogs.
  - **Appropriates the first $3 million annually from new tax revenues to pediatric cancer research, therapy access, and leadership at the University of Iowa Stead Family Children's Hospital.**
- HF 2757: Creates a new sales and use tax exemption for tangible personal property, specified digital products, and services directly and primarily used for commencing or restarting nuclear electric generation facilities, effective January 1, 2026.

Iowa PTET

- All or nothing annual election made by extended due date
- Estimated required if more than $1,000 of tax
- Flat individual tax rate 3.8%
- Refundable PTET credit; Reduced amount (1less effective tax rate)
- Tiered structure considerations
- Restructuring considerations (F Reorg)

Minnesota

Legislative updates

2026 Omnibus Tax Bill (H.F. 2438), enacted May 28, 2026

Minnesota generally conforms to all provisions of the OBBBA, and it does so retroactively to the same dates as the related federal provisions. As of June 12, 2026, it is unclear whether MN DOR will automatically adjust the returns of taxpayers who had already filed their 2025 returns before May 28, 2026. The state's Tax Law Changes webpage (last updated June 5, 2026), under 2026 Legislative Session, simply says "we will update this page as more information is available."

Here is a summary of how MN treats major tax changes under the OBBBA:

- **Bonus Depreciation.** Under the TCJA, depreciation was applied at a 100% rate under Section 168(k), with the percentage decreasing by 20% starting in 2023 (resulting in a 40% rate for 2025). The OBBBA makes 100% bonus depreciation permanent, retroactively to property acquired on or after January 20, 2025. Historically, and still today, MN requires taxpayers to add back 80% of this federal bonus depreciation in the tax year during which it was deducted, and then subtract that amount in five equal 20% installments during the following five tax years. MN's historical bonus depreciation addback applies specifically to Sec. 168(k).

- **Sec. 179 Expensing.** For tax years beginning before Jan. 1, 2020, MN required taxpayers to add back 80% of their federal Sec. 179 expensing, and claim a subtraction for 20% of that amount over the next five tax years. For tax years beginning on or after Jan. 1, 2020, however, MN has fully conformed to the federal Sec. 179 expensing rules with no addback. Under H.F. 2438, MN continues that trend. Under OBBBA Sec. 70306, the federal Section 179 limit was *retroactively* increased from $1.25M to $2.5M, for property placed in service in taxable years beginning after Dec. 31, 2024 (i.e., for calendar 2025). Under H.F. 2438, MN fully conforms to this treatment with no addback.

- **Sec. 174/Sec. 174A.** The TCJA amended IRC Section 174 to require research and experimentation (R&E) expenses to be capitalized and amortized over a 5-year (domestic R&E) or 15-year (foreign R&E) period. Under the OBBB, domestic R&E expenditures paid or incurred on or after January 20, 2025, are immediately deductible, but can be electively capitalized.

    - For domestic R&E expenses incurred from 2022-2024, *all taxpayers* may elect to deduct unamortized amounts in 2025 or over 2025-2026, and *small business taxpayers* may elect to claim this same deduction on amended returns for 2022-2024, which must be filed on or before July 3, 2026.

    - MN conforms to all of the above except for C corporations, who must add back 80% of the expense federally claimed under Sec. 174A, and then subtract that 80% amount in four equal 25% installments over the next four tax years (not the familiar 20% over five years).

    - Because the retroactive expensing (2022-2024) for small business taxpayers must be done via amended by July 3, 2026, MN taxpayers must amend their related 2022-2024 returns within 180 days (Minn. Stat. 289A.38 Subd. 7(a)), which at the latest would be Wednesday, December 30, 2026.

  - Because small business taxpayers other than C corporations (i.e., partnerships, S corporations, individuals, estates, and trusts) are not subject to any addback, they should be able to use the 2022-2024 MN amended tax forms as currently drafted to report these federal changes.

  - Because small business taxpayers that are C corporations would need to file 2022-2024 Form M4X to report these deductions, but also report the 80% addbacks and 25% subtractions, they should likely wait until MN DOR has updated the 2022-2024 M4X forms to account for these newly-enacted modifications.

- **Sec. 163(j).** For most taxpayers other than qualified small businesses, the TCJA limited the deductibility of business interest expense to 30% (50% for 2019 and 2020) of adjusted taxable income (ATI), defined as EBITDA before 2022 and as EBIT from 2022 onward.

  - Under the OBBBA and effective for tax years beginning after Dec. 31, 2024, ATI returns to the EBITDA definition (a higher limit than EBIT).

  - Due to revenue concerns, Minnesota decoupled from the 2019-2020 limitation increase, creating state-only Section 163(j) carryovers (via MN-only Form 8990) for the difference caused by the 30% vs. 50% ATI limit.

