Monthly US Tax Bulletin

July 2026

Welcome to the July 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 month's federal development includes proposed legislation aimed at strengthening procedural protections in IRS collection disputes, introducing a voluntary disclosure pathway for cryptocurrency tax noncompliance and simplifying charitable contribution rules for qualifying digital assets. In addition, the IRS has introduced an automatic penalty relief programme for eligible compliant taxpayers, streamlining access to penalty relief and reducing administrative burden. The IRS advisory committee has recommended tax simplification and technology modernisation measures to improve taxpayer services, compliance and administrative efficiency.

Recent state tax developments reflect a growing focus on expanding tax bases, increasing compliance requirements and revisiting conformity with federal tax provisions. Notable updates include California's proposal to tax Software as a Service (SaaS) and digital software transactions while limiting business tax credit utilisation; Colorado's adoption of a worldwide combined reporting regime with an optional water's-edge election and Illinois' enactment of a digital advertising tax alongside changes to Net Operating Loss (NOL) and tax credit rules. In addition, New York has introduced significant corporate tax decoupling measures and enhanced sales tax compliance initiatives while Tennessee has imposed a new tax framework on international money transmission services, creating additional considerations for multistate and multinational businesses.

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

Taxpayer Due Process Enhancement Act advances to Senate, expanding taxpayer protection in IRS collection disputes

The Taxpayer Due Process Enhancement Act (H.R. 6506) was introduced on 9 December 2025 by Representative Nathaniel Moran (R–TX), reported by the House Committee on Ways and Means on 7 January 2026, and passed by the House of Representatives on 19 May 2026. The bill was subsequently received in the Senate and referred to the Senate Finance Committee on 20 May 2026. As of the date of this update, the legislation has not been enacted into law. If enacted, the bill would enhance taxpayer protections in IRS Collection Due Process (CDP) proceedings by suspending the statute of limitations period for certain refund claims while disputes remain pending, generally prohibiting the IRS from applying overpayments from other tax years against disputed liabilities, expanding the US Tax Court's authority to review underlying tax liabilities and preserving the court's jurisdiction even if the IRS subsequently withdraws or satisfies the collection action. The proposal is intended to strengthen procedural safeguards and provide taxpayers with a more effective forum to resolve IRS collection disputes and protect refund rights.

[Taxpayer Due Process Enhancement Act, H.R.6506, 20 May 2026]

Proposed legislation creates a pathway to resolve cryptocurrency tax reporting noncompliance

On 4 June 2026, Representative Aaron Bean (R-Florida) introduced H.R. 9174, the Digital Assets Voluntary Disclosure Program Act, in the US House of Representatives. The proposed legislation would require the US Department of the Treasury to establish, within 12 months of enactment, a voluntary disclosure programme enabling taxpayers to correct prior tax reporting failures involving digital assets, including cryptocurrency. To participate, eligible taxpayers would be required to file amended returns, pay any additional tax and accrued interest and remit a prescribed programme penalty to resolve past noncompliance.

The bill provides more favorable treatment for taxpayers who certify, under penalty of perjury, that their reporting failures were neither willful nor fraudulent. For such certified taxpayers, the penalty would be 0% of underpaid tax up to USD 25,000 and 5% of underpaid tax exceeding USD 25,000 for each applicable tax year. In contrast, taxpayers who are unable to make this certification would be subject to higher penalties of 25% on underpaid tax up to USD 25,000 and 40% on underpaid tax exceeding USD 25,000. The Treasury Secretary would also have discretion to waive all or a portion of the penalty where appropriate.

Once the programme is established, taxpayers will have 24 months to file amended returns and satisfy the disclosure requirements. However, amended returns filed more than 12 months after the launch of the programme would be subject to enhanced penalty rates under the legislation.

[H.R. 9174, Voluntary Disclosure Program for Digital Asset Tax Violations, 4 June 2026]

Proposed legislation eases appraisal requirements for digital asset charitable contributions

On 3 June 2026, Representative Mike Kelly (R Pennsylvania) introduced H.R. 9173, the Charitable Deductions for Digital Asset Donations Act, which seeks to simplify the tax treatment of charitable contributions of cryptocurrency and other qualifying digital assets. The proposed legislation would exempt donations of widely-traded digital assets from the qualified appraisal requirement currently applicable to certain noncash charitable contributions, allowing taxpayers to rely on readily available market quotations to substantiate their charitable deduction.

