
BUDGET AND TAX UPDATE



The National Conference of State Legislatures is the country's most trusted bipartisan organization serving legislators and staff. We promote policy innovation, create opportunities for lawmakers to share knowledge and ensure state legislatures have a strong, cohesive voice in the federal system. We do this because we believe in the importance of the legislative institution and know when states are strong, our nation is strong.

FEDERAL POST-ELECTION UPDATE

ERLINDA A. DOHERTY, DIRECTOR, BUDGETS & REVENUE COMMITTEE



CONGRESS LAME DUCK STATUS & AGENDA

- Senate composition won't be officially decided until January
- House Democrats maintain control but majority eroded
- Congressional leadership expected to remain the same
- COVID-19 Legislation still uncertain
 - Despite progress during pre-election negotiations, Administration and Democrats remain far apart
 - Given President Trump's expected loss, unclear whether Administration will enact a deal before the end of this Congress
- Appropriations Outlook
 - Passage of "minibus" spending packages likely to fund government thru FY 2021
 - House passed most of its bills this Summer, Senate just released a series of spending bills
 - Spending agreement could be the vehicle for other last minute policy items & possibly COVID relief
 - House Ways and Means agenda mostly aligned with Biden's
- Neither party has a mandate and cooperation is vital going into the 117th Congress

BIDEN TRANSITION AGENDA

- Transition team comprised of key federal agency alumni
- First 100 days will set stage as Biden may rescind or freeze regulations from previous Administration
- Major Policy Priorities
 - Comprehensive national strategy to combat the pandemic
 - Invest in infrastructure
 - Provide a middle class tax cut
 - Reforming health care by expanding ACA
 - Tackle climate change

BIDEN COVID-19 PROPOSALS

- \$700 billion economic recovery plan
- Nationwide mask mandate and boost stockpile
- Additional support for small businesses, testing, and \$30 billion for schools
- \$25 billion for therapeutics and vaccine
- Create national contact tracing program
- Address state and local budget shortfalls
- Establish new U.S. Public Health Job Corps

BIDEN TAX PROPOSALS

- Tax credits for new investments in domestic manufacturing
- Raising the corporate tax rate to 28%
- Provide tax relief to lower and middle income families, including expansion of the child tax credit
- Increasing tax incentives for employers to offer retirement plans
- Providing refundable low-income renter's and first-time home buyer's credits
- Taxing capital gains and dividends at ordinary rates for those with annual incomes of more than \$1million
- Doubling the tax rate on profits earned by foreign subsidiaries of US firms to 21%
- Imposing a 15% minimum tax on book income of large companies

Questions?

Contact

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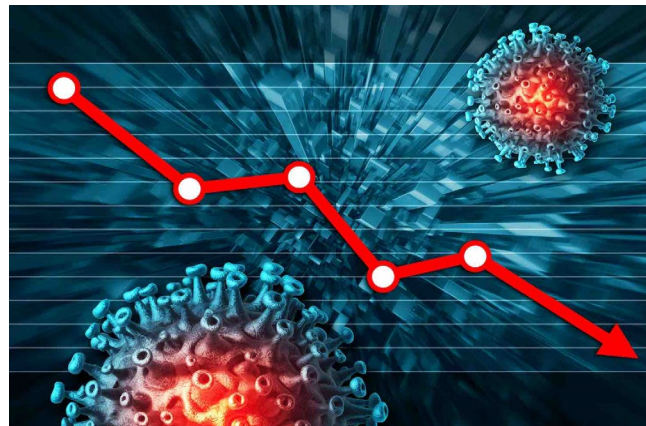
STATE TAX UPDATE

