

Monthly US Tax Bulletin

September 2026



Welcome to the September edition of Grant Thornton Bharat's US Tax Bulletin, a monthly guide to keep you informed of key developments across the federal, state and local tax landscape. In an environment marked by regulatory shifts, economic uncertainty and increasing complexity, staying informed is crucial to make strategic and compliant decisions. This newsletter is designed to deliver timely, relevant and actionable insights to help you navigate the evolving tax landscape with confidence.

This edition features curated updates on recent legislative changes, Internal Revenue Service (IRS) enforcement priorities and emerging trends. Whether you are navigating corporate tax reform, assessing cross-border implications or managing compliance challenges, we aim to support your efforts with clarity and precision.

This edition highlights several significant federal tax developments, including proposed simplifications to Internal Revenue Code (IRC) §987 (Foreign Currency Gain or Loss Rules for Qualified Business Units) that aim to reduce compliance burdens for controlled foreign corporations (CFCs); proposed changes to CFC income allocation rules, replacing the traditional last-day ownership approach with an ownership-period methodology and new restrictions on Foreign-Derived Deduction Eligible Income (FDDEI) benefits under IRC §250, which could limit the availability of the §250 deduction on certain asset dispositions. The bulletin also covers updated IRS guidance on the business interest expense limitation under IRC §163(j), the establishment of the Office of Conservation Easements and the IRS's shift away from its uniform settlement initiative for easement disputes, as well as the IRS announcement that federal tax interest rates for overpayments and underpayments will remain unchanged for the fourth quarter of 2026.

This edition also highlights important developments across various states, including Indiana's clarification that cloud-based educational and training platforms are generally not subject to sales tax, Connecticut's guidance on the state tax treatment of research and experimental (R&E) expenditures under IRC §174 and §174A, Pennsylvania's revised local sales and use tax sourcing rules that shift taxation to a destination-based approach for Philadelphia and Allegheny County transactions and Missouri's proposed regulations requiring registered taxpayers to continue filing sales and use tax returns even when no taxable activity or tax liability exists during the reporting period.

We recognise that tax considerations are integral to broader business strategy. As such, we remain committed to help you align your tax planning with your organisational objectives, ensuring you are well-positioned to respond to both immediate developments and long-term regulatory shifts.

We trust this edition provides a valuable perspective on the evolving tax and compliance landscape. As we continue to monitor developments at the federal and state levels, our goal is to keep you informed with timely, actionable insights.

Happy reading!



Lloyd Pinto
Partner and US Tax Leader
Grant Thornton Bharat

A.

Key developments under US federal laws

IRS proposes significant simplification of Section 987 rules for controlled foreign corporations

The IRS and Treasury have issued proposed regulations under IRC §987 that would significantly simplify foreign currency gain and loss reporting for Controlled Foreign Corporations (CFCs). The proposal introduces a **CFC Exemption Election**, allowing electing CFCs to generally **avoid computing and recognising Section 987 foreign currency gain or loss on routine remittances from foreign branches (Qualified business Units)**, while continuing to determine branch taxable income under existing rules.

Key highlights include:

- **Optional CFC exemption election:** Electing CFCs generally would not recognise Section 987 gain or loss on branch remittances, substantially reducing compliance complexity and recordkeeping requirements.
- **Transition relief:** Existing unrecognised Section 987 gains or losses would not disappear. Instead, they would generally be recognised over a 120-month (10-year) amortisation period.
- **Small QBU exception:** QBUs with average assets below \$50 million over the preceding three years would be exempt from calculating pre-election Section 987 gain or loss, easing compliance for smaller operations.
- **Inbound reorganisation protection:** To prevent untaxed foreign currency gains from entering the US tax system through inbound liquidations or reorganisations, electing CFCs would still be required to recognise certain Section 987 gains in these transactions.
- **Consistency requirements:** Related US shareholders and commonly controlled CFC groups generally must apply the election consistently, limiting selective tax planning opportunities.

The proposed regulations were published on 14 August 2026, with comments due by 12 November 2026. If finalised, the rules would provide taxpayers with a streamlined alternative to the complex Section 987 gain and loss recognition framework introduced in the 2024 final regulations.

