
EMERGING STATE TAX ISSUES

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Erlinda Doherty, NCSL



Harley Duncan, KPMG



David Brunori, RSM US



State tax policy: What's ahead?

National Conference of State Legislatures

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General impact on state fisc of COVID-19

Economic disruption of this magnitude will have a substantial effect on every state.

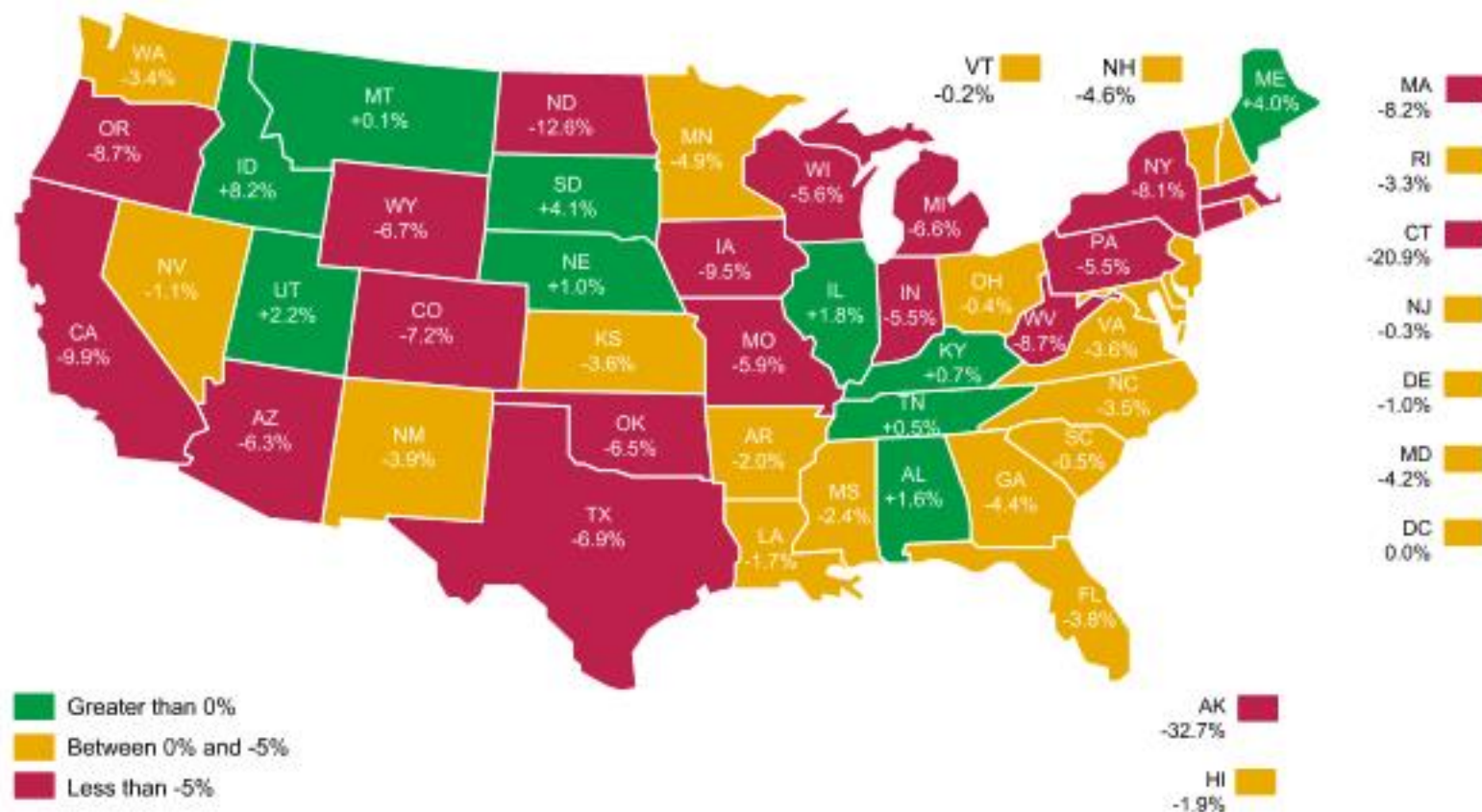
- Impact on sales and transaction-based taxes – retail sales, hotel lodging, motor fuels, travel and leisure, meals and entertainment, auto, and other major purchases
 - Shift to online purchasing not as important with *Wayfair*
 - Hospitality, tourism and gaming provide no refuge
 - Question on sustainability of increased purchases of goods
- Impact on income-based taxes – wage income, proprietor/farm income, investment income, and corporate earnings
 - Temporary shift across years in some states due to filing deadline extension
 - Impact on liability not reflected (much) in FY 2020 receipts
- Resource-intensive states not spared with drop in oil and gas prices and activity
- Expenditures, especially for healthcare, increasing quickly and substantially

