



2025 State and Local Tax Update

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Introductions



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Firm Overview

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Topics Covered

- One Big Beautiful Bill (OB3)
- **Nexus**
- **Technology & Taxes**
- PA Budget & Other State Tax Updates

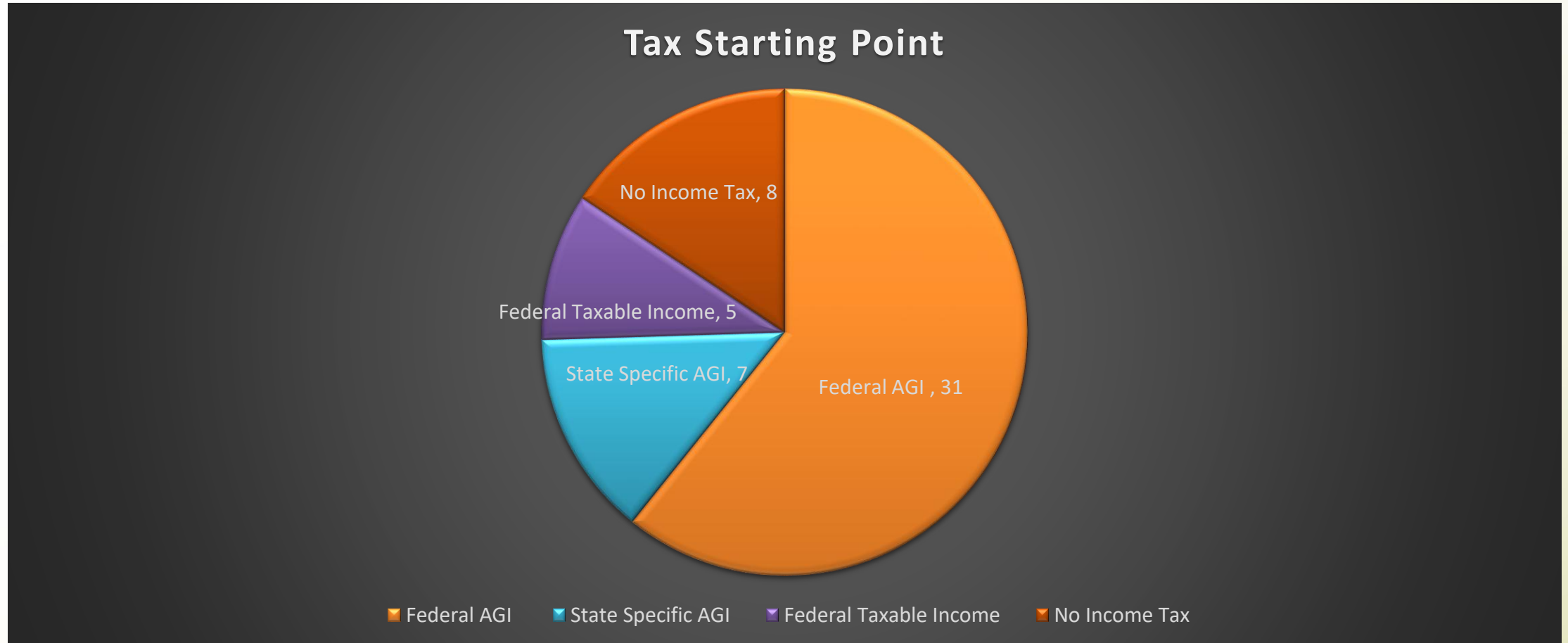
OB3 Changes – Above the Line

- Tips Deduction (\$25,000) – above the line
 - Proposed legislation in Pennsylvania – House Bill 1514
- Overtime Deduction (\$12,500) – above the line
 - Proposed legislation in Pennsylvania – House Bill 1586

9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9	
10	Adjustments to income from Schedule 1, line 26	10	
11	Subtract line 10 from line 9. This is your adjusted gross income	11	
12	Standard deduction or itemized deductions (from Schedule A)	12	
13	Qualified business income deduction from Form 8995 or Form 8995-A	13	
14	Add lines 12 and 13	14	
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income	15	