  - Under H.F. 2438, MN fully conforms to the OBBBA's beneficial changes to Sec. 163(j), with no modifications. This was, by far the single largest revenue loss caused by the bill.

- **Excess Business Losses.** The OBBBA made Sec. 461(l) permanent (previously set to expire in 2028), and Minnesota conforms to that extension.

Sales and use tax

Rate: the state rate is 6.875%. The average local rate is 1.26%, max local rate is 3%.

Economic Nexus: 200 or more retail sales shipped to MN, or more than $100,000 in retail sales shipped to MN. Note that wholesale sales are not considered, but retail sales (even exempt ones) are considered.

Software: canned = taxable, custom = nontaxable, online hosted/cloud (SaaS) = nontaxable, digital products = taxable.

Multiple Points of Use: MN takes the position that MPU computations are valid only on an originally-filed return, and that MPU-based purchaser refund claims and amended returns are not valid. See Rev. Not. #15-03 (Sept. 28, 2015).

Physical Presence Nexus: MN provides guidance in Rev. Not. #19-03 (9/30/19).

Guidance about when TPP is incorporated into real property: Rev. Not. #18-04 (12/17/18).

Contractors' ability to make tax-exempt purchases when acting as a purchasing agent for a tax-exempt entity: Rev. Not #17-10 (Dec. 4, 2017).

Taxability of warranty and maintenance contracts: Rev. Not. #16-03 (3/7/16).

State income taxes for partnerships, S/C corporations and individuals; PTET

Business income tax base

- Federal conformity: MN is a "static conformity" state, as required by the MN Supreme Court in *Wallace*, 289 Minn. 220 (1971); see also Minn. Rev. Not. #18-01. As of the date of this outline, MN conforms to the Code as of May 1, 2026 (Minn. Stat. 290.01(31)).

- State Income Tax Addback: Minnesota has addressed this topic twice, in Rev. Not. #08-08 (addressing the Ohio CAT, the Texas Business Margin Tax, and the Wisconsin Recycling Surcharge) and in Rev. Not. #10-04 (addressing the Business Income Tax and Gross Receipts Tax components of the former Michigan Business Tax).

- Bonus depreciation
    - MN does not allow or require the addback of bonus depreciation expenses that are federally nondeductible. Instead, it requires the addback to occur in a tax year when those expenses become federally deductible (Minn. Stat. 290.0131(9)(b); 290.0133(11)). Unfortunately, MN does not provide clear or comprehensive guidance about what situations produce such an outcome.

    - Bonus depreciation subtractions (Minn. Stat. 290.0132(9); 290.0134(13)) follow the taxpayer, not the asset. MN law does not provide for alternative ways to recover the un-amortized subtraction modification, such as by adjusting the basis of the related asset (Minn. Stat. 290.0135(a)). In this way, MN's bonus depreciation subtraction regime functions like an "exit tax" for companies who stop filing in MN while they have unclaimed bonus depreciation subtractions.

    - MN DOR takes the position that bonus depreciation subtractions of nonresident shareholders and partners must be re-apportioned each year by using the S Corp's or partnership's apportionment for the current year, not the addback year.

    - MN DOR takes the position that when federal bonus depreciation is claimed under Sec. 481(a) (Form 3115), the addback must be made for the year of change, not for the years in which the depreciation would have been claimed but for Sec. 481(a). See https://www.revenue.state.mn.us/bonus-depreciation under "Reporting 481 Adjustments".

C Corporations

- Conformity to Federal Tax Treaties. MN takes the position that it is not bound by the provisions of U.S. tax treaties with other countries that limit the concept of "Effectively Connected Income" under Code Sec. 882. See Rev. Not. #26-01 (Feb. 2, 2026).

- Domestic Unitary Combined Reporting. MN requires C Corps that are unitary with each other to file a combined corporate franchise (net income) tax return. MN defines "unitary" under the "flow of value" test from Allied-Signal (Minn. Stat. 290.17(4)(b)), without any requirement of any kind of common ownership. MN creates a (rebuttable) presumption of unity if either the "three unities" test (ownership, operation, and use) or the "dependency and contribution" test is met (Minn. Stat. 290.17(4)(c)). For purposes of the "three unities" presumption, a greater than 50% common ownership is required to establish unity of ownership (Minn. Stat. 290.17(4) (e)). Corporations formed under the laws of a foreign country cannot use combined reporting (Minn. Stat. 290.17(4)(f)).

- Corporate partners. MN requires partner-level apportionment for the income and factors of unitary partnerships, and partnership-level apportionment for non-unitary partnerships. See MN Rev. Not. #08-03 (Feb. 19, 2008).