[REG-103844-26, 14 August 2026]

IRS proposes new CFC income allocations and reporting rules

On 26 August 2026, the IRS released proposed regulations (REG-115646-25) implementing provisions of the One Big Beautiful Bill Act (OBBBA) that would significantly change how US shareholders determine and report their share of Subpart F income, tested income and tested loss from CFCs. The proposed regulations replace the longstanding **"last-day ownership"** rule with an **ownership-period approach**, under which CFC income would generally be allocated based on the period during which a US shareholder actually owned CFC stock. The rules are generally consistent with the transition guidance previously issued in **Notice 2025-75**.

Key proposed changes include:

- **Daily proration method:** Subpart F income, tested income and tested loss would be allocated based on the number of days a shareholder owned CFC stock during the CFC taxable year.
- **Mandatory year-end closing:** CFC's taxable year would be required to close when the entity becomes or ceases to be a CFC, with the closing applicable for all US tax purposes.
- **Elective year-closing rule:** Certain CFCs could elect to close their taxable year upon a significant ownership change, generally where US shareholder ownership decreases by more than 50 percentage points.
- **Phaseout of extraordinary reduction rules:** Existing rules addressing significant reductions in CFC ownership would be phased out.
- **Expanded Form 5471 reporting:** Additional disclosures relating to stock classes, issuances, redemptions, ownership changes and direct and indirect ownership would be required.

The proposed regulations could have significant implications for cross-border mergers and acquisition transactions, ownership restructurings and ongoing CFC compliance, particularly where ownership changes occur during the year. Taxpayers may need to reassess transaction planning, income allocation methodologies and international reporting processes. The regulations are generally proposed to apply to taxable years of foreign corporations beginning after 31 December 2025. Comments on the proposed regulations are due by 26 October 2026.

[REG-115646-25, 26 August 2026, Notice 2025-75.]

IRS proposes new rules limiting Foreign-Derived Deduction Eligible Income (FDDEI) benefits on certain asset sales

On 20 August 2026, the US Treasury Department and the IRS issued proposed regulations (REG-117130-25) under IRC §250, building on guidance provided in Notice 2025-78. The proposed rules clarify the treatment of the guidance implements amendments introduced by the OBBBA and seeks to prevent taxpayers from claiming the Section 250 deduction on income arising from specified asset dispositions.

Key provisions of the proposed regulations include:

- **Exclusion of certain disposition income from FDDEI:** Income and gain from the sale or other disposition of intangible property (as defined under IRC §367(d)(4)) and property subject to depreciation, amortisation or depletion by the seller would generally be excluded from Deduction Eligible Income (DEI) and consequently, from FDDEI.
- **Clarification of “sale or other disposition”:** The regulations provide that the exclusion applies only to transactions treated as sales or dispositions under general federal income tax principles. Importantly, leases and licenses remain outside the scope of the exclusion, preserving potential FDDEI benefits for qualifying royalty and licensing arrangements.
- **Favorable treatment for inventory and copyrighted articles:** The proposal clarifies that property held solely as inventory is not treated as excluded property. Similarly, sales of copyrighted articles, including copies of software distributed to customers, generally would not be treated as sales of intangible property for these purposes, provided the assets were not used in the seller's trade or business.
- **Anti-abuse measures:** The regulations include a related-party anti-abuse rule designed to prevent taxpayers from reclassifying depreciable assets as inventory through basis-carryover transactions to preserve FDDEI benefits.

The proposed regulations generally apply to sales or other dispositions occurring after 16 June 2025, while taxpayers may rely on the proposed rules prior to finalisation if applied consistently. Treasury and the IRS currently expect to finalise the regulations by 4 January 2027. Multinational corporations claiming the Section 250 deduction should review transactions involving intellectual property, depreciable business assets, software and inventory sales to evaluate the impact on future FDDEI calculations and related tax planning strategies.

[REG-117130-25, 20 August 2026]

IRS releases updated guidance on business interest expense deduction rules under Section 163(j)

On 19 August 2026, the IRS updated its frequently asked questions (FAQs) on the business interest expense limitation under IRC §163(j) to incorporate changes and clarifications introduced by the OBBBA.