Individual Income Tax



OB3 Changes – Credits and Deductions

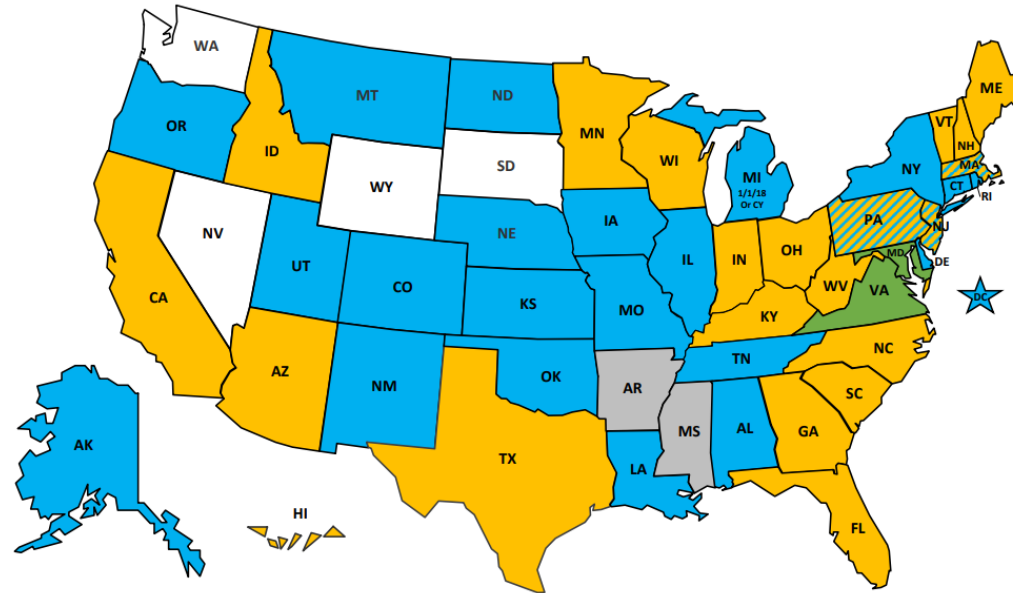
- Increased standard deduction
- Additional \$6,000 senior deduction
- Mortgage interest limitation - \$750,000 limit – must itemize
- Car loan interest
- Qualified Business Income deduction
- Child Tax Credit
- Child and Dependent Care Tax Credit

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Conformity to Federal Code (fixed/rolling/select)

States' Conformity to the Internal Revenue Code (IRC) (as it relates to the computation of taxable income)

As of July 18, 2025



- 22 states (including DC) that automatically conform to the IRC as the IRC is amended. (Rolling Conformity): AK, AL, CO, CT, DC, DE, IA, IL, KS, LA, MI, MO, MT, ND, NE, NM, NY, OK, OR, RI, TN, UT
- 18 states that conform to the IRC as of a specific date (Static or Fixed Conformity): AZ, CA, FL, GA, HI, ID, IN, KY, ME, MN, NC, NH, OH, SC, TX, VT, WI, WV
- 2 states that decouple from some IRC provisions that have significant revenue effect until / unless the state legislature addresses the provisions (MD, VA)
- 3 states with rolling conformity rules for corporate and fixed conformity on some or all items for non-corporate taxpayers (MA, NJ, PA)
- 2 states lacking general conformity to the IRC (Specific Conformity) (AR, MS)
- 4 states with no personal or corporate income tax and conformity not applicable (NV, SD, WA, WY)



OB3 – Bonus Depreciation

Previously:

- 2023: 80%
- 2024: 60%
- 2025: 40%

Now:

- January 1-19, 2025: 40%
- After January 19, 2025: 100%
- Immediate expensing of domestic research & development

State impact is dependent on conformity

Tax planning:

- Prior: Timing of purchases
- Bonus vs. Section 179 – state impact
 - No annual dollar cap for bonus

OB3 – Interest Expense Limitation

Calculation of interest expense limitation

- **Pre 2021 based on EBITDA**
 - Earnings before interest, taxes, depreciation, amortization
- **2022-2024 based on EBIT**
 - Earnings before interest and taxes
 - Less Interest could be expensed
- **After 2024 back to EBITDA**
 - More interest can be expensed

