

State & Local Taxation: Staying Ahead of the Curve

PRESENTED BY

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Agenda

- One Big Beautiful Bill Act
- Legislative Updates
 - › **Ohio:** Budget Bill House Bill 96
 - › **Maryland:** Budget Reconciliation and Financing Act of 2025
 - › **Michigan:** Research and Development (R&D) Credit
 - › **Washington:** SUT Update
- Tax Amnesty Programs

One Big Beautiful Bill Act

Eric Burdette, Director, Cohen & Co



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One Big Beautiful Bill Act (OBBBA)

- **H.R. 1 Signed into law on July 4, 2025**
 - › Extends or makes permanent several provisions of the Tax Cuts and Jobs Act (TCJA)
 - › Introduces new deductions and provisions
 - › Will impact tax strategy and planning for the foreseeable future including state and local tax (SALT)

State Tax Implications of OBBBA

- Individual state and local tax deduction limit and business state and local tax deduction
- 100% bonus depreciation, new expensing for certain real property and Section 179 expensing
- Section 163(j) deduction for business interest expense
- Research and development (R&D) expenses
- International tax reform items foreign-derived intangible income (FDII), global intangible low-taxed income (GILTI) and Base Erosion and Anti-Abuse Tax (BEAT)

State and Local Tax Deduction

■ Individual Provisions

- › Itemized deduction limit for state and local taxes increases to \$40,000 for tax years 2025 through 2029
- › Deduction is reduced when modified adjusted gross income in excess of \$500,000 but will not be reduced below \$10,000
- › Will revert back to \$10,000 limit in 2030



State and Local Tax Deduction

■ Business Provisions

- › Preserved the full deductibility of state and local taxes for businesses
- › Earlier proposals would have limited the deduction in various ways
- › State pass-through entity tax (PTET) regimes remain a viable planning opportunity to maximize federal tax benefits

Key Takeaways

- State conformity to federal provisions
- Track state legislative responses
- Model implications to your business
- Quarterly estimates and tax accounting considerations
- Year-end tax planning

Polling Question #1

Which OBBBA provision is most impactful to your business?

- A. Bonus Depreciation
- B. Research & Development
- C. Business Interest Expense Limitation
- D. International Tax Reform (FDII, GILTI, BEAT)



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Ohio Update: Budget Bill House Bill 96

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2025 Ohio Budget Overview

- Amended Substitute House Bill 96 signed June 30, 2025
 - › Budget applies to fiscal years 2026-2027
 - › Changes to occur beginning in Fall of 2025 or January 1, 2026
 - › Emphasis on individual income tax cuts along with broadening the sales tax base by eliminating certain exemptions

2025 Ohio Budget – Individual Income Tax Reform

- Reduction of income tax rate for nonbusiness income only
 - › 2025: 3.5% reduced to 3.125% for top bracket (over \$100,000)
 - › 2026: reduced to 2.75% for all income in excess of \$26,050
- Business income remains taxable at 3%
 - › First \$250,000 of income still exempt from tax under business income deduction
- Consider prior filing positions in determining business vs. nonbusiness income
 - › Ohio has a four-year statute of limitations on pass-through entity (PTE) filings

2025 Ohio Budget – Pass-Through Entity Tax

- Updates to Ohio Electing Pass-Through Entity Return (Form 4738)
- Estimated payment due date change beginning on or after January 1, 2026
 - › 1st Payment due April 15 unchanged
 - › 2nd Payment due June 15 (from July 15)
 - › 3rd payment due September 15 (from October 15)
- Multi-tiered structure update – refundable credits received from a lower tier may be used to offset electing entities tax obligation (net zero effect)
 - › For taxpayer period beginning on or after January 1, 2025

2025 Ohio Budget – CAT & Tax Credits Update

- Commercial Activity Tax (CAT) Change
 - › Starting in 2029, converts net operating losses accrued under corporate franchise tax from refundable credit to nonrefundable credit
- Opportunity Zone Investment Tax Credit annual cap increased
 - › \$25 million increased to \$50 million for fiscal years 2026 and 2027
- Historic Building Preservation Tax Credit annual cap increased
 - › \$60 million increased to \$75 million for fiscal years 2026 and 2027
- Transformational Mixed-Use Development (TMUD) updated
 - › Removed 2025 sunset date, increased annual cap to \$125 million for 2026

Polling Question #2

What is the Ohio Business Income Tax Rate in 2025?