ERICA MACKELLAR, PROGRAM PRINCIPAL, NCSL FISCAL AFFAIRS PROGRAM



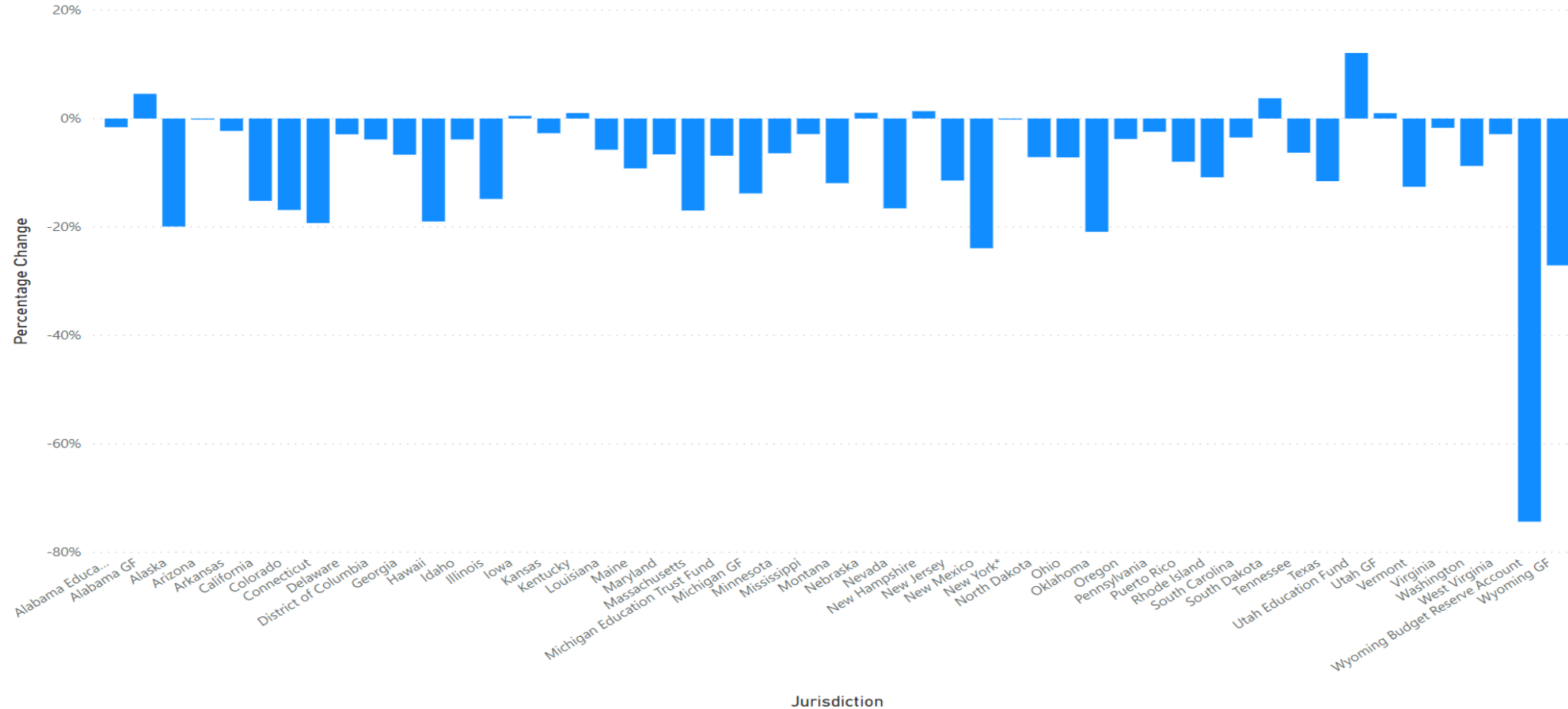
REVENUE UNCERTAINTY

- Every state has been impacted, but the severity varies
- Personal Income
 - Unemployed workers
 - Delayed tax filings
- Sales Tax
 - Retail closures
 - Shifts in consumer spending
- States that have been hit hard and face prolonged challenges
 - Tourism reliant states
 - Energy producing states



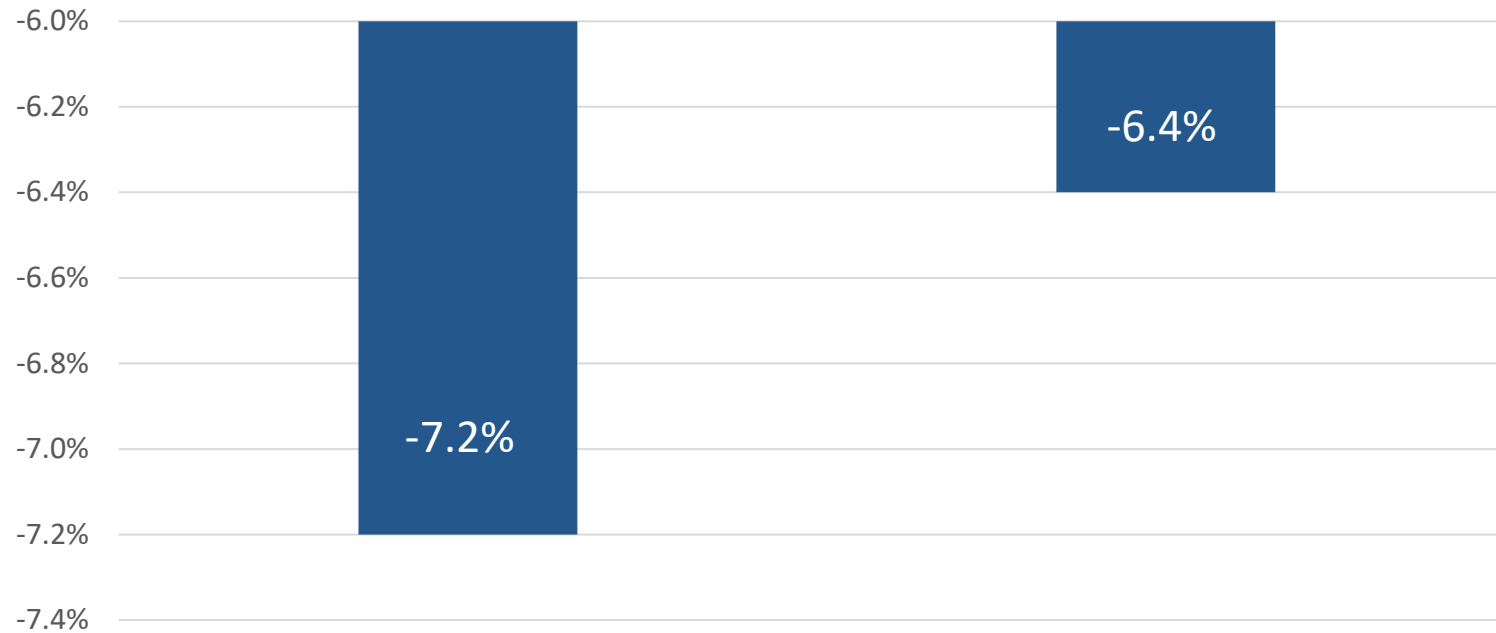
STATE GENERAL FUND REVENUES

Percent Change in FY 2021 Projected Revenues vs. FY 2020 Projected Revenues



MAJOR TAX CATEGORIES

Personal Income and Sales Tax Collections FY 2021 (projected) compared to FY 2020 (estimated)



REVENUES BEATING ESTIMATES

- Revenues in Idaho are beating forecasts by 9.3 percent.
- Sales tax collections for the first months of FY 2021 in South Dakota are up 8.3 percent from last year.
- Total tax receipts for Kansas in October were 7.9 percent above collections for FY 2020.
- Oregon has revised their forecast upwards by \$ 2 billion.

REVENUES BEATING FORECASTS

- Connecticut's FY 2021 projected budget shortfall has shrunk from \$2.1 billion to \$900 million.
- Florida collections in September were above expectations, but down 6.8 percent from previous year.
- Wyoming's budget deficit was projected to be \$1.5 billion is now \$250 million. Officials expect the state to need \$300 to \$500 million in new revenues.

STATE BUDGETS SQUEEZED



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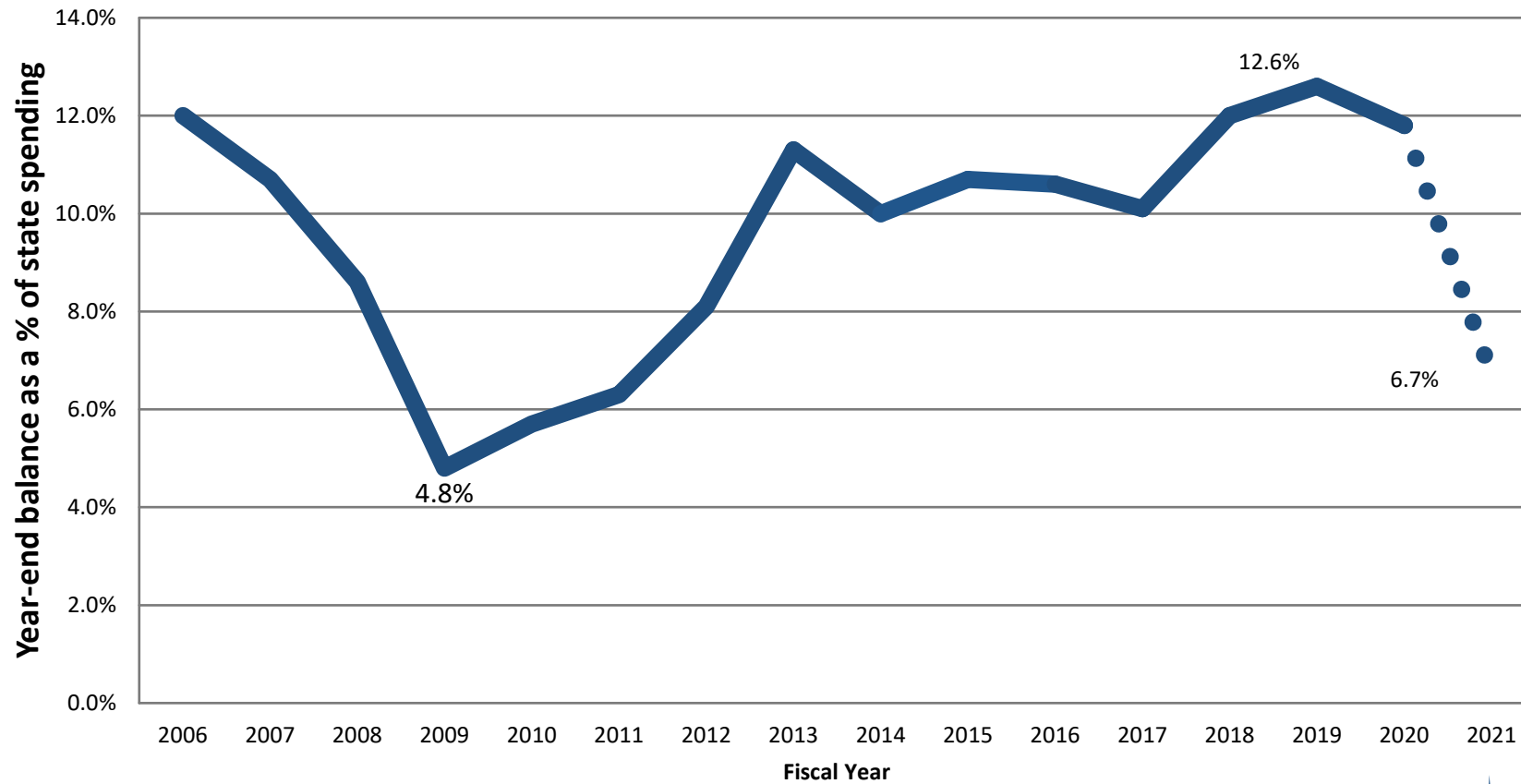
- Demand for social service programs increases during times of economic downturns
 - Eligibility for Medicaid
 - Unemployment benefits

CLOSING BUDGET SHORTFALLS

- Spending Freezes
- Furloughs/Pay cuts
- Across the board cuts
- Rainy day funds



STATE YEAR-END BALANCES

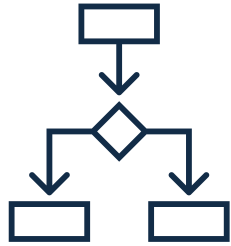


FEDERAL FUNDS

- The CARES Act provided \$150 billion to state, local and tribal governments.
 - Funds must be spent by Dec. 30, 2020
 - Money can be used for unexpected costs related to COVID-19



CRF MAJOR ALLOCATION CATEGORIES



Local Governments



Public Health & Emergency Response



Small Businesses



Education



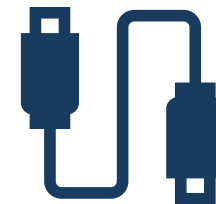
Human Services



Housing & Homelessness



Courts and Corrections



Technology and Broadband



Unemployment and Workforce Development

UNCERTAINTY AHEAD



Questions?

Contact

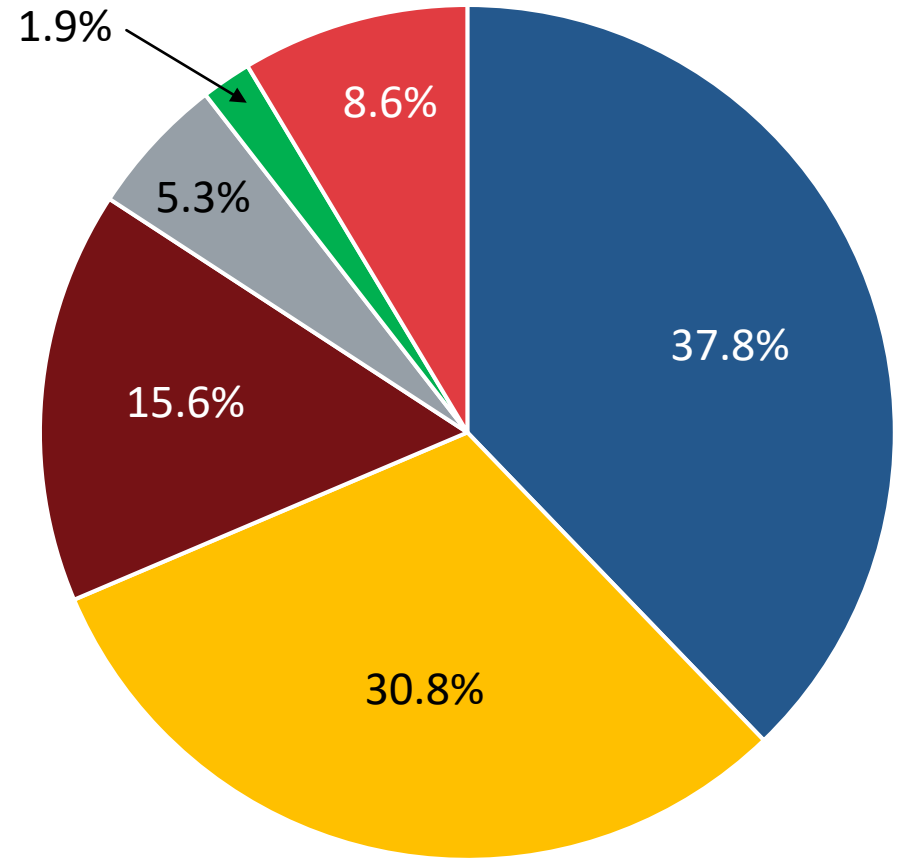
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STATE TAX UPDATE

JACKSON BRAINERD, SENIOR POLICY SPECIALIST, NCSL FISCAL AFFAIRS PROGRAM



STATE TAX RELIANCE

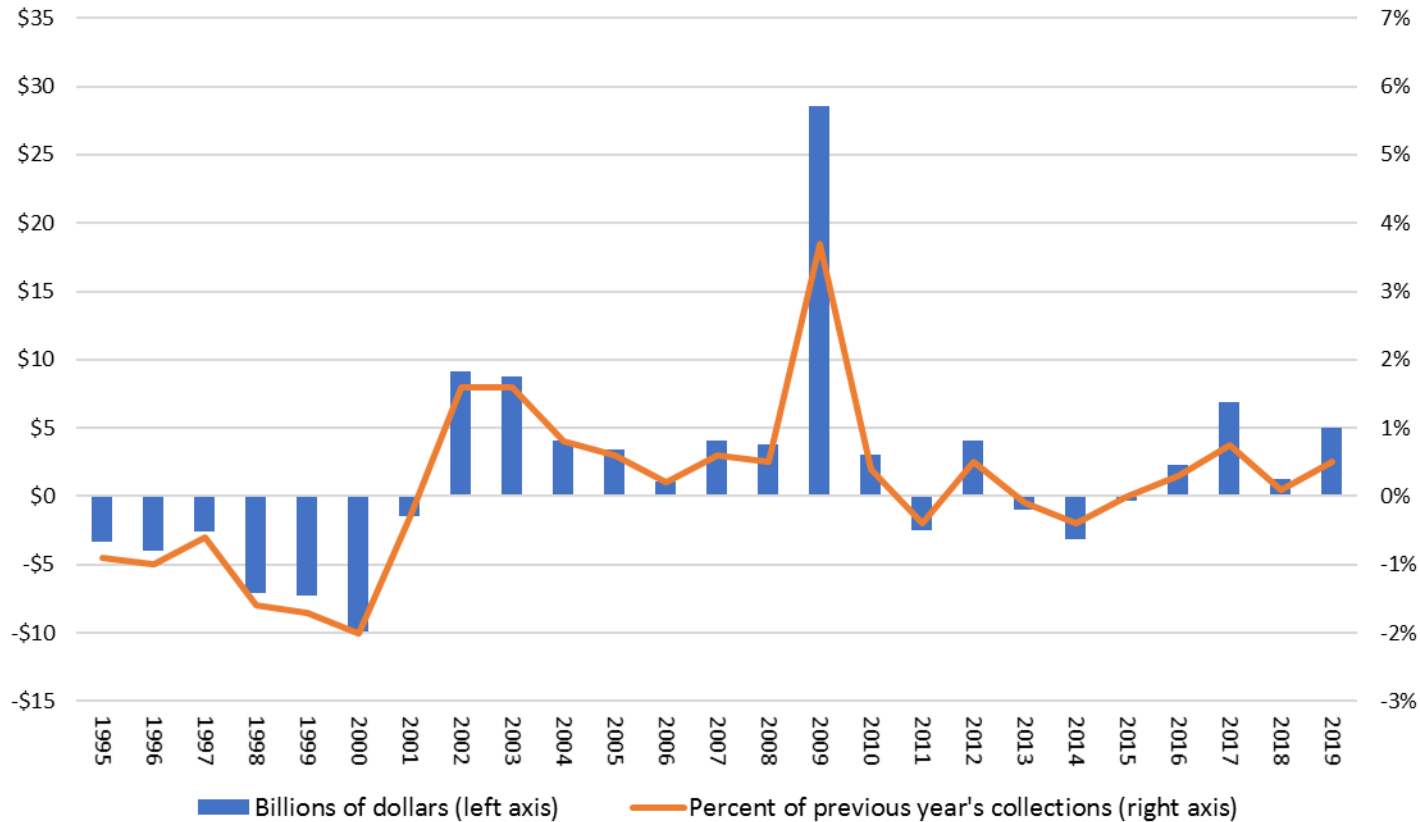


■ Personal Income ■ Sales ■ Selective Sales ■ Corporate Income ■ Property ■ Other



NET STATE TAX CHANGES 1995-2019

Fig. 1. Net State Tax Changes by Year of Enactment 1995-2019



2020 STATE TAX ACTIONS: PRELIMINARY SURVEY TRENDS

- Tax Filing and Payment Deadline Extensions
- Federal CARES Act Conformity
- Marketplace Facilitators
- Excise Taxes
 - Motor Fuel: DC, NC, SC, VA
 - Tobacco/Vaping: GA, KY, NY, UT, VA, WY
 - Gambling Expansion: DC, LA, VA, WA

~~APRIL 15
(Tax Day)~~

FEDERAL CARES ACT CONFORMITY

Automatically Adopted CARES Act

Alabama, Alaska, Delaware, Illinois, Kansas, Louisiana, Missouri, Montana, Nebraska, North Dakota, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Utah, Washington, D.C.

Have Not Updated Conformity

Arizona, Arkansas, Florida, Arizona, Florida, Hawaii, Idaho, Indiana, Kentucky, Maine, Minnesota, Mississippi, New Hampshire, New Jersey, Ohio, South Carolina, Texas, Vermont, Virginia, West Virginia.

PIT/CIT Conformity Varies

California, Connecticut, Massachusetts, Maryland, Pennsylvania, Oregon

Passed Legislation to Partially Decouple

Colorado, Georgia, Iowa, Michigan, New Mexico, New York, North Carolina

Passed Legislation to Fully Conform

Wisconsin

MARKETPLACE FACILITATORS: OTHER TAXES AND FEES

Marketplace Facilitator Tax Collection and Remittance Requirements Extended To:

- Car-Sharing Excise Tax: Virginia
- Ride-Sharing Excise Tax: Georgia
- Local Lodging Taxes: Tennessee, Wisconsin
- Local Meals Taxes: North Carolina
- Universal Service Charge: Vermont
- Follows 2019 measures in Arkansas and Indiana to require the collection of state tourism/lodging taxes

EXCISE TAXES

- Motor Fuel Tax Increase: District, North Carolina, South Carolina, Virginia
- Tobacco/Vaping: Georgia, Kentucky, New York, Utah, Virginia, Wyoming
- Gambling Expansion: District of Columbia, Louisiana, Virginia, Washington

NOT TRENDING BUT SIGNIFICANT TAX ACTIONS

- California Business Tax Increases
- Nebraska Property Tax Relief and Business Tax Incentive Package
- Health Care-Related Tax Increases in North Carolina and Tennessee
- Expiration of the Permanent Internet Tax Freedom Act's Grandfather Clause (Hawaii, New Mexico, Ohio, South Dakota, Texas, and Wisconsin)
- Wisconsin's Automatic Income Tax Reduction
- New Jersey Millionaire's Tax



RESULTS OF SIGNIFICANT NOVEMBER TAX BALLOT MEASURES

Property Tax Measures

- California Prop. 15 (repeal assessment limit on certain commercial property?): No 51.9% (3.8% margin)
- Colorado Gallagher Amendment Repeal (Remove residential assessment limit?): Yes, 57.4%, (14.8% margin)

Income Tax Measures

- Illinois Flat Income Tax Repeal? No, 54.5% (10% margin)
- Arizona Income Tax Surcharge on Higher-Earners? Yes, 51.8% (3.6% margin)
- Colorado Personal and Corporate Income Tax Cut? Yes, 57.7% (15.4% margin)

Sales Tax Measures

- Arkansas 0.5% sales tax increase extended? Yes, 55.3% (10.6% margin)

Payroll Tax Measures

- Colorado Paid Family Leave Premium Implemented? Yes 57.4% (14.8% margin)

RESULTS OF SIGNIFICANT NOVEMBER TAX BALLOT MEASURES CONT.

Marijuana Legalized and Taxed?

- Arizona: Yes (60%, 20% margin)
- Montana: Yes (56.6%, 13.2% margin)
- New Jersey: Yes (66.9%, 33.8% margin)
- South Dakota: Yes (54.2%; 8.4% margin)

Tobacco Tax Increase/Vaping Tax Implementation?

- Colorado: Yes, 67.6%, (35.2% margin)
- Oregon: Yes, 66.5% (33% margin)

Expanded Gambling?

- Nebraska casino-style gambling at racetracks: Yes, 65% (30% margin)
- Colorado Bet/Game Limit Repeal: Yes, 60.3% (20.6% margin)
- SD Sports Betting: Yes, 58.5%, (17% margin)
- MD Sports Betting: Yes, 66.6% (33.2% margin)

Increased Severance Tax?

- Alaska Ballot Measure 1, Tax Increase on Select Oil Fields: No, 56.5% (13% margin)

HOW STATES CLOSED BUDGET GAPS DURING THE GREAT RECESSION

- Budget Cuts
- Rainy Day Funds
- Targeting High-Income Taxpayers, Sometimes Temporarily
- Broadening the Sales Tax Base
- Business Tax Reform, Elimination of Deductions and Exemptions
- Emphasis on Excise Taxes



SALES TAX BASE EXPANSION

- At least 19 states turned to the sales tax to plug budget gaps after the last recession
- States recently extending sales tax to specified services: Connecticut (2019), Kentucky (2018), Iowa (2018), North Carolina (2015), and DC (2014)
- Extending the sales tax to streaming services was proposed in eight states in 2020: Georgia, Illinois, Kansas, Maryland (Vetoed by Governor), Maine, North Carolina, Oklahoma, Rhode Island (Enacted)
- 2020 Digital Advertising Tax Proposals: Maryland, New York, Nebraska, District of Columbia (digital and physical)

STATE BUSINESS TAX TRENDS

- *Wayfair* Implications for Corporate Income Tax Nexus
- Growth in Single Sales Factor Apportionment and Market-Based Sourcing
- Continued Conformity Issues Relating to CARES Act and TCJA
- Recent Gross Receipts Tax Proposals

EXCISE TAXES AND NEW REVENUE SOURCES

- At least 13 states considered legalizing and taxing marijuana in 2020. New Jersey and South Dakota both will have measures on the ballot to legalize and tax it in November.
- Eighteen states and D.C. have legalized sports betting since 2018. Louisiana, Maryland and South Dakota have November ballot measures to legalize and tax sports betting
- Twelve states enacted e-cigarette taxes in 2019, five did so in 2020.

ADDITIONAL FEDERAL ASSISTANCE FOR STATES?

- Federal CARES Act provided aid to state and local governments to use for expenditures incurred due to COVID-19, but it could not be put towards revenue shortfalls
- States are facing at least a \$200 billion revenue loss through FY 2022, according to Moody's Analytics
- Federal transfers account for roughly one-third of total state revenues
- The timing and amount of additional state assistance is highly uncertain



Questions?

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Questions and Answers

Please type your questions into the chat box in the lower left-hand corner of your screen.



BUDGET, TAXES, AND PENSIONS, OH MY!



Don't miss the last webinar in this series!

- Nov. 19 - Emerging Tax Issues



NATIONAL CONFERENCE OF STATE LEGISLATURES

Thank you!

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