2026 State and Local Tax Update

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Introductions

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Topics Covered

- Pennsylvania Updates
- Philadelphia Tax Spotlight
- Digital Advertising Taxes
- Pass-through Entity Taxes
- Multistate Tax Trends

Pennsylvania Updates

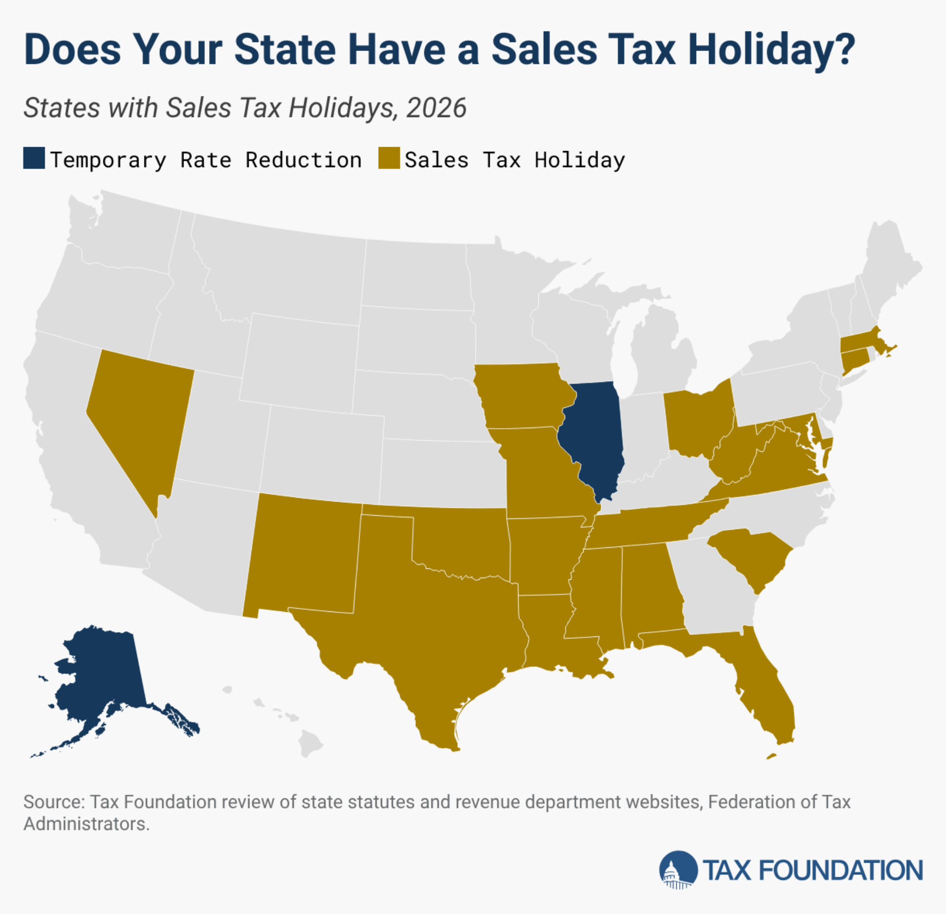
- Budget Passed on 7/12/2026
  - Not a lot of tax related provisions
- Maintain phase-down of CNIT (continuation)
  - 7.49% for 2026
  - 6.99% for 2027
  - Down to 4.99% by 2031
- PA Net Operating Losses
  - 50% allowed, up from 40% in 2025
  - To be increased to 80% by 2029

Pennsylvania – Tax Credits

- Working Pennsylvanian's Tax Credit
  - 10% of Federal EITC credit
- Employer Child Care Contribution Credit
  - 30% of employer contributions
  - Up to $500 contribution per employee annually
  - Applications submitted through MyPath
- 529/ABLE Savings Account Employer Matching Contribution Tax Credit
  - Credit equals 25% of the employer's qualifying contribution
  - Capped at $500 per employee annually

House Bill 1667

- Removes gross receipts tax on electric bills
- Ends data center sales tax exemption
- Broadens state EITC
- Creates school supply sales tax holiday