Key updates include:

- **Restoration of EBITDA-based ATI computation:** For tax years beginning after 31 December 2024, depreciation, amortisation and depletion deductions may once again be added back when calculating Adjusted Taxable Income (ATI), potentially increasing interest deduction capacity for many taxpayers.
- **Expansion of floor plan financing rules:** The definition of qualifying floor plan financing indebtedness has been broadened to include certain trailers and campers designed for recreational, camping or seasonal use.
- **Clarification on capitalised interest:** The IRS clarified that, except for interest capitalised under IRC §263(g) and §263A(f), business interest expense generally remains subject to the §163(j) limitation regardless of other mandatory or elective capitalisation provisions.
- **Changes affecting multinational groups:** For tax years beginning after 31 December 2025, Subpart F inclusions, Global Intangible Low-Taxed Income (GILTI), inclusions and IRC §78 gross-up amounts, together with related deductions, will be excluded from ATI calculations, which may reduce interest deduction capacity for certain multinational taxpayers.
- **Updated small business exemption threshold:** The inflation-adjusted gross receipts threshold for the small business exception has been increased to USD 32 million for 2026.
- **Partnership, S corporation and international tax considerations:** The IRS reaffirmed the application of the §163(j) limitation to partnerships, S corporations, CFCs and certain foreign corporations engaged in a US trade or business, while providing further clarification on the operation of the limitation in these contexts.

Collectively, these developments may have significant implications for interest limitation computations, financing arrangements and year-end tax planning strategies for both domestic and multinational taxpayers.

[Fact Sheet FS-2026-14, 19 August 2026]

IRS establishes Office of Conservation Easements and ends uniform settlement initiative

On **19 August 2026**, the IRS announced the creation of the Office of Conservation Easements, a specialised office that will centralise expertise and coordinate policy, enforcement and dispute resolution related to conservation and historic preservation easement transactions. Conservation easement disputes generally arise when the IRS challenges the amount or validity of charitable deductions claimed in connection with easement donations, often due to valuation and compliance concerns.

The announcement follows the IRS's 13 May 2026 settlement initiative, which offered eligible taxpayers involved in conservation easement disputes a time-limited opportunity to resolve cases under standardised settlement terms that were generally intended to be more favorable than typical litigation outcomes. Under the program, key settlement terms included the disallowance of the claimed charitable contribution deduction, the allowance of a deduction approximating certain out-of-pocket costs and reduced gross valuation misstatement penalties of 10% or 20%, depending on when the offer was accepted.

As part of the transition to the new office, the IRS has discontinued the uniform settlement letter program and will no longer issue additional standardised settlement offers or related response deadlines. However, taxpayers that previously elected to participate in the May 2026 settlement framework will continue to have their cases processed under the existing terms and eligible taxpayers with pending cases may continue to seek settlement through their assigned IRS Examination or Chief Counsel representatives. The IRS emphasised that the change does not introduce a new or more favorable settlement opportunity but instead reflects a shift toward a more individualised, case-specific approach to resolving conservation easement disputes.

[Internal Revenue -2026-95, 19 August 2026 and Internal Revenue -2026-65, 13 May 2026].

IRS announces no change to Federal Tax interest rates for fourth quarter 2026

On 21 August 2026, the IRS announced that federal tax interest rates applicable to tax overpayments and underpayments will remain unchanged for the calendar quarter beginning 1 October 2026. The rates, which are determined quarterly based on the federal short-term rate, may be relevant for businesses managing tax payments, refund claims and estimated tax obligations. For corporate taxpayers, rates for the fourth quarter of 2026 are as follows:

- 6% for overpayments (payments made more than the amount owed).
- 4.5% for the portion of an overpayment exceeding USD 10,000.
- 7% for underpayments (taxes owed but not fully paid).
- 9% for large corporate underpayments.

These rates are determined quarterly under the Internal Revenue Code and are based on the federal short-term rate calculated for July 2026.

[Internal Release -2026-98, 21 August 2026]



B.