Business income tax: often-missed items

- The Right to Apportion. Unlike many states, who do not permit companies to compute their income tax liability with reference to an apportionment percentage unless they are "taxable" in at least one other state, MN tax law effectively gives all companies the right to apportion (Minn. Stat. 290.17(3)(a)).

- State Reporting of Federal Changes: if a MN taxpayer amends its' federal income tax return, or has a final determination of its' federal taxable income, the taxpayer must report that federal change to MN within 180 days. The report must be filed either in the form of an amended MN income/franchise tax return, or a letter explaining why the federal change does not produce any MN tax change. Failure to do so creates a six-year statute of limitations, beginning on the 181st day, for the MN DOR to audit that tax year and assess tax for any issue – not merely for the MN impact of the federal change (Minn. Stat. 289A.08(7), (8)).

- Sec. 382 Limits: Even though Minnesota's corporate income tax NOL is computed after apportionment, the related Sec. 382 limit is not (Rev. Not. #17-09, Nov. 6, 2019).

- Revenue Notices. Minn. Stat. 270C.07(1) authorizes the MN DOR to make, adopt, and publish "interpretive revenue notices". These Revenue Notices "do not have the force and effect of law and have no precedential effect, but may be relied upon by taxpayers until revoked or modified" (Minn. Stat. 270C.07(2). They are available on the MN DOR's website here: https://www.revenue.state.mn.us/revenue-notices.

- Electronic payment requirement. If a taxpayer pays more than $10,000 for any one tax type during MN's prior fiscal year (July 1 – June 30), it must pay all business taxes electronically for all future years or face a 5% penalty. https://www.revenue.state.mn.us/guide/payment-information

- Refund statute of limitations: For corporations and partnerships, the statute of limitations is 3 ½ years from the due date of the return, *including extensions* if applicable. For individuals, the statute of limitations is 3 ½ years from the original due date of the return, *not including extensions*. The counter-intuitive reason is that there is no such thing as an extended due date under the personal income tax.

- Private Letter Rulings. Despite many years of legislative efforts, the MN DOR does not offer Private Letter Rulings to any taxpayers.

- Administrative Appeals. A taxpayer is entitled to administrative review from the MN DOR if the taxpayer receives (1) an order assessing tax, (2) a denial of a request for abatement of penalty or interest, or (3) denial of a refund claim (cumulatively, a "Notice") (Minn. Stat.

270C.35 Subd. 1). The appeal does not need to be in any particular form, but must contain the items listed in Minn. Stat. 270C.35(4). The deadline for filing an Administrative Appeal is 60 (sixty) days from the date of the Notice, but a taxpayer is entitled to extend that deadline by (thirty) days if it requests such an extension in writing within the 60 (sixty) day period (Minn. Stat. 270C.35(5)).

Pass-through entity tax (Sch. PTE)

- Minnesota has offered an elective PTE Tax since 2021, which applies to an electing entity's MN taxable income at a flat 9.85% rate. The resulting tax becomes a refundable credit in the hands of the participating owners.

- S Corporations: The PTE Tax has always been imposed on the entity's income apportioned to MN.

- Partnerships: For 2021-2022: the PTE Tax was imposed on the entity's income apportioned to Minnesota. For 2023 forward the PTE tax is imposed on the entity's un-apportioned income for resident partners only (Sch. PTE-RP), but still on its' apportioned income for nonresident partners.

- Eligibility and Election: for 2021-2022, partnerships and S Corporations were eligible to make a MN PTE Tax election only if they were not owned by a corporation, partnership, or trust. Starting in 2023, ownership by a partnership, corporation, or trust no longer made a PTE ineligible. PTE Tax election could then only be made by qualifying owners ("Q/O") who collectively owned more than 50% of the interests held by the Q/Os, even though that percentage might be less than 50% of the PTE's total ownership interest.

<u>Selling goods and services online; Nexus and allocation apportionment</u>

Business income tax nexus

- Physical Presence Nexus: MN's only guidance about what creates physical presence nexus for income tax purposes (Minn. Stat. 290.015(1)(b)) is Rev. Not. #96-16 (Nov. 4, 1996), which takes the position that a computer company's use of an independent contractor in MN to perform in-state repair services will create physical presence nexus in MN for that computer company.

- Economic Nexus: MN asserts economic nexus for income/franchise tax purpose over businesses with a positive sales apportionment factor numerator (Minn. Stat. 290.015(1)(c)), also known as "one dollar economic nexus".

- P.L. 86-272: MN does not have any formal publications about its' position regarding whether various activities exceed P.L. 86-272. MN has only a handful of cases on P.L. 86-272, most notably *Skagen Designs* (Minn. Tax. No. 8168-R, 4/23/12) and *Uline* (No. A23-1561, Minn. Sup. Ct. 2024). In 2023, MN published a draft revenue notice that would have adopted the MTC's 8/4/21 statement of information on P.L. 86-272, including its' position about Internet Activities. It was never formally adopted.