To qualify for the exemption, the digital asset must be actively traded, have readily available market quotations, maintain a market capitalisation exceeding USD 500 million and satisfy specified ownership limitations designed to prevent abuse. The bill also introduces statutory definitions for digital assets, wrapped digital assets, tokenized digital assets and stablecoins, while authorising the Treasury Department to exclude assets that lack reliable price discovery or are susceptible to market manipulation.

If enacted, the legislation would apply to tax years beginning after 31 December 2026, potentially reducing compliance costs and administrative burdens for taxpayers making charitable donations of qualifying digital assets.

[H.R. 9173, The Charitable Deductions for Digital Asset Donations Act, 3 June 2026]

IRS introduces automatic penalty relief for eligible taxpayers

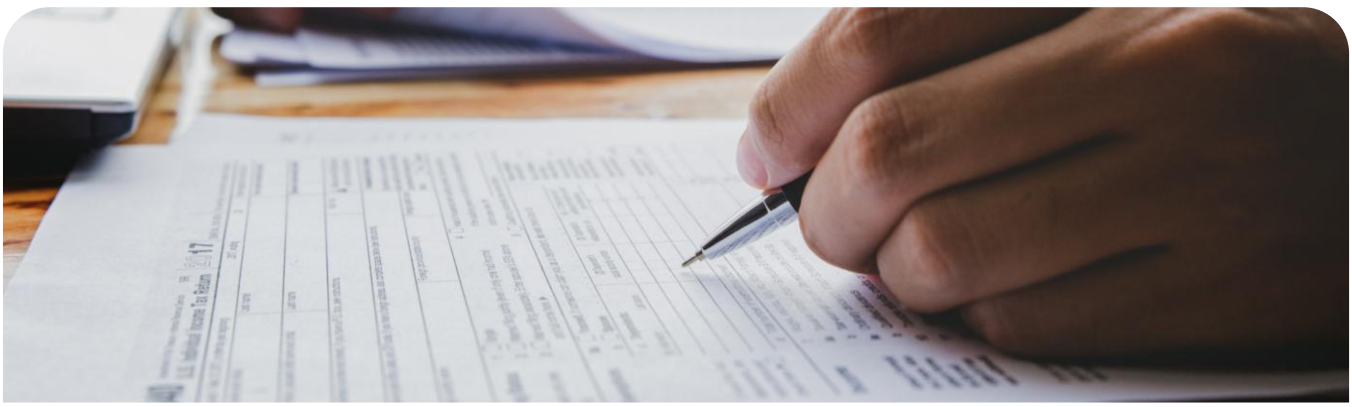
On 8 July 2026, the IRS announced a new Automatic Exemption from Penalty (AEP) programme that will automatically provide penalty relief to taxpayers with a consistent history of timely filing and tax payment, eliminating the need to request relief under the longstanding First Time Abate (FTA) process. Beginning in summer 2026, AEP will apply to eligible original returns for tax year 2025, 2026 quarterly returns and future tax periods. Qualifying taxpayers with a three-year history of timely compliance (or 12 consecutive quarters for quarterly returns) will automatically receive relief from failure-to-file, failure-to-pay and failure-to-deposit penalties. Taxpayers will not need to submit a separate request and the IRS will issue a notice confirming the relief. The IRS will gradually phase out the FTA programme, with AEP replacing it with eligible returns having original due dates on or after 1 January 2027. Taxpayers who do not qualify for AEP may continue to seek penalty relief based on reasonable cause.

[IR-2026-83, 8 July 2026]

IRS advisory committee urges tax administration modernisation and simplification

On 17 June 2026, the IRS announced the release of the Electronic Tax Administration Advisory Committee (ETAAC) 2026 Annual Report, which contains 18 recommendations to improve the US tax administration system, including six recommendations directed to the Congress. The report focuses on key areas such as technology and data sharing, sustained IRS funding, artificial intelligence and human-centered design, digital filing and payments, tax simplification and taxpayer outreach and fraud prevention and tax preparer regulation. Among its recommendations, ETAAC urged the Congress to support tax simplification efforts, provide the IRS with authority to regulate non-credentialed tax return preparers, ensure predictable funding for taxpayer services and continue investments in technology modernisation. The committee's recommendations are intended to enhance taxpayer experience, strengthen compliance, improve operational efficiency and modernise the nation's tax administration framework.

