**Issue Description**

Modernization and reform of our federal tax system is of critical importance to state legislators. Federal tax reform efforts and tax actions directly affect states as federal and state tax systems are inextricably linked. For example, extension of the federal income tax filing deadline due to the COVID-19 pandemic resulted in states following suit and thus postponing state revenue collections. Federal programs rely on state participation for implementation and any federal reform will likely have serious fiscal and administrative ramifications on the states.

NCSL created its bipartisan Task Force on State and Local Taxation to addresses important and timely issues on tax policy in order to provide guidance to state legislators as they address the emerging taxation issues. The task force strives to balance state sovereignty with the need for a workable interstate tax system. Our task force members identify the issues that legislatures must address – and provide state guidance by developing model principles for tax reform and modernization. It is NCSL’s position to advance and defend a balanced, dynamic partnership among local, state and federal governments.

**NCSL Position**

NCSL supports the preservation of state and local governments to adopt fair and effective tax systems. Among other federal tax reform initiatives, this includes:

- Preserving the fiscal viability and sovereignty of state governments and their discretion to tax certain revenue sources.
- Restoring the full state and local income tax, sales tax and property tax deductions for federal income tax purposes.
- Continuing tax policies that reward work, specifically the Earned Income Tax Credit (EITC) and Individual Development Accounts (IDAs).

NCSL urges all federal tax reform and other actions be guided by the following:
- Providing states with adequate transition time, preferably up to three or more years, to implement and respond to new tax systems. This includes providing adequate federal administrative funds for any federal tax reform involving modified or increased collection of state responsibility.
- Preserving tax-exempt financing for infrastructure and capital projects, including the use of public-private partnerships, while also maintaining the tax-exempt status of state and local government bonds, and lifting existing restrictions on state and local government use of tax-exempt bonds.
- Avoiding provisions that weaken the fiscal integrity of state and local governments.