



Federal Funds Information for States



# Looking Back, Looking Forward

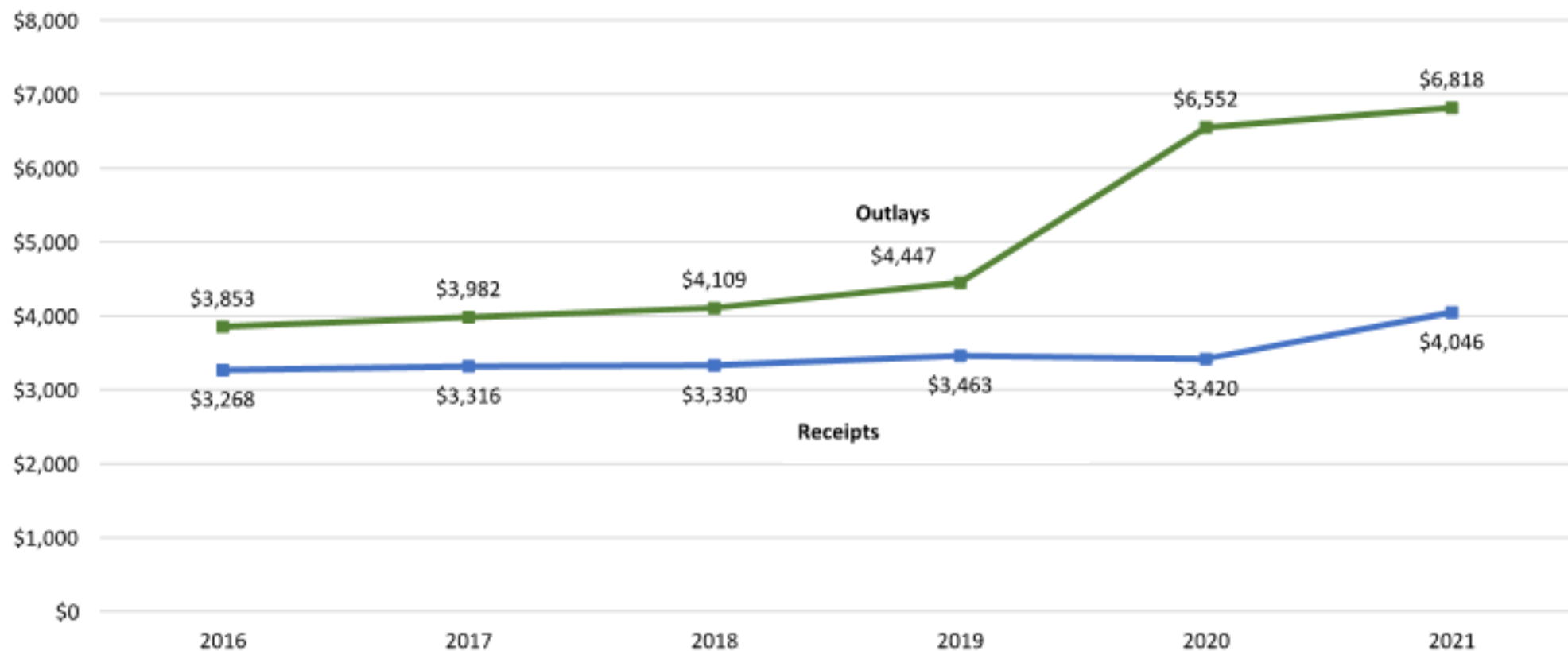
NCSL Fiscal Institute Symposium  
November 2022