OB3 – Pass Through Entity Taxes

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

7/4/25

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

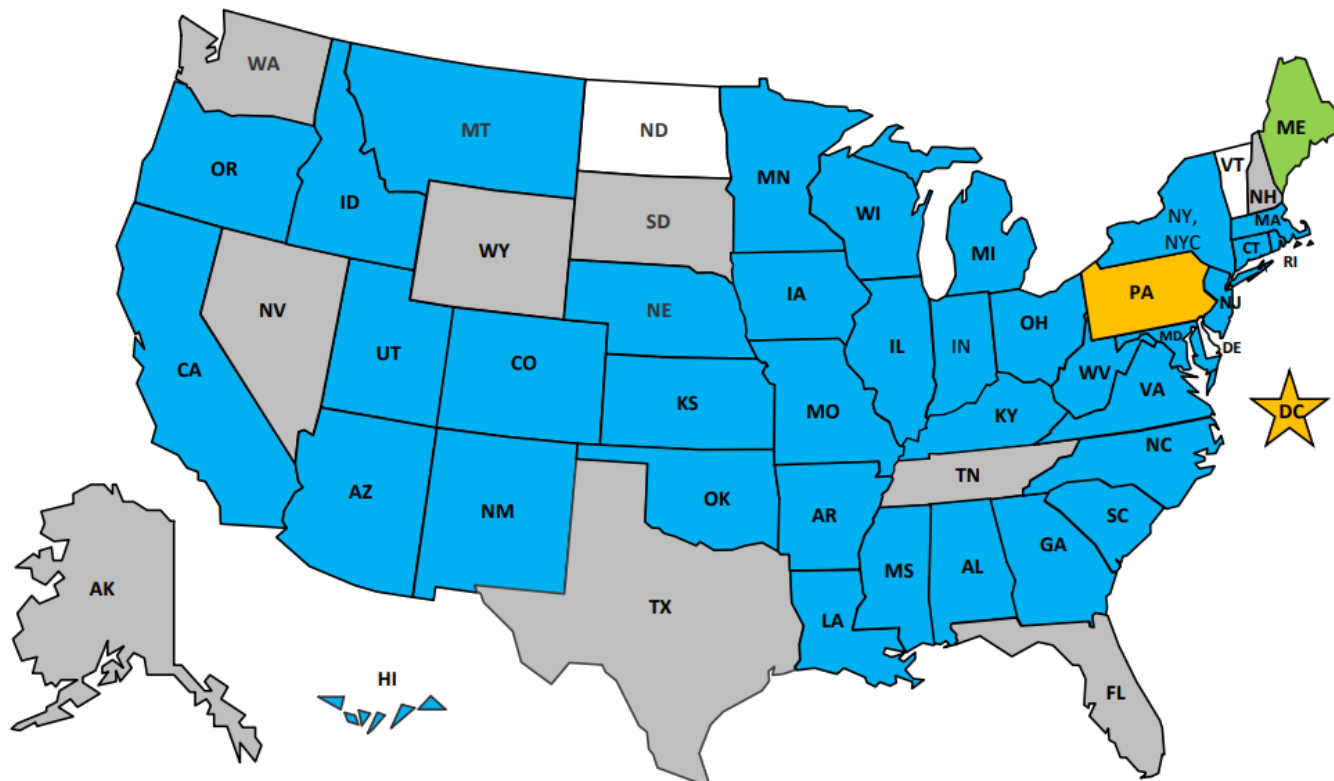
Cap increases by 1%
annually
Reduced starting at
\$500,000 MAGI (down
to \$10,000 for MAGI
over \$600,000)

OB3 – Pass Through Entity Taxes

- **\$10,000 SALT cap with passing of Tax Cuts & Jobs Act – now \$40,000 with OB3**
- **Most states have passed a PTE regime**
 - **Pennsylvania has not! Several bills have been introduced**
 - **Pennsylvania's selective out of state tax credits**
- **What state return are you filing?**
 - **Partnership/S-corp tax return**
 - **Composite Tax Return**
 - **Pass Through Entity Tax Return**

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

As of July 29, 2025



- 36 states (& 1 locality) that enacted a PTE tax since TCJA SALT deduction limitation, effective for 2024 (or earlier) unless noted:
[AL](#), [AR](#), [AZ](#), [CA](#)⁵, [CO](#)³, [CT](#)¹, [HI](#), [GA](#), [IA](#)³, [ID](#), [IL](#)², [IN](#), [KS](#), [KY](#) (& [KY](#)), [LA](#), [MA](#)³, [MI](#)³, [MD](#), [MN](#)³, [MO](#), [MS](#), [MT](#), [NC](#), [NE](#), [NJ](#), [NM](#), [NY](#), [OH](#), [OK](#), [OR](#)², [RI](#), [SC](#), [UT](#)², [VA](#)⁴, [WI](#), [WV](#), and [NYC](#)
- 2 states with active proposed PTE tax bills (PA - [SB 396](#), [HB 1610](#), DC - [B26-0324](#))
- 1 state with pending proposed PTE tax bill for 2026 (ME - [LD 191](#), [HP 124](#))
- 9 states with no owner-level personal income tax on PTE income:
AK, FL, NH, NV, SD, TN, TX, WA, WY
- 3 states with an owner-level personal income tax on PTE income that have not yet enacted 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 on Dec. 31, 2025 and no longer in session, and likely will reintroduce PTET extension bills in 2026 (IL, OR, UT)

³ State PTET expires when the federal cap expires or is otherwise not in effect (CO, IA, MA, MI, MN)

⁴ State PTET expires Dec. 31, 2026

⁵ State PTET expires Dec. 31, 2030



State PTE Planning Considerations

- If your income is over \$600,000 – no change from prior years, \$10,000 cap
 - Consider PTE filings if not already
- Are you itemizing deductions?
- States with PTE elections that expire automatically on 12/31/25
 - California, Illinois, Utah, Virginia



Nexus & Best Practices



Nexus: What Is It?

