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Monthly US Tax Bulletin

March 2026

Welcome to the March 2026 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 making strategic, 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, 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.

The most notable federal tax updates this month include under Notice 2026-17, in which the Treasury and IRS propose simplifying Section 987 compliance by introducing an optional equity and basis pool method, narrowing the circumstances under which losses are suspended, streamlining loss recognition, providing transition relief for hedges, and offering simplified rules for CFCs. Notice 2026-7 provides interim Corporate Alternative Minimum Tax (CAMT) relief by expanding favourable Adjusted Financial Statement Income (AFSI) adjustments, addressing potential CAMT exposure under the beneficial One Big Beautiful Bill (OBBB) provisions, and signalling a revised regulatory framework that reduces compliance burdens for large corporations. The IRS has proposed eliminating the partnership transactions of interest regulations, reversing prior reporting requirements for basis shifting transactions, and retroactively relieving taxpayers and advisors of burdensome disclosure and compliance obligations. Notice 2026-16 outlines the Treasury and IRS plans to implement a new election, allowing up to 100% depreciation for qualifying production property placed in service after 4 July 2025 and before 31 December 2031, and provides interim guidance on eligibility, calculation, and election mechanics until regulations are issued. The IRS issued interim guidance in Notice 2026-15, clarifying how to assess prohibited foreign entity involvement for clean energy credits, including the rules for calculating material assistance, applying interim safe harbors, and outlining penalty implications for inaccurate or misleading supplier certifications, pending further guidance.

Several states have introduced notable tax changes this month. New York's FY 2027 Executive Budget extends the 7.25% corporate tax rate through 2030 while decoupling from the key OBBBA provisions on depreciation, interest limits, R&E expensing, and Section 179, creating divergent federal, NYS, and NYC tax treatments. Louisiana will begin enforcing the underpayment of estimated tax (UET) penalty for corporations starting in 2026, following the repeal of the corporate franchise tax and the separation of income tax reporting. Kentucky clarified that sales and use tax applies to prewritten computer software, including AI enabled and SaaS offerings, regardless of delivery method, unless the software qualifies as custom developed for a single purchaser. Maryland's proposed Code of Maryland Regulations (COMAR) implements a new 3% sales and use tax on specified data, IT, and software services, including SaaS, effective 1 July 2025, while clarifying rate distinctions, exemptions, and the scope of the state's digital advertising tax. The District of Columbia enacted a temporary emergency act, retroactive to 1 January 2025, that decouples from key federal corporate tax provisions affecting R&E, interest limits, depreciation, and §179 expensing.

We recognise that tax considerations are integral to broader business strategy. As such, we remain committed to helping 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
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A.
Key developments under US federal laws

Treasury & IRS Plan Major Simplifications to Section 987 Rules (Notice 2026-17)

On **25 February 2026,** the Treasury Department and IRS released **Notice 2026-17,** outlining plans for proposed regulations that would significantly simplify how taxpayers compute taxable income, losses, and foreign currency gains or losses for **Section 987 Qualified Business Units (QBUs).** The new rules are expected to apply to taxable years ending on or after the date final regulations are published.

Key proposed simplifications include:

- **Equity and basis pool election:** Taxpayers may elect a simplified equity and basis pool method to compute foreign exchange gain/loss using a single annual calculation. This election replaces the alternative method for determining a QBU's net value and is available when a **current rate election (CRE)** is in effect.
- **Partnership loss suspension rules:** Section 987 losses would be suspended only if (i) the remittance proportion exceeds **5%**, or (ii) net unrecognised or deferred Section 987 loss that would otherwise be suspended exceeds USD 5 million.
- **Streamlined loss-to-the-extent-of-gain rule:** Recognition groupings are reduced, making it easier to release suspended IRC §987 losses. Non-CFC owners will have a single grouping for all §987 gains and losses. CFC owners will have only four groupings: tentative tested income, subpart F income, income under §952(b), and other income.
- **Transition relief for Section 987 hedges:** The proposed regulations would eliminate the U.S. GAAP cumulative foreign currency translation adjustment for Section 987 hedging transactions. Hedges entered into before 26 April 2026 that do not meet the GAAP standard will still qualify if they are timely identified by that date and the owner identifies substantially all QBU hedges as Section 987 hedges.
- **Special CFC rules:** The notice previews a future election under which CFCs generally would not compute currency gain or loss under Section 987(3), except for certain inbound transactions (e.g., liquidations and inbound asset reorganisations).