- A. 3.125%
- B. 3.00%
- C. 2.75%



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2025 Ohio Budget – Sales Tax

- Expanding the sales tax base by repealing current sales tax exemptions effective January 1, 2026:
 1. Vehicle repair/service rental reimbursements where the service provider reimburses the rental payments
 2. Refrigerated food vending machines
 3. Advertising material and catalogs
 4. Printing materials used for advertising
 5. Electronic publishing equipment
 6. Telecommunications services used directly and primarily to perform the functions of a qualified call center
 7. Digital audio on the juke box
 8. 25% refund for providers of electronic information services

2025 Ohio Budget – Sales Tax

- Changes to interest on refunds
 - › No interest paid to direct-pay permit holders
 - › Ohio combined sales tax rates consist of 3 levels:
 - State
 - County
 - Transit Authority
 - › Effective 90 days after the bill was signed into law, no county level interest will be paid for sales and use tax refunds
 - › Interest will continue to be paid at the state and transit authority level for sales and use tax refunds

Ohio – Sales Tax Holiday

Friday, August 1, 2025, to Thursday, August 14, 2025

- Most tangible personal property exempt from sales tax
 - › Sale must be \$500 or less to qualify
- B2B purchases qualify for exemption
 - › Must be invoiced and paid during the holiday dates
- Specific exclusions that remain taxable are:
 - › Watercraft or outboard motors
 - › Motor vehicles
 - › Alcoholic beverages
 - › Tobacco products
 - › Vapor products
 - › Items containing marijuana

Maryland Update: Budget Reconciliation and Financing Act of 2025

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Maryland Income Changes – Effective Jan. 1, 2025

Two New Tax Brackets

- 5.75% Tax Rate
 - › > \$250,000 Single / \$300,000 MFJ/HOH
- New 6.25% Tax Rate
 - › > \$500,000 Single / \$600,000 MFJ/HOH
- New 6.50% Tax Rate
 - › > \$1 million Single / \$1.2 million MFJ/HOH
- Local tax maximum rate increased from 3.2% to 3.3%
 - › Local rates will range from 2.25% to 3.30%

Maryland Income Changes – Effective Jan. 1, 2025

Standard deduction increase

- \$3,350: Single, Married Filing Separately, Dependent
- \$6,700: Married Filing Jointly, Head of Household, Qualifying Surviving Spouse

Itemized deduction phase-out

- When Federal AGI > \$200,000 (\$100,000 MFS), eligible itemized deductions will be reduced by a 7.5% phase-out rate applied to the amount of Federal AGI > \$200,000
- For example, when a taxpayer's Federal AGI is \$300,000, the taxpayer will be required to reduce their itemized deductions by \$7,500 (7.5% x \$100,000) for Maryland personal income tax purposes



Maryland Income Changes – Effective Jan. 1, 2025

New Capital Gains Surtax

- 2.00% surtax on qualifying capital gains when federal adjusted gross income > \$350,000
- Exceptions available on gains from the sale of:
 - › Primary residence sold for less than \$1.5 million
 - › Trade or business property deductible under IRC 179
 - › Certain retirement accounts, defined contribution plans, defined benefit plans, including:
 - 401(k), 403(b), 457(b), 408, 408A
 - › Land subject to conservation, agricultural, forest preservation easement on sale/exchange of land
 - › Certain livestock when owner's income primarily from farming or ranching
 - › Affordable housing owed by nonprofit entity

Maryland Income Changes – Effective July 1, 2026

Passthrough Entity Tax

- Maryland resident owner's pass-through entity tax (PTET) liability may be calculated on all distributable income
- Nonresident owner's liability will continue to be apportioned income
 - › However, anticipate amendment before effective date to require that S Corporations continue to calculate Maryland PTET on the apportioned income of resident owners
 - › Thus, only resident owners of partnership or LLCs taxed as partnerships will likely see their 2026 Maryland PTET applied to entire distributable income

Polling Question #3

Maryland Capital Gain Surtax may apply when federal adjusted gross income exceeds \$_____ for a Married Filing Jointly Filer?

- A. \$700,000
- B. \$500,000
- C. \$350,000



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Maryland “Tech Tax” – Effective July 1, 2025

- Expanding taxable services base by targeting technology sector
- 3% sales tax on Tech Tax services
- Services are either subject to the 6% sales tax or the reduced 3% Tech Tax
 - › Services will not be subject to both taxes
- If a service could be subject to either, the 6% sales tax will apply

Maryland “Tech Tax” – Effective July 1, 2025

- **Examples of new taxable services:**

- › System software or application software publishing services
 - Businesses producing and distributing computer software
- › Data processing, hosting and related services
- › Other information services
- › Computer systems design and related services
- › Web search portals
- › Online directories
- › Website and software development
- › IT consulting
- › Software installation
- › Services categorized in NAICS codes

Maryland “Tech Tax” – Effective July 1, 2025

- New Taxable Services:
 - › Services categorized in NAICS codes:
 - 518
 - 519
 - 5415
 - 5132
- Multiple points of use (MPU) exemption is permitted
 - › When claiming MPU, the buyer is responsible for remitting tax

Polling Question #4

Will your business see increased taxes due to Maryland's new "Tech Tax"?

