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How Federal Tax Changes Would Affect the States.

Current discussions about federal tax reform include a number of proposals that could impact the states. These items may broaden the tax base and increase state revenue, or put pressure on states to cut taxes and reduce revenue, or even create administrative challenges for states. In this article, the Urban Institute's Kim Rueben, Frank Sammartino, and Richard C. Auxier discuss these proposals and what they mean for the states.

Just like individual taxpayers and businesses, state governments are closely watching Congress as it debates a tax bill. Most state income tax systems are linked to federal rules and definitions, so federal changes will affect state revenues and possibly force states to change their own tax laws.

Eliminating federal tax expenditures broadens state income tax bases, which could increase state income tax revenue. But eliminating the federal tax deduction for state and local taxes could pressure states to cut taxes and thus reduce revenue.

Continue reading.

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By Richard C. Auxier, Kim Rueben, and Frank Sammartino

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