Monthly US Tax Bulletin

September 2025

Welcome to the September edition of Grant Thornton Bharat`s US Tax Newsletter - 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 essential for strategic and compliant decision-making. 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, our aim is to support your efforts with clarity and precision.

The most notable development this month from the federal tax point of view is the introduction of the HIRE (Halting International Relocation of Employment) Act, proposing a 25% tax on payments to foreign service providers serving US customers. The IRS has introduced measures to streamline compliance with the Corporate Alternative Minimum Tax (CAMT), aiming to reduce complexity for both partnerships and large corporations. In a series of tax-related developments, the IRS has announced proposed regulations to clarify the treatment of certain inbound asset reorganisations, particularly those involving US real property interests. In addition, enhancements to the Qualified Small Business Stock (QSBS) regime now offer more generous gain exclusions and expanded eligibility. The IRS has acknowledged delays in processing certain electronic tax payments, which led to incorrect notices being sent to taxpayers who paid on time. The IRS also confirmed that interest rates will remain unchanged for the upcoming quarter, maintaining consistency across overpayments and underpayments.

Several states have introduced notable tax changes, aimed at improving compliance and offering relief. Illinois has rolled out multiple amnesty programmes, allowing businesses to settle past liabilities. Washington has expanded its tax base by including more services under retail sales and business tax rules. Colorado has revised its list of tax haven jurisdictions and updated its treatment of foreign-derived income for state tax purposes. Meanwhile, the IRS has extended the filing and payment deadlines for taxpayers in West Virginia impacted by severe weather events. These measures reflect a broader trend of states refining tax policies to enhance transparency, support recovery, and align with evolving federal standards.

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 objective, ensuring you are well-positioned to respond to both immediate developments and long-term regulatory shifts.

We trust this edition provides 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 insights that are both timely and actionable.

Happy reading!

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A

Key developments under US federal laws

HIRE Act: Proposes tax on outsourcing to boost US jobs

The HIRE (Halting International Relocation of Employment) Act, introduced by Senator Bernie Moreno on 5 September 2025, aims to discourage outsourcing by imposing a 25% tax on payments made to foreign persons for services rendered to US customers. The bill seeks to ban the deduction of these expenses from taxable income and creates a Domestic Workforce Fund to support training and apprenticeships in the US. If passed, the changes would apply to payments made after 31 December 2025. This legislation is expected to significantly impact the Indian IT majors and GCCs, which rely heavily on Indian talent.

The primary objective of the HIRE Act is to safeguard American workers by discouraging US companies from relocating employment opportunities overseas. By levying a substantial tax on cross-border service payments, the legislation intends to create a financial disincentive for outsourcing, promoting domestic job retention and economic resilience. This legislation is expected to significantly impact the Indian IT sector, which relies heavily on the US clients for revenue.

[HIRE ACT 2025 PROPOSED BY SENATOR BERNIE MORENO 119TH Congress 1st session]

IRS issues Interim guidance simplifying Corporate Alternative Minimum Tax (CAMT) for partnerships

The CAMT imposes a minimum tax on large corporations based on the adjusted financial statement income (AFSI), rather than taxable income. This creates complexity for corporate partners, as they must adjust AFSI to avoid duplication or omissions. The IRS issued Notice 2025-28 in response, offering interim relief through simplified elections and methods. The Top-Down Election allows corporate partners to report 80% of partnership-related financial statement income as CAMT income. In comparison, the taxable-income election is available to smaller investors (≤20% ownership and ≤USD 200M investment), allowing the use of regular taxable income.

Partnerships may allocate the modified AFSI using any consistent and reasonable method. The notice also introduces simplified approaches for contributions and distributions and clarifies that specific ownership changes can be disregarded for the CAMT if not taxable under regular rules. The IRS plans to withdraw the 2024 proposed regulations partially and issue a revised guidance aligned with this notice.

[Notice 2025-28]

IRS issues interim guidance on CAMT, giving relief for corporates

The IRS recently released Notice 2025-27, which provides interim guidance for the CAMT (a 15% tax based on AFSI) and much-welcome relief for some CAMT issues as taxpayers await final regulations. Notice 2025-27 provides an interim scope safe harbor (for determining whether a taxpayer is an applicable corporation subject to the CAMT), using higher thresholds than the previous versions. Specifically, the revised scope safe harbor uses an USD 800 million threshold for US-parented taxpayers (and USD 800 million and USD 80 million thresholds for foreign-parented taxpayers). Hence, the taxpayers with AFSI greater than USD 500 million and less than USD 800 million will likely welcome this relief from Form 4626's burdensome computational and the CAMT group reporting requirements. The notice also provides estimated tax payment relief for taxable years that begin after 31 December 2024, and before 1 January 2026.

