

# This Week in State Tax (TWIST)

January 26, 2026



## Multistate: OB3 guidance and proposals keep rolling in

As state legislative sessions begin to pick up the pace, several governors have used their budget proposals (or veto pen) to weigh in on conformity to the One Big, Beautiful Bill Act (OB3).

- Arizona: Governor Hobbs vetoed a [bill](#) that would update Arizona's Internal Revenue Code (IRC) static conformity date to January 1, 2026 (effectively conforming to the entirety OB3). The Governor criticized the business provisions of OB3 as "tax breaks for special interests" and called for further negotiations over conformity in her [veto message](#). The governor has proposed an [alternative bill](#) that would incorporate many of the individual income tax provisions of OB3 (including the enhanced deduction for seniors and deductions for tip and overtime income) but not the business provisions. Contact [Alexander Townsend](#) with questions about ongoing conformity developments in Arizona.
- Massachusetts: Governor Healey has proposed a [bill](#) that would temporarily delay conformity to many OB3 business provisions as a means of moderating the state budget impact. The bill would disallow the full expensing of domestic research and experimental (R&E) expenditures under IRC § 174A for the taxable year beginning in 2025, but allow such expensing beginning in tax year 2026. The bill would also postpone the implementation of the OB3 version of IRC § 168(n) (bonus depreciation for qualified production property), IRC § 179 (immediate expensing of certain property), and IRC § 163(j) (business interest expense limitation) until taxable years beginning in 2027. In addition, the bill would expand the pass-through entity tax (PTET) to include income subject to the 4 percent individual income surtax (i.e., income over \$1 million) which was enacted after initial passage of the PTET in 2021. Currently, the PTET applies only to income subject to the 5 percent state income tax. Finally, the governor is proposing a measure that would delay adoption of future federal changes to which the state would automatically conform for one year if the estimated state revenue impact exceeds \$20 million. Contact [Nikhil Sequeira](#) with questions about [House Bill 4975](#).
- Maryland: Governor Moore's [budget proposal](#) calls for conformity to several of the business provisions of OB3, including the full expensing of domestic R&E expenditures under IRC § 174A and the modified limitation on the deduction of business interest under IRC § 163(j). However, the proposal calls for decoupling from the special depreciation allowance for qualified production property under IRC § 168(n) and modifying depreciation allowances for capital investments for certain corporations. Contact [Diana Smith](#) with questions about continuing budget developments in Maryland.
- New York: Governor Hochul's [budget proposal](#) calls for decoupling from the full of expensing of domestic R&E

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expenditures under IRC § 174A and the deduction for qualified production property under IRC § 168(n). She did propose, however, adopting the deduction of tip income by certain taxpayers. Contact [Aaron Balken](#) with questions about ongoing budget developments in New York.

In addition, the Pennsylvania Department of Revenue issued new [guidance](#) clarifying that, under the conformity bill [passed in November](#), taxpayers will be required to add back deductions taken federally for foreign and domestic R&E expenditures, and then take a subtraction to deduct such R&E expenses at the rate of 20 percent per taxable year until the full amount of the original expense is deducted. The guidance explains that taxpayers electing for federal purposes to accelerate unamortized domestic R&E from tax years 2022 to 2024 cannot make this election for Pennsylvania purposes; they must instead amortize those expenses at the rate of 20 percent per year. As it relates to IRC § 168(n) (bonus depreciation for qualified production property), the Commonwealth will require an addback of amounts deducted for federal purposes, and then allow depreciation deductions for that property using the normal depreciation rules found in IRC §§ 167 and 168. The deduction of business interest expense under IRC § 163(j) remains tied to the IRC as of December 31, 2024 for Pennsylvania purposes. Contact [Robert Weyman](#) with questions about [H.B. 416](#) (November bill) and the [department guidance](#).

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