This Week in State Tax (TWIST)

September 22, 2025

Multistate: States begin to provide guidance on the impacts of OB3

Recently, three states released guidance on the state treatment of certain provisions amended under the One Big Beautiful Bill Act (OB3) enacted in July, and others have reported on the budget impacts of OB3 on state revenues.

The Alabama Department of Revenue has issued a notice providing guidance to corporate taxpayers on the state treatment of research and experimental (R&E) expenditures. Under the Tax Cuts and Jobs Act (TCJA), IRC section 174 requires taxpayers to amortize R&E expenses over either a 5 or 15-year period, depending on whether the costs are domestic or foreign or domestic, beginning in tax year 2022. Beginning in tax year 2024, Alabama decoupled from these provisions and allowed taxpayers the option of currently deducting such expenses or following the federal treatment prior to 2022. OB3 permits taxpayers to fully expense domestic R&E expenditures starting in 2025 and permits taxpayers to elect to expense previously capitalized and unamortized amounts in full or ratably over two years (2025 and 2026) (accelerate expensing). The guidance provides that if the taxpayer chooses to deduct the unamortized amounts fully or ratably under the new OB3 provisions, the amounts deducted must be added back to the Alabama taxable income to the extent they were previously deducted on an Alabama tax return. The guidance also provides form-specific instructions for both corporations and financial institutions adding back amounts to the Alabama income tax returns. For questions on the Notice on Research and Experimental Expenditures please contact Gregory Aughenbaugh.

The Rhode Island state budget adopted earlier this year decoupled from the treatment of domestic R&E expenses under OB3. The R.I. Division of Taxation issued guidance pointing out that in addition to indicating that Rhode Island will decouple from the OB3 changes in IRC section 174 generally, the state will also decouple from the federal election for eligible small businesses (through federal amended returns or accounting methods change) to accelerate expensing of domestic R&E expenses that were capitalized and amortized for Tax Year 2022 through 2024. If the taxpayer chooses to amend its federal returns for such tax years to avail itself of the change in law, Rhode Island amended returns will also be required. In addition, Rhode Island also decouples from the federal election to accelerate expensing for unamortized amounts, incurred in Tax Years 2022 through 2024, in full or ratably over two years. For tax year 2025, the guidance also states that state corporate taxpayers must amortize domestic R&E expenditures, even when fully expensed at the federal level. The guidance includes instructions on additional new schedules that must be filed to address the state and federal difference relating to domestic R&E treatment. The guidance also notes that the state will be issuing additional guidance regarding other provisions of OB3 later in the month. For questions on Rhode Island Advisory Notice 2025-18 please contact Jamie Posterro.

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In Maryland, the Maryland Bureau of Revenue Estimates recently released a report providing that the state is expecting a loss of approximately $190 million over the next two years due to federal tax changes resulting from the passage of OB3. Based on Maryland's unique conformity statute, because conforming to OB3 amendments to IRC sections 174 and 174A (R&E expense deduction), IRC section 168(n) (Bonus depreciation for qualified production property), and IRC section 163(j) (Business interest deduction limitation) will each individually impact Maryland revenue by greater than $5 million, Maryland will decouple from these provisions beginning with tax year 2025 and any prior tax year. However, Maryland will conform to the OB3 amendments to IRC in these sections beginning tax year 2026 unless the state legislature enacts decoupling provisions. Maryland will immediately conform to the amendments to IRC sections 179 Expensing, as well as GILTI, and FDII. For questions on the One Big Beautiful Bill 60-Day Report please contact Diana Smith.

In Nebraska and Virginia, the states have issued reports detailing the estimated impact of the OB3 changes on state income tax revenues. Nebraska, which conforms to taxable income for corporate purposes and adjusted gross income for individuals, anticipates a revenue loss of about $102 million in FY 2026 and $115 million in FY 2027. The largest effects are from increased depreciation allowances for capital assets and non-residential structures, as well as the state and local tax deduction and R&E expensing.

In Virginia, the Commonwealth "paused" its rolling conformity to the IRC for most federal tax changes enacted in 2025 and 2026, including most OB3 provisions. The Department of Taxation recently presented an estimate to the General Assembly of the impact of OB3 on state revenues should the state return to rolling conformity. The state anticipates a revenue impact of about $575 million in FY 2026 and $250 million in subsequent years from OB3. For questions on the Nebraska and the Virginia reports, contact Kara Hernandez (Nebraska) and Diana Smith (Virginia).

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