House Bill 2300 – Sales Tax Compliance

- Traditional Process
  - Customer pays invoice
  - Business collects sales tax
  - Sales tax sits in bank account
  - Monthly/quarterly return filed
  - Remittance made later

- Traditional Process
  - Customer pays invoice
  - Sales tax identified automatically
  - Sales tax transferred automatically
  - Department receives funds
  - No future remittance obligation for those transactions

Philadelphia Tax Spotlight

Philadelphia Tax Filings

- Philadelphia Net Profits Tax (NPT)
  - Imposed on the net profits from operation of trade or business
    - Philadelphia residents, even if business is conducted outside of Philadelphia
    - Non-residents who conduct business in Philadelphia
  - Business that must file
    - Sole proprietors, Partnerships, LLCs, Estates/Trusts
    - Corporations are exempt from Net Profits Tax
  - Return must be filed even if a loss is incurred

NPT Tax Rates – 2025 Filings & Future Years

Tax Year	Resident rate	Non-resident rate
2025	3.74% of net profits	3.43% of net profits

Years	Resident Rate	Non-Resident Rate
2026	3.735% of net profits	3.425% of net profits
2027	3.73% of net profits	3.42% of net profits
2028	3.72% of net profits	3.41% of net profits
2029 and subsequent years	3.70% of net profits	3.39% of net profits

Philadelphia Tax Filings

- Philadelphia Business Income & Receipts Tax (BIRT)
  - Every individual, partnership, LLC, corporations, estates/trusts or maintain a CAL engaged in business within Philadelphia must file a BIRT return
  - Taxed on Gross Receipts and Net Income
  - Tax years 2022-2024, there was a $100,000 exemption. Starting in 2025 exemption no longer applicable.
    - Due to change in exemptions, if never filed BIRT prior to 2025 – no estimated taxes required to be paid in 2026
  - Return must be filed even if a loss is incurred
  - NOLs incurred after 2022 may be carried forward for up to 20 years

BIRT – 2025 New Filers

Year of business	Tax year	Due dates/filing requirements for BIRT
1	2025	Operate your business – make sales! Make sure you keep your business records separate, especially if you sell outside Philadelphia.
2	2026	First tax return and payment due on April/15/2026 (for your 2025 activity ONLY). No estimated payment is required!
3	2027	Second tax return and payment due on April/15/2027 (for 2026 activity). Now, you can choose to: • Pay 100% estimate toward your 2027 return, OR • Make four (4) quarterly estimated payments. These payments are due April/15/2027, June/15/2027, September/15/2027, and January/15/2028. Missing these due dates can lead to penalties and interest. But if a due date falls on a Saturday, Sunday, or holiday, the payment is due the next business day.
4	2028	Third tax return due on April/15/2028 (for 2027 activity). Pay a 100% estimate toward the 2028 return.

BIRT Tax Rates – 2025 Filings & Future Years

Tax Year	Rates	Due date
2025	1.410 mills on gross receipts and 5.71% on taxable net income	15-Apr-26

Years	Rates
2026	1.395 mills on gross receipts and 5.65% on taxable net income
2027	1.390 mills on gross receipts and 5.60% on taxable net income
2028	1.385 mills on gross receipts and 5.55% on taxable net income
2029	1.380 mills on gross receipts and 5.50% on taxable net income
2030	1.255 mills on gross receipts and 5.45% on taxable net income
2031	1.130 mills on gross receipts and 5.30% on taxable net income
2032	0.955 mills on gross receipts and 4.95% on taxable net income
2033	0.780 mills on gross receipts and 4.60% on taxable net income
2034	0.605 mills on gross receipts and 4.25% on taxable net income
2035	0.530 mills on gross receipts and 3.90% on taxable net income
2036	0.255 mills on gross receipts and 3.55% on taxable net income
2037	0.080 mills on gross receipts and 3.20% on taxable net income
2038 and subsequent years	0 mills on gross receipts and 2.80% on taxable net income

Local Sales Tax Sourcing

- Philadelphia imposes an additional 2% sales tax
- Allegheny County imposes an additional 1% sales tax
- Sourcing used to be Origin based, now it is destination based
- Part of the PA budget legislation
- PA guidance: enforcement will start on October 1, 2026

Digital Advertising Taxes

Why Should We Care?

