Bond Case Briefs

Municipal Finance Law Since 1971

First, Do No Harm: States Can Preserve Revenue by Decoupling From CARES Act Tax Breaks for Business Losses.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted in March 2020, included several costly federal tax breaks for businesses that will also reduce many states' personal and corporate income tax revenues because their tax codes are tied to the federal code. Several of these tax breaks allow businesses to get refunds of taxes they owed for the 2018 and 2019 tax years, before the pandemic hit. Five states — Colorado, Georgia, Hawaii, New York, and North Carolina — have already "decoupled" their tax laws from these provisions to avoid having to give back revenue they have already collected; other states should do the same.[1]

Some of these tax breaks have questionable merit at the federal level and make even less sense for states, which must balance their budgets each year — an extremely challenging task given their sharp revenue declines since the pandemic hit. States will need to increase tax revenues during the next several years to minimize cuts in education, health care, child care, infrastructure, and other critical services, which would disproportionately harm low-income people and people of color. Their immediate priority must be to preserve existing revenue sources by avoiding unnecessary and unwarranted tax cuts.

About half the states have probably lost some revenue already because their tax codes are linked to current provisions of the Internal Revenue Code (IRC). These "rolling conformity" states need to decouple from the CARES Act provisions as early as possible in their 2021 legislative sessions to prevent additional revenue losses and minimize the number of taxpayers that will have to file amended tax returns and pay taxes that were previously refunded.

Continue reading.

CENTER ON BUDGET AND POLICY PRIORITIES

BY MICHAEL MAZEROV

JANUARY 4, 2021

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com