**Looking Back**

# Lots of new federal spending

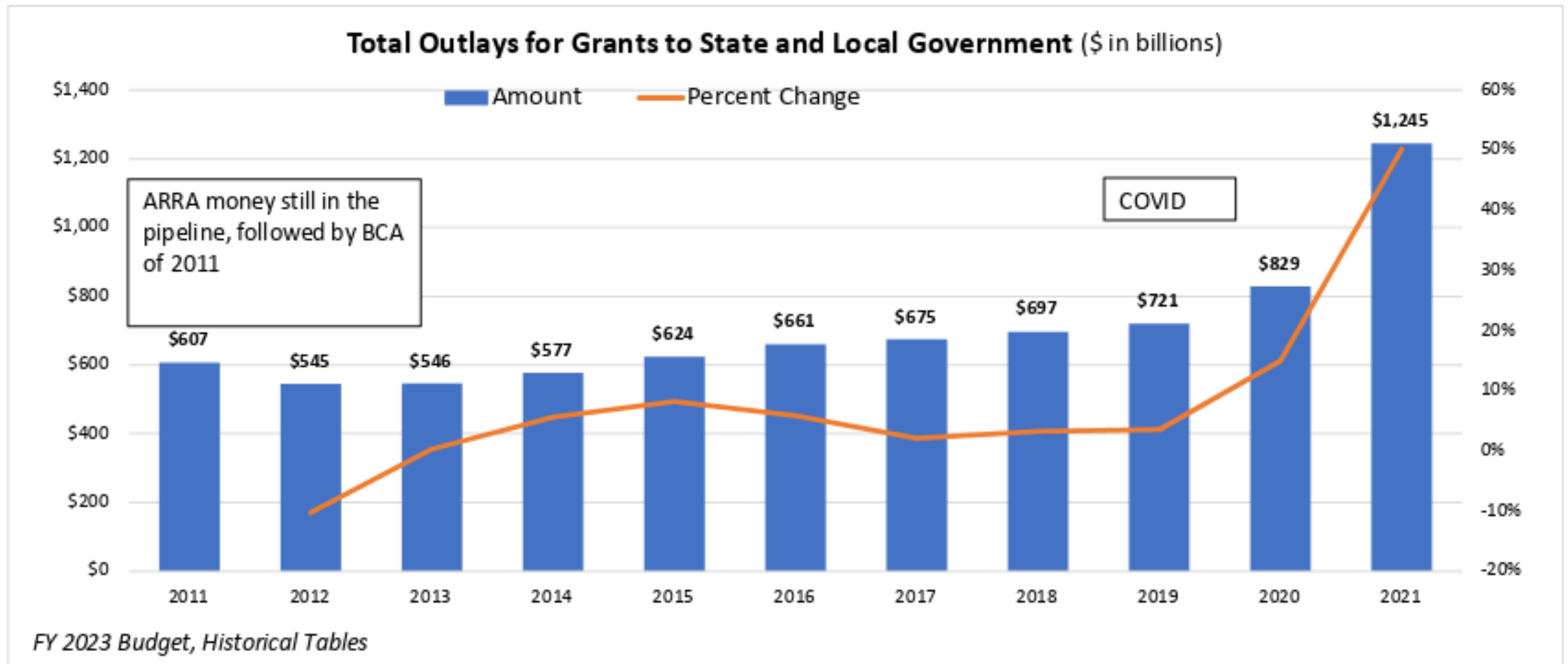


Federal Receipts, Outlays, FYs 2016-2021  
(\$ in billions)

