



TaxNewsFlash

United States

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KPMG reports: California (tax measures in budget legislation); Rhode Island (single-sales factor apportionment); South Carolina (sales tax on installed materials)

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

- **California:** Senate Bill 167, which is pending signature, includes several revenue raising measures. Concerning corporate income tax, the bill suspends net operating losses (NOLs) for the 2024, 2025, and 2026 tax years. Further, for that same time period, a \$5 million limit applies to the use of almost all business tax credits. These changes will be familiar to almost all California taxpayers—almost identical changes were adopted for the 2020-2022 tax years. The bill also includes a clarification of the law to address the Office of Tax Appeal’s decision in *Microsoft* that applies to all tax years. In sum, a transaction or activity, to the extent that it generates income or loss not included in “net income” subject to apportionment, is excluded from the apportionment formula. Other corporate changes affect oil and gas companies. On the sales tax side, the bill suspends the bad debt deduction for three years for certain retailers and disallows the deduction for lenders entirely unless the relevant account was written off as worthless before January 1, 2025.
- **Rhode Island:** Legislation has passed both chambers that would allow banking institutions to elect to use single-sales factor apportionment. Electing banks would be subject to new addback requirements for expenses paid to affiliates that would be part of the same unitary group as the bank but for the exclusion from the combined groups specific to several types of banks and financial institutions. The bill would also authorize a combined reporting study for banks.
- **South Carolina:** The state appeals court has affirmed an Administrative Law Court determination that a home improvement retailer was required to collect sales tax on materials that were used when it installed appliances and other materials for customers. On appeal, the taxpayer asserted that it operated as a contractor when using materials in connection with installation service contracts and the taxable sale of such materials occurred when it purchased the materials at wholesale. The court disagreed, finding that the taxpayer was making retail sales to customers when it sold materials in connection with an installation services contract. The court rejected the view that the taxpayer was a contractor, noting that the taxpayer’s own materials described it as a retailer.

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