Income tax apportionment

- Throwback – MN does not have a throwback rule for revenue from the sale of goods shipped to a state where the taxpayer is not taxable.

- Throwout – MN does not require revenue to be excluded from the denominator of the sales factor that revenue is apportioned to a state where the taxpayer is not taxable.

- Sales of business assets – MN law excludes, from the numerator and denominator of the sales factor, revenue from the sale of property used in the trade or business (Minn. Stat. 290.191(5)(4)), as well as from the sale of "capital assets" defined under Code Sec. 1221 (Minn. Stat. 290.191(5)(3)). Gain from the sale of goodwill is excluded from the MN sales factor under both of these statutes.

- Dock Sales – unlike most states, in situations where a buyer physically travels in its' own vehicles to a seller's location (e.g., dock) to pick up goods that it has purchased from that seller, MN law sources the seller's revenue to the location of the dock, even though the ultimate destination of that property may be in another state (Minn. Stat. 290.191(5)(b)). This statute was enacted to legislatively overturn the MN Supreme Court's decision in *Olympia Brewing*, 326 N.W.2d 642 (Minn. 1982).

- Software – on audit, when sourcing revenue from the sale or license of software, MN DOR does not follow the MN sales tax characterization of revenue from "canned software" as being from tangible personal property, or of "custom software" as being from the performance of a service. Instead, for income tax sales apportionment purposes, on audit MN treats the sale and license of all software as from intangibles.

- Service revenue – Under Minn. Stat. 290.191(5)(h), Minnesota apportions service revenue using a "waterfall" approach, in which taxpayers are required to sequentially apply a series of rules, ordered from most-preferable (to where the service is "received") to least-preferable (bill-to location). This statute has been interpreted only once, in the MN Supreme Court's 2025 opinion in *Humana Marketplace* case (No. A25-0058, 9/24/25). Because of that case' unique procedural posture, relatively little can be gleaned from it about how Minn. Stat. 290.19(5)(h) actually works. That being said, one thing that *Humana* does illuminate is that MN's market sourcing statute can be applied using a so-called "look-through" approach.

Nebraska

Legislative updates

LB901 – After July 17, 2026 the following fees are applicable to all Notices of Deficiency. This applies to individuals, entities, etc.

- The fee will be 10% of the tax or 25% of the tax.
- This is separate from interest and penalties and appears to be non-abatable.
- $40 fee to protest and audit.
- $25 fee to request penalty abatement.
- If currently undergoing an audit that does not close by July 17, 2026 this will apply.

LB1165 – Performance-based incentive bill for large employers with a corporate merger.
It includes an expansion of rural and urban manufacturing credits. It expands the use of credits by employers for childcare for the employees.

Bonus and research and development expensing is allowed by Nebraska and did not decouple from Federal tax law.

2025 amended Nebraska income tax returns can be e-filed.

Trust returns can be e-filed if you have the NE ID.

No new income tax or sales tax changes. The Nebraska income tax rate continues to decline to 3.99% by 2027.

Sales and use tax

Computer programming – Nebraska Revenue Ruling 1-02-01. Programming is taxable unless the three provisions from the revenue ruling are expressly included in the contract.

- No warranty.
- Temporary employee services.
- Product transferred to the client.

Computer support – this is considered taxable labor under Nebraska Regulation 1-082 unless it is just a phone. If a tech logs into your computer remotely and fixes it – taxable.

Software as a service is still not subject to sales tax even though there is no departmental guidance.

Building cleaning and maintenance is taxable (inside a building).

Design fees are taxable if related to the sale of tangible personal property.

Nebraska does have a manufacturing exemption (Regulation 1-107). Note that if you are installing real property and are *not* an option 1 contractor in Nebraska the manufacturing exemption does not apply…option 2 and 3 contractors are considered the consumers of the materials. This exemption can be very restrictive.

Form 13s and Form 17s – When the resale and exempt entity forms are present for an exempt job, the date on the form matters. If you are outside the period listed on Form 17, the exemption is lost.

Airplane leases in Nebraska are under scrutiny for related party leases based on Big Blue Express vs. Nebraska Department of Revenue case. The NEDOR is pursuing these cases and are making a business purpose and lack of economic substance argument between related parties. The airplane entity needs to be treated as a separate and viable business, not just a tax write-off.

State income taxes for partnerships, S/C corporations and individuals; PTET

Nebraska has PTET and the election includes everyone.