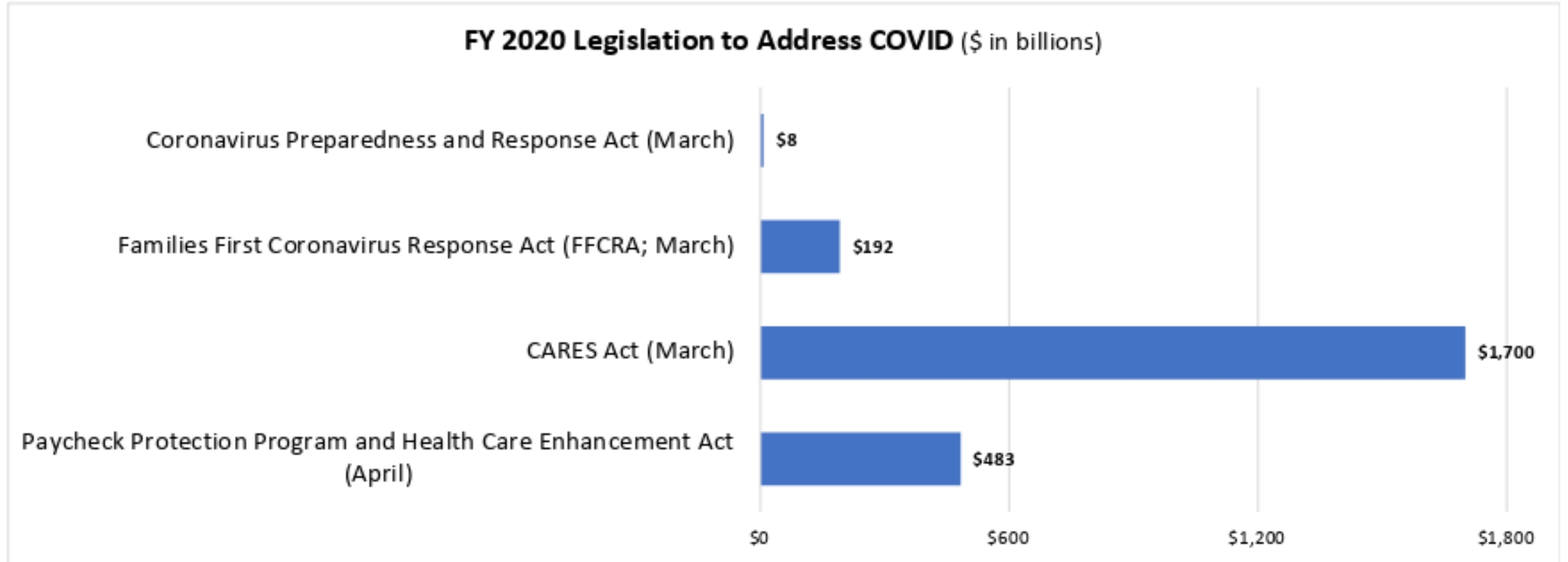


Source: CBO, Monthly Budget Review, November 2021

# It's been quite a ride



# FY 2020 started out like normal, until...



# Key features

## FFCRA

- 6.2 percentage-point FMAP increase

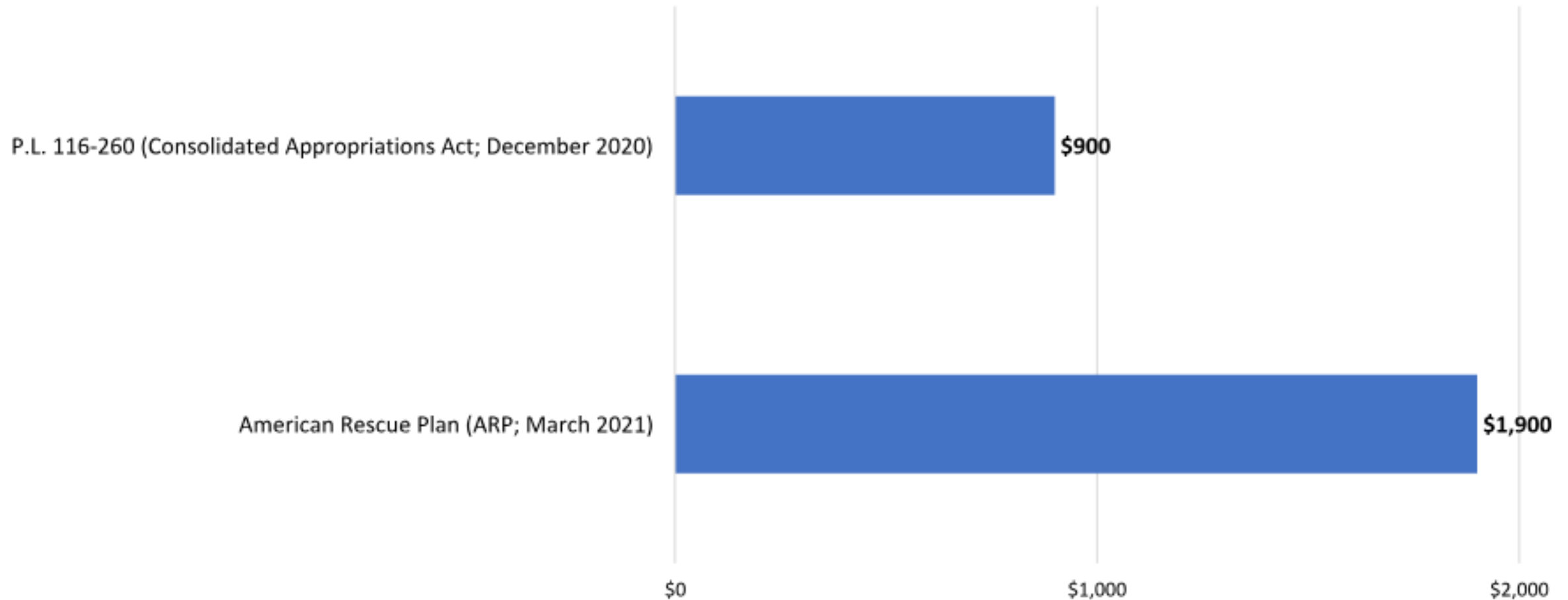
## CARES Act

- Coronavirus Relief Fund (\$150 B)
- Education Stabilization Fund #1 (\$31 B)
- Economic Impact Payment #1 (not a grant, but important)
- Many other grants, more than \$300 B in total
- UI enhancements

# FY 2021 picked up where FY 2020 left off



FY 2021 Legislation to Address COVID (\$ in billions)



# Key features



## Consolidated Appropriations Act

- Education Stabilization Fund #2 (\$82 B)
- Emergency Rental Assistance (ERA; \$25 B)
- UI extensions
- The beginnings of the broadband effort
- Economic Impact Payment #2

