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US tax newsletter | March 2017

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This thought leadership is about the various changes in US Multi-state tax laws for the tax year 2016.

As taxpayers get ready for their 2016 tax return preparation, it is a great time to look at the most noteworthy tax policy changes enacted by various state for tax year 2016.

1. **Reduced Income tax rates:** Corporate income taxes are levied in 44 states. Corporate tax rates range from a low of 4 percent in North Carolina to a high of 12 percent in Iowa. Iowa's highest top corporate tax rate is followed by Pennsylvania's, at 9.99 %. These states have reduced their tax rates for tax year 2016 -

State	Tax rate for tax year 2016	Tax rate for tax year 2015
Arizona	5.5%	6.0%
District of Columbia	9.2%	9.4%
Indiana	6.25%-6.5%	6.5%-7%
New Mexico	4.8%-6.6%	4.8%-6.9%
New York	6.5%	7.1%
North Carolina	4%	5%

2. **Reduction in capital based taxes:** States have been slowly and steadily reducing their reliance on tax levied on capital of business *(generally levied on net worth, assets in balance sheet etc.)*. States like Pennsylvania, Rhode Island, and West Virginia being the most recent states to abandon capital/franchise tax from tax year 2016, while Mississippi and Missouri pursue multi-year phase-outs.

3. **Shift towards market approach for service revenue apportionment:** There's been a notable shift in recent years by states towards adoption of market based sourcing for assigning receipts from service based income and income from the use of intangibles to a state. This is in line with states adopting economic nexus principle in addition to traditional physical nexus principle, and helps tapping revenues generated from their state.

For tax year 2016, these states have moved from cost of performance *('COP')* approach to market approach:

State	Sourcing approach – 2016	Sourcing approach – 2015
Connecticut	Market approach	Pro rate COP
Louisiana	Market approach	Pro rate COP
Tennessee	Market approach	Preponderance COP

4. **Adoption of single sales factor:** Apportionment formula is an important feature of state corporate income tax calculation. The principal rationale behind single sales apportionment is an economic nexus argument. The entire weightage has moved to sales made to customers within the state vis-à-vis having payroll and property in the state as well. For tax year 2016, these states have changed apportionment methodology from three factor to single sales factor:

State	Apportionment Methodology – 2016	Apportionment Methodology – 2015
Connecticut	Single sales factor	Double-weighted sales factor
Louisiana	Single sales factor – service and manufacturing	Payroll and sales factor- service Single sales factor - manufacturing

States like Arizona, North Carolina, New Mexico, North Dakota are in process of phasing in single sales factor for apportionment. Apart from states, New York City is also phasing in single sales factor which is in line with New York State.

5. **Adoption of combined reporting:** Combined reporting requires multi-state corporations *(generally covers parent subsidiary relationships)* which are unitary to determine their income tax liabilities on a combined basis. A lot of states have been moving towards adopting combined reporting. Recently, state of Connecticut adopted mandatory combined reporting from tax year 2016. State of New Jersey, Maryland and Pennsylvania have introduced mandatory combined report bills up for discussions in the state assembly.

6. **Bright line factor based nexus:** In general, under factor presence nexus standards, a business is presumed to have nexus with a state if the business has a property, payroll, or sales factor in the state that exceeds a certain threshold. At least nine states had adopted factor presence nexus standards. State of Tennessee being the latest addition to adopt factor based nexus. For the tax year 2016, these states have introduced/changed bright line factor based nexus:

State	Sales	Payroll	Property	Percentage
California	US$ 547,711 *($536,446 for 2015)*	US$ 54,771 *(US$ 53,644 for 2015)*	US$ 54,771 *(US$ 53,644 for 2015)*	25% of total property, total payroll, or total sales.
Tennessee	US$ 500,000	US$ 50,000	US$ 50,000	25% of total property, total payroll, or total sales.

7. **Limitations on NOL utilization:**
   - Louisiana:
     - Effective January 1, 2016, NOL utilization limited to 72% of Louisiana net income. NOL to be utilized in LIFO method, beginning from recently generated taxable loss; &
     - Extends the carry-forward period for net operating losses to twenty *(20)* years from fifteen *(15)* years.
   - Connecticut:
     - On and after January 1,2015, NOL utilization limited to 50% of Connecticut taxable income.
   - New York:
     - Beginning 2015, New York made significant changes to its Net Operating Losses Deductions;

- For NOL carryovers incurred prior to 2015, New York has created a Prior Net Operating Loss Conversion *('PNOLC')* Subtraction to allow for utilization of these NOLs;
- The PNOLC converts pre-2015 NOLS into post apportionment NOLs by applying formula given by the state. It is referred to as the PNOLC subtraction pool;
- Taxpayers are given choice to use 1/10 of the PNOLC subtraction pool in each year for the next 20 years or use ½ of the PNOLC subtraction pool in 2015 and 2016;
- If the 1/10 of PNOLC a year method is chosen, any unused subtractions are carried forward to following years; &
- However, if the ½ of the PNOLC method is selected, the taxpayers cannot carry forward any unused portion beyond 2016.