- **Nexus varies based on tax type**
 - Income Tax – Public Law 86-272
 - Excise Tax
 - Sales Tax
 - Business Registration
- **Physical Nexus**
 - The Mobile Workforce State Income Tax Simplification Act of 2025-S.B1443
- **Economic Nexus**
 - Wayfair & Removal of Transaction thresholds
- **VDP (Voluntary Disclosure Program)**
- **Best practices**

Nexus: A Brief History

1959

- Enactment of P.L. 86-272 (growth of mail order and telephone commerce)

1992

- Quill Corp v. North Dakota – reaffirms physical presence rule

2010's

- States begin to adopt new nexus standards such as click-through and affiliate nexus to address challenges posed by online sales and digital business models

2018

- South Dakota v. Wayfair, Inc. overturns Quill

Nexus: A Brief History



- All states with a sales tax enact some sort of economic nexus
- **MTC issues revised guidance on P.L. 86-272, addressing internet based activities**
- **States like California and New York adopt rules treating certain online activities (live-chat, post sale support, use of cookies) as in-state business activities that may defeat P.L. 86-272 protection.**
 - This has been met with litigation but nothing definitive so far



Technology & Taxes



Taxability and Software

- **Types of software**
 - Canned vs. custom
 - Method of delivery – tangible or electronic
 - Business use exceptions – B2B transactions
- **Software related services**
 - Is it software? Is it a service? Is it software as a service?
- **All states are different and continue to tax more aggressively**

PA's Stance on Software Taxability

Taxable

- Canned software
- License to use canned software
- Customization, configuration, enhancement, or repair of canned software
- Software as a service (SaaS)
- Information retrieval services or data sales of previously compiled data
- Website development in most cases

Exempt

- Custom software
- Consulting (by itself)
- Training (separately stated, not including materials)
- Help desk or call center support where the vendor does not access the software (separately stated charges)
- Website hosting services (separately stated)

AI and Taxes

- **Use of Artificial Intelligence**
 - Tax compliance
 - ~ 84% of tax and accounting professionals see AI as a force for good
 - ~ Automating the repetitive to focus on planning
 - ~ Use of AI by taxing authorities – the good, the bad, & the ugly
- **Tax implications of Artificial Intelligence**
 - Nexus implications
 - Sales tax implications
 - ~ Is it a product or service?
- **Pitfalls of AI**
 - Everything on the internet is true, right?
 - Privacy
 - Algorithmic bias

Types of AI

- **Generative**
 - Most commonly known/used by the public, like ChatGPT
 - Generates original content trained on other content
- **Predictive**
 - Forecasts outcomes, used for credit risk and demand/supply planning
- **Autonomous**
 - Functions by itself without humans, makes real-time decisions for supply chains and stock trading



