



# TWIST-Q | Summary of developments—First quarter 2025

This checklist includes developments for the first calendar quarter of 2025 that have occurred prior to the date of publication. Please note that certain items may be dated earlier as these items were first made publicly available during the first quarter of 2025. Additionally, there may be developments that occur or legislation that will be enacted after we release this checklist. Please stay tuned to [TWIST weekly](#) for additional updates.

Rate Changes and Developments	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/Comments
Effective for tax years beginning on or after January 1, 2025, reduces the corporate income tax rate from 5.39 percent to 5.19 percent. The rate will be further reduced by 0.10 percent per year until it reaches 4.99 percent, but this reduction will be delayed in any year in which state revenue estimates fall below certain thresholds. House Bill 111 (pending signature).	GA				
Effective January 1, 2025, reduces the corporate income tax rate from 5.695 percent to 5.3 percent. House Bill 40 (signed March 6, 2025).	ID				

IRC Conformity	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/Comments
For tax years beginning on or after December 31, 2024, Arizona adopts the Code in effect on January 1, 2025. House Bill 2688 (signed February 28, 2025).	AZ				
For tax years beginning on or after December 31, 2024, Hawaii will likely adopt the Code as amended as of December 31, 2024. House Bill 1145 & Senate Bill 1464 (pending reconciliation of differences between House and Senate versions.)	HI				
Idaho has adopted the Code in effect on January 1, 2025. House Bill 3 (signed January 27, 2025).	ID				
Ohio has adopted the Code as it exists on the bill's effective date. House Bill 14 (signed March 7, 2025).	OH				
South Dakota has adopted the Code in effect on January 1, 2025. House Bill 1028 (signed February 19, 2025).	SD				
West Virginia has adopted the Code as of January 1, 2025. House Bill 2025 (signed February 24, 2025).	WV				

Tax Base	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/Comments
<p>A taxpayer was not entitled to nonrecognition of the gain from an involuntary conversion because the property it purchased was insufficiently similar to the property it lost. The taxpayers used compensation received for the destruction of their grapevines to purchase a citrus orchard. Because the citrus orchard included both fixtures and land, it was dissimilar to the grapevines (which were entirely fixtures). <i>Skouti v. Franchise Tax Board</i> (Cal. Ct. App. February 11, 2025).</p>	CA				
<p>The Indiana Department of Revenue determined that a treaty-protected foreign taxpayer was required to include its distributive share of income earned by a U.S. partnership that it used as a toll manufacturer. Although the taxpayer was exempt from taxation on its own profit/loss, income it received from its ownership interest in the partnership was required to be included in federal taxable income, and consequently in Indiana corporate adjusted gross income. Furthermore, the Indiana apportionment percentage should be based entirely on the partnership's receipts; the taxpayer's treaty-protected income was not included in the calculation. Revenue Ruling 2024-02CCP (January 3, 2025).</p>	IN				

Tax Base	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/Comments
<p>The Indiana Department of Revenue updated its income tax bulletin addressing the tax treatment of government obligations. Indiana taxes interest earned from an obligation of the state of Indiana (or a political subdivision) that was acquired after December 31, 2011. The updated bulletin provides new guidance on determining when an obligation was acquired under various circumstances. Income Tax Information Bulletin #19 (Indiana Dep't of Rev., January 2025).</p>	IN				
<p>Under a recent superior court ruling, a capital loss carryback generated by one member of a combined group can be used to offset capital gains earned by a different group member. Previously, regulations required each group member to compute its net income separately before summing to reach the group's total net income. The court found that the clear underlying purpose of the statute was to treat the combined group as one business organization. <i>Hologic, Inc. v. Stepp</i> (N.H. Sup. Ct. 2025).</p>	NH				

Tax Base	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/Comments
<p>A taxpayer was required to include a deemed royalty payment in its Pennsylvania net income. The taxpayer performed an F reorg by transferring stock in a domestic subsidiary to a wholly owned foreign subsidiary then converting the domestic subsidiary into an LLC. I.R.C. § 367(d) required the taxpayer to include a deemed royalty payment from the subsidiary on its federal return. The taxpayer argued that inclusion of the deemed royalty on a state tax return would violate the foreign commerce clause under the U.S. Supreme Court's holding in Kraft General Foods. The Board of Finance and Revenue rejected this argument because the taxpayer had "not proven it was entitled to this deduction or that the royalties lacked any connection to Pennsylvania." Decision 2403677 (Pa. Bd. of Fin. &amp; Rev. 2025).</p>	PA				
<p>A taxpayer was required to recharacterize a portion of its cost of goods sold as disallowed related party intangible expenses. The taxpayer purchased finished goods from a foreign manufacturing subsidiary for U.S. distribution. The manufacturer paid royalties to a second foreign subsidiary for use of intellectual property in the manufacturing process. The taxpayer deducted its payments to the manufacturer as cost of goods sold, arguing that all relevant transactions were conducted at arm's length pursuant to transfer pricing studies. The Board of Finance and Revenue ruled that the taxpayer had "not sufficiently proven the types of transactions [it] engaged in served an economic purpose" or that "tax avoidance was not the principal purpose of its arrangements." Decision 2403677 (Pa. Bd. of Fin. &amp; Rev. 2025).</p>	PA				