Timing compounds challenges for states

- Sudden drop in economic activity in last quarter of fiscal year for most states
- Many budgets for FY 2021 completed or nearly so
- Many legislatures already adjourned or forced to suspend to health emergency
- Limited time and ability to respond

Change in state revenues

Change for 12 months ending June 30, 2020



Source: U.S. Bureau of the Census

Some state and local revenue data points

Federation of Tax Administrators

- For 12 months ending August 2020, total tax receipts for about 40 reporting states increased only 1.0 percent; individual income receipts increased by the same amount, corporate income declined by 1.3 percent, and sales tax grew by 1.6 percent

Center on Budget and Policy Priorities

- Projecting state budget shortfalls of \$290 billion in FY 2021 and additional \$155 billion in FY 2022; this is about 15 percent greater than combined two-year total in 2010 and 2011
- Over 30 states now estimating FY 2021 receipts that will be greater than 10 percent below pre-COVID estimates made prior to March 2020.

Tax Foundation

- As of July 2020, estimated nationwide decline of \$121 billion in state tax collections across FY 2020 and 2021
- While sales tax took immediate hit, income taxes are likely to experience greater loss over time and take longer to recover

Moody's Analytics (Sept. 21, 2020)

- Estimated revenue impact of about \$125 billion in FY 2021, and \$105 billion in FY 2022
- Project a total "fiscal shock" of about \$275 billion across FY 2020-2022. "Fiscal shock" equals revenue impact of COVID plus increased Medicaid expenditures less increased federal Medicaid funding, other federal funding and use of reserves
- If localities are added in, shortfall in resources totals roughly \$500 billion through 2022

Four budget scenarios

Focus on Budget Cuts

- Likely greatest exposure to K-12 and higher education
- Also other SGF discretionary – tax, cultural and parks
- Staffing reductions and furloughs
- Challenges posed by ‘caseload driven’ expenses, e.g., K-12, higher ed, corrections and Medicaid
- Skewing of priorities because of SGF v. dedicated fees, e.g., DMV vs. Revenue

Play Small Ball

- Increase current excise taxes, e.g. tobacco, alcohol
- New sources of excise tax, e.g., vaping, sports betting, recreational marijuana
- Tax amnesty programs
- Potential increase in evasion, smuggling and substitution
- Avoid impact on families and employers

Hit a Ground Rule Double

- Limit/shave credits, limit NOL utilization, etc.
- Eliminate or limit various deductions, exemptions or credits – both income and sales
- Extend sales tax to electronic transactions replacing TPP, e.g. streaming, digital ads
- Offset any reductions arising from CARES Act and other federal law changes

Go for the Home Run

- Increase major taxes – individual, sales and corporate
- “Tax the millionaires,”
- Property tax change for localities
- Restructure/reform current tax system;
- Danger to business if individual increase needs balance from business tax increase
- Adopt a new tax, e.g., GRT



Thank you

Contact information

Harley Duncan
Managing Director
Washington National Tax
KPMG LLP
hduncan@kpmg.com



kpmg.com/socialmedia

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Contact:

Erlinda Doherty | erlinda.doherty@ncsl.org

Jackson Brainerd | jackson.brainerd@ncsl.org