Pennsylvania Updates

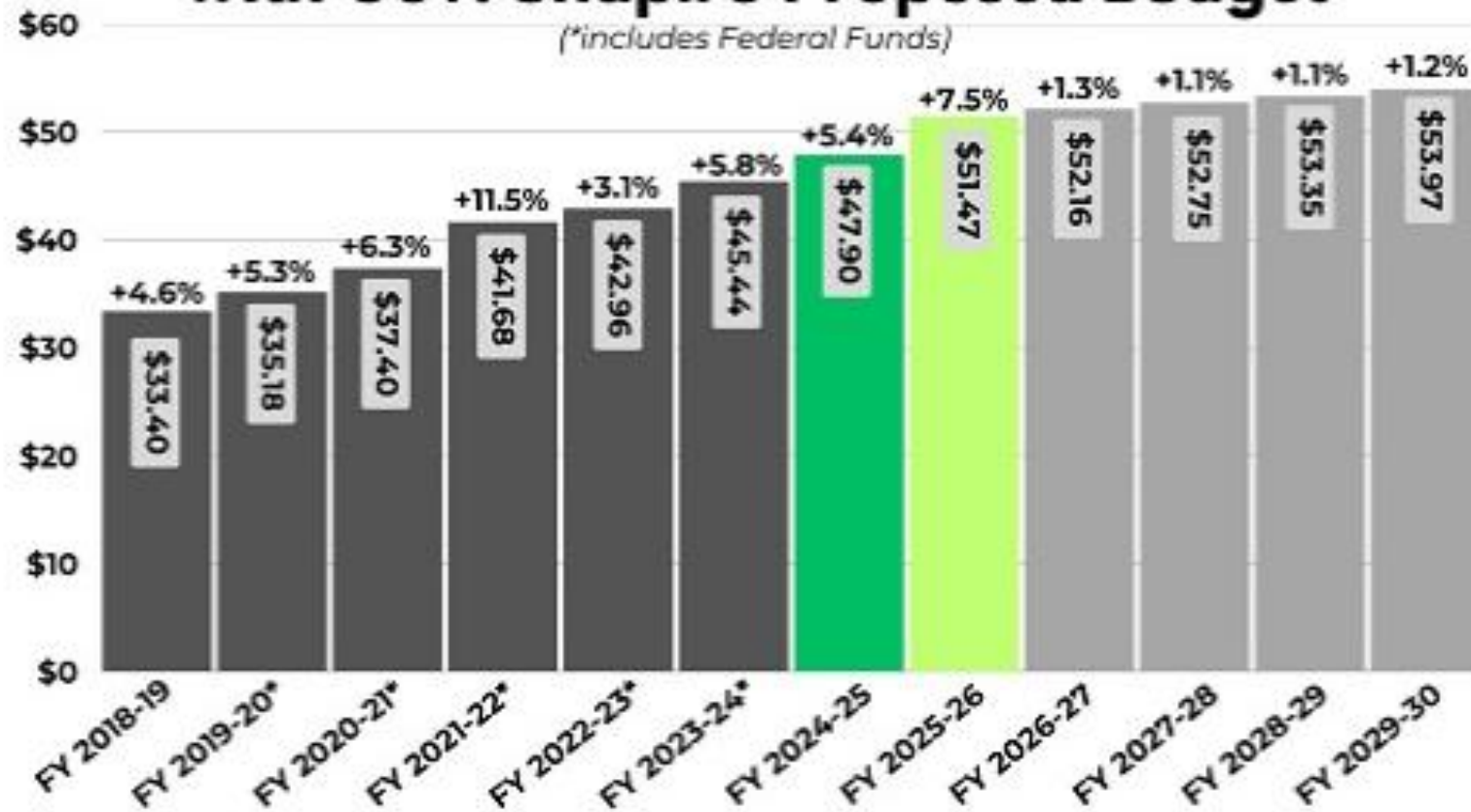


PA Budget Status

Not yet passed

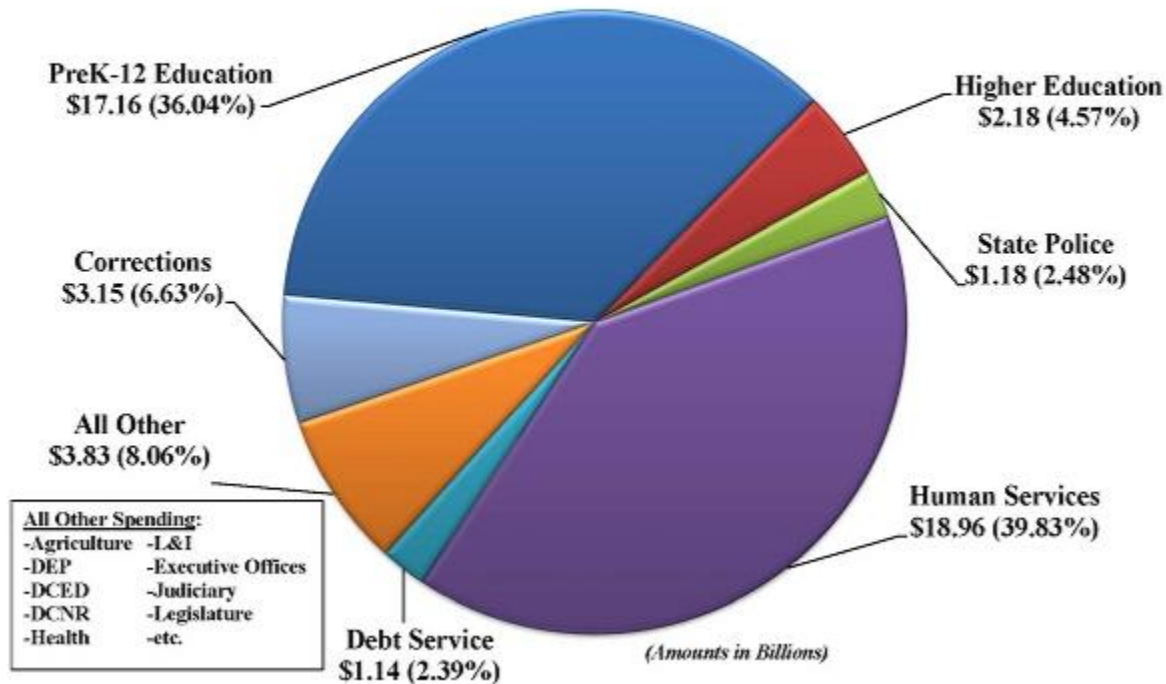
- **Democrats hold majority of the House, Republicans control the Senate**
- **As of Mid-August, only a few states are operating without a finalized budget:**
Pennsylvania, Michigan (fiscal starts October), North Carolina, Oregon
 - **Gov. Shapiro noted he is one of only 2 governors in the country with a divided legislature**
- **For Pennsylvania this means a strain on local governments and agencies since funding is on hold**
 - **SEPTA cut 32 routes and others running less frequently**
 - **School District of Lancaster took out a line of credit**
- **When were prior budgets signed into law?**
 - **2024-25: July 11th**
 - **2023-24: August 3rd**
 - **2022-23: July 3rd (Gov. Tom Wolf)**
 - **2015-16: March 28th, 2016 (Gov. Tom Wolf, partially passed in Dec).**

