COST
COUNCIL ON STATE TAXATION

2025 YEAR IN REVIEW

COST's 2025 Education Snapshot – COST provided 36 educational opportunities for our members in 2025, including ten national events, seven specialty webinars, and 19 regional meetings and primer/refreshers. We had over 3,000 attendees from over 700 organizations (member and nonmember companies, practitioners, chambers, and government). We hope to see you at our events in 2026! See below for details.

COST's 2025 Legislative Activity in Review and a Look Forward to 2026 – As the close of 2025 draws near, COST would like to thank our industry members, practitioner partners, state chamber and taxpayer association partners, and others in the state and local tax community who have helped advance our mission of preserving and promoting equitable and nondiscriminatory state and local taxation. In 2025, COST filed comments or testified on proposed legislation and regulations more than 70 times, enhanced our legislative tracking resource, and actively tracked nearly 2,500 individual bills.

Below are some highlights of our advocacy this year and outlook for 2026:

Impact of the One Big Beautiful Bill Act (OBBBA) on State and Local Taxes:

Resource: COST is tracking states' conformity to relevant corporate income tax provisions in the OBBBA. COST members can access the following detailed state-by-state charts and maps that are updated monthly:

1. General IRC conformity for state corporate income taxes;
2. State conformity with IRC Sec. 174 – research and experimental expenditures;
3. State conformity with IRC Sec. 168(k) – bonus depreciation;
4. State conformity with IRC Sec. 168(n) – qualified production property deduction;
5. State conformity with IRC Sec. 163(j) – interest expense limitations; and
6. State taxation of foreign source dividends and IRC 951A (NCTI/GILTI).

Impact of Penny Elimination on Sales and Use Taxes:

With the U.S. Department of Treasury ceasing production of the penny in November, states are starting to issue guidance to assist vendors and retailers on rounding to the nickel and its implications for sales and use tax compliance. COST is drafting a policy position on this issue with a view towards uniformity and ease of compliance. All of COST's policy positions and our guidelines for their development are available on the COST Website, here.

State Tax Administration Improvements:

Resource: COST's Proactive Legislative Initiatives.

30-Day Safe Harbor for Mobile Workforce: 2025 saw the reintroduction of the federal Mobile Workforce State Income Tax Simplification Act, under which a nonresident employee working in a state for 30 or fewer days would not pay personal income tax to the state, and employers would not be required to withhold taxes in the state for those employees. COST also continues to promote this commonsense legislation on a state-by-state basis and saw success in Alabama, where the state legislature adopted COST's mobile workforce model legislation, and in Louisiana, which increased its day threshold from 25 to 30.

Automatic One-Month Extension Beyond the Federal Extended Due Date for State Corporate Income Tax Filing: As a result of COST's advocacy efforts and help from the North Carolina Chamber, the North Carolina Department of Revenue issued guidance on the State's new automatic seven-month filing extension for corporate taxpayers effective for tax years beginning on or after January 1, 2025. Legislation to offer a similar extension was introduced in Idaho and West Virginia, but was not enacted.

Reporting Federal Tax Adjustments: COST's engagement resulted in the amendment of Part V of the New York State's Executive Budget to more closely conform to the MTC Consensus Model that was drafted by COST and other interested parties to improve the reporting of federal tax adjustments.

2026 Outlook: COST will continue to advocate for legislation that eases compliance and improves state business climates as evaluated in our State Tax Administration Scorecard.

Income/Franchise Taxes:

Resources: Revisiting the Debate Over State Taxation of Foreign-Source Income by Frieden & Lindholm, *Tax Notes State*, June 2025; Mandatory Worldwide Combined Reporting: Elegant in Theory but Harmful in Implementation, by Lindholm & Wethekam, March 2024.

Mandatory worldwide combined reporting (MWWCR) bills were introduced in eight states: Connecticut, Hawaii, Maryland, Maine, Minnesota, New Hampshire, New York, and Oregon. **Mandatory water's-edge combined reporting (MUCR)** bills were introduced in Florida, Maryland (in the Governor's budget bill), and Pennsylvania. COST engaged in opposition to these bills, none of which were enacted, by suggesting elective consolidated filing as a better option. MUCR legislation has already been pre-filed for 2026 in Florida, which also includes a throwout rule and a fifty-state disclosure spreadsheet requirement.

