SENATE BILL 595: Various Revenue Laws Changes, Part I: Personal Income Tax Changes

2025-2026 General Assembly

Analysis of:	S.L. 2026-31, Part I	**Date:**	August 28, 2026
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Part I of S.L. 2026-31 (Senate Bill 595) makes various technical, clarifying, and substantive changes to the personal income tax laws, many of which were recommended by the Department of Revenue, including the following:

- Clarifying that the basis limitations for a shareholder's S Corporation stock and the associated State gain or loss are included as an adjustment to federal adjusted gross income on the shareholder's State income tax return. This provision is effective for taxable years beginning on or after January 1, 2026.
- Clarifying that the State net operating loss is only available to individuals, estates, and trusts and that taxed pass-through entities do not qualify. This provision became effective July 2, 2026, and applies retroactively to taxable years beginning on or after January 1, 2022.
- Allowing a taxpayer's federal excess business loss (EBL) to generate a State net operating loss carryforward to mirror the federal treatment of EBLs. This provision is effective for taxable years beginning on or after January 1, 2026.
- Eliminating the income tax on the undistributed income of estates and trusts where the income is not sourced to the State. Income of estates and trusts that is distributed to a resident beneficiary remains taxable because the income is part of federal adjusted gross income. This provision is effective for taxable years beginning on or after January 1, 2026.
- Setting the due dates for semiweekly withholding returns and payments to match the federal due dates. Under current law, semiweekly taxpayers are treated differently from quarterly and monthly taxpayers for the purpose of assessing penalties and interest. This provision became effective July 2, 2026.
- Creating a personal income tax deduction for a timberland casualty loss that occurred between September 24, 2024, and October 31, 2024, as the result of Hurricane Helene in a county that qualified for assistance under FEMA 4827 DR federal major disaster declaration as of September 28, 2024. The amount of the deduction is the difference in fair market value of the timberland before and after the loss less amounts received related to the loss, such as insurance payments, disaster payments, grants or other relief funding. The deduction may only be taken for the 2023 or 2024 tax year. This provision became effective July 2, 2026.
- Extending the waiver of interest afforded to taxpayers located in the counties affected by Hurricane Helene previously provided in S.L. 2024-51 through September 25, 2025, to align with the federal extension announced on April 17, 2025, for individual income tax, corporate tax, franchise tax, and estate and trust tax. The extension also applies to withholdings for the third

quarter of calendar year 2024 through the second quarter of calendar year 2025. This provision became effective July 2, 2026.

- Clarifying that a deduction for claim of right income is authorized only if the income was included in a taxpayer's State taxable income in a previous year. This provision is effective for taxable years beginning on or after January 1, 2026.
- Updating and correcting the law to allow certain partnerships to pass through tax credits to a partner. This provision is effective for taxable years beginning on or after January 1, 2026.