[IR-2026-77, 17 June 2026].



B.

Key developments under US state laws

California proposes sales tax on SaaS and permanent business tax credit limits

California Governor Gavin Newsom's May revision to the 2026–27 Budget proposes expanding the state's sales and use tax to include digital prewritten software and SaaS, regardless of whether the software is delivered electronically, downloaded or accessed remotely. The proposal would take effect on 1 January 2027. The budget also proposes a permanent limitation on business tax credit utilisation beginning in tax year 2027, restricting credit usage to the greater of USD 5 million or 50% of a taxpayer's tax liability. California estimates the combined measures could generate significant additional state revenues while helping address the state's long-term budget challenges.

[May revision 2026-27, Gavin Newsom, Governor State of California]

Colorado enacts worldwide combined reporting regime with optional 10-year water's-edge election, effective 2027

On 3 June 2026, Governor Jared Polis signed HB 26-1289 into law, introducing significant changes to Colorado's corporate income tax regime. Effective for tax years beginning on or after 1 January 2027, worldwide combined reporting will become the default filing methodology, although taxpayers may elect to file using a water's-edge approach, binding for a 10-year period. The legislation broadens the scope of Colorado's combined reporting rules by including domestic 80/20 corporations, certain foreign corporations and specified tax-haven entities within the water's-edge group. It also modifies corporate income calculations by repealing the IRC §280C wage deduction and requiring an addback for certain non-Colorado qualified opportunity fund gains excluded from federal taxable income. The new law marks a significant expansion of Colorado's combined reporting framework and may increase tax compliance and reporting obligations for multinational and multistate businesses operating in the state.

[House Bill 26-1289, 3 June 2026 Colorado]

Illinois enacts digital advertising tax and revises NOL, tax credit rules, effective 2027

Illinois has enacted Public Act 104-0468, introducing a new **10% tax on gross receipts from targeted advertising services** provided to users located in the state, effective 1 January 2027. The tax applies to businesses generating more than USD 1 million of annual Illinois targeted advertising revenue and reflects the state's continued efforts to expand taxation of digital economy activities. In addition to the new advertising tax, the legislation includes significant corporate tax changes affecting the utilisation of NOLs and various state tax credits.

The legislation establishes sourcing rules to determine whether users are located in Illinois and require affected providers to register with the Illinois Department of Revenue. The new measures are expected to increase compliance and planning considerations for taxpayers operating in Illinois, particularly businesses engaged in digital advertising and those relying on NOLs and state tax credits to manage their effective tax rate.

[Public Act 104-0468, SB3019, 16 June 2026, Illinois]

New York enacts corporate tax decoupling and sales tax compliance measures

On 28 May 2026, Governor Kathy Hochul signed Senate Bill S09009C (Chapter 59), enacting New York's FY 2026–27 budget legislation. The law decouples both New York State and New York City from the federal 100% depreciation deduction for qualified production property under IRC §168(n) and from the immediate expensing of research and experimental (R&E) expenditures under IRC §174 and §174A, requiring taxpayers to continue applying state-specific depreciation and amortisation rules. In addition, New York City decouples from certain federal business interest deduction changes under IRC §163(j). The legislation also introduces a Sales Tax Re-registration programme requiring vendors to periodically renew their sales tax registrations by 31 December 2030 and establishes a temporary sales tax penalty and interest relief programme. Eligible taxpayers with qualifying sales and use tax liabilities fixed by 1 September 2026 may receive a 50% reduction in interest if liabilities are paid by 31 December 2026.

The budget package delivers significant state-federal conformity changes for businesses and expands New York's sales tax compliance and remediation initiatives.

