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KPMG reports: Illinois (tax changes in budget bill); Tennessee (guidance on sales and use tax sourcing rules); Washington State (amended apportionment rule)

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

- **Illinois**: The fiscal year 2025 budget revenue bill, which has been or soon will be presented to the governor, makes numerous tax changes. On the corporate tax side, the bill adopts a $500,000 limit on the use of net operating loss (NOL) carryovers for tax years ending on or after December 31, 2024, and prior to December 31, 2027. Many of the changes relate to the retailer’s occupation tax (ROT). For returns due on or after January 1, 2025, the 1.75% vendor’s discount—which is allowed as a reimbursement for expenses incurred in collecting the ROT, use taxes, and applicable local taxes—will be capped at $1,000 per month. The tax treatment of leases is revised so that payments made under a lease agreement will be subject to ROT. Purchases for the purpose of leasing will be treated as sales for resale. Another provision in the bill prohibits banks from charging interchange fees on taxes and gratuities. Finally, the Hotel Operators’ Occupation Tax Act is amended to include hotel room re-renters (as defined) in the definition of a hotel operator and to require such entities to remit the hotel tax. Two other ROT bills that have passed both houses would require direct pay permit holders to conduct an annual review of their purchase activity and would revise Illinois’ level the playing field rules.

- **Tennessee**: The Department of Revenue recently published Notice 24-08 to summarize the sales and use tax sourcing changes that were included in the “Tennessee Works Tax Act.” Effective July 1, 2024, the Act adopts destination sourcing for interstate sales of services performed on tangible personal property and computer software.

- **Washington State**: The Department of Revenue has revised a rule addressing how to determine the portion of a business’ apportionable income that is derived from business activities in Washington State. The rule was adopted May 15, 2024, and becomes effective June 15, 2024. Certain of the more extensive revisions address when a taxpayer is providing a service (not related to real or tangible property) to a customer engaged in business, and the service relates to the customer's business activities. In this situation, the customer is deemed to receive the benefit of the service where the customer's related business activities occur. New language in the rule provides that “a customer's related business activities will generally occur either in the customer's market or at the customer's business location.” The revised rule contains several new examples.

Read a June 2024 report prepared by KPMG LLP

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