Nebraska apportionment for LLCs and S Corporations is important for resident individuals as NE residents *only* pay tax on NE income if the entity has the right to apportion. Therefore, it is much like a C Corporation and can have "nowhere income" that is not taxed by any state.

Nebraska resident individuals who sell the stock of an entity that meets certain criteria under 77-2715.09.

- Business has been operating in NE for three years.
- No more than 90% of the stock is owned by related shareholders.
- Must have at least five shareholders.
- Must have acquired the stock while employed or on account of employment.

Given the right planning, this can be accomplished for many business sales.

Nebraska does tax GILTI income, but the case has been appealed.

Selling goods and services online; Nexus and allocation apportionment

Nebraska is a market-based state. Therefore, if a sale provides benefit to a Nebraska customer it is located there. This is helpful in the sale of the business as Nebraska companies can apportion goodwill during an asset sale if a proper valuation is completed. Nebraska has a sales tax economic nexus standard of $100,000 to require filing a sales tax return.

Other/Credits

Nebraska's main incentive program is ImagiNE. Only certain companies qualify.
https://imagine.nebraska.gov/

Employment and investment may be required. The minimum wage requirement can be difficult for some qualifying businesses to meet.

The most important thing to note is *before* investment an application must be filed for the investment to count.

North Dakota

Legislative updates

Key changes

- Property tax relief: The primary residence credit increased to up to $1,600, eligibility expanded, and a 3% annual cap now limits local property tax levy growth.

- Income tax environment: North Dakota continues to maintain one of the lowest state individual income tax structures in the country, with a top rate of 2.5% and no major new rate increases in this period.

- Rolling IRC conformity: ND generally has rolling conformity to the Internal Revenue Code, meaning absent specific exceptions, all OBBBA changes apply.

Sales and use tax

North Dakota sales tax is 5% plus local tax, usually 5-8% total, based on the customer location.

- Destination-based sourcing.

Collect sales tax if you have nexus in North Dakota

- Physical nexus: Office, store, warehouse or inventory in ND; Employees or representatives in ND.
- Economic nexus: $100,000+ in ND sales in the current or prior year.

What is taxable?

- Goods.
- Equipment leases and rentals.
- Certain services, including installation, lodging and prepared food.
- Most services.
- Groceries for home consumption.
- Certain agricultural items.
- Resale purchases.

Software as a Service

- No clear guidance from ND on how SaaS is taxed for sales tax purposes.
- ND generally taxes sales of physical goods and certain listed services, and SaaS does not clearly fit into either category.
- SaaS involves remote access to software rather than transferring ownership or control of the software itself.
- A comparable concept in state rules – time-sharing (shared access to computing systems) – is expressly treated as non-taxable.
- Conclusion: SaaS is generally viewed as not subject to sales tax in ND, although there is a low level of uncertainty due to the lack of direct guidance.

Special tax situations
Additional local taxes may apply to the following:
- Alcohol.
- Lodging.
- Restaurants.
- Vehicle rentals.

State income taxes for partnerships, S/C Corporations and individuals; PTET

Research and development credit
- ND research, including manufacturing, technology, software and process improvements.

Renaissance zone credit
- Zone incentives, including:
    - Income tax exemptions – generally up to $500,000/year.
    - Property and sales tax benefits.

Automation equipment credit
- Up to 15% credit for qualifying automation investments.

Seed capital and angel investor credits
- Startup investments: 45%, up to $112,500 annually, subject to a $3.5M statewide cap.

Agricultural processing facility investment credit
- Facility build/expansion: 30%, up to $50,000 annually and $250,000 lifetime.

Workforce and hiring credits
- Recruitment: 5% of salary for hard-to-fill positions.
- Internship: 10% of wages, up to $3,000 lifetime.
- Mobilized military employee: up to $1,000.
- Disabled/mental illness employee: 25% of the first $6,000 in wages for qualified workers.
- Employer child care contribution: 50% of the first $1,000 per employee for child care reimbursement.

Industry-specific credits
- Biodiesel / Green diesel credits: Fuel blending, production and equipment.
- Soybean & canola processing equipment credit: Supports oilseed processing infrastructure.

Community and contribution credits
- Private schools and colleges: 50% of contributions, up to $2,500 for each qualifying primary, secondary or college gift.
- Qualified endowment: 40% of contributions to eligible North Dakota or border-state funds.
    - Minimum contribution: $5,000; maximum qualifying amount: $50,000 for MFJ status.
- Maternity homes and child placement agencies: up to $2,500 on the first $2,500 contributed.

Important considerations

- Most credits are nonrefundable (limited by ND tax liability).
- Many allow carryforward of unused credits.
- Several require pre-approval or certification (automation, RZ, angel, etc.)
- Property tax clearance may be required before claiming credits.
- Credits often flow through to owners for pass-through entities.