[Notice 2016-17]

Treasury eases CAMT compliance burden with new interim guidance Notice 2026-7

On 18 February 2026, the U.S. Treasury Department and the IRS released Notice 2026-7, providing additional interim guidance on the Corporate Alternative Minimum Tax (CAMT), which generally imposes a 15% minimum tax on adjusted financial statement income (AFSI) of large corporations. The notice builds on the 2024 proposed CAMT Regulations and a series of 2025 notices and is intended to reduce compliance burden and address book tax mismatches that could create unintended CAMT liabilities.

Key takeaways:

- Expands taxpayer-favourable AFSI adjustments to align financial accounting and tax outcomes better.
- Addresses concerns that favourable provisions in the **One Big Beautiful Bill Act (OB3),** notably the elective acceleration of deductions for unamortised domestic R&E expenses, could increase the CAMT exposure in 2025–2026.
- Signals the Treasury's intent to re-propose the CAMT regulatory framework, incorporating Notice 2026-7 and the 2025 notices, before finalising regulations.

Taxpayers may generally apply the favourable provisions of Notice 2026-7, section by section, for tax years beginning before the forthcoming proposed regulations are published. They must apply a chosen section consistently in subsequent years. Taxpayers, who relied on Notice 2025-49, may continue to do so for tax years beginning before 18 February 2026, but must follow the modified rules thereafter.

[Notice 2026-7]

IRS proposes removal of partnership transactions of interest (TOI) regulations

On 6 March 2026, the Treasury Department and IRS released a notice of proposed rulemaking (REG-108921-25), proposing to remove the final regulations under §1.6011-18, which had previously identified related-party basis adjustment transactions and substantially similar transactions (partnership basis shifting transactions) as a "transaction of interest". These rules were originally finalised on 14 January 2025 but received broad criticism for creating complex and burdensome compliance obligations. As noted in Notice 2025-23 (17 April 2025), taxpayers and material advisors may continue to rely on the transition relief and penalty waivers until the removal is finalised. Once the final regulations are issued, the IRS intends to allow taxpayers to treat the TOI regulations as though they never took effect, retroactive to 14 January 2025. This reversal is expected to significantly reduce reporting burdens, eliminating the annual compliance costs previously associated with Forms 8886 (Reportable Transaction Disclosure Statement) and 8918 (Material Advisor Disclosure Statement).

[Department Of The Treasury, Internal Revenue Service, REG 108921 25]

Treasury and IRS release interim guidance on new 100% special depreciation allowance for Qualified Production Property (QPP)

The Treasury Department and the IRS issued Notice 2026-16, announcing plans to propose regulations implementing a new provision that allows taxpayers to elect to depreciate up to 100% of the unadjusted depreciable basis of qualified production property (QPP) placed in service after 4 July 2025 and before 1 January 2031. QPP generally includes certain non-residential real property used directly in a qualified production activity (QPA), subject to specific requirements, such as MACRS classification, original use rules, construction beginning after 19 January 2025, and timely placement in service.

The notice provides interim guidance on defining QPA and QPP, computing the special depreciation allowance, and making the required election. QPA includes manufacturing, production, or refining activities that substantially transform raw materials into new products, along with essential supporting activities at the same facility. At the same time, QPP is limited to areas directly used in QPA and excludes offices, administrative areas, R&D, engineering, lodging, parking, sales, and finished goods storage areas. If QPP ceases to qualify within 10 years, §1245 depreciation recapture applies. Taxpayers must claim the allowance through a binding election statement filed with the return for the year the property is placed in service and may rely on this interim guidance until proposed regulations are issued.

[Notice 2026-16].

The IRS issues interim guidance on prohibited foreign entity (PFE) rules for clean energy credits

The IRS has released Notice 2026-15, providing interim guidance on how to determine whether electricity producing qualified facilities, energy storage technologies, or eligible components receive material assistance from a prohibited foreign entity (PFE), which would render them ineligible for certain energy tax credits.

The notice outlines the calculation of the material assistance cost ratio (MACR) to determine whether there was material assistance from a PFE and how to use the interim safe harbors authorised by the OBBBA. It further highlights **penalty implications** for inaccurate or misleading supplier certifications.

The notice explains that a taxpayer may rely on the rules provided in the notice to calculate the material assistance cost ratio for:

- Any Section 45Y or 48E-qualified facility or energy storage technology, the construction of which begins after 31 December 2025, until 60 days after the publication of the forthcoming safe harbor tables.
- Any Section 45X eligible components sold in taxable years beginning after 4 July 2025, the date of the OBBBA's enactment, until the date that the forthcoming safe harbor tables are published.

Finally, the notice requests comments within 45 days of publication on definitional, anti-circumvention, and other issues for future guidance.

[Notice 2026-15]

B.
Key developments under US state laws

New York decouples from key federal provisions under the OBBBA in FY 2027

New York's **FY 2027 Executive Budget Revenue Bill** introduces several significant corporate-tax updates that will directly impact large corporations, multinationals, manufacturers, and pass-through entities. The state has extended its higher 7.25% corporate income tax rate for taxpayers with over USD 5 million of New York business income through 2030, while maintaining existing relief for small businesses, manufacturers, and qualified technology companies. At the same time, New York continues to phase out the Capital Base Tax, with full elimination scheduled for 2030.

The bill makes key corporate-tax changes by formally decoupling from multiple federal provisions under the OBBBA:

- **Qualified production activity (IRC §168(n):** Both New York State (NYS) and New York City (NYC) would decouple from the OBBBA's 100% depreciation allowance for qualified production property, requiring such property to be depreciated under IRC §167 using pre OBBBA MACRS rules and disregarding the special treatment for U.S. non-residential real property used as an integral part of a qualified production activity.
- **Interest limitation (IRC §163(j)):** NYC decouples from the OBBBA's earnings before interest tax depreciation and amortisation (EBITDA) approach by including depreciation/amortisation in adjusted taxable income (ATI) and reverting to the pre-OBBBA (Earning before interest and tax) EBIT rule, resulting in lower interest deductions as compared to federal. NYS does not decouple on this item.
- **Domestic R&E (IRC §174A & 59(e)):** NYS disallows the OBBBA's immediate expensing/accelerated options and requires 5 year amortisation for all domestic and foreign R&E beginning in tax years starting on or after 1 January 2025. NYC requires a 5-year amortisation for domestic R&E only, with amortisation beginning at the midpoint of the tax year in which the expenditures are paid or incurred. Hence, if this bill is enacted, there would be different R&E calculations for federal, NYS, and NYC tax purposes.
- **Section 179 expense provisions:** NYC decouples from the OBBBA's increased §179 limits and reverts to NYC's prior §179 thresholds (as they existed pre OBBBA). NYS does not decouple for §179 under this proposal.

[FY 2027 New York State Executive Budget]

Louisiana to enforce Underpayment of Estimated Tax (UET) penalty for corporations starting 2026

The Louisiana Department of Revenue has announced that the penalty for underpayment of estimated corporation income tax (UET penalty) will now be enforced. In the past, the UET penalty was not assessed because corporation income and franchise taxes were reported together on Form CIT-620. Because the corporate franchise tax is repealed and no longer effective as of 1 January 2026, the UET penalty will be assessed against all entities that are taxed as corporations, beginning with the 2026 Form CIT-620 and all future returns.

UET penalty mechanism: - If a corporation expects to owe USD 1,000 or more in income tax for a year, it must make estimated tax payments. A corporation that does not pay the minimum estimated tax must pay a UET penalty equal to 12% per year on the amount of the underpayment. The underpayment is the difference between the installment amount that should have been paid based on 80% of the corporation's actual tax for the year and what was actually paid by the installment due date. The UET penalty accrues from the installment due date until the earlier of the fourth-month, 15-day deadline following the tax year-end or the date the underpayment is fully paid, and any overpayments are automatically used to cover earlier shortfalls.

The UET penalty will not be imposed if each quarterly installment meets **any one** of the following safe harbours:

- The prior year's tax liability for a full 12-month period
- The tax based on the prior year's income using current-year rates
- Around 80% of the current-year tax liability, based on the corporation's annualised income at the time payment is due.

[Revenue Information Bulletin No. 26-006, 13 January 2026]

Kentucky confirms AI-enabled software remains fully taxable as prewritten software

In its Sales Tax Facts – Winter 2025/2026, the Kentucky Department of Revenue clarified that the sales and use tax applies to prewritten computer software and prewritten computer software access services, even when the software incorporates artificial intelligence (AI) features. Under KRS 139.010(46), prewritten software is treated as tangible personal property and remains taxable, whether delivered through a download or any electronic means. SaaS offerings, defined as prewritten computer software access services under KRS 139.010(34) and taxable under KRS 139.200, are also fully subject to the Kentucky sales tax.

Computer software is treated as prewritten unless it is specifically designed and developed for a single purchaser. Prewritten software also includes any modifications or enhancements made to meet a customer's specifications unless the charges for such customer-specific development are separately stated, in which case only those qualifying charges may be treated as exempt custom software.

Overall, whether the software is downloaded, electronically delivered, or accessed remotely as a cloud-based service, Kentucky imposes the sales and use tax if the product meets the definition of prewritten computer software, including software with embedded AI components.

[Sales Tax Facts Winter 2025-2026, Ky. Dept. of Rev. (1/20)]

Maryland releases proposed regulations expanding sales and use tax to data, IT services, and software

The Comptroller of Maryland released proposed amendments to the Code of Maryland Regulations (COMAR) to implement legislative changes enacted under the Budget Reconciliation and Financing Act of 2025. Effective 1 July 2025, **Maryland imposes a new 3% sales and use tax on certain data services, information technology services,** and software publishing services. Most notably, the new tax applies to transactions involving Software-as-a-Service (SaaS), data processing, and computer software publishing services, including custom software. **SaaS, which was previously excluded from Maryland's 6% sales tax when used solely in an enterprise computer system, is now subject to the new 3% tax,** while SaaS that does not qualify for that exclusion (such as individual use SaaS) is treated as a digital product and taxed at 6%. Sales of cloud computing services to qualified cybersecurity businesses are exempt from the new tax.

The proposed regulations update and add COMAR provisions to address taxable services, applicable rates, sourcing, multiple points-of-use rules, and related compliance requirements. They also clarify that digital advertising services are subject to Maryland's Digital Advertising Gross Revenues Tax only when the services are both programmatic and visually delivered, and taxpayers may file amended returns within three years if tax was previously overpaid on non-qualifying digital advertising.

[Office of the Comptroller Publishes Proposed Regulatory Updates, ANNAPOLIS, Md (12 December 2025), Maryland Comptroller-Technical Bulletin 56].

District of Columbia enacts Emergency Act, decoupling from key federal corporate tax provisions

On 3 December 2025, the District of Columbia enacted the D.C. Income and Franchise Tax Conformity and Revision Emergency Amendment Act of 2025, introducing targeted decoupling from federal tax provisions and revising several corporation-related rules. As an emergency measure, the Act is retroactive to 1 January 2025, and remains in force for up to 90 days.

Key federal decoupling provisions are as follows: -

- **Research & experimental (R&E) expenditures:** D.C. requires capitalisation and five-year amortisation of R&E costs using a mid-year convention and does not conform to federal elections, allowing immediate or retroactive deductions of R&E expenses.
- **Interest expense:** D.C. decouples from the federal EBITDA-based limitation by applying an EBIT-based adjusted taxable income calculation and disallows floor-plan financing interest.
- **Bonus depreciation & §168(n):** D.C. fully disallows federal bonus depreciation and §168(n) depreciation incentives.
- **§179 expensing:** While federal §179 allows significantly higher expensing limits, D.C. caps the deduction at USD 25,000 or actual cost, whichever is lower.

[D.C. ACT 26-214, 3 December 2025].

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