Tax haven language was considered but not enacted in Massachusetts, Minnesota, and Pennsylvania. COST opposed these measures. However, despite COST's opposition, Colorado expanded its tax haven 'blacklist' during a special session called by the Governor to fill the State's budget gap due to revised revenue projections after the enactment of OBBBA.

Taxation of GILTI and foreign dividends was considered by Massachusetts and New York (increasing the taxable portion of GILTI from 5% to 50%), but was not enacted. However, Illinois legislation, which allows the State to impose tax on 50% of GILTI without any factor representation, was enacted despite COST's opposition.

P.L. 86-272 was effectively rewritten by the Multistate Tax Commission's P.L. 86-272 Statement of Information, adopted by the MTC in 2021. Several states, including New York, New Jersey, and Massachusetts, have adopted the revised nexus guidance by regulation. As a result, businesses engaging in certain activities while soliciting sales through websites accessible in adopting states may now be subject to corporate income tax, even without a physical presence in the state. These states are not only curtailing federal P.L. 86-272 protections, but they are also doing so via regulations rather than the legislative process. COST will continue to monitor and develop our stance on this issue.

2026 Outlook: States will seek alternate revenue sources as fiscal projections are revised due to OBBBA and other budget and revenue pressures. We anticipate that more states will attempt to expand their corporate income tax base to include foreign source income. COST is developing a policy position to specifically address this issue.

Indirect Taxes:

Resources: A State DAT Relabeled a 'Digital Barter' Tax Is Still Bad Tax Policy by Frieden and Lindholm, *Tax Notes State*, August 2024; State Digital Services Taxes: A Bad Idea Under Any Theory, by Frieden & Lindholm, *Tax Notes State*, April 2023.

Base broadening to tax digital products and other facets of the digital economy with no carve out for business inputs was considered in Maryland, Virginia, and the State of Washington. COST advocated heavily against these measures. Maryland, in its budget bill, enacted a new 3% sales tax on data and information technology, and Washington enacted a bill that would extend the retail sales tax to select services that are mostly, if not exclusively, purchased by businesses.

14 states considered proposals to **tax digital advertising and consumer data collection:** California, Hawaii, Massachusetts, Michigan, Minnesota, Montana, Nebraska, New Jersey, New York, Pennsylvania, Rhode Island, South Dakota, Tennessee, and Washington. COST opposed these measures, and except for Washington, the measures failed.

2026 Outlook: States will continue to target social media and digital platforms both to appease public opinion and to look for additional tax revenue. COST will continue to heavily advocate for the exemption of business inputs from any state or local measures to expand their tax base and to oppose any new gross receipts style taxes in the digital space that lack a business inputs exemption. COST will also continue to participate and provide input with the MTC's and the Streamlined Sales and Use Tax Agreement's projects that are focused on the states' sales/use taxes on digital products.

Property Taxes:

Resources: COST's Policy Position on Fair and Equitable Property Taxes and 2023 COST/EY State and Local Business Tax Burden Study.

Property taxes paid by businesses are disproportionate to property taxes imposed on residential property. In FY 23, businesses paid around 1.5 times the amount of property taxes on real property (effective tax rate of 1.7% for business versus 1.2% for residential properties). Additionally, the amount of personal property taxes paid by businesses is even more distorted because most states' personal property taxes are only imposed on businesses.

Multiple states primarily focus their property tax relief efforts on residential property owners in the form of increased homestead exemptions, valuation caps, and tax rate limitations. While some limited thresholds exist for filing personal property tax reports (*e.g.*, Alabama, Indiana, and Texas), those benefits significantly provide small business owners with personal property tax relief as compared to businesses with a large footprint in a taxing jurisdiction.

2026 Outlook: COST will continue to monitor and advocate for property tax structures that do not impose excessive burdens on business. COST, in conjunction with the International Property Tax Institute, will also issue a revised update on the Scorecard: Best and Worst of International Property Tax Administration early in 2026.

COST looks forward to partnering on these and other important business tax issues in 2026. COST takes seriously its role as "the premier state tax organization representing taxpayers." Your continued support makes our work possible. Please reach out to any member of the COST team to discuss these or any other issues of concern.