[Notice 2025-27]

IRS issues proposed regulations on certain inbound asset reorganisation, potential F reorganisation qualification (IRC §897)

The IRS published a notice announcing that the IRS and the Treasury Department intend to issue proposed regulations under I.R.C. §897(d) and (e) to modify certain rules regarding certain transactions involving the transfer of US real property interests. The proposed regulations revise the rules that apply to certain inbound asset reorganisations under I.R.C. §368(a)(1)(F) that constitute a "covered inbound F reorganisation" as defined in Section 3.02 of the notice. The IRS also announced that the IRS and the Treasury Department intend to issue proposed regulations to revise Treas. Reg. §1.368-2(m) to clarify that the qualification of a potential F reorganisation, as defined in Treas. Reg. §1.368-2(m)(1)) as a reorganisation under Section 368(a)(1)(F), would not be affected by a disposition of stock in either the transferor corporation or the resulting corporation if that disposition is not included in the plan of reorganisation.

[Notice 2025-45]

Understanding Section 1202 Qualified Small Business Stock (QSBS) enhanced benefits

Section 1202 of the Internal Revenue Code provides a tax exclusion for the gains realised from the sale of QSBS. Before the One Big Beautiful Bill Act (OBBBA), the exclusion percentage was dependent upon the date of stock issuance, and the entire gain was excluded for the stock issued after 2010. This exclusion was historically limited to the greater of USD 10 million or 10 times the taxpayer's adjusted basis in their stock. Under the OBBBA, for a stock issued after 4 July 2025, taxpayers can exclude gains up to 50% for stock held over 3 years, 75% for more than 4 years, and 100% for more than five years. Additionally, the bill has increased the base limitation from USD 10 million to USD 15 million and indexes this amount for inflation in tax years after 2026. For an entity to be qualified as QSBS, the entity must be a domestic C corporation engaged in qualified trade or business, using at least 80% of its assets in active operations. The corporation's adjusted asset basis must not exceed USD 75 million. The shareholder becomes eligible to claim the §1202 exemption if certain requirements are satisfied, such as the shareholder must not be a C corporation, must have received their stock directly from the corporation in exchange for cash, property or services and hold the stock for at least five calendar years or respective periods in case of stock issued before 4 July, and additionally, the stock must be a QSBS for substantially all of the shareholder's holding period of the stock.

[H.R.1 — 119th Congress (2025-2026) Section 70431 amendment to IRC §1202]

IRS statement on delay in processing some electronic payments

The Internal Revenue Service (IRS) has confirmed the delays in processing certain electronic tax payments, leading to some taxpayers receiving erroneous balance due notices despite having paid on time. According to the IRS, individuals who paid their full tax liability electronically by the deadline do not need to respond immediately to these notices. Taxpayers are advised to check their payment status via their IRS online accounts. If payments remain unprocessed by 15 July, affected individuals should contact the IRS using the number provided in the notice. Those who made partial payments and cannot pay the remaining balance are encouraged to set up a payment plan through IRS.gov/opa. The IRS confirmed that any penalties or interest caused by these delays will be automatically adjusted once payments are correctly applied.

[IRS news-IRS statements and announcements]

Interest rates remain the same for fourth quarter of 2025

The IRS announced that the interest rate will remain unchanged for the calendar quarter beginning 1 October 2025. Under the Internal Revenue Code (IRC), the interest rate is determined quarterly. Here is a complete list of the new rates for corporations.

- 6% for overpayments (federal short-term rate plus 2 percentage points.)
- 7% for underpayments (federal short-term rate plus 3 percentage points)
- 4.5% for the portion of a corporate overpayment exceeding USD 10,000 (federal short-term rate plus one-half (0.5) of a percentage point).
- 9% for large corporate underpayments. (federal short-term rate plus 5 percentage points).