Historical General Fund Spending with Gov. Shapiro Proposed Budget

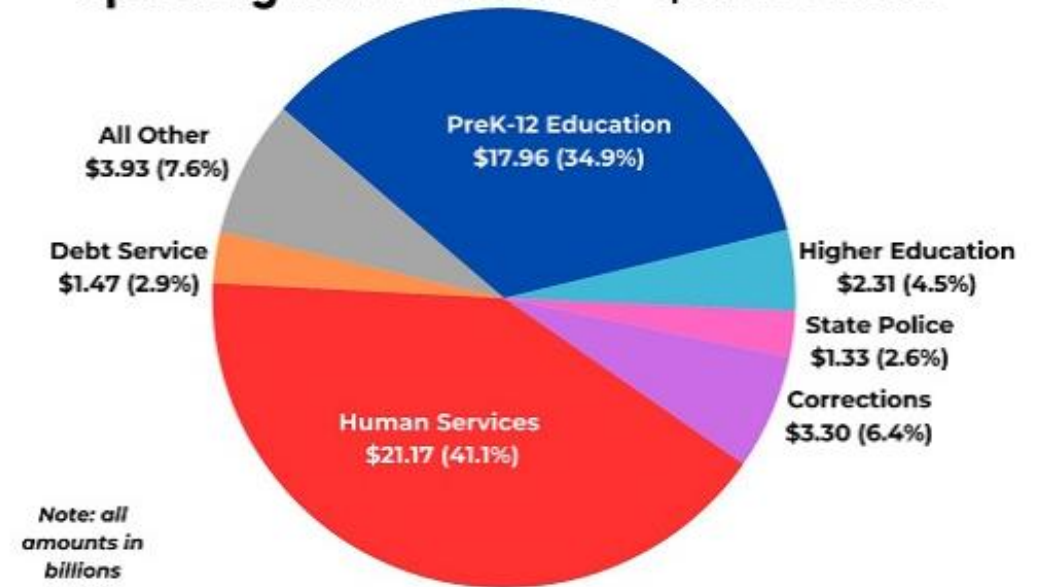


Budget Breakdown

FY 2024-25 Budget \$47.60 Billion



Gov. Shapiro Proposed General Fund Spending for FY 2025-26 - \$51.47 Billion



Pennsylvania Proposed Budget Themes

- **Schools**
 - Directing an additional \$526 million to education
- **Workforce**
 - Workforce development and vo-tech expansion
 - Childcare and early education support and additional funding for student teacher stipends
 - Raising the minimum wage to \$15 per hour (adds about \$100 million in increased revenue to PA)
- **Economic development, jobs, and innovation**
 - Property tax relief and housing affordability
 - Expedited corporate tax cuts – reaching 4.99% by 2029
 - Legalization and regulation of cannabis and skill games
 - PA Innovation program
 - ~ \$50 million towards large-scale innovation, research, and start-ups, and expand development in the life sciences
 - Focus on sports tourism – celebrating America's 250th birthday
 - ~ Philadelphia hosts March Madness, the FIFA World Cup, MLB All-Star Game, etc.
 - ~ To support these, \$15 million to Regional Event Security and a total of \$46.5 million more to the Tourism Promotion Fund

PA Updates

- Refusal to hear Phila Wage tax case
- Philadelphia – removal of \$100,000 exemption for BIRT
- PA Board of Appeals new online petition center
- Property tax & rent rebate program

