TaxNewsFlash

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KPMG reports: Louisiana (intangibles addback); Michigan (sourcing); Ohio ("fracking"); Texas (software)

KPMG's This Week in State Tax—produced weekly by KPMG's State and Local Tax practice—focuses on recent state and local tax developments.

- **Louisiana:** The Department of Revenue issued a notice of intent to adopt a regulation providing guidance on the related-party addback requirements—specifically, when certain intangible expenses, interest, and management fees are subject to the addback rules—effective for tax years beginning on or after January 1, 2016.

- **Michigan:** The state's appellate court concluded that services performed by an attorney in Detroit, on behalf of a client located outside the city, were not sourced to Detroit for purposes of the city's income tax.

- **Ohio:** The Board of Tax Appeals found that a "blender" and related equipment used in hydraulic fracturing ("fracking") were not directly used in the production of crude oil and natural gas and thus were not exempt from use tax. Under Ohio law, a sales and use tax exemption applies to purchases of tangible personal property used directly in the production of crude oil and natural gas.

- **Texas:** An administrative law judge denied a government contractor's claim for a franchise tax refund. The taxpayer asserted that it had incorrectly sourced its receipts as if it were selling services, rather than an intangible (software), and filed an amended report changing its methodology for sourcing receipts from sales of intangibles. However, the taxpayer had not established by a preponderance of evidence that franchise taxes were erroneously collected or paid.

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