Key developments under US state laws

Indiana revenue ruling confirms nontaxability of cloud-based training services

The Indiana Department of Revenue issued Revenue Ruling #2026-04-RST, concluding that fees charged for a cloud-based educational platform designed to help users develop and test financial market trading and risk management skills are not subject to Indiana sales tax. The platform provides users with access to educational content, analytical tools and a simulated trading environment through an online portal. While users may optionally download a separate trading application provided by an unrelated third party, the department determined that the company's offering does not constitute a taxable specified digital product because it is neither a digital book, digital audio work nor digital audiovisual work. In addition, customers do not receive a permanent right to use software; rather, they are granted access to educational and training services delivered through software hosted online. Accordingly, the department concluded that charges for access to the platform are not subject to Indiana sales tax.

[Revenue Ruling # 2026-04-RST, Indiana Department of Revenue, 26 June 2026]

Connecticut clarifies corporation tax treatment of research expenditures

The Connecticut Department of Revenue Services has issued Taxpayer Services Special Bulletin (TSSB) providing guidance on the treatment of research and experimental (R&E) expenditures for Connecticut corporation business tax purposes. Under federal law, taxpayers may fully deduct qualifying domestic R&E expenditures beginning in 2025 pursuant to IRC Section 174A. However, Connecticut will **not conform** to this treatment for the 2025 income year and instead requires corporations to apply the deduction rules under IRC Section 174, generally recovering such expenditures through amortisation. For income years beginning on or after **1 January 2026**, Connecticut will conform to the federal treatment and permit the immediate deduction available under IRC Section 174A. Corporations incurring R&E expenditures should evaluate the Connecticut-specific treatment and consider any necessary state tax adjustments and reporting implications for the 2025 income year.

[TSSB 2026-2 Taxpayer Services Special Bulletin, Connecticut, 02 July 2026]



Pennsylvania revises local sales tax sourcing requirements

Pennsylvania Act 21 of 2026 aligns the sourcing rules for local sales taxes imposed by Philadelphia and Allegheny County with Pennsylvania's state sales tax sourcing framework. Previously, local sales tax was sourced based on the seller's location (the point of sale). Under guidance issued following the enactment of the legislation, the Pennsylvania Department of Revenue clarified that local sales tax will now generally be sourced based on the **destination of the sale**, meaning the location where the product is delivered or the service is received. As a result, businesses making taxable sales to customers located in Philadelphia or Allegheny County may be required to collect and remit the applicable local sales tax based on the customer's delivery location rather than the seller's location. Although the legislation applies retroactively to tax years beginning after **31 December 2025**, the department indicated that enforcement of the new sourcing requirements will not commence until **1 October 2026**, providing businesses with additional time to review and update their sales tax compliance systems and processes.

[Local sales tax rules for Philadelphia and Allegheny counties]

Missouri proposes filing of sales and use tax returns when no liability exists

The Missouri Department of Revenue has proposed regulations that clarify the filing obligations of businesses registered for sales and use tax purposes, even when no tax liability exists during a reporting period. Under the proposed rules, a filing requirement would apply to every business registered for:

- **Sales tax** regardless of whether any taxable sales occurred during the reporting period,
- **Consumer's use tax** even if no tax liability was incurred and
- **Vendor's use tax** even if no Missouri destination sales were made during the reporting period.

The proposed regulations reinforce Missouri's expectations that registered taxpayers must continue to satisfy their filing obligations until their tax registration is formally closed. The guidance emphasises the importance of maintaining ongoing compliance with state reporting requirements, including during periods when a business has no taxable activity or resulting tax liability.

[12 CSR 10-103.185, Missouri Register Vo. 51]



For any queries or more information on these monthly insights, please contact:



Lloyd Pinto

Partner and US Tax Leader
Grant Thornton Bharat
E: Lloyd.pinto@in.gt.com



Chitranshi Gupta

Executive Director, US Tax,
Grant Thornton Bharat
E: Chitranshi.gupta@in.gt.com

Contributed by

Dhruti Biswas

Manager, US Tax,
Grant Thornton Bharat
E: dhruti.biswas@in.gt.com

Editorial review

Vidhi Verma

Design

Ashwani Kumar

For media enquiries, write to

media@in.gt.com



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