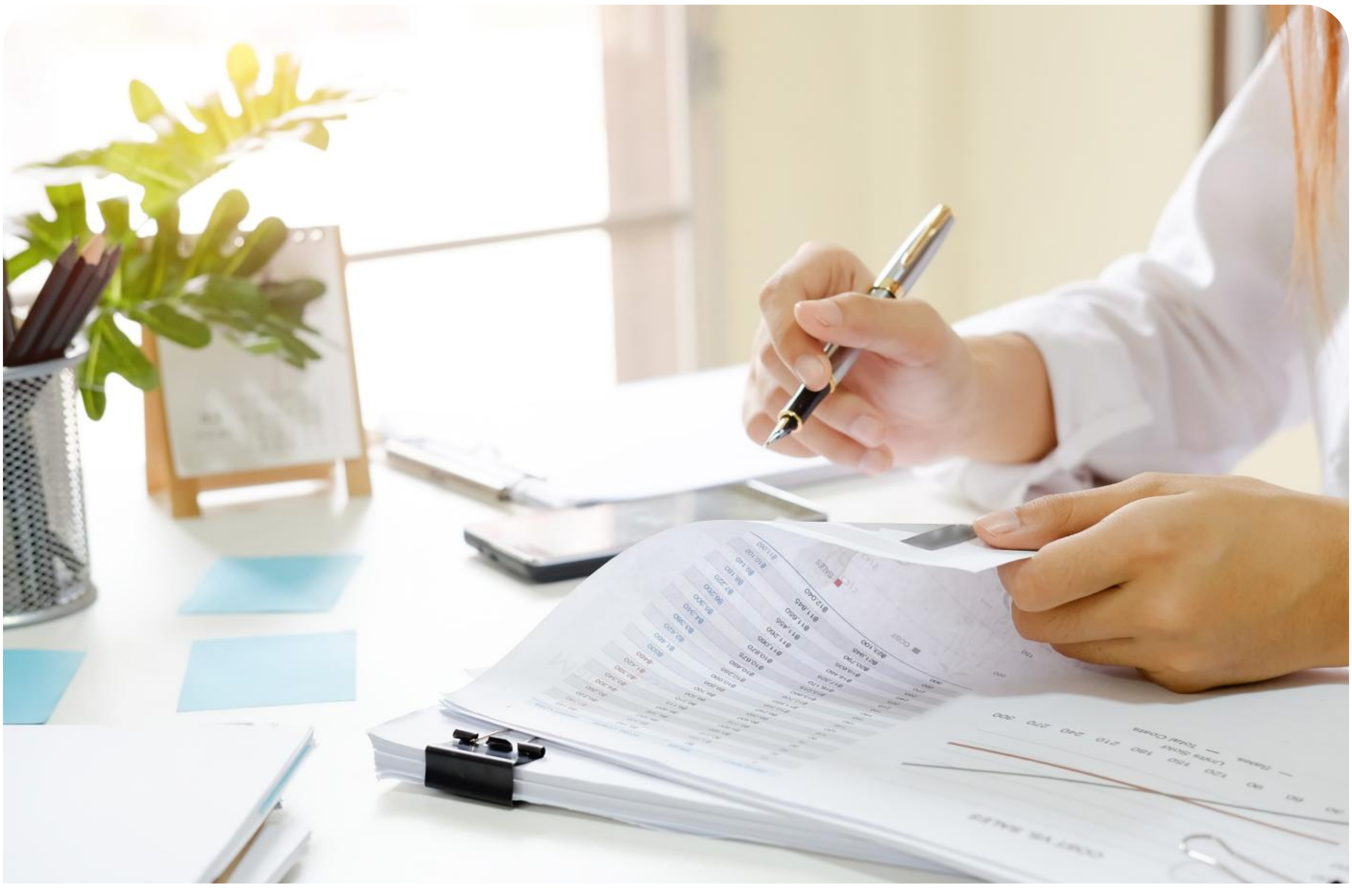
[Bill No S09009C, New York enacted 28 May 2026]

Tennessee imposes sales tax on international money transmission services

The Tennessee Department of Revenue has issued Tennessee important notice no. 26-12, clarifying that, effective 1 January 2027, money transmission services originating in Tennessee and sent to locations outside the United States or its territories will be subject to sales tax. The tax applies to entities licensed under the Tennessee Money Transmission Modernization Act and consists of a USD 10 tax per transaction, plus an additional 2% tax on amounts exceeding USD 500.

The notice also establishes sourcing rules for determining when a transaction originates in Tennessee and confirms that the tax is not subject to local option sales tax. Certain financial institutions are exempt unless they are licensed under the Tennessee Money Transmission Modernization Act. The new rules may increase compliance obligations for businesses engaged in cross-border money transmission services.

[Tennessee Department of Revenue, Notice #26-12, May 2026]



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