TaxNewsFlash

United States

No. 2017-094
February 20, 2017

State tax implications of federal tax reform—FAQs

One of the (many) surprising outcomes of the November 2016 election is that comprehensive federal tax reform could be a real possibility.

With President Trump in the White House and Republicans holding a majority in both the House and the Senate in the 115th Congress, the prospects for significant federal tax legislation being enacted in 2017 or 2018 have increased substantially. There are still many unknowns. Details are still evolving, and enactment is not certain.

Still, while much attention and debate has been focused on the substantive provisions and ramifications of the proposals at the federal level, any federal reform—if enacted—would have both direct and indirect implications for the U.S. states and their income tax structures.

A KPMG report of "frequently asked questions" (FAQs) outlines why and how federal reforms could generally affect states, and discusses the state tax implications of specific components of the major tax reform proposals outlined by President Trump in his campaign and proposed by House Republicans in last June's tax reform "blueprint."

The FAQ document is organized as follows:

- What is the tie-in between state and federal taxes, and why would federal reform affect state taxes?
- Would federal reform create timing issues for states?
- What are the state tax implications of key aspects of President Trump's campaign proposals and the House Republican's "blueprint" for tax reform concerning:
    - Corporate rate reductions
    - Expensing certain assets
    - Disallowing the deduction of certain interest expenses

- Modifications of net operating loss (NOL) deductions
  - Border adjustment
  - Move to a territorial tax system and repatriation of deferred foreign earnings
  - Repeal of "special interest" tax preferences
  - Taxation of pass-through entities
  - Individual income tax changes
  - Estate and gift tax
- What would be the revenue effects of the federal reform proposals at the state level?
- How does this square with state balanced budget requirements?
- What would happen if the states did not conform or delayed their conformity?

Read a **February 2017 report** [PDF 816 KB] prepared by KPMG LLP: *State tax implications of federal tax reform: FAQs*

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