- A. Yes, my business may be significantly impacted
- B. Perhaps on certain purchases
- C. No



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Michigan Update: Research and Development (R&D) Credit

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Michigan R&D Tax Credit – Effective Jan. 1, 2025

- New R&D tax credit for qualified research expenditures incurred within the state of Michigan for tax years beginning on or after January 1, 2025
 - › Additional credit allowed for collaboration with a Michigan university
- Credit available to corporate taxpayers, and flow-through entities that are employers subject to Michigan income tax withholding

Michigan R&D – Calculating Tentative Credit

- Determine base amount of qualified R&D expenses
- Determine number of employees

	% of Qualified Expenses Below Annual Base Amount	% of Qualified Expenses Exceeding Annual Base Amount	Maximum Amount of Credit Per Tax Year
≥250 employees	3% of qualifying research and development expenses	10% of qualifying research and development expenses	\$2,000,000
<250 employees	3% of qualifying research and development expenses	15% of qualifying research and development expenses	\$250,000

Michigan R&D – Tentative Claims Process

- Maximum allowable credit per year of \$100 million
- A tentative claim request must be submitted, including
 - › Amount of calculated credit
 - › Category of business
 - › Amount of qualified expenses being claimed
 - › If an additional credit is being claimed
- If total claims exceed \$100 Million, proration will occur

Michigan R&D – Key Dates & Credit Utilization

- For R&D expenses incurred during the 2025 calendar year, tentative claims are due April 1, 2026
- For R&D expenses incurred in calendar years after 2025, tentative claims are due March 15 of the following year
- Utilizing the credit:
 - › CIT taxpayers would claim credit for the tax year in which the expenses were incurred
 - › A flowthrough entity would claim the credit in the year the tentative claim was filed
 - › Unused credit is refundable and not eligible for assignment or transfer

Washington SUT Update

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Washington Sales Tax

- State Senate Bill 5814 takes effect October 1, 2025
- Expansion of services taxed, including:
 - › IT
 - › Custom website development
 - › Security and investigation
 - › Advertising
 - › Live presentations
 - › Custom software
 - › Digital automated services which primarily involve human effort

Washington Business and Occupation (B&O)

- In addition to sales tax
 - › But, reported on same return
- Directly on business
 - › Any business with Nexus in Washington is required to file
- Calculated on Gross Receipts
- Categorized into business sales/service types

Approximately 30 cities have their own separate B&O

Effective January 1, 2027, Washington's B&O tax rates will increase for multiple classifications

Washington Business and Occupation (B&O)

- **Effective January 1, 2026**, 0.5% surcharge on any Washington taxable income over \$250 million
- Income from certain sources is exempt:
 - › Financial institutions
 - › Manufacturing
 - › Wholesale
 - › Retail
 - › Extractors
- Effective October 1, 2025, increased surcharge on specified financial institutions from 1.2% to a 1.5% tax rate on gross income
 - › Specified financial institutions are defined by:
 - Member of a consolidated financial institution group
 - \$1 billion or more of net income on the previous calendar year consolidated financial statement

Tax Amnesty Programs

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2025 State Amnesty Programs *(Updated 7/1/2025)*

State	Nature of Amnesty	Authority	Status	Time Period	Taxes Covered	Applicable Tax Years	Penalties Waived	Interest Waived	Special Provisions
IL	Statutory	H.B. 2755	Enacted	10/1/2025-11/15/2025	Most taxes administered by the Illinois Department of Revenue	Tax periods beginning after 6/30/2018 and ending before 7/1/2024	Yes	Yes	Taxpayers in ongoing litigation for nonpayment, delinquency, or fraud are ineligible
IL	Statutory	H.B. 2755	Enacted	10/1/2025-11/15/2025	Franchise tax and license fee	Tax periods beginning after 6/30/2019 and on or before 6/30/2025	Yes	Yes	Taxpayers in ongoing litigation for nonpayment, delinquency, or fraud are ineligible
IL	Statutory	H.B. 2755	Enacted	8/1/2026-10/31/2026	Certain unpaid Illinois state and local retailers' occupation tax (ROT)	TPP sold to IL customers during 1/1/2021 through 6/30/2026	Yes	Yes	A standard rate of 9% will apply to all sales that were originally subject to the use tax rate of 6.25%
IN	Statutory	H.B. 1001	Enacted	TBD – Before 1/1/2027	TBD	Unpaid tax liability due and payable before 1/1/2023	Yes	Yes	
KY	Statutory	H.B. 8	Enacted	TBD – 60 days in Fall of 2024 or in 2025 (depends on the DOR)	Taxes administered by the DOR (does NOT apply to ad valorem taxes on real and personal property, motor vehicles and motorboats, and certain penalties and fees)	Tax periods on or after 10/11/2011 but before 12/1/2023	Yes	50%	Complete payments are to be made during the amnesty period, but the DOR may enter into an installment payment plan
WA	Administrative (Voluntary Disclosure Program)	Washington State Department of Revenue	Ongoing	7/1/2025-4/30/2026 and 7/1/2026-4/30/2027	Businesses with unreported investment income subject to B&O tax (unless the taxpayer has been notified on an audit or agency enforcement action as of 7/1/25)	Lookback period for tax liability is limited to prior four years plus the current year	Up to 39%	Yes	This is the temporary expansion of the VDP offered by the WA DOR. It is not open to businesses engaged in banking, lending, and security as defines in RCW 82.04.4281

Source: COST (Council on State Taxation)

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For-Profit Entity Needs to Know**

Tuesday, August 12, 11 a.m. to Noon ET

**AI Readiness: Is Your Organization
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Tuesday, August 19, 11 a.m. to Noon ET

**You've Been Acquired by
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