TaxNewsFlash

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KPMG reports: Arizona (federal tax conformity); Illinois (unitary group); Texas (R&D tax credit); Vermont (federal tax conformity)

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.

- **Arizona:** Senate Bill 1752 adopts the Internal Revenue Code (IRC) in effect as of March 11, 2021, for tax years beginning after December 31, 2020. For tax years beginning after December 31, 2019, through December 31, 2020, the IRC means the Code as in effect on January 1, 2020, including those federal provisions in the COVID-19 relief bills that were enacted and effective in 2020. The Arizona bill did not add any new non-conformity additions or subtractions, but did keep in place previous non-conformity adjustments (for example, bonus depreciation). Read an **April 2021 report**

- **Illinois:** The Independent Tax Tribunal issued a decision addressing whether a corporation was excluded from the Illinois unitary group because it was a so-called "80/20 company." Under Illinois income tax law, a unitary business group does not include the income of those members whose business activity outside of the United States makes up 80% or more of the member's total business activity. The business activity of the entity is measured by means of the property and payroll factors. The corporation in this case owned a disregarded LLC that employed the corporate group's expatriates. The Department of Revenue asserted—and the tribunal ultimately agreed—that the corporation was not excluded as an 80/20 company because of the LLC's foreign employees. In the tribunal's view, the LLC was not the employer of the expatriated employees given economic realities, and also that the LLC had no economic substance and was to be disregarded. Read an **April 2021 report**

- **Texas:** The Comptroller proposed revisions to the regulation addressing the franchise tax research and development (R&D) activities tax credit. The revisions are extensive and, in some instances, would limit taxpayers that may qualify for credits. Comments on the proposed changes are requested. Read an **April 2021 report**

- **Vermont:** House Bill 315 became law without signature of the governor, and adopted and applies the IRC as of December 31, 2020, to tax years beginning on and after January 1, 2020. Another section of the bill—and one of the reasons the governor declined to sign the bill—decoupled from the federal treatment of forgiven Paycheck Protection Program (PPP) loans and made them subject to tax by disallowing the exclusion of such loans from gross income for tax years beginning on or after January 1, 2021. The legislation specifies that it does not affect the deduction of expenses paid with forgiven PPP loan amounts. Read an **April 2021 report**

Direct comments, including requests for subscriptions, to Washington National Tax. For more information, contact KPMG's Federal Tax Legislative and Regulatory Services Group at + 1 202.533.4366, 1801 K Street NW, Washington, DC 20006-1301.