Digital Advertising Tax

- In 2021 Maryland enacted this as the first of its kind
  - The tax applies to Maryland-attributable gross receipts from digital advertising services
  - Graduated rates from 2.5% - 10% based on global annual gross revenues (not just Maryland receipts).
  - 2.5% rate is for $100 million up to $1 billion in total revenue
- Filed on its own tax return due April 15th of the following year

Digital Advertising Tax

- Sourcing is determined through an apportionment ratio based on digital advertisements accessed by Maryland users compared with users nationwide.
- A taxpayer may not directly pass the tax to customers through a separately stated fee, surcharge, or invoice line item. **The law does not prohibit a company from passing the cost to customers through general pricing.**

Digital Advertising Tax – Challenges

- Internet Tax Freedom Act
  - No equivalent tax on traditional advertising, only digital
- Commerce Clause and Due Process
  - Relationship between the tax and Maryland activity
    - Based on world wide gross revenue (not necessarily Maryland revenue)
    - Disproportionately reaches large companies headquartered elsewhere
    - Issues with sourcing formula / apportionment
    - Amount is not taxed rationally related to taxpayer's Maryland activity
- First Amendment
  - Prohibiting companies from listing it separately is a freedom of speech issue

Digital Advertising Tax

- Maryland Tax Court accepted these arguments August 14, 2026
  - Refunds ordered for approximately 5 ½ years of collections!
  - Subject to appeal proceedings
- Illinois and Utah also passed digital ad taxes
- Proposed Pennsylvania Tax
  - House bill 1678 would extend existing 5% telecom gross receipts tax to the sale of digital advertising effective for tax years after 12/31/25.
  - Would apply to <u>any</u> business selling digital advertising
  - Currently passed by the House and in the Senate Finance Committee

Digital Advertising Tax

- Possible Challenges
  - Internet Tax Freedom Act (digital vs. traditional advertising)
    - Discriminates against electronic commerce
  - Commerce Clause and Due Process
    - Flat 5% rates avoids the issue Maryland had
    - Absence of a large company threshold avoids targeting avoids targeting specific companies
    - Apportionment – it is unclear at this point how sourcing and apportionment will be determined, which could be an issue
  - Critics claim much of the burden would ultimately be passed through to consumers since it increases a cost of doing business

Taxing the Digital Economy

- Taxation of SaaS
- Cloud based subscription services
- Technology Services
- AI-related services
- All added complexity in compliance!