## American Rescue Plan

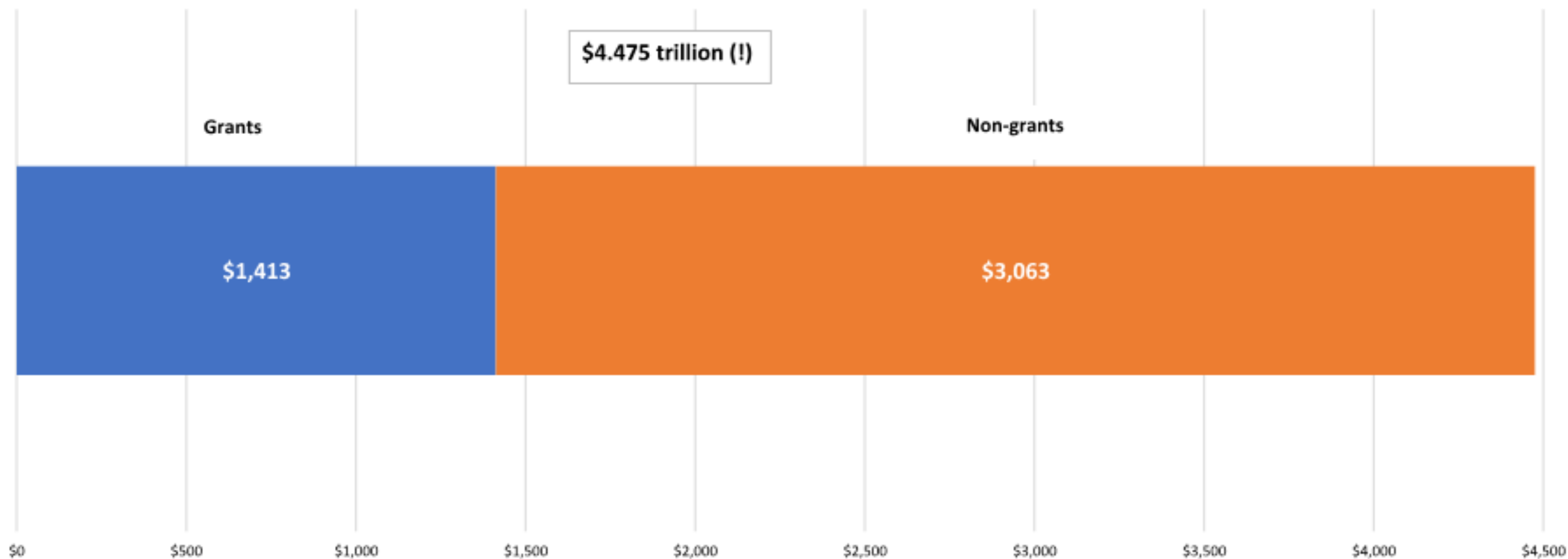
- State and Local Fiscal Recovery Funds (\$350 B)
- Capital Projects Fund (\$10 B)
- Education Stabilization Fund #3 (\$166 B)
- More UI extensions
- More ERA (\$21.5 B) + Homeowner Assistance Fund (\$10 B)
- State Small Business Credit Initiative (\$10 B)
- Economic Impact Payment #3
- Many other grants, more than \$800 B in total



# In summary



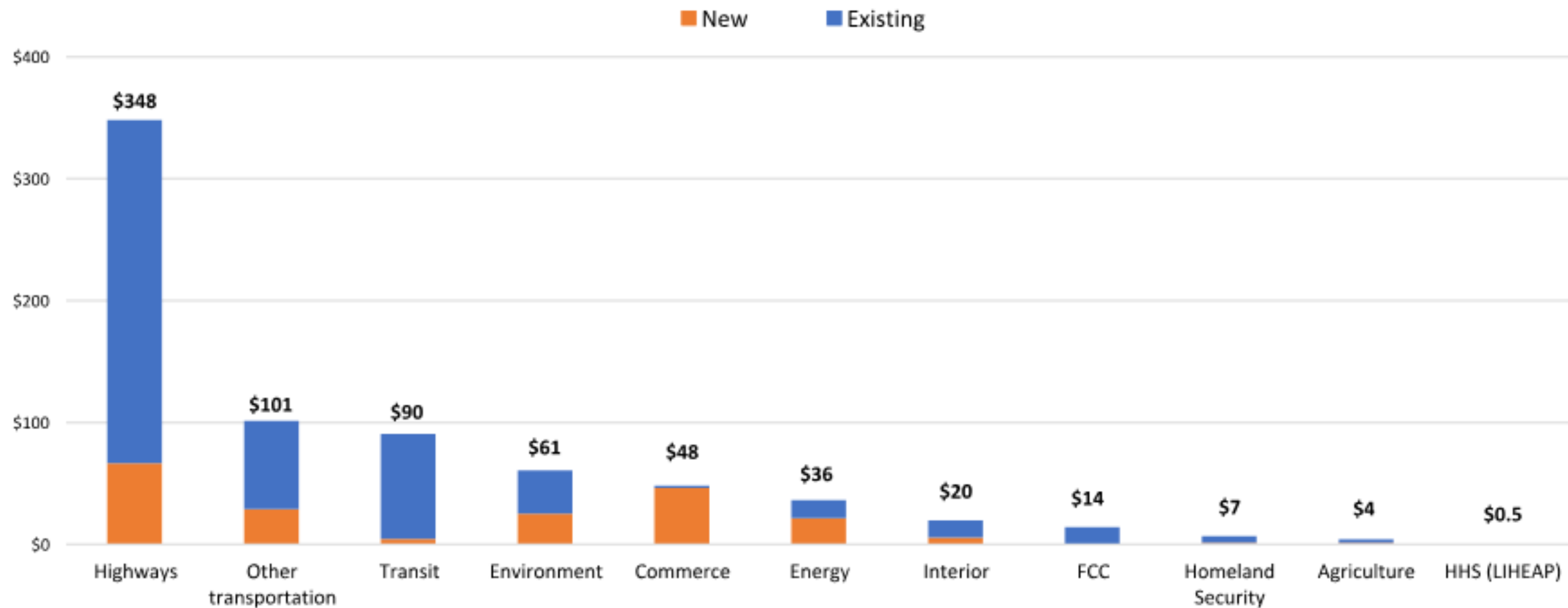
Federal COVID Spending Traceable to States (\$ in billions)