PA Tax Competitiveness



Corporate tax



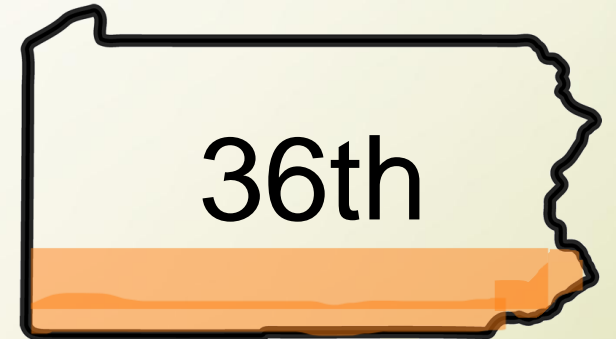
Individual income tax



Sales tax



Unemployment insurance tax



Property tax

State Tax Trends

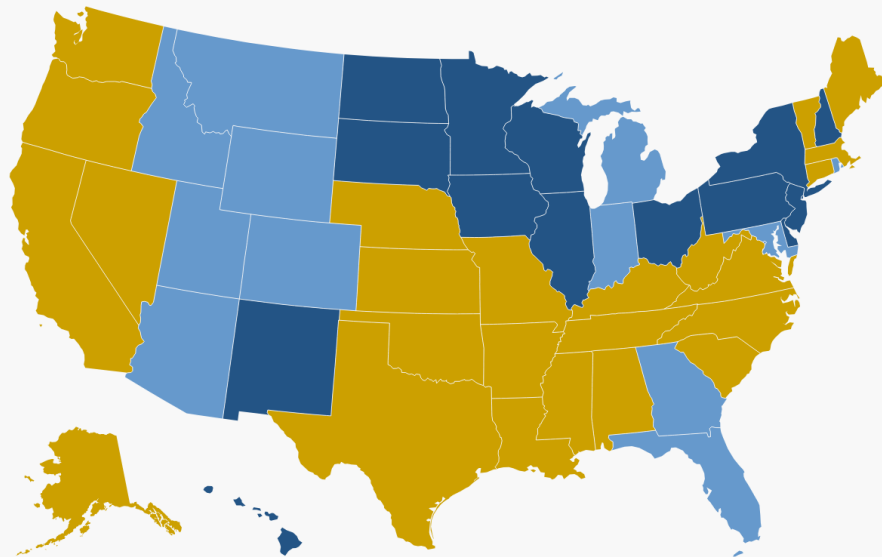
- Trends
 - Retail Delivery Fees
 - Sales tax exemptions for data centers
 - Taxes on digital advertising
- Maryland
 - 2 new brackets
 - 2% surtax on capital gains for those with \$350k+ in income
 - Itemized deduction phaseout AND standard deduction increase
 - Tax increase on cannabis, sports betting, and digital services
 - Child tax credit phaseout
- Washington
 - \$4bil in revenue raised to combat effects of cuts, etc.
 - 2.9% raise on taxable capital gains exceeding \$1mil
 - Estate tax exclusion raised; rates increased
 - Sales tax on certain information technology, security, staffing, and advertising services
- Rhode Island
 - The “Taylor Swift Tax”

Bonus State Info

Many States Reduce the Burden of Personal Property Taxes

State Tax Treatment of Business Personal Property as of January 1, 2025

■ De Minimis Exemption ■ Exempt ■ Fully Taxed



Note: MN, NJ, NM, NY, ND, and SD generally exempt personal property, but may tax centrally assessed property or other limited classes of personal property. KS and KY have a \$1,000 and \$1,5000 exemption, respectively, not included here because it is too small to meaningfully reduce compliance burdens of businesses.

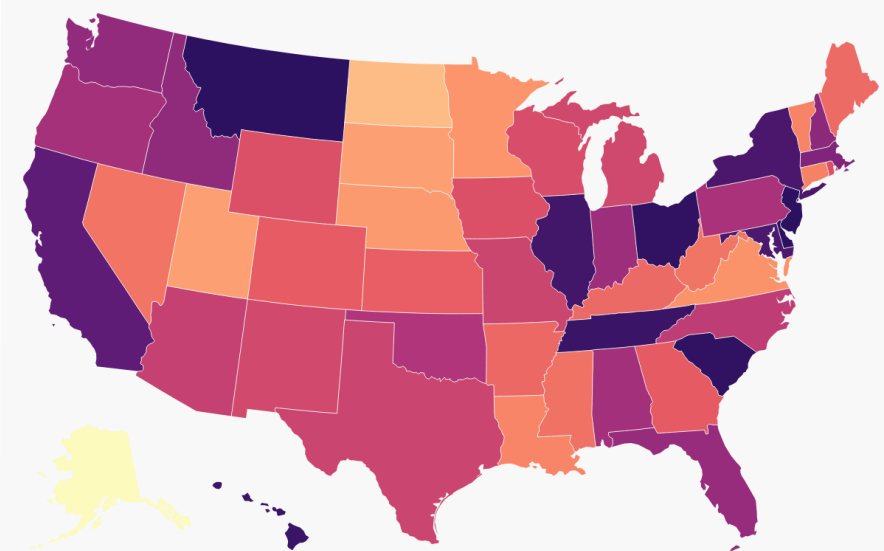
Source: Sources: State statutes; Tax Foundation research.



How Much of Road Funding is Funded by Road Users by State, 2025

Share of State and Local Spending Covered by State and Local Road Use Taxes (FY 2022)