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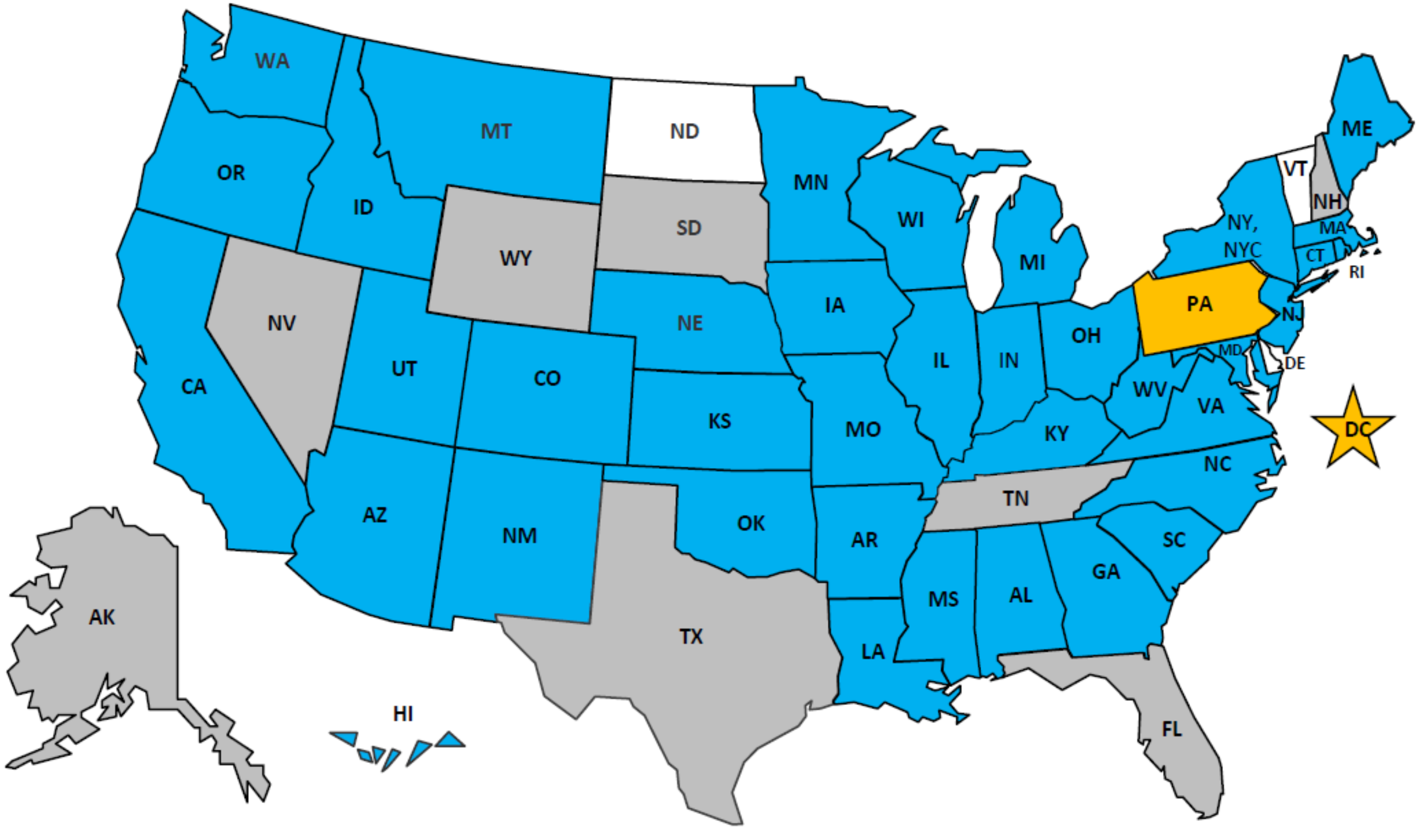
Pass-Through Entity Taxes

What is Pass-through Entity Tax (PTET)?

- Pass-through entity tax (PTET) is a state or local income tax imposed directly on a Partnership or S Corporation and paid by the entity on its own income, rather than imposed solely on the partners or shareholders
- Election to pay PTET at the Partnership or S Corporation level
  - Reduces the entities taxable income
  - Flows to owners through reduced distributive income
  - Is not counted against an individual owner’s federal SALT deduction limitation

States with Enacted or Proposed Pass-Through Entity (PTE) Level Tax

As of June 1, 2026



- 38 states (& 1 locality) that enacted a PTE tax since TCJA SALT deduction limitation, effective for 2024 (or earlier) unless noted: AL, AR, AZ, CA[3], CO[2], CT[1], HI, GA, IA[2], ID, IL[4], IN, KS, KY, LA, MA[2], ME[4], MI[2], MD, MN[6], MO, MS, MT, NC, NE, NJ, NM, NY, OH, OK, OR[6], RI, SC, UT[4], VA[4], WA[5], WI, WV, and NYC
- 1 state and 1 locality with active proposed PTE tax bills for 2026 (PA - SB 396, HB 1610, and DC - B26-0324)
- 8 states with no owner-level personal income tax on PTE income: AK, FL, NH, NV, SD, TN, TX, and WY
- 3 states with an owner-level personal income tax on PTE income that have not yet enacted and/or do not have an active proposed bill on PTE taxes: DE, ND, and VT