Apportionment Changes and Developments	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/Comments
<p>The Arkansas Supreme Court recently held that interest expenses incurred by an Arkansas company that was acquired as part of a leveraged buyout were allocable nonbusiness expenses. The court focused on the isolated nature of the transaction, distinguishing between the taxpayer's previous borrowing—which was used to fund expansions of its business—from the singular instance of taking on debt to finance a leveraged buyout. Because the latter activity occurred only once, it could not be considered part of the taxpayer's regular trade or business. The taxpayer was permitted to allocate all expenses to Arkansas and deduct them from Arkansas income even after deducting an apportioned share of the expenses in other states in which it did business. <i>Hudson v. Murphy Oil USA, Inc.</i> (Ark. December 12, 2024).</p>	AR				
<p>An electricity generator making wholesale sales of power was required to source its receipts to Michigan—the state in which it “delivers” electricity to its distributor via a substation—rather than to the locations of the ultimate consumers of the electricity. The Tax Tribunal analyzed the transaction to determine that the distributor was properly identified as the purchaser because title passed to the distributor; and that the ultimate destination governed under the terms of the contract was the Michigan substation. <i>CMS Energy Co. v. Department of Treasury</i> (Mich. Tax Trib. February 13, 2025).</p>	MI				

Apportionment Changes and Developments	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/Comments
<p>A hedge fund was required to apportion management and performance fees using the Business Allocation Percentage of the year in which the fees were earned, rather than the year in which they were included in income. The Tax Appeals Tribunal ruled that the statute clearly requires that deferred fees and appreciation be treated as ordinary income, which requires them to be apportioned based on the year the income was earned. Because the taxpayers' business was carried on entirely within New York during the years in which the fees were earned, the Tax Tribunal determined that the fees must be entirely allocated to New York. <i>Matter of Techar</i> and <i>Matter of Frascella</i> (N.Y. Tax App. Trib. December 12, 2024.)</p>	NY				
<p>A broker-dealer was required to source receipts based on the location of the funds with which it did business (not the approximate locations of the underlying investors in those funds.) The Tax Appeals Tribunal determined that, under the sourcing rules for the years at issue, looking through the institutional intermediaries to underlying investors was not a permitted sourcing method. The Tribunal rejected an ALJ's conclusion that sourcing based on the intermediary funds would be impermissibly distortive, holding that there is no constitutional violation when the receipts are applied per the statute in the case of this taxpayer. <i>Matter of Jefferies Group</i> (N.Y. Tax. App. Trib. February 20, 2025).</p>	NY				

Filing Methods	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/Comments
<p>Updated regulations permit a taxpayer who files a federal consolidated return to elect to file a Georgia consolidated return without requesting permission from the Department of Revenue. This election is available for any tax year beginning on or after January 1, 2023. An election is irrevocable for a period of five years. A taxpayer who was previously granted permission to file a consolidated return may continue to do so under the existing authorization, use the new provisions to elect into consolidated return treatment, or cease filing consolidated returns. Ga. Comp. R. &amp; Regs. § 560-7-7-.13.</p>	GA				
<p>An Illinois circuit court judge did not permit exclusion of a member of the unitary group as an 80/20 company. The taxpayer centralized various foreign activities, including the secondment of expatriate employees to foreign host companies, under a single disregarded entity, which was placed below a domestic subsidiary in the taxpayer's organizational structure. The taxpayer included compensation paid to employees of the disregarded entity in foreign payroll when determining whether the domestic subsidiary would be considered an 80/20 corporation. The circuit court held that the disregarded entity was formed for the purpose of tax benefits and that expatriate compensation charged to the disregarded entity did not reflect substantive foreign business activities conducted by the domestic subsidiary. This ruling was later upheld by an appellate court. <i>PepsiCo v. Department of Revenue</i> (Ill. Cir. Ct. January 9, 2025), aff'd No. 1-23-0913 (Ill. Ct. App. March 19, 2025).</p>	IL				

Filing Methods	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/Comments
A real estate investment company was not required to include an indirect subsidiary that functioned as a passive, part-owner of an out-of-state shopping mall on its New York combined return. The taxpayer's interactions with the subsidiary did not meet the "substantial intercorporate transactions" threshold, and there was no unitary business after the taxpayer otherwise left the retail property business. <i>In the Matter of Lendlease Americas Holdings, Inc.</i> (N.Y. Tax App. Trib. January 23, 2025).	NY				
Credits	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/Comments
The eligibility of a battery energy storage facility for the High Impact Business Credit has been expanded to include facilities constructed in designated enterprise zones. A "new battery energy storage facility" is a newly constructed facility, expansion or replacement that stores electricity using battery devices and other means. Pub. Act. 103-1066 (signed February 20, 2025.)	IL				
Updates to the Illinois income tax regulations push back the sunset date for various tax credits (in accordance with bills passed by the state legislature.) For corporate income tax purposes, the most notable change is a delay in the sunset date for the Research and Development Credit from January 1, 2027 to January 1, 2032. This change takes effect on January 15, 2025. Ill. Admin. Code tit. 86, § 100.2160(a).	IL				

Credits	State	Potential impact on current tax?	Potential impact on deferred taxes?	Potential impact on ASC 740-10?	Other/Comments
<p>New Research and Development Credits have been established for tax years beginning on or after January 1, 2025. For a large business (one with at least 250 employees), the credit is 3 percent of qualifying expenses (defined under I.R.C. § 41(b)) for research conducted in Michigan up to the base amount (the average amount incurred during the three preceding calendar years) and 10 percent of qualifying expenses above the base amount. The credit amount must not exceed \$2 million per tax year. House Bill 5100 (signed December 31, 2024).</p>	MI				

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