Selling goods and services online; Nexus and allocation apportionment

Income tax apportionment

Default apportionment method. Unless an eligible taxpayer has made a valid election, North Dakota generally applies an equally weighted property, payroll, and sales formula to business income.

Election for single-sales-factor apportionment. The election may create a more favorable result for some corporate taxpayers, particularly where North Dakota payroll or property is significant relative to North Dakota sales. Because the election is binding for five years, modeling is important before the election is made.

Sourcing of service and other non-tangible receipts. North Dakota generally sources these receipts based on where the income-producing activity is performed. For service businesses, this makes employee location, operational delivery, and supporting records especially important.

Throwback exposure. If tangible goods are shipped from North Dakota to a jurisdiction where the taxpayer is not subject to tax, those sales may be thrown back into the North Dakota sales factor numerator.

Entity classification matters. Passthrough entities are treated differently in important respects, and the single-sales-factor election is generally limited to taxpayers that are not passthrough entities.

Sales factor sourcing

Tangible goods

- Sales of goods are sourced to North Dakota if the goods are delivered or shipped to a customer in the state.

Services

- For service revenue, North Dakota assigns the receipt to the state if the income-producing activity giving rise to the receipt is performed in North Dakota.

Online sales of goods

- Revenue from online sales of goods is sourced to North Dakota if the product is shipped to a North Dakota customer.
- Remote sellers can have North Dakota apportionment without physical presence.

Software as a Service (SaaS)

- SaaS is treated as a service for income tax sourcing purposes in ND.
- ND uses a cost-of-performance approach for sourcing services, based on where the provider performs its activities (e.g. servers, development, support).
- Conclusion: if a SaaS provider's operations are outside ND, sales of SaaS are generally not sourced to the state. Conversely, if operations are in ND, SaaS sales are generally sourced to the state.

Nexus

North Dakota nexus differs for income tax and sales tax. Income tax nexus is broader and depends on doing business in the state, earning North Dakota-source income, physical presence, or enough in-state economic activity. Sales tax nexus is usually triggered by physical presence or by exceeding the economic threshold for remote sales.

Comparison

Trigger	Income tax nexus	Sales tax nexus
Physical presence	Yes	Yes
Employees in ND	Yes	Yes
Property or inventory in ND	Yes	Yes
Economic activity	Yes, with no fixed threshold	Yes, generally at $100,000 in current or prior calendar year
ND-source income	Yes	No
Online sales alone	Possibly, depending on the facts	Yes, if the threshold is met
P.L. 86-272 protection	May apply to sellers of goods	Does not apply

Key takeaways

- Income tax nexus is broader and more judgment-based.
- Sales tax nexus is more mechanical and usually tied to physical presence or the economic threshold.
- A business can have sales tax nexus before income tax nexus, especially in e-commerce.
- Hiring employees or performing services in North Dakota often creates income tax nexus quickly.

Wisconsin

Legislative updates | Individual and Business Income

Individual Income Taxes

- Does not adopt OBBBA provisions except:
  - IRC 223(c) changes to health savings accounts to allow telehealth services.
  - IRC 1202 changes to capital gain exclusion reducing the percentage of gain that may be excluded from certain small business C Corporation stock.
  - IRC 529 plan changes that increase amounts that may be distributed for elementary and secondary school expenses as well as additional expenses for vocational training and homeschooling expenses.

- Income thresholds substantially increased for second tax bracket (4.4%) beginning '25.

- New $24k/$48k Retirement Income Subtraction
  - Individuals at least 67 years old by end of the taxable year
  - Allowed to deduct $24k ($48k if MFJ and both 67 yrs old at end of year) of income from qualified retirement plans and IRAs that are not otherwise excluded from WI income
  - Part year residents need to prorate the deduction, and it is not allowed to nonresidents
  - If claim this deduction then not allowed to claim any other Wisconsin tax credits including credit for other state taxes paid, renters credit, itemized deduction credit, etc.

- Increased Adoption Expense Subtraction from $5k to $15k effective 2025 tax year.

- New Veterinary Loan Repayment Income Exemption effective '25.
  - Applies to income received from WI Stat 39.389 Veterinary Loan Repayment Grant Program.
- New Financial Exploitation Loss Deduction – effective retroactively to '24.
  - Includes losses due to being deceived, coerced, forced or from unauthorized use of personal information, forgery or financial transaction card crimes.
  - Losses need to be reported to law enforcement.
  - Losses must not have any reasonable prospect of recovery.
  - Losses are required to be deducted in year loss incurred.

- New Subtraction for National Guard and Reserve Pay effective '26.