[1] Mandatory 2018-2023, elective starting 2024
[2] State PTET expires when the federal cap expires or is otherwise not in effect (CO, IA, MA, MI)
[3] State PTET expires Dec. 31, 2030 (CA)
[4] State PTET permanently extended (IL, ME, UT and VA)
[5] State with no owner-level personal income tax but with enacted PTET legislation effective in 2028 (WA)
[6] State PTET expires Dec. 31, 2027 (MN and OR)

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Pass Through Entity Tax (PTET) Timeline

2017

Tax Cuts & Jobs Act caps SALT deduction at $10,000

Without further action, these provisions would have expired 12/31/25

2018

Connecticut becomes the first state to create a pass-through entity tax

Other states follow suit

2020

IRS Notice 2020-75 allowing PTE Taxes

States enacting a PTE tax expand rapidly

2025

OBBB passes, increasing SALT Cap to $40,000 ($20,000 MFS) for 2025 – 2029

Cap increases by 1% annually

Reduced starting at $500,0000 MAGI (down to $10,000 for MAGI over $600,000)

Individual SALT Limitations

- Maximum SALT deductions if taxpayers MAGI is less than $500K

Taxable Year	Maximum SALT Deduction	MFS Maximum
2025	$40,000	$20,000
2026	$40,400	$20,200
2027–2029	Prior-year amount increased by 1% annually	One-half of applicable amount
2030 and later	$10,000	$5,000

Individual SALT Limitations

- For taxable years beginning before 2030, the increased cap is reduced by 30% of the taxpayer's MAGI exceeding:
  - $500,000 for 2025
  - $505,000 for 2026
  - Prior-year threshold increased by 1% annually for 2027-2029

$$\text{MAGI threshold} = \text{phaseout threshold} + \frac{\text{SALT cap} - \$10,000}{30\%}$$

Tax Year	SALT Cap Before Phasedown	MAGI Phaseout Begins	MAGI at which Cap Reaches $10,000
2026	$40,400	$505,000	$606,334
2027	$40,804	$510,050	$612,730
2028	$41,212	$515,151	$619,191
2029	$41,624	$520,302	$625,716

PA Implications

- PA has not passed a PTET regime
- Section 314 of the Pennsylvania Tax Reform Code of 1971
  - Currently only allows PA credit for taxes paid to other states for S Corporation shareholders
  - House Bill 1610
    - Amendments to Section 314
    - Would include limited liability company or partnerships
    - Amendment would apply to taxable years beginning after 12/31/2021

Is That Fair?

- Disparate treatment between S Corporation shareholders and partners in a partnership
  - Violates Pennsylvania's Uniformity Clause
- Aggressive approach for PA resident partners in a partnership
  - File PA tax return claiming credit for PTET taxes paid in other states
- Conservative approach for PA resident partners in a partnership
  - File PA tax return not claiming credit for PTET taxes paid in other states and file a refund petition within 3 years of filed return

Multistate Tax Update

- Maryland Budget bill – effective dates of 7/1/25
  - “Tech” tax – 3% on various services
  - New income tax brackets for high income earners
  - Increase sin taxes – cannabis and sports betting
- New Jersey – temporary cap on NOL deductions
  - $1 million cap on the utilization of corporate NOL’s for privilege periods ending on or after July 31, 2026 but before July 31, 2030.
  - Unused NOL can be carried forward and expiration is extended