18.9% 100%



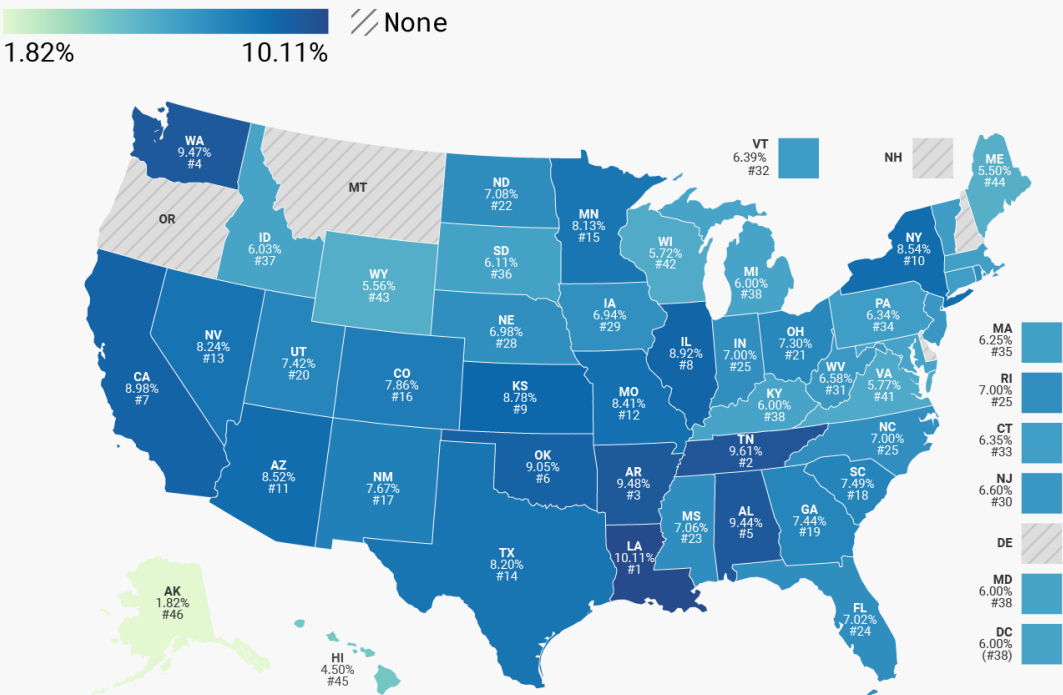
Notes: Road Use Taxes includes motor fuel taxes, motor vehicle licenses, and highway revenues. Proportions calculated after accounting for federal aid appropriations.

Source: US Census Bureau State and Local Finances; Federal Highway Administration Highway Statistics Series 2022; Authors' Calculations



How High Are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates, July 2025



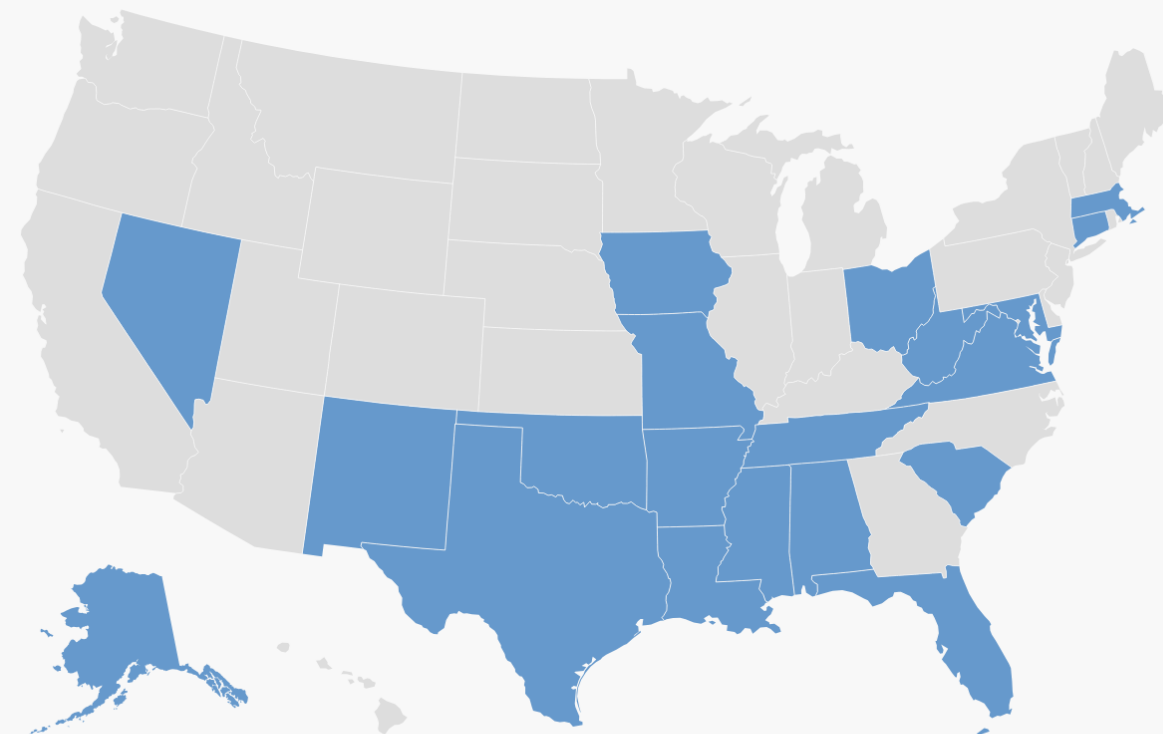
Note: City, county, and municipal rates vary. These rates are weighted by population to compute an average local tax rate. The sales taxes in Hawaii, New Mexico, and South Dakota have broad bases that include many business-to-business services. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included. Source: Sales Tax Clearinghouse; Tax Foundation calculations; State Revenue Department websites.



Does Your State Have a Sales Tax Holiday?

States with Sales Tax Holidays, 2025

■ Sales Tax Holiday



Source: Tax Foundation review of state statutes; Federation of Tax Administrators; Avalara.



Contact Information



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