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TaxNewsFlash

United States

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KPMG reports: California (unclaimed property); Iowa (corporate income tax rate reduction); Texas (taxable data processing services); Washington State (capital gains tax on individuals)

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.

- **California:** Assembly Bill 2280, which would authorize the California Controller to establish a voluntary compliance program, has been introduced in the legislature. Under the bill, the Controller would be required to waive interest on past due unclaimed property for businesses that participate in and complete the requirements of the program. This would be the first time in recent history that California has offered a voluntary compliance program for unclaimed property.

- **Iowa:** A comprehensive tax relief bill was enacted that includes a methodology for future corporate rate reductions. Specifically, Iowa's top two corporate income tax rates will be reduced if the amount of corporate income taxes collected by the state exceeds a base amount of $700 million. If that occurs, the Department of Revenue is instructed to determine what top tax rate would have generated $700 million in the fiscal year that just concluded. The top rate will then be adjusted to that rate for the next tax year until it is equal to the next highest rate; subsequently, both rates will be adjusted equally. If the tax rate is adjusted, the Director of Revenue is required to publish the new rate by December 31 following the determination date.

- **Texas:** A state appeals court concluded that a law firm was purchasing taxable data processing services when it purchased loan packages from vendors. Although the process of setting up the unique loan package for the taxpayer's clients involved the application of legal knowledge by the vendor's employees, the taxpayer carefully constructed the terms of its contracts so that it was not purchasing legal services. As such, the court determined that the essence of the transaction was the purchase of taxable data processing services.

- **Washington State:** A state superior court judge held that the state's new capital gains excise tax was actually a tax on income and also a tax on property that violated certain provisions of the state Constitution. Beginning January 1, 2022, the tax was imposed at a rate of 7% on an individual's Washington capital gains after a standard deduction of $250,000 for both individuals and joint filers. The tax, in the court's view, violated the uniformity clause because it was imposed at a 7% rate on an individual's capital gains over $250,000, but not imposed on any individual with capital gains of $250,000 or less. The limitation clause of the state's Constitution limits the rate of tax imposed on property to one percent (1%) and because the excise tax was imposed on capital gains at a 7% rate, the court concluded it also violated the limitation clause. Observers believe an appeal could be filed with the Washington State Supreme Court.

Read a **March 2022 report** prepared by KPMG LLP

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