

30th Annual Paul J. Hartman State & Local Tax Forum

What's Next for State Budgets & Tax Policy?

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Focus, People!

Energy and Environment

- Environmental, Social, and Governance
- Electric Vehicles
- PFAS
- Plastics and Advanced Recycling
- Extended Producer Responsibility (EPR)
- Climate Change and Decarbonization
- Power / Grid Transition

Technology and Privacy

- Comprehensive Privacy Legislation
- Broadband
- Social Media Regulation and Youth

Technology Safety

- Artificial Intelligence
- Cybersecurity
- Right to Repair

Tax

- Business Taxes

- Comprehensive Reform

Commerce

- Organized Retail Crime

Health Care

- Reproductive Health and Abortion
- Gender Affirming Health Care

Foreign Policy

- Anti-China and Foreign Adversaries

Employment and Labor

- Compensation of College Athletics (“NIL”)

Social and Cultural Issues

- Transgender Individuals
- Bathroom Bills
- Student Sports and Other Education Policy
- Critical Race Theory

Law and Legal

- Immigration Policy and Related Issues

Overview: 2024 Revenue and Tax Policy

- The majority of states are in strong fiscal positions for FY 24, even as revenues normalize from COVID-era peaks.
- Fewer than ten states are facing potential or definite revenue challenges in the next one to two years.
- Dems will likely seek tax hikes in light of potential revenue drops but Republicans will continue efforts to cut/eliminate taxes.

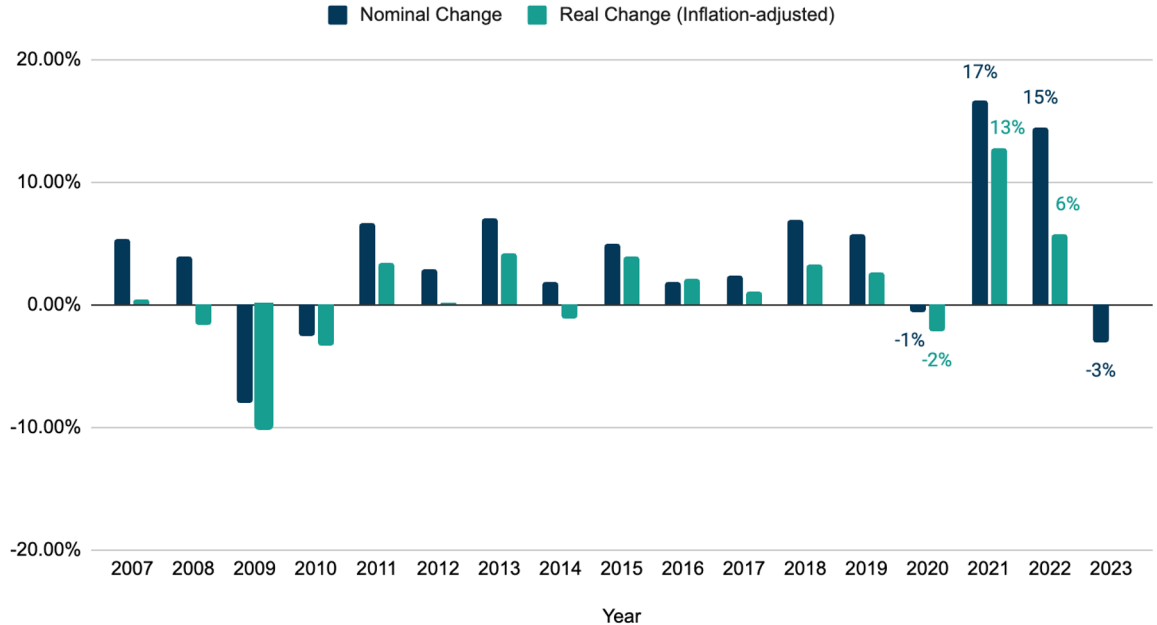


**The Revenue Picture:
Slowing Revenue Growth was
Inevitable, Not a Sign of Budgetary
Doom**

All Good Things Must Come to an End: Record Revenues Slow, but Fiscal Future Remains Bright

Source: National Association of State Budget Officers.

