



# TaxNewsFlash

United States



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## KPMG reports: California (corporate tax rates); New Jersey (pass-through alternative taxation); Virginia (federal tax conformity); Washington State (online research services)

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

- **California:** Proposed legislation, if enacted, would increase the corporate income tax rates for corporations and financial institutions with net income over \$10 million based on the company's "compensation ratio." The compensation ratio would look to the pay of the CEO or highest paid employee compared to the pay of the average worker. The higher the compensation ratio, the higher the rate of tax. Currently, general corporations pay corporate income tax at a rate of 8.84%. A rate of 10.84% is imposed on financial institutions. Under the bill, effective for tax years beginning on or after January 1, 2020, corporations with net income of \$10 million or more would be subject to an increased rate ranging from 10.84% to 14.84%. Financial institutions with gross income of \$10 million or more would be subject to increased rates ranging from 12.84% to 16.84%. Read a [January 2020 report](#)
- **New Jersey:** The governor earlier in January 2020 signed into law SB 3246, the Pass-Through Business Alternative Income Tax Act. The measures provide for an elective pass-through entity alternative income tax and allow non-corporate owners of the pass-through entities to claim a corresponding refundable gross income tax credit and permit a corporate owner to receive a corporation business tax credit. The new law is effective for tax years beginning on or after January 1, 2020. Read a [January 2020 report](#)
- **Virginia:** Proposals introduced in legislation before the General Assembly include combined reporting and market-based sourcing for tax years beginning on or after January 1, 2021. The combined reporting bills would mandate worldwide filing, but would allow water's-edge elections.

There are also at least two recently introduced bills that would move Virginia from a fixed-date conformity state to a rolling conformity state. Read a [January 2020 report](#)

- **Washington State:** An appellate court upheld a \$3.1 million assessment of retailing Business & Occupation (B&O) tax and retail sales tax on an information technology firm. At issue was whether the taxpayer was selling digital automated services or professional services. The taxpayer provided proprietary technology-related information and services, including various subscription-based research service packages that were the subject of the retailing B&O tax assessment. The main service included in the packages was the provision of online access to proprietary research documents in the taxpayer's research library. Customers accessed these documents through a client specific portal after logging on to the taxpayer's website. The position of the Department of Revenue was that the provision of access to the research library constituted a digital automated service that was subject to retail sales tax and retailing B&O tax. The appeals court agreed and held that the provision of online access to the taxpayer's research library was the sale of a digital automated service. Read a [January 2020 report](#)

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