FEDERAL TAX REFORM AND THE IMPACT ON STATES

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Why should states care about federal tax reform?

• Conformity to federal law
  • Personal income tax
  • Business and corporate income tax

• Budget and indirect economic impacts
  • Deduction for state and local taxes
  • Exemption for municipal bond interest
What proposals have been discussed recently?

- House GOP “Better Way” Blueprint
  - Destination Based Cash Flow Tax, a.k.a the “border adjustment tax”

- Donald Trump campaign plan

- Trump White House’s one-pager
Where does reform stand now?

• Politics and procedural hurdles

• What is the goal: Tax reform or tax cuts?

• Timeline
What personal tax changes might affect states?

• Deduction for state and local taxes paid

• Exemption of municipal bond interest

• Value added taxes
What personal income tax reforms might affect state taxes via conformity?

- Rates and brackets
- Standard deduction and personal exemption
- Child care expenses
- Base broadeners
- 50 percent deduction for capital gains, dividends, and interest
- Alternative Minimum Tax
- Estate tax
What business tax reforms might affect states?

- Corporate rate/integration
- Pass-through rates
- Cost recovery
- Interest deductions
- Net operating losses
- Border adjustments
- “Loopholes”
- Territorial/deferral
How have states addressed prior federal tax changes?

- Tax Reform Act of 1986

- 2001/2003 tax cuts:
  - Bonus depreciation and enhanced expensing
  - Estate tax repeal
What are states’ options? What are the trade-offs?

• To conform or not to conform

• Phase-in

• Revenue triggers

• Contingent enactment

• Special sessions/concurrent reform