- New Stillborn Child credit effective '26.
  - Lesser of $1k(S)/$2k(MFJ) or actual tax liability.
  - Need to include copy of fetal death report with tax return.

Business Income Taxes

- Does not adopt OBBBA provisions except:
    - IRC 179 increases to expense limit to $2.5M and phaseout threshold to $4M.
        - *Planning opportunity! Wisconsin has consistently decoupled from federal bonus depreciation but if eligible, can make a separate election for Wisconsin income tax purposes to expense under IRC 179 instead of depreciating under 168(k).*
    - Termination of 179D expensing for construction of energy efficient commercial buildings after June 30th, 2026.
    - IRC 174A Research & Development expense deductions if method used for federal income tax purposes is a permissible method for Wisconsin income tax purposes.
        - WI automatically follows federal accounting methods if the method is permissible for WI income tax purposes.
        - WI follows 174 pre-TCJA for deducting research and development expenses so taxpayers may either fully expense in year incurred or amortize.
        - Options under 174A to expense all or 50% of unamortized research and development expenses from 2023 and 2024 not allowable for WI income tax purposes.
        - Option under 174A for certain small businesses to amend 2023 and 2024 to fully expense research and development expenses applies for WI because that is a permissible accounting method and WI automatically follows the accounting method used for federal income tax purposes. If the research and development expenses were originally amortized for WI income tax purposes, then the WI income tax returns can and will need to be amended to match the full expense treatment taken for federal income tax purposes.
        - Option under 174A to fully expense research and development expenses beginning in '25 applies for WI income tax purposes.

- Created New Film Industry Related Credits effective '26.
    - 3 Film Production Services Credits
        - Refundable 30% of production expenditures to produce accredited production in WI credit.
        - Nonrefundable 30% of wages paid for services to produce an accredited production in WI credit.
        - Nonrefundable 100% of sales taxes paid on purchases of tangible personal property and taxable services used directly in producing an accredited production in WI.
        - Nonrefundable credits can be sold or transferred and have a 15-year carryforward period.
    - Film Production Investment Credit
        - Nonrefundable credit with a 15-year carryforward.
        - 30% of the amount purchased of depreciable, tangible personal property and the amount expended on real property.
        - Applies for first 3 years that claimant is doing business in WI as a film production company.
        - Credits can be sold or transferred.

- New Additional Employer-Provided Child Care Credit effective ’26.
  - Nonrefundable credit with 15-year carryforward.
  - Equals the amount of the federal employer childcare credit claimed on federal income tax return.
  - Amount of credit needs to be added back to WI income in same year.

- New Community Development Entity Investment Credit for Insurance Companies.
  - Nonrefundable credit for qualified investments in a qualified community development.
  - Credit is added back to income and has an unlimited carryforward period.

- New Long-Term Care Insurance Assessment Credit for Insurance Companies.
  - 20% credit of amount of long-term care insurance assessment fees paid by an insurance company.
  - Taken for 5 years beginning year after assessment incurred.

- Research Credit Carryforward Period extended from 15 years to 50 years.
  - May be helpful for manufacturers to give them more time to possibly utilize research and development credits because manufacturing and ag credit often eliminates any tax for which the nonrefundable portion of the research and development credits may be used.

- Low-Income Housing Tax Credit Changes effective ’25.
  - Removes requirement to have projects financed with tax-exempt bonds.
  - Pass-through entities can be held liable for audit assessments.
  - Insurers that are members of pass-through entities are allowed to claim the credit.

- Supplement to Historic Rehabilitation Credit Changes effective ’26.
  - “Substantially Rehabilitated” requirement for the credit is met if during a two-year period at least $50,000 of “qualified rehabilitation expenditures” are incurred.
  - Can be claimed even if no federal credit is claimed.
  - The $3.5M per parcel limit is now applied over a 15-year period instead of for the lifetime of the parcel.

- New Rail Infrastructure and Maintenance Credits effective ‘26
  - Nonrefundable credit with 5-year carryforward period.
  - 50% of expenditures incurred for new rail infrastructure or short-line railroad maintenance expenditures.

Sales and use tax

Business Sales and Use Taxes

- Real Estate Broker Membership Exemption
  - No longer required for real estate agents to both compensate and cooperate with other real estate agents in brokering sales of real property to qualify for the sales tax exemption for memberships that provide access to real estate listings.

- New Nuclear Fusion Technology Projects Exemption.

- Effective June 30th, 2026 purchases of tangible personal property used or consumed exclusively and directly for a nuclear fusion technology project.
- Exemption available to be claimed by construction contractors for purchases of tangible personal property made to fulfill a real property construction project.

- Manufacturing Equipment sales tax exemption for research and development equipment expanded to contract research service companies effective June 30th, 2026.