# The dust settled in FY 2022, for a few months



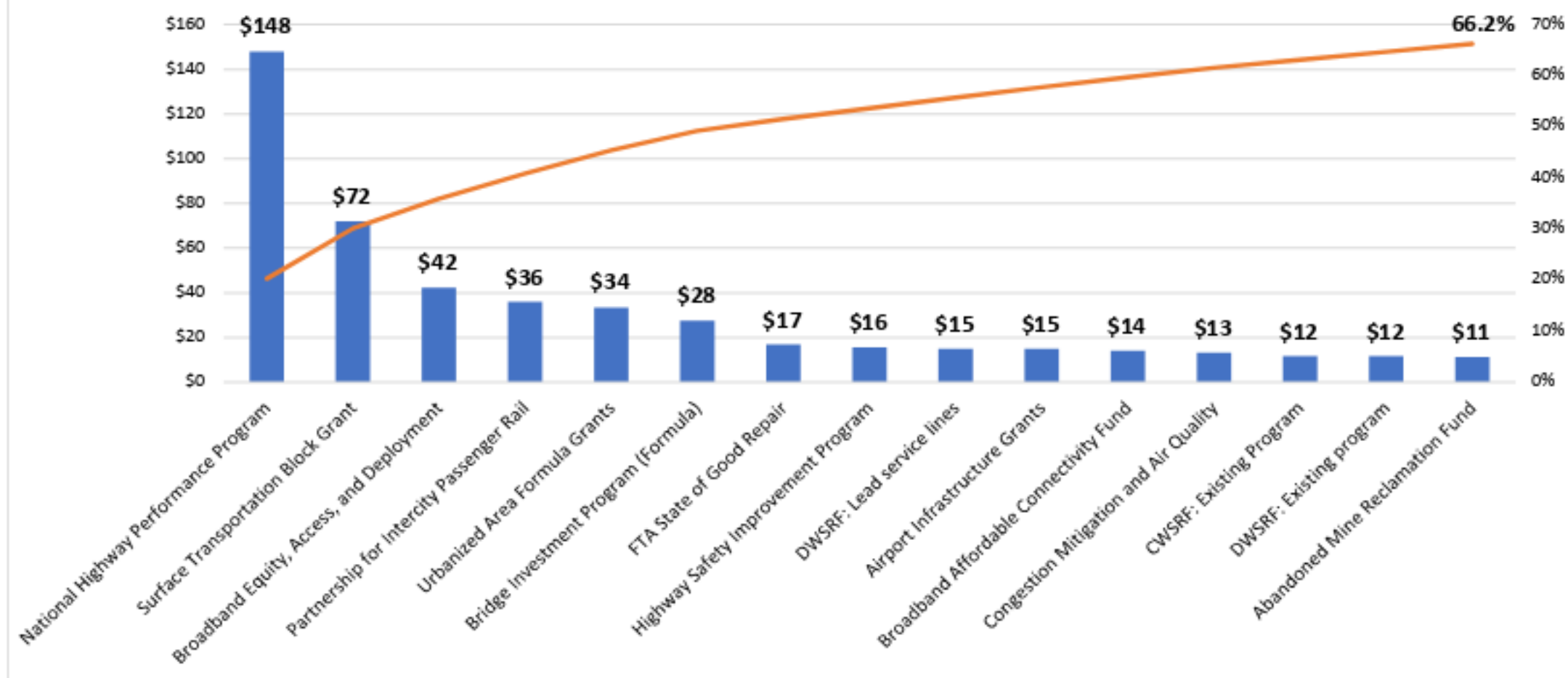
Infrastructure Investment and Jobs Act (IIJA) Provides \$731 Billion, FY 2022-2026



