Multistate: Last round of OB3 guidance for 2025

As we get ready to sing Auld Lang Syne, four states – Illinois, New Jersey, Rhode Island, and Virginia - have spiced up the holidays by issuing additional guidance on incorporating the provisions of P.L. 119-25, the One Bill, Beautiful Act (OB3), into state law.

Illinois: Newly enacted legislation in the Land of Lincoln decouples state law from various Internal Revenue Code (IRC) provisions amended by OB3; the measure also extends the state Pass-Through Entity Tax (PTET) indefinitely. Illinois is a rolling conformity state, meaning any changes made to the IRC federally will automatically become a part of the state tax unless the state acts to decouple. Under the new legislation, Illinois will decouple from IRC section 168(n) (bonus depreciation for qualified production property) for certain facilities placed in service before January 1, 2031. The state had earlier decoupled from the bonus provisions in IRC section 168(k). In addition, earlier this year, Illinois enacted legislation that provides for a 50 percent dividends received deduction (DRD) for the amount of global intangible low taxed income (GILTI) included in taxable income. The bill adds references to "net controlled foreign corporation tested income (NCTI)," the new name for GILTI in OB3, and it will also be subject to the 50 percent DRD. Finally, Illinois eliminates the January 1, 2026, expiration date for the state PTET, which allows pass-through entities (e.g., partnerships and S-corporations) to pay an elective tax on the net income of the entity and accords the partners and shareholders of such entities a state income tax credit equal to their proportionate share of tax paid. Please contact Brad Wilhelmson with questions on S.B. 1911.

New Jersey: The Garden State automatically conformed to the OB3 amendments to IRC section 163(j) (business interest limitations) because of its rolling conformity. The Division of Taxation recently issued updated guidance for computing the limitation for state tax filing purposes. The updated guidance adds references to the OB3 version of IRC section 163(j) but does not change the substance of the computations from earlier filing guidance issued for the pre-OB3 version of IRC section 163(j). Please contact James Venere with questions on Technical Bulletin 87(R).

Rhode Island: The Division of Taxation recently adopted emergency regulations to reflect the changes made to the Rhode Island tax code in the FY 2026 state budget and the Division's OB3 related guidance. The FY 2026 Rhode Island budget provided that for tax years beginning on or before January 1, 2025, Rhode Island will require corporate taxpayers to add to their taxable income "any amount of income, deduction or allowance" that would be subject to federal income tax but for the enactment of OB3. The new regulations align with state statute

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and reflect the guidance issued by the Division in the last several months detailing how taxpayers should prepare their returns to reflect the nonconformity with the key corporate provisions amended under OB3. [For details on Advisory Notice 2025-18 and Advisory Notice 2025-20, see our TWIST of September 22, 2025 and TWIST of October 13, 2025 .]

The emergency regulations published by the Division went into effect on December 15, 2025, and will remain in effect for 120 days unless extended or replaced. Please contact Jamie Posterro with questions on the Rhode Island Emergency Regulations.

Virginia: The Department of Taxation has released a video update for tax professionals addressing filing season updates and IRC conformity, as well as other changes to both income and indirect taxes. Notably, the video covers the 2025 Appropriations Act which paused the state's otherwise rolling conformity to the IRC for changes made to the IRC in 2025 or 2026 that would have any revenue impact on Virginia during the next five years, other than federal tax extenders (e.g., the permanent extension of look-through for related CFCs). The Commonwealth legislature will need to take action to conform further to changes made by OB3.

Separately, outgoing Governor Youngkin has issued his proposed biennial budget and indicated it will be "substantially conforming" the state's tax code to federal tax changes, expected to provide $730 million in reductions for taxpayers. Please contact Diana Smith with questions on the 2025 Update for Tax Professionals or H.B. 30, the Governor's budget proposal.