- Exemption Electricity Sales to Electrical Vehicles
  - Sales of electricity to electrical vehicle charging stations that are subject to the electrical vehicle charging station 3-cent per kilowatt excise tax or fore charging stations located at a residence.

- WDOR enforcing municipal licensing and device directory registrations for retailers and manufacturers of electronic vaping devices.
  - Expanded to devices that contain hemp.
  - $1k per day/per device penalty.

- May '26 Agreement Between Governor Evers and Legislative Leaders Fails to Pass
  - $2B surplus
    - Substantial funding for schools to address special needs.
    - Property tax assessment limits to be lowered to provide property tax relief.
    - OBBBA deductions for tips and overtime pay to be adopted effective '26.
    - One-time $300(S)/$600(MFJ) rebate checks to be issued.
  - Passed on a bi-partisan vote in Assembly but failed in Senate.

- Additional resources
  - WDOR Tax Update Presentation w/Materials
    - https://www.revenue.wi.gov/Pages/Training/FallTaxUpdates.aspx
  - April 2026 WI Tax Bulletin 233 addressing new tax laws passed in Spring
    - https://www.revenue.wi.gov/Pages/ISE/wtb-2026.aspx

Wisconsin Sales and Use Taxes

- Tariffs
  - Included as part of sales price when passed on and charged to customer.
  - Not included as part of purchase price when incurred and paid directly to government.

- Software-as-a-Service
  - General treatment is SaaS is treated as a service and is not the taxable sale of tangible personal property.
  - WI taxes select services including telecommunication messaging services.
  - If SaaS product contains messaging features then possible WI will treat SaaS as taxable sale of telecommunication messaging services.
    - Under bundled transaction rule, unless the taxable telecommunication messaging service can be shown to be less than 10% of the cost or price of the SaaS product, the entire amount charged can be subjected to tax.

- $100,000 gross receipts economic sales tax nexus threshold imposed effective Oct. '18.
    - No registration is required if all sales are exempt.

- Disregarded entities for income tax purposes are disregarded for sales tax purposes as well.
    - Cautious with sales of businesses that utilize SMLLCs or QSubs to sell equity but have sale of assets for income tax purposes as it is likely to be treated as a sale of assets for WI sales tax purposes.
        - Exemptions may apply, such as occasional sale of business assets, resale, manufacturing, etc.

C/S Corporations, Partnerships, LLCs

C Corporations

- Wisconsin requires combined reporting for unitary group of commonly controlled US Corporations.
- Single sales factor using market-based sourcing for apportionment purposes.
- Several items excluded from sales factors including gains from sale of business assets.

S Corporations

- WI follows federal treatment but can opt out for WI purposes.
- All income of S Corporations is considered apportionable business income.

Partnerships/LLCs

- Certain items of income are specifically allocated instead of treated as general business income subject to apportionment.
    - Income from rentals, royalties or sales of business or nonbusiness real or tangible personal property allocated to location of property.
    - Intangible income such as interest such as interest, dividends and gains and losses from sales of intangible property such as stocks, bonds and securities are not taxable to extent attributable to nonresident owner.
        - Goodwill from sale of business is also treated as gain from an intangible not taxable to nonresident owners.
    - Income from personal services, including income from professions, are not taxable to nonresident owners.
        - Portion of personal services attributable to the performance of nonresident owners in WI is taxable to WI.

Selling goods and services online; Nexus and allocation apportionment

Nexus Developments

- Out of state service providers watch out!
    - WI statutes deem service providers whose customers are receiving the benefit of their services in WI as doing business in WI.
    - Nexus agents aggressively pursuing out-of-state service companies to determine if they have WI income tax filing requirements.
    - Look into utilizing voluntary disclosure program before being contacted by WI Dept. or Revenue.

- *ASAP Cruises, Inc. (being appealed to US Supreme Court*; WI Supreme Court cert. denied 2/12/26; WI Ct. of Appeals, 6/3/25; WTAC, 5/23/22)
    - Florida based company that provides an online travel platform used by independent travel consultants to sell travel services to customers across the US including WI.
    - The independent travel consultants pay membership fees to ASAP to utilize their online platform and related marketing materials and tools. ASAP also earns revenue from the sales of travel services facilitated by the independent travel consultants.
    - The independent travel consultants earn commission revenue based on the travel services they sell.
    - Arguing that ASAP Cruises is not conducting any activity in WI that exceeds the protections of PL 86-272.
        - Arguing that PL 86-272 is not limited to just sellers of tangible personal property.
    - WI Court of Appeals held that PL 86-272 is limited to sellers of tangible personal property and that ASAP is doing business in WI due the existence of independent travel consultants that "…sell travel services on ASAP's behalf."