

4 KEY TAKEAWAYS

A National State and Local Tax Update

Kilpatrick's [David Hughes](#) and [Jordan Goodman](#) gave a national SALT update at the high-profile [AGN International "2025 Americas Regional Meeting"](#) in Toronto on June 3.

Here are the four takeaways from their presentation:

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Evolving Approaches to Income Tax Apportionment and Sourcing

Recent court decisions have clarified how states determine the apportionment and sourcing of income, particularly in multi-entity and cross-border scenarios. For example, in *VA Dept. of Tax. v. FJ Management Inc.*, the court emphasized the importance of functional integration and economies of scale when determining unitary businesses. Similarly, cases like *Humana MarketPoint, Inc. v. MN Comm. Of Rev.* and *Amin v. NJ Div. of Tax.* reinforce the need for clear statutory language and proper classification of income, including distinctions between distributed and undistributed earnings.

Impact of Residency and Remote Work on State Tax Obligations

Tax residency and remote work arrangements continue to challenge traditional state income tax frameworks. Several cases, such as *Welch v. MA Commissioner of Revenue* and *Sakowski v. MA Comm. Of Rev.*, highlight how active involvement in a business within a state or previously established work patterns can result in state tax liability, even for nonresidents or remote workers. Courts are increasingly considering the nature and source of income, as well as the taxpayer's connection to the state, rather than relying solely on physical presence. This evolving landscape requires both employers and individuals to closely monitor state-specific rules for remote work and residency.

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Sales and Use Tax: Definitions, Exemptions, and Good Faith Efforts

Sales and use tax litigation continues to focus on the interpretation of statutory definitions and the responsibilities of taxpayers in claiming exemptions. Cases such as *9W Halo OPCO LLC v. AZ Dept. of Rev.* and *Toolpushers Supply Co. v. MS Dept. of Rev.* demonstrate that courts scrutinize whether businesses meet precise criteria for processing exemptions and require suppliers to make good faith efforts when validating exemption certificates. These decisions reinforce the importance of compliance and documentation in securing sales and use tax benefits, as well as the need for careful review of state-specific statutory definitions.

Transparency, FOIA, and Audit Procedures in State Tax Administration

Transparency in state tax administration, particularly regarding access to audit procedures and manuals, remains a contested area. The Supreme Court of Appeals of West Virginia, in *Tax Analysts v. Matthew Irby*, emphasized a liberal interpretation of FOIA statutes and a narrow construction of exemptions. The court asserted that the state must justify exemptions to disclosure, especially when taxpayers and third parties seek access to documents related to audit selection and procedures. This theme reflects the broader trend toward increased transparency and accountability in state tax enforcement.

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For more information, please contact:

www.ktslaw.com

David Hughes, dhughes@ktslaw.com and
Jordan Goodman, jgoodman@ktslaw.com.