[Refer Revenue ruling 2025-18]

B

Key developments under US state laws

Illinois budget adds amnesty programmes

On 16 June 2025, Illinois enacted budget legislation introducing Tax Amnesty Programmes:

- **General Tax Amnesty:** This programme in Illinois runs from 1 October 2025 to 15 November 2025. It waives penalties and interest for taxes due between 1 July 2018 and 30 June 2024, if paid in full.
- **Franchise tax and license fees amnesty:** This is administered under the Business Corporation Act (BCA) from 1 October 2025 to 15 November 2025, waiving penalties and interest for liabilities from periods ending after 30 June 2019 through 30 June 2025, though penalties under the BCA are more substantial than the penalties and interest imposed by the department.
- **The Remote Retailer Amnesty Programme:** This programme, in Illinois, will run from 1 August to 31 October 2026, covering eligible sales made between 1 January 2021 and 30 June 2026, involving tangible personal property delivered to Illinois customers. During the amnesty period, remote retailers may elect to pay a simplified occupation tax—9% on sales taxed at the 6.25% rate and 1.75% on items taxed at the 1% rate. In return, the state will waive all penalties, interest, and prosecution related to those transactions.

[IL HB2755]

Washington Department of Revenue releases special notices highlighting tax reforms

Starting 1 October 2025, Washington will require businesses to collect retail sales tax on newly taxable services, with gross income also subject to Business and Occupation (B&O) tax under the retailing classification. Affected services include **digital services** (e.g., IT support, software development, website creation, custom software sales and development, customisation of pre-written software), **live presentations** (e.g., seminars, workshops), **temporary staffing**, and most **advertising services** (excluding traditional media like newspapers, TV, and billboards).

The B&O tax rates under the 'Service and Other Activities' classification, based on prior calendar year taxable income, are:

- 1.5% for income under USD 1 million
- 1.75% for USD 1 million – USD 4.99 million
- 2.1% for USD 5 million and above
- Hospitals and certain advanced computing businesses remain taxed at 1.5% on gross income, subject to the 'Service and Other Activities' B&O tax classification.

[Engrossed Substitute Senate Bill (ESSB) 5814, ESSB 2081, Special Notice issued on 25 July 2025 by WA state department]

Colorado expands tax haven list, requires FDDEI addition

Legislation enacted during Colorado's special session (H.B. 25B-1002, signed 28 August 2025) expands the list of jurisdictions considered "tax havens" for combined reporting purposes, effective for tax years beginning on or after 1 January 2026. Newly added jurisdictions include Hong Kong, Ireland, Liechtenstein, the Netherlands, and Singapore.

The law also decouples Colorado from the federal deduction for foreign-derived deduction eligible income (FDDEI) by requiring an addition to federal taxable income equal to the FDDEI deduction claimed.

Taxpayers should evaluate the impact of these changes on combined group composition and overall Colorado tax liability, considering the state's rolling conformity framework and prior treatment of foreign-derived intangible income (FDII).

[H.B. 25B-1002, signed 28 August 2025]

Tax deadlines extended for West Virginia disaster victims after severe storms, straight-line winds, flooding, landslides, and mudslides

The IRS has announced tax relief for individuals and businesses in West Virginia affected by severe weather events beginning 14 June 2025. Taxpayers in designated disaster areas have until 2 February 2026 to file federal returns and make payments originally due during this period. This extended filing deadline applies to:

- Any individual, business, or tax-exempt organisation that has a valid extension to file their 2024 return due to run out on 15 October 2025.
- Quarterly estimated income tax payments normally due on 16 June, 15 September 2025, and 15 January 2026
- Quarterly payroll and excise tax returns normally due on 31 July, 31 October 2025, and 31 January 2026.
- Calendar-year partnerships and S corporations whose 2024 extensions run out on 15 September 2025.
- Calendar-year corporations whose 2024 extensions run out on 15 October 2025.
- Calendar-year tax-exempt organisations whose extensions run out on 17 November 2025.

The IRS has clarified that filing extensions do not extend the time to pay taxes—they apply only to submitting returns. However, individuals and businesses in Marion and Ohio counties are eligible for tax relief. Estimated tax payments due on or after 14 June 2025 are postponed until 2 February 2026, with no penalties if paid by that date. Penalties for late filing or payment during the relief period may be waived upon request.

[West Virginia-2025-04, 8 August 2025]

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