Multistate Tax Update

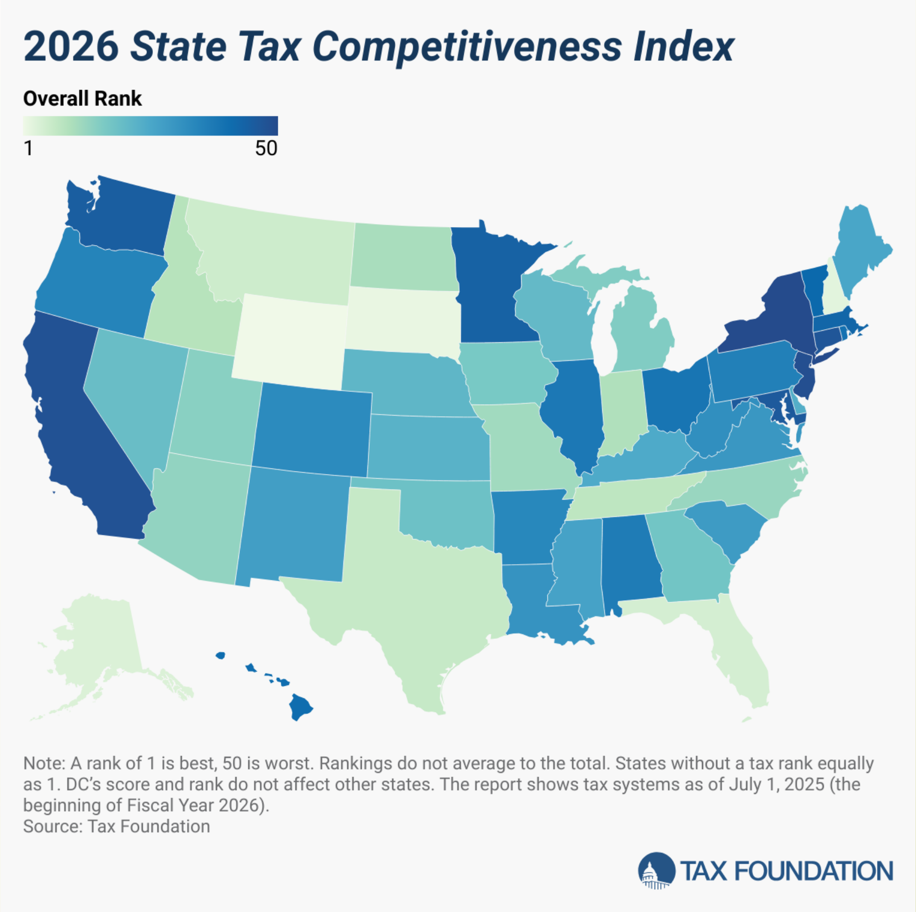
- Washington taxes on the wealthy
  - Increased the top estate tax rate in 2025 from 20%-35%
    - Has now been reversed following concerns about outmigration
  - Enacted a new 9.9% millionaire tax on high-income individuals
    - Applies to taxpayers with AGI above $1 million, including wages, business income, capital gains, bonuses, and rental income
    - Effective date expected beginning in 2028
  - Capital gains rates
    - 7% on the first $1 million of taxable gain (after deductions), 9.9% on taxable gain above $1 million
    - Doesn’t include real estate or retirement accounts
    - Washington doesn’t have a personal income tax

What Else Can States Tax?

- Capital gains surcharges
- Millionaire taxes
- Estate tax expansions
- Digital Advertising/Technology Service taxes
- PTET and deduction limitations
- Property Taxes
  - Surcharges
  - Second-home taxes
- Road taxes
  - EV fees
  - Retail delivery fees

How Does Pennsylvania Compare?

- Pennsylvania: Ranked 36th in the 2026 competitiveness index
- Despite favorable tax changes, this represents a decrease in the rankings over the last few years
- Many other states are also cutting rates and making other favorable changes



Friendly Reminders

- Consider whether sales tax should be filed in any states with $100,000 or more in sales, even if that is the only activity
- Review any remote workers
  - Payroll taxes registered/withholding being remitted correctly
  - Do those remote workers create nexus for other types of tax? Sales tax, income tax, etc.?
- Any other activities that could expose your business?
  - Customer visits/services provided in other states?
  - Is an affiliate operating in another state on your behalf?
  - Could any of your website/online activities create nexus?
- Voluntary Disclosure Programs are available!

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