# IJA takeaway #1: big programs dominate



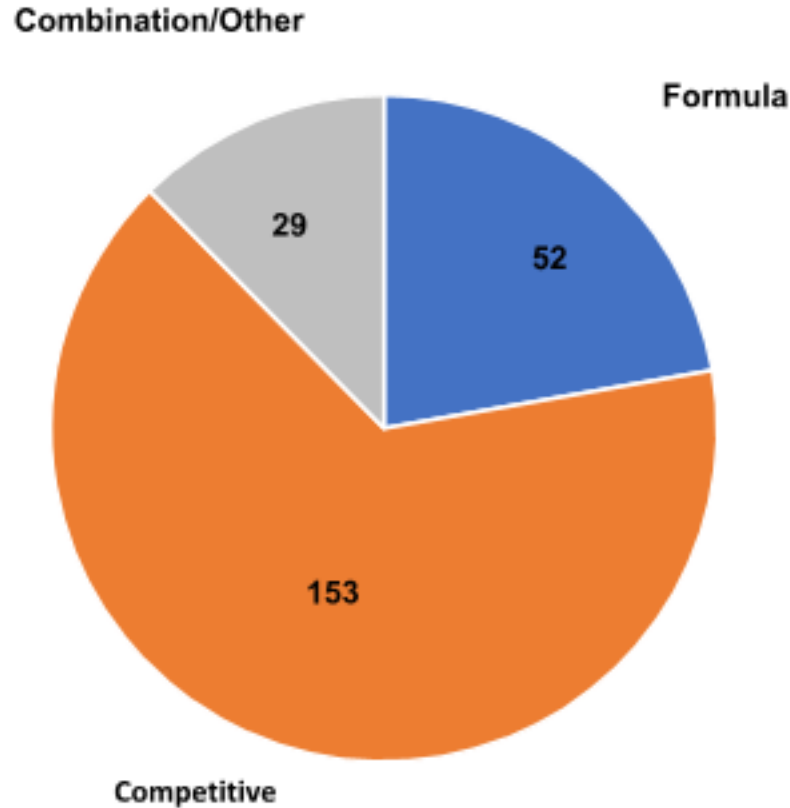
Fifteen Largest Programs as a Share of Funding FFIS is Tracking,  
FYs 2022-2026  
(\$ in billions)



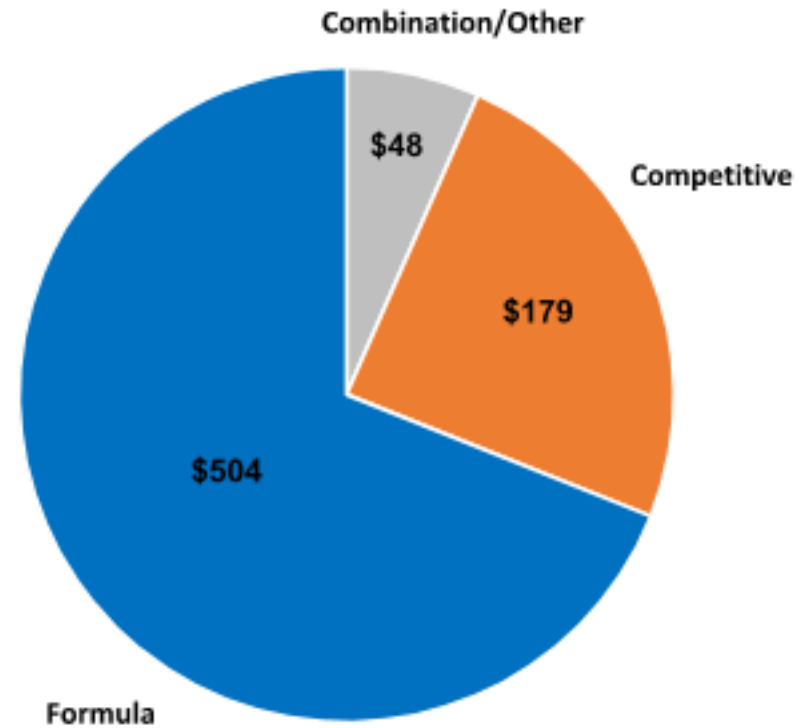
# IIJA takeaway #2: formula funds dominate



Grant Programs Funded in IIJA



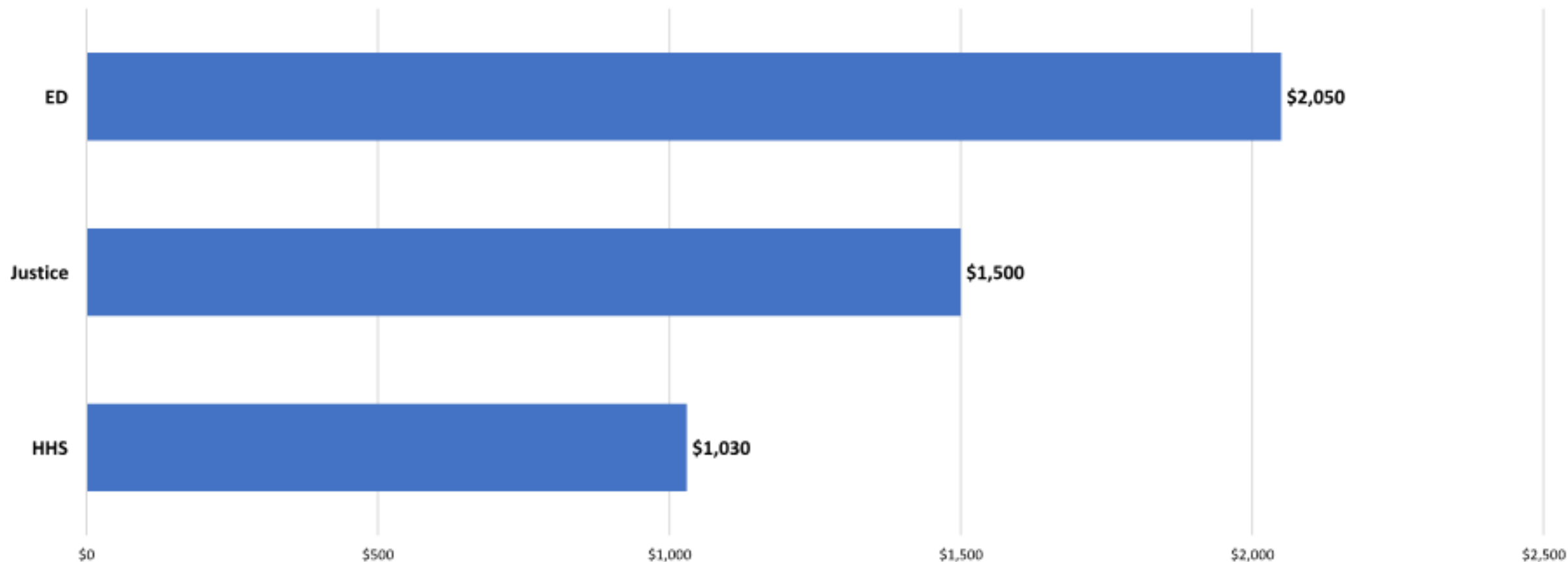
Funding Provided in the IIJA  
(\$ in billions)



# But wait, there's (\$4.6 B) more...



Appropriations in Bipartisan Safer Communities Act, FYs 2022-2026  
(\$ in millions)





# Key BSCA features

All grants are for existing programs and must be released by end of CY 2022

Most are competitive (~13)

Four formula grants (JAG, MHBG, SSAEBG, 21CCLC) account for \$2 billion

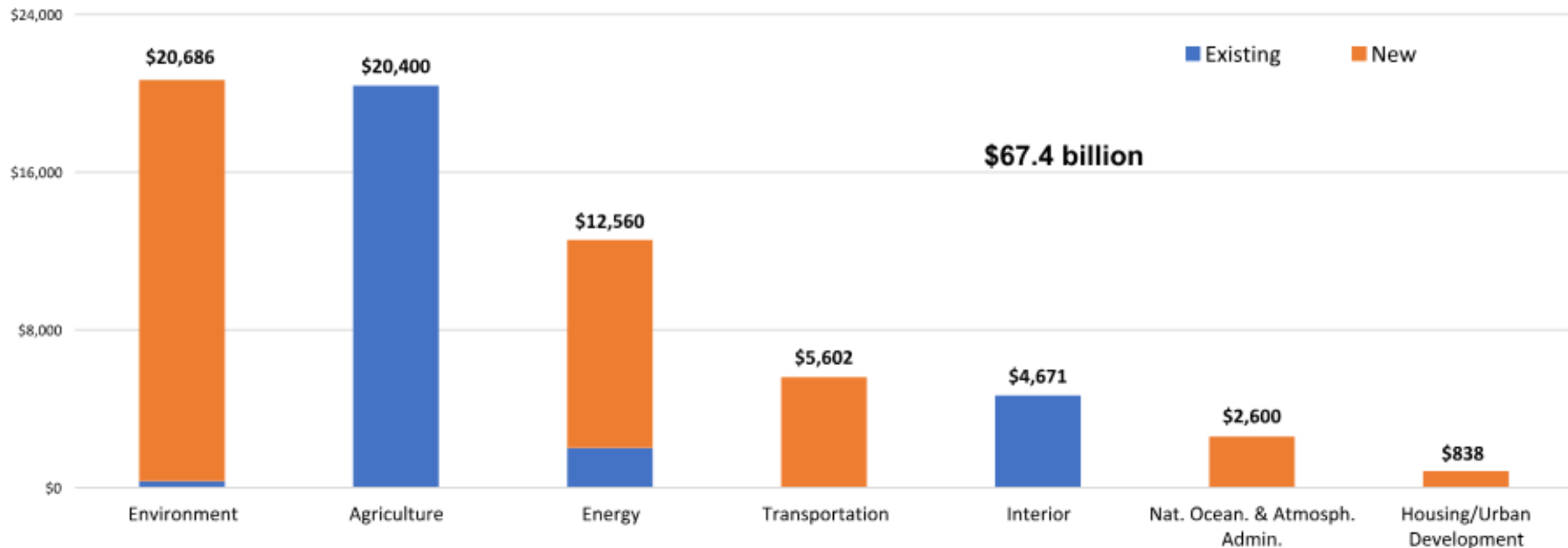
Funds were appropriated so funding is guaranteed

Most funds are assigned to specific years between FY 2022-FY 2026, with a few exceptions

# And finally, a climate bill



Inflation Reduction Act Grant Totals (\$ in millions)



# Key IRA features

Passed under reconciliation, so funding is mandatory.

Most grant funding is one-time appropriations with varying periods for expenditure.

Revenue increases include 15% corporate AMT, IRS enforcement, 1% stock repurchase excise tax.

Tax incentives for individuals, business, and even states.

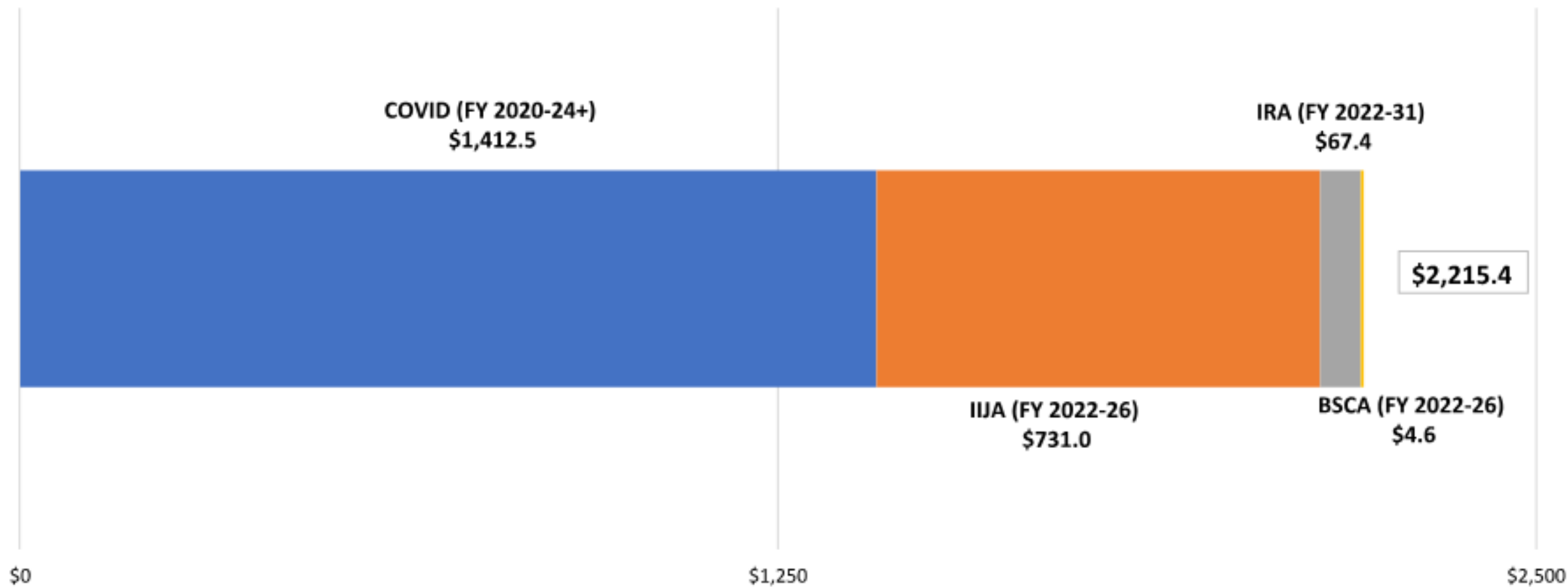
Health policies mostly affect Medicare, but some affect Medicaid too (vaccine coverage mandate).



# There is a lot of federal money in the pipeline



Recent Appropriations for State Grants (\$ in billions)



# Considerations for states



Many programs require a state match.

Extra FMAP is partly absent from these numbers (reporting issues).

Unwinding will consume lots of time and energy at every level of government.

In the event of a recession, additional federal fiscal relief is uncertain.

**Looking Forward**

# FY 2023 Continuing Resolution (CR)



Runs until 12/16

Extends TANF, Home Visiting program

\$1 B for LIHEAP

# What's ahead

## FY 2023 Appropriations

- Top-line agreement after election; more CRs?
- Election results provide different incentives for timing of final deal

## When will the PHE end?

- Current PHE until early January (FMAP through end of March 2023)
- Administration to provide 60 days' notice of non-renewal

## Debt limit increase in 2023

- Lame duck session?

# Looking forward by looking back: BCA 2011

## Three components affected grants to states

- Discretionary spending caps
- Joint Select Committee on Deficit Reduction (failed)
- Sequestration triggered by failure of select committee; mandatory remains in place through FY 2031



# Questions?

- **Get latest updates** by joining the email list.

Email [eableman@ffis.org](mailto:eableman@ffis.org) (Ethan Ableman)

- **View publications** at [ffis.org](https://ffis.org).

COVID-19 Allocations: [ffis.org/COVID-19](https://ffis.org/COVID-19)

IIJA Allocations: [ffis.org/IIJA](https://ffis.org/IIJA)

Contact [eableman@ffis.org](mailto:eableman@ffis.org) for login help

- **Follow-up questions?**

Contacts Marcia Howard: [mhoward@ffis.org](mailto:mhoward@ffis.org)



# Federal Funds Update (Part 2)

## Federal and State Tax Conformity

**NCSL Fiscal Institute Symposium  
New Orleans, Louisiