

Monthly US Tax Bulletin

October 2026



Welcome to the October edition of Grant Thornton Bharat's US Tax Bulletin. This monthly guide covers key federal, state and local tax developments. In an environment marked by regulatory shifts, economic uncertainty and increasing complexity, staying informed is crucial to making 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.

Federal developments include updated IRS procedures for changes in automatic accounting method involving domestic and foreign research and experimental (R&E) expenditures under the Internal Revenue Code (IRC) §174 and §174A. These developments also include proposed Treasury and IRS rules on the allocation of deductions to Section 951A category income, which relates to a US shareholder's controlled foreign corporation (CFC) tested income for foreign tax credit limitation purposes. Final regulations also address certain liability assumptions in transfers between members of consolidated groups. The edition also highlights the IRS Direct Pay option for federal tax payments and the opening of applications for the 2027 Compliance Assurance Process for eligible large corporate taxpayers.

At the state level, Pennsylvania clarified the application of the IRC §163(j) business interest expense limitation for Corporate Net Income Tax purposes. New York introduced the Penalty and Interest Discount (PAID) program, offering eligible sales tax vendors relief from certain penalties and interest on qualifying outstanding liabilities. Texas proposed amendments that would exclude qualifying marketplace and platform fees from taxable data processing services. California expanded its conformity to the federal IRC §162(m) executive compensation deduction limitation. Nevada also proposed new record-submission and audit requirements, including potential penalties for failure to provide requested records.

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 of key tax and regulatory changes.



Lloyd Pinto
Partner and US Tax Leader
Grant Thornton Bharat

A.

Key developments under US federal laws

IRS updates automatic accounting method change procedure for R&E expenditures

On 4 September 2026, the IRS issued Revenue Procedure 2026-32, updating the automatic accounting method change procedures for R&E expenditures under IRC §174 and §174A. The guidance modifies the procedures for taxpayers changing their accounting methods for domestic and foreign R&E expenditures. It applies to Forms 3115 filed after 4 September 2026, subject to specified transition rules. The Revenue Procedure also revises the treatment of certain IRC §481(a) adjustments. It also extends waivers of specified accounting method change eligibility restrictions for qualifying R&E method changes made for taxable years beginning before 1 January 2028. In addition, it removes the prior limitation restricting the relevant automatic method change for foreign R&E expenditures to taxable years beginning before 1 January 2026, thereby extending its availability to subsequent taxable years.

Overall, the guidance provides taxpayers with an updated procedural framework to implement the revised R&E rules. It also provides greater flexibility in making qualifying accounting method changes for domestic and foreign R&E expenditures.

[Revenue Procedure 2026-32, 4 September 2026]

Proposed regulations address deduction allocation for Section 951A income

On 11 September 2026, the US Department of the Treasury and IRS issued proposed regulations (REG-117273-25). The regulations provide guidance on how deductions are allocated to foreign-source Section 951A income earned through CFCs when determining the foreign tax credit limitation. The proposed regulations also address the calculation of income eligible for deduction under IRC §250, reflecting changes enacted under the One Big Beautiful Bill Act.

Key highlights include:

- **Limited deductions against Section 951A category income:** For foreign tax credit limitation purposes, foreign-source Section 951A category income would generally be reduced by the IRC §250(a)(1)(B) deduction attributable to net CFC tested income, certain state and local income tax deductions allocable to such income and deductions that are directly allocable to Section 951A category income.
- **Interest and R&E expenditures:** Interest expense and R&E expenditures would generally not be allocated or apportioned to foreign-source Section 951A category income under the proposed rules.
- **Directly allocable deductions:** Certain expenses, including stewardship expenses, legal and accounting fees, damages and settlement payments and supportive expenses, generally would not be treated as directly allocable. Certain foreign currency losses under IRC §986(c) associated with distributions of previously taxed earnings and profits, however, may qualify for direct allocation where the applicable requirements are satisfied. Comments and requests for a public hearing are due by 10 November 2026.

[REG-117273-25, 11 September 2026]

IRS finalises rules on certain liability assumptions within consolidated groups

On 16 October 2026, the US Department of the Treasury and IRS published final regulations (Treasury Decision 10059). The regulations address the treatment of certain liabilities assumed in transfers between members of a consolidated group. The regulations clarify that, in certain intragroup transfers, a transferee's assumption of liabilities subject to IRC §357(c). The assumption does not reduce the transferor's basis in the transferee stock received in the transfer.

The final regulations adopt the regulations proposed in December 2024 with non-substantive revisions. They also clarify the timing of the basis adjustment associated with liabilities described in IRC §357(c)(3)(A). The regulations are effective from 16 October 2026 and apply to consolidated return years for which the return due date, without regard to extensions, is after that date.

[Treasury Decision 10059, 16 October 2026]

IRS highlights direct pay option for federal tax payments

On 10 September 2026, the IRS reminded taxpayers that Direct Pay provides a free and secure way to make federal tax payments directly from a US checking or savings account through IRS.gov. The service is available without registration or payment fees. The service is available for a range of individual and business tax payments, including balance due payments, estimated tax payments, amended return payments, extension payments and federal tax deposits. Taxpayers may make same-day payments or schedule payments up to 365 days in advance. They may receive payment confirmation and change or cancel a scheduled payment up to two business days before the payment date. Taxpayers who have never filed a tax return or who have not filed for more than six years may need to use another payment option. Each Direct Pay payment must be less than USD 10 million. Taxpayers making payments of USD 10 million or more may use a same-day wire transfer or the Electronic Federal Tax Payment System, if already enrolled.

[IR-2026-109, 10 September 2026]

IRS opens application window for 2027 Compliance Assurance Process (CAP)

On 8 September 2026, the IRS announced that it is accepting applications for the 2027 Compliance Assurance Process (CAP) through 30 October 2026, with applicants expected to be notified of their acceptance status in February 2027. CAP enables eligible large corporate taxpayers to work collaboratively with the IRS to identify and resolve tax issues before filing their federal income tax returns, providing greater tax certainty and potentially reducing post-filing examination activity. To qualify, applicants must generally have assets of at least USD 10 million and must not be subject to a government investigation or litigation that would restrict the IRS's access to current tax records. Eligible applicants include qualifying US publicly traded corporations and privately held C corporations that satisfy specified financial reporting requirements.

[Internal Release 2026-107, 8 September 2026]



B.

Key developments under US state laws

Pennsylvania clarifies business interest deduction rules for corporate taxpayers

On 10 September 2026, the Pennsylvania Department of Revenue issued Corporation Tax Bulletin 2026-01. It provides guidance on the treatment of the IRC §163(j) business interest expense limitation for Pennsylvania Corporate Net Income Tax (CNIT) purposes. Effective for tax years beginning on or after 1 January 2025, Pennsylvania requires taxpayers to apply IRC §163(j) as in effect on 31 December 2024. Accordingly, the subsequent changes enacted under Public Law 119-21 do not apply in determining the §163(j) interest expense deduction for Pennsylvania CNIT purposes.

Key highlights include:

- **Pre-2025 rules apply:** The IRC §163(j) limitation must be calculated using the provision as in effect on 31 December 2024.
- **Separate-entity calculation:** Taxpayers generally must determine their interest expense deduction and §163(j) limitation on a separate-entity basis, including corporations that participate in filing a federal consolidated return.
- **Entity-level calculation:** Each taxpayer must determine its IRC §163(j) limitation on a separate-company basis. This includes intercompany and third-party interest and applying the IRC §163(j)(3) gross receipts test without eliminating related-party receipts.
- **Federal elections:** Pennsylvania will follow elections made by the taxpayer or its federal consolidated group under IRC §163(j)(7)(B) or (C).
- **Other considerations:** The bulletin also addresses Pennsylvania's related-party interest addback provisions, interest associated with non-business income, IRC §382 limitations and interest expense involving partnerships with corporate partners.

[Corporation Tax Bulletin 2026-01, Pennsylvania Department of Revenue, 10 September 2026]

New York launches Penalty and Interest Discount (PAID) program for eligible sales tax vendors

The New York State Department of Taxation and Finance has introduced the PAID program. It offers eligible sales tax vendors an opportunity to reduce certain outstanding sales tax liabilities. Vendors that pay the required amount on all PAID-eligible bills by 31 December 2026 can receive a 50% reduction in interest and a 100% reduction in penalties on those bills.

The program generally applies to vendors with an active Certificate of Authority and unpaid sales tax bills, excluding those associated with fraud, that are subject to collection action and no longer have formal appeal rights. Eligible vendors are identified and notified directly by the tax department, with no separate enrolment required. Only bills eligible as of 1 September 2026 qualify for the program.

Balances due with sales tax returns for periods ending 31 August 2026 and 30 November 2026 are not eligible. Vendors that do not take advantage of the program remain liable for the undiscounted balance. Unpaid amounts continuing to accrue penalties and interest at the full statutory rates and formerly eligible bills will become subject to collection action beginning 1 January 2027.

[New York Department of Taxation and Finance, Penalty and Interest Discount (PAID) program, 15 September 2026]



Texas proposes to exclude marketplace and platform fees from sales tax

On 30 September 2026, Texas Comptroller Don Huffines signed Executive Order DH-2026-01 directing the agency to propose amendments to 34 Texas Administrative Code §3.330 concerning the taxation of marketplace and platform fees as data processing services. The action seeks to reverse a 2025 interpretation that treated certain fees charged by marketplace providers to sellers as taxable data processing services.

Under the proposed amendments, fees and commissions charged by platform providers for listing, offering or facilitating sales would not be treated as taxable data processing services. The proposal covers platform fees associated with online marketplaces, food and grocery delivery, short-term lodging, ride-hailing and transportation services, vehicle rental or sharing, pet care and household or personal services.

The proposed amendments have been published in the Texas Register for public comment. Importantly, the proposed rule provides that the revised treatment of platform fees will become effective upon adoption of the amendment.

[Texas Comptroller of Public Accounts, Don Huffines ends hidden double tax on Texas families and small businesses, 30 September 2026]

California expands conformity to federal executive compensation deduction limits

On 30 September 2026, California Governor Gavin Newsom signed Assembly Bill (AB) 2222 into law. In addition to establishing a refundable tax credit for qualifying local news outlets, the legislation updates California's conformity to the federal IRC §162(m) executive compensation deduction limitation.

Under the Personal Income Tax Law, California will conform to the federal expansion of the covered employee definition to include the five highest-compensated employees. This is in addition to the existing categories of covered employees subject to the USD 1 million deduction limitation. This provision is operative for taxable years beginning on or after 1 January 2027.

Under the Corporation Tax Law, California will also conform to the federal controlled-group rule for specified covered employees. Where a publicly held corporation is part of a controlled group, compensation paid by group members to a specified covered employee is aggregated for purposes of applying the USD 1 million deduction limitation. The allowable deduction is allocated among group members based on the remuneration paid. The Corporation Tax Law conformity provision is operative for taxable years beginning on or after 1 January 2026.

[California, AB 2222, 30 September 2026]

Nevada proposes new record-submission and audit requirements

Nevada has proposed regulations requiring taxpayers to provide records requested by the Nevada Department of Taxation within 30 days, including requests made outside an audit. A written request for an extension of up to 30 additional days may be granted for good cause. Failure to provide required records due to negligence or intentional disregard could result in a presumption that the missing records support or increase a tax deficiency. Such a failure may trigger a **10% penalty on the deficiency determination**. During audits, the Department could also estimate delinquent taxes based on available information, when necessary, records are not provided.

[Proposed Regulation of the Nevada Tax Commission, Legislative Counsel Bureau (LCB) FILE NO. R152-261, 26 June 2026]



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

For media enquiries, write to

media@in.gt.com



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