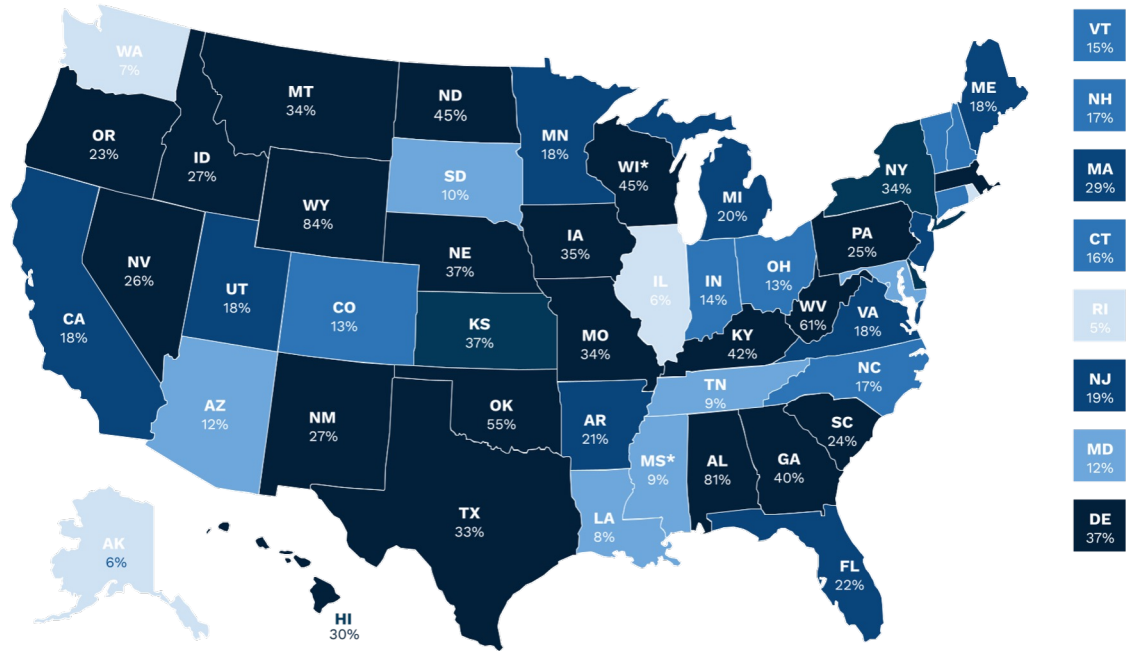
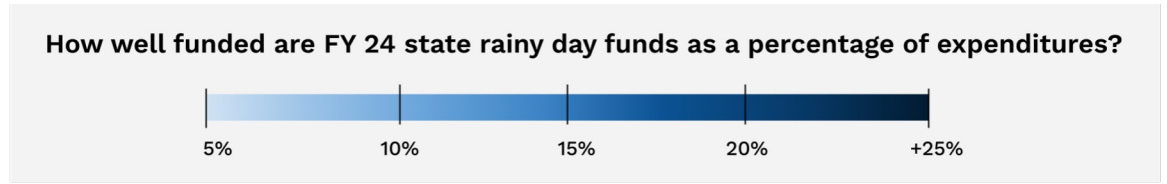
How Much Does General Fund Revenue Vary?



How well funded are state rainy day funds?

Source: National Association of State Budget Officers, Spring 2023 Fiscal Survey of States.

All data uses Fiscal Year 24 estimates unless otherwise noted.



Source: MultiState. Data from National Association of State Budget Officers Fiscal Survey Spring 2023.
 Note: **Mississippi** and **Wisconsin** represent FY 23 estimates.

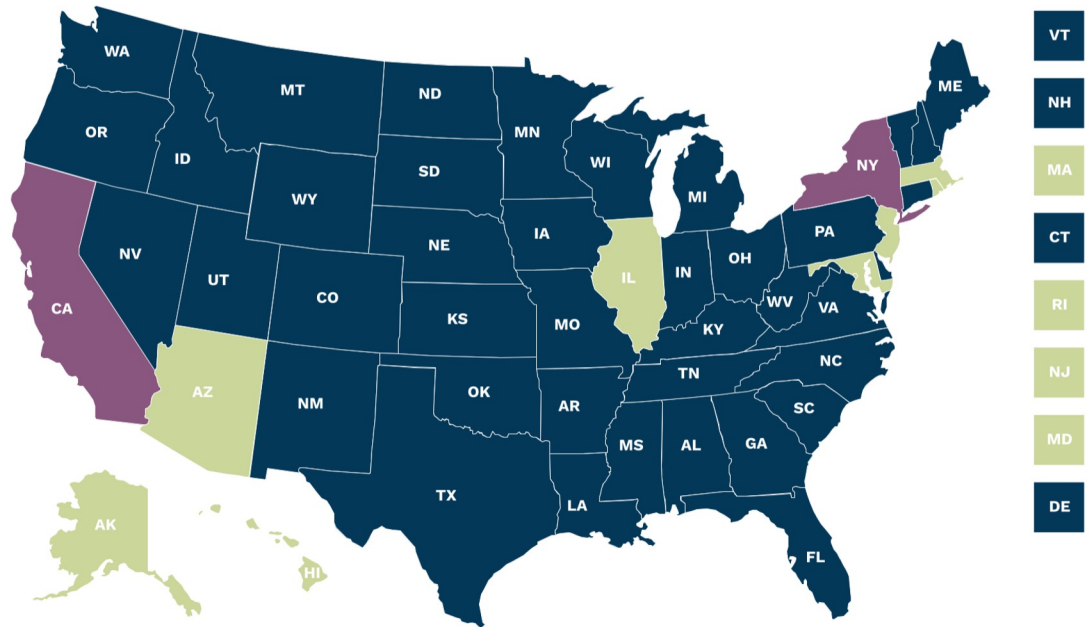
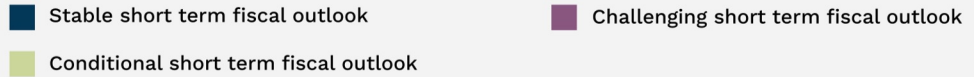


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How will state revenues fare in Fiscal Year '24?

- It's more important to look at total expected surpluses and/or deficits than to analyze states' growth rates.
- As revenue normalizes from its COVID-era peak, revenue growth rates will fall, but that doesn't necessarily spell fiscal trouble.

How well will state revenues fare in the next few years?

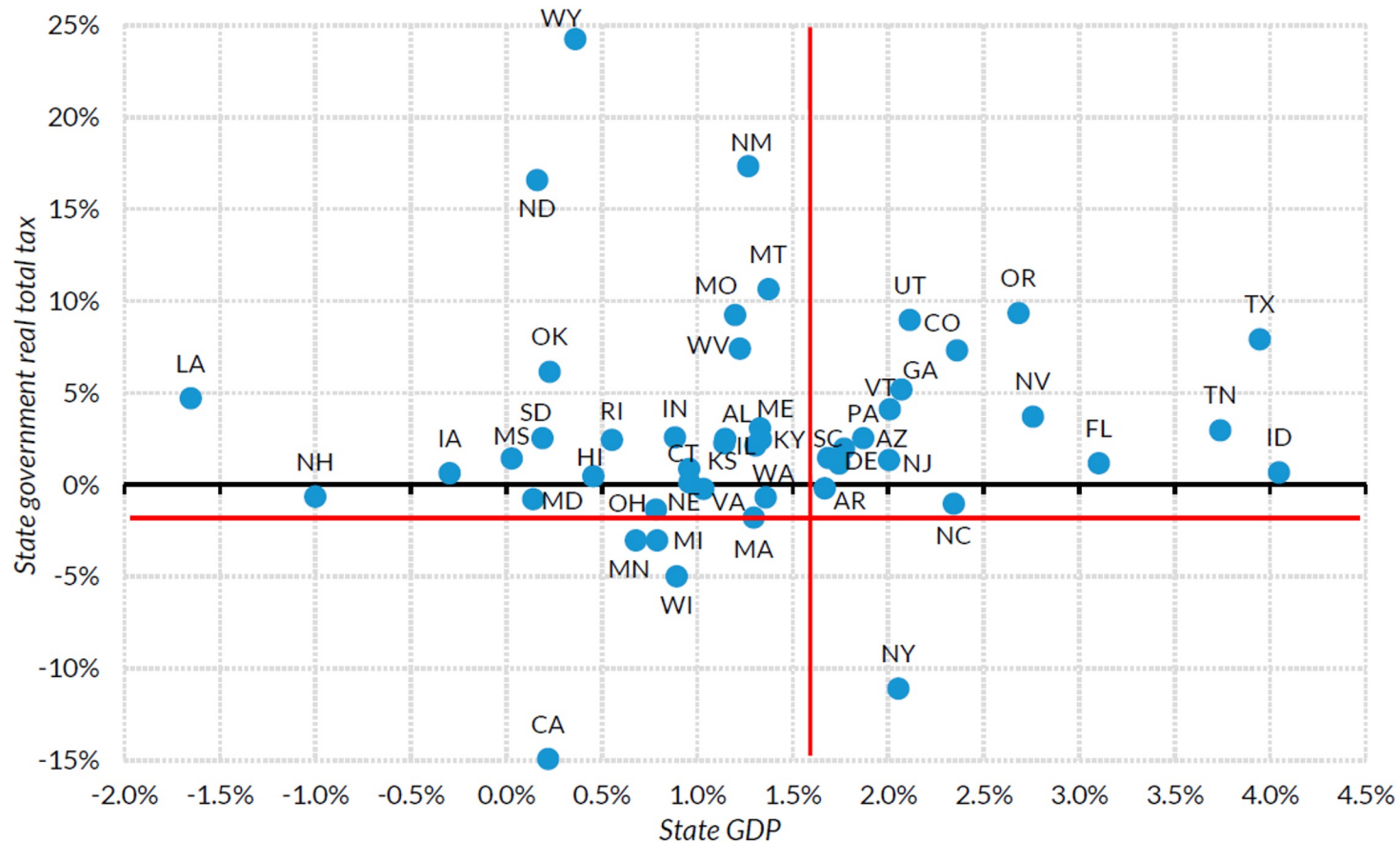


Source: MultiState collection of revenue estimates. Data as of October 19, 2023.

FIGURE 6

Growth Disparity: State Tax Revenues versus State GDP

Year-over-year percentage change in real state taxes and real GDP, 2023 Q1 versus 2022 Q1



