

## SALT Select Developments – January 2026

State and local taxes impact almost every taxpayer, and developments in any one jurisdiction can be frequent and sometimes confusing. In this newsletter edition, we briefly summarize selected state and local tax (SALT) developments in several states that may be important to you. For general questions or suggestions on how we can improve future content, please contact the editor, [Carl E. Hartley](#).

### Alabama

#### Alabama Simplified Sellers Use Tax (SSUT) legal battle:

A key Alabama state and local tax development will take place on March 4, 2026, when the Montgomery Circuit Court holds a hearing in the ongoing challenge to Alabama's Simplified Sellers Use Tax (SSUT) system. Several larger cities, led by Tuscaloosa, argue that the state's flat 8 percent tax on online sales unfairly distributes revenue away from high-population areas where most deliveries occur.

The lawsuit has prompted strong opposition from smaller jurisdictions and county governments, which rely heavily on SSUT revenue to fund essential services. More than 140 localities have aligned against the suit, warning that changes to the structure could significantly erode their budgets. The debate has also spurred legislative responses, including bills proposed by Sen. Greg Albritton aimed at altering municipalities' authority to collect or retain certain sales and use taxes.

A ruling that restructures SSUT could impact remote seller collection obligations, local revenue allocation, and future tax policy direction in Alabama. Businesses with e-commerce operations, multijurisdictional footprints, or exposure to Alabama sourcing rules should monitor the outcome closely, as changes may require rapid compliance adjustments.

A copy of the Complaint initially filed in this case can be found [here](#).

### District of Columbia (D.C.)

D.C. moves to the Finnigan method. D.C.'s 2026 shift to the Finnigan method and new 2025 decoupling rules will pull more receipts into the apportionment base and disallow key federal deductions, increasing taxable income and audit risk for multistate businesses.

Apportionment: Beginning January 1, 2026, D.C. will transition from the Joyce method to the Finnigan method for apportionment. Under Joyce, only entities with a D.C. nexus include D.C.-sourced sales in the numerator. Under Finnigan, the entire combined reporting group is treated as a single taxpayer, meaning all D.C.-sourced receipts from all members – including non-nexus affiliates – are included. This typically increases the D.C. apportionment percentage and raises taxable income. Businesses with multistate footprints should model the 2026 impact now, reassess entity structures, and revisit sales-flow configurations. Audit exposure is likely to rise as the Office of Tax and Revenue (OTR) will focus on groupwide sourcing.

Decoupling: D.C. enacted emergency legislation (B26-0457) decoupling the District from certain One Big Beautiful Bill Act (OBBBA) provisions beginning Jan. 1, 2025. Key effects:

- Research & Experimental Expenditures (IRC §174A): Must be capitalized and amortized over five years; OBBBA's optional elections for accelerated amortization or retroactive application are not recognized.
- Business Interest Limitation (IRC §163(j)): D.C. rejects federal OBBBA modifications, including exclusion of §163(j)(8)(A)(v) and the treatment of floor plan financing interest. This reduces Adjusted Taxable Income (ATI), increasing disallowed interest.
- Bonus Depreciation (IRC §168(k)): Fully disallowed; businesses must use Modified Accelerated Cost Recovery System (MACRS) without federal bonus depreciation.
- Additional Decoupled Provisions: Includes §168(n), §179 enhancements, and OBBBA modifications to opportunity zone provisions.

As a practical matter, federal deductions of these items will not be allowed in D.C., increasing taxable income and creating larger federal-to-D.C. reconciliation adjustments.

## **Florida**

End of penny production, handling cash transactions. What dealers should do in making cash sales with a penny shortage.

The Florida Department of Revenue (Department) recently issued Tax Information Publication (TIP) No. 25A01-18, which addresses the November 2025 announcement by the U.S. Treasury to end production of the penny. The Department states in this TIP that while pennies remain legal tender, the number in circulation is decreasing, and therefore, Florida dealers need to be advised as to how to handle cash transactions when the total amount due from the customer cannot be collected or changed and cannot be provided because of the lack of pennies.

The Department notes that the concern is how the amount of sales tax due on cash transactions should be calculated when the dealer rounds the total due because of the penny shortage, and such price rounding is only applicable to cash transactions. The Department states in this TIP that dealers must continue to calculate the Florida sales tax and any applicable discretionary sales tax (local sales tax) pursuant to current law, regardless of the customer's method of payment.

If the total amount due, according to this TIP, cannot be collected or change cannot be provided on a cash transaction due to the penny shortage, the Department advised that the dealer may choose how to round the total amount due from the customer to the next lowest, next highest, or nearest nickel, so long as notice is provided to the customer.

Importantly, the Department states in this TIP that sales tax remains due on the actual sales price prior to the dealer applying rounding due to the lack of pennies. This TIP then provides several examples, and the Department cautions that this is an emerging issue under consideration at both the federal and state levels. Any changes to current law or policy could affect the guidance provided in this publication. More information can be found [here](#).

## **Georgia**

In response to rising insurance deductibles, new tax-favored savings accounts come into effect.

Beginning on January 1, 2026, Georgia H. B. 511 authorizes certain Georgia residents who are residential property insurance policyholders to establish and make tax deductible contributions to catastrophe savings accounts (CSAs). CSAs provide a mechanism, deductible for Georgia state income tax purposes, to prefund out-of-pocket costs from state-declared disasters. Insured homeowners can fund a CSA with between \$2,000 to \$25,000, depending on the amount of their deductible. Self-insured homeowners may fund a CSA with up to \$250,000, subject to a cap based on the home's fair market value. Interest earned on a catastrophe savings account is also excluded from Georgia state income tax. Proper designation of the subject account as a catastrophe savings account and ensuring that funds are only used for qualified expenses will be critical to preserving the associated tax benefits.

### **Louisiana:**

#### Louisiana expands availability of e-filing and payment mandate for business taxes.

Beginning January 1, 2026, the Louisiana Department of Revenue will expand its electronic filing and payment mandate to cover a broad range of business tax returns, forms, payments, and fees as part of its initiative to reduce costs and streamline administration. The expanded mandate includes all sales and use tax returns except the Louisiana Consumer Use Tax Return, the Fairs, Festivals, and Other Special Events Sales Tax Return, and Watercraft Sales Tax Payment Certifications; all withholding tax returns; submission of Federal Forms 1099-NEC required by La. R.S. 47:114.1; Oilfield Site Restoration Fees; and annual informational and composite income tax returns filed by S corporations. The mandate applies to returns and payments submitted on or after January 1, 2026, and noncompliance may result in penalties and interest. Taxpayers can comply via the Louisiana Taxpayer Access Point (LaTAP) account management portal.

### **Maryland**

Maryland temporarily decouples from key federal provisions. Maryland's temporary decoupling from key One Big Beautiful Bill Act (OBBBA) provisions through 2025 and its 2026 expansion of the Pass-Through Entity (PTE) tax base will increase taxable income for many businesses and reshape multistate planning.

#### Decoupling Provisions:

Maryland temporarily decouples from certain federal provisions under the OBBBA due to revenue impact thresholds. These include full expensing of domestic research or experimental expenditures under IRC section 174, 100 percent production property depreciation under section 168(n), and favorable changes to interest deduction limitation under section 163(j). Maryland will decouple for tax years 2025 and prior, with conformity returning in 2026 unless further legislative action occurs.

#### Pass-Through Entity (PTE) Tax Changes:

The 2026 Budget Bill modifies the definition of pass-through taxable income for resident members of electing PTEs. All income from the electing PTE will be included regardless of

source, potentially increasing taxable income and affecting tax planning for multistate operations.

## **Mississippi**

### Notices issued to telecommunications service providers.

In November and December 2025, the Mississippi Department of Revenue issued Notices 72-25-16, 72-25-17 and 72-25-19 informing subject telecommunications service providers and prepaid wireless retailers of a new \$2 per subscriber/connection communications service charge and a new \$2 per retail transaction prepaid wireless telecommunications fee becoming effective January 1, 2026. The new service charges and fees, respectively, were passed legislatively through Senate Bill 2835 and replaced Mississippi's prior \$1 counterpart service charge and fee, respectively. Each service provider or seller, as the case may be, must collect the relevant charge from consumers and report and remit it to the Mississippi Department of Revenue by the 20th of the month following the transaction. A 2 percent discount may be applied to timely filed and paid returns, and late filings are subject to penalties and interest.

## **New Jersey**

### New Jersey adopts revised P.L. 86-272 guidance.

On June 16, 2025, New Jersey became the second state to formally adopt the MTC's revised P.L. 86-272 guidance and establish guidelines for when certain internet activities exceed P.L. 86-272 protections. The language of N.J. Admin. Code section 18:7-1.9A is very similar to the revised guidance issued by the MTC. Under section 18:7-1.9A, New Jersey established eight specific internet activities that exceed the protections of P.L. 86-272 and will result in the foreign corporation being subject to New Jersey corporation business tax.

Attempts to broaden the nexus have been met with litigation and New Jersey is no exception. On September 12, the American Catalog Mailing Association (ACMA) filed a complaint against the New Jersey Division of Taxation, challenging the constitutionality of section 18:7-1.9A. In the complaint, the ACMA raises similar constitutional issues to those it raised in its complaint against the New York State Department of Taxation and Finance over its adoption of the MTC guidance. This is a case to watch. Congress, in One Big Beautiful Bill Act (OBBBA), considered P.L. 86-272 but, prior to enactment, stripped out a provision that would give greater certainty to the reach of P.L. 86-272.

## **North Carolina**

### Real property contractor's contract price is not subject to sales/use tax: Addressing capital improvement real property contracts versus repair and maintenance services.

The North Carolina Department of Revenue (Department) issued a Private Letter Ruling in 2025 addressing the question of whether, under the circumstances provided, the taxpayer, a stormwater infrastructure contractor, provided repair services subject to North Carolina sales and use tax as it related to the real property in question, incidental to a contemplated transaction.

The Department determined that the scope of the work detailed by the taxpayer met the appropriate time and scope to be considered remodeling of the stormwater infrastructure of the real property, and therefore, the contract price was not subject to the North Carolina sales and use tax. The taxpayer was, however, required to pay the appropriate sales and use tax due on items used in the fulfillment of the real property contract since the taxpayer is the consumer of such tangible personal property that it purchases, installs, or applies, including geotextile liner and mortar used, to fulfill the real property contract and that becomes part of the real property or used to fulfill the contract. In this Ruling, the taxpayer performed services on stormwater infrastructure, and the scope of services typically included restoring stormwater devices to design specifications, covering elevations, materials, vegetation, erosion control, and pipe repairs as needed.

The Department reviewed the North Carolina sales and use tax laws regarding capital improvements, which include, in part, remodeling as well as the installation of a transmission, distribution, or other network asset on land owned by a service provider or a right-of-way or easement in favor of a service provider. The term "remodeling" includes, as noted by the Department, restoring or updating real property, but does not include a transaction where the true purpose is repair or maintenance services. The Department also provided analysis of "repair, maintenance, and installation services" which are subject to the sales tax, but such term does not include services fulfilling a real property contract under North Carolina law that are not merely incidental to the true purpose of the transaction.

Based on the invoice submitted by the taxpayer, the Department determined that the true purpose of the contract was to remodel the stormwater control infrastructure, not to repair or maintain existing infrastructure, which would otherwise be incidental to the transaction. Based upon the facts presented in this Ruling, the Department made the above determinations regarding the taxpayer's responsibility to pay the appropriate tax due on items used to fulfill the real property contract, not tax upon the contract price. More information can be found [here](#).

## **South Carolina**

Sales tax and admissions tax application to dinner attraction shows: Application of the true object test where there are two true objects.

The South Carolina Department of Revenue (Department) recently issued Revenue Ruling #25-8 addressing the application of the sales tax as well as the admission tax to those situations in which the dealer conducts a dinner attraction show where the customer, after paying one ticket price, receives admittance into a dinner theatre to watch, while also receiving a meal.

The Department noted in this Ruling that South Carolina has a 6 percent sales tax, the measure or basis of which is calculated on the "gross proceeds of sales," which is defined as the "value proceeding or accruing from the sale, lease, or rental of tangible personal property." Further, the Department noted that when a transaction includes both non-taxable services as well as taxable sales of tangible personal property, the Department, as well as the South Carolina courts, have used the "true object" test to determine the true object of the transaction. The Department then states that applying that test to dinner attraction shows, the determination must be made as to whether the meal or the entertainment services are the true object of the transaction.

The Department relies on various authorities in trying to ascertain the true object of the transaction in this particular circumstance, where the meal would be subject to the sales tax but not to the dinner attraction show, although the separate 5 percent admission tax would be applicable to the dinner attraction show. After reviewing these authorities, the Department noted that in regard to dinner attraction shows, there is not one true object, but two – the sale of a meal and the sale of entertainment – where the meal and the entertainment are sold together, and one is not incidental to the other.

After considering the application of the true object test, the Department determined that dinner attraction shows will only be required to remit the sales tax on that portion of the charge representing the price of the meal, provided it is reasonable and supported by the records of the taxpayer. With respect to the dinner attraction show, the Department stated that such a show is clearly a place of amusement which is subject to the amusement tax.

In conclusion, the Department stated in this Ruling that a charge by dinner attraction show for a ticket is subject to both a sales tax and the admission tax – however, the dinner attraction show will only be required to remit the sales tax on that portion of the charge representing the price of the meal and the admissions tax on that portion of the charge representing the price of admission, provided the price breakdown is reasonable and supported by the records of the taxpayer. More information can be found [here](#).

## **Tennessee**

Without legislation, bonus depreciation is limited to the Tax Cuts and Jobs Act of 2017 (TCJA). Tennessee does not currently conform to the 100 percent bonus depreciation under the federal One Big Beautiful Bill Act (OBBBA).

The Tennessee Department of Revenue (Department) recently issued Notice #25-36 addressing the federal bonus depreciation conformity. In this notice, the Department states that in 2023, Tennessee enacted legislation that coupled Tennessee with the federal bonus depreciation provisions that exist and apply under the federal Tax Cuts and Jobs Act of 2017 (TCJA).

That coupling with TCJA remains in place and phases out depreciation pursuant to a schedule which, for example, adds a bonus depreciation of 40 percent for assets acquired between January 1, 2025, and December 31, 2025, 20 percent for assets acquired between January 1, 2026, and December 31, 2026, and no bonus depreciation for assets acquired on or after January 1, 2027.

The Department in this notice also recognized that on July 4, 2025, the federal government enacted the One Big Beautiful Bill Act (OBBBA), which in part sets the bonus depreciation applicable percentage at 100 percent for qualified property acquired after January 19, 2025 – however, Tennessee, per the Department, remains coupled to the TCJA and therefore taxpayers must utilize the TCJA bonus depreciation schedule for excise tax purposes. The Department in this notice stated that taxpayers who take federal bonus depreciation deductions pursuant to OBBBA, must make appropriate adjustments on their Schedule J of the excise tax returns. Further, the Department recognized that the OBBBA allows bonus depreciation to be taken for federal income tax purposes with respect to a newly designated category of property, qualified production property. However, as the Department stated in this notice, the federal provision does

not exist in the TCJA's depreciation provisions, which Tennessee conforms to; and, thus, is not applicable for Tennessee excise tax purposes. More information can be found [here](#).

### **Texas:**

#### Texas comptroller gives formal rounding guidance in light of penny shortage.

As a result of the discontinuation of penny production in the U.S., the Texas Comptroller's Office has issued guidance (202512001M) on cash payment transactions. The Comptroller's office will accept exact change and make change when pennies are available, but if pennies are unavailable, it will round cash payments down to the nearest nickel based on the total amount due (rounding applies only to cash; electronic and check payments remain calculated to the penny). For sales tax, electronic transactions are unchanged (\$0.005 rounds up to \$0.01; amounts below \$0.005 are not collected). For cash sales, retailers must calculate tax on the pre-rounded sales price and remit that amount but may round the total cash collected; no adjustment will be made if rounding changes the total by \$0.04 or less, and adjustments will be assessed if the rounding exceeds \$0.04.

### **Virginia**

#### Virginia issued Tax Bulletin 25-5 on October 28, 2025.

Virginia issued Tax Bulletin 25-5 on October 28, 2025. This announced a change to Virginia's blended apportionment policy due to *Department of Taxation v. FJ Management Inc.* 907 S.E.2d 541 (Va. App. Ct. 2024) in which the Court held that because the corporate owner did not have a unitary relationship with the Pass-Through Entity (PTE) the corporate owner's share of the PTE's property, payroll and sales factors may not be included in its own to create one, blended apportionment formula. Instead, the amount of the PTE income on which a corporate partner is taxed is equal to its distributive share of the income apportioned to Virginia at the PTE-level based on the PTE's apportionment factors.

The bulletin goes on to describe how to report income from a non-unitary PTE, indicates that future forms will be revised, and provides for transitional relief.

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