Tax Policy:
**A Recap of 2023 and Preview of
What's to Come**

Partisan Breakdown + 2023 Elections: Governors

Current Status

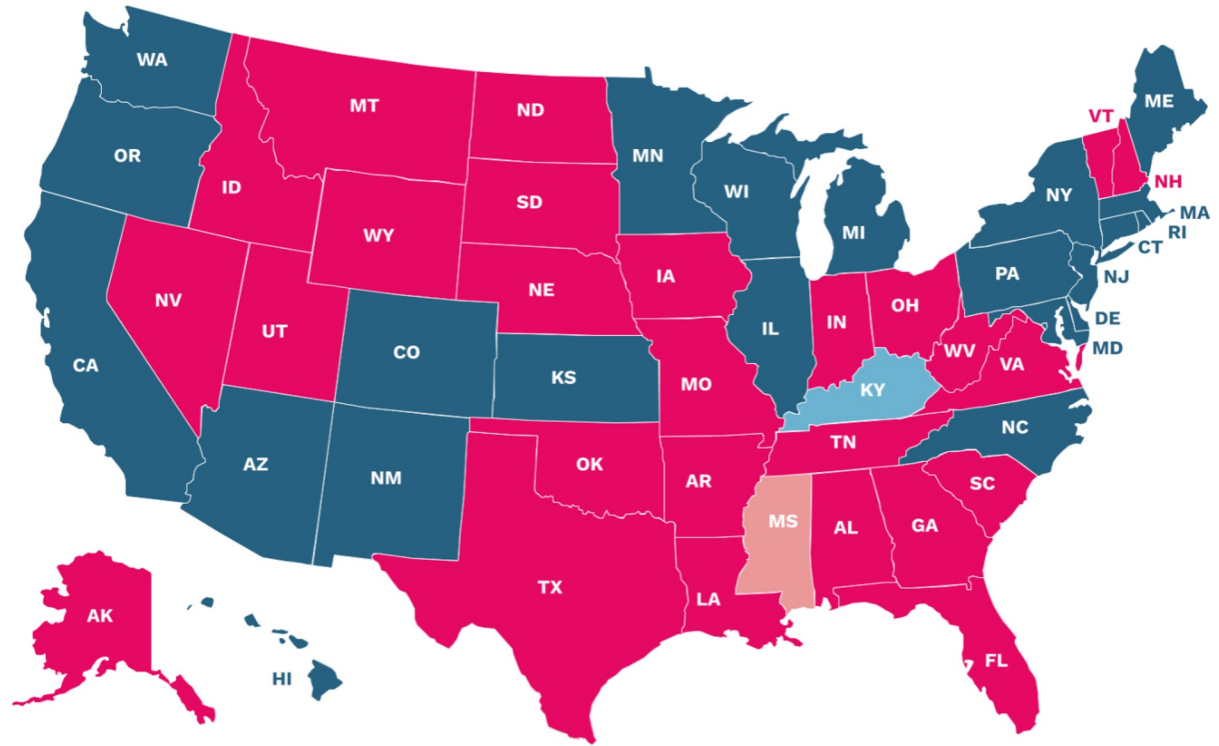
■ Democratic Control (24)

■ Republican Control (26)

2023 Election

■

■



Source: MultiState.
Data as of July 5, 2023.

In November 2023, three states have a gubernatorial election.

2023 Session Recap: The Democrats

Blue states generally avoided big tax hikes, but two states changed their laws on taxing foreign income.

- GILTI changes in Minnesota and New Jersey.
- New York also enacted significant revenue increases this year.
- Combined Reporting, the dog that didn't bite.

2023 Session Recap: The Republicans

Many GOP leaders focused on cutting, flattening, or eliminating taxes.

- Income tax reductions in Arkansas, Nebraska, North Carolina, Utah.
- Sales tax rate reduced in South Dakota and base changes in Georgia and Florida.
- Property tax relief in Texas.

Looking ahead to 2024

Dems to seek tax hikes in light of revenue drop and GOP continue efforts to cut/eliminate taxes.

- Democrats are looking at an array of options:
 - “New” proposals – data and wealth taxes.
 - Making sure businesses/high earners “pay their fair share.”
- Republicans are focused on deep personal income tax cuts, which could have ancillary fiscal consequences.

To 2025...and Beyond?!

- **Tax Cuts and Jobs Act Expirations**
 - Many changes were temporary, with expirations in 2021 (R&E), 2022, but most major changes in 2025
- **After the end of 2025...**
 - Individual income tax rates will revert to 2017 levels
 - Standard deduction will be cut in half, CTC cut, restoration of personal exemption
 - Estate tax exemption will be reduced
 - Cap on the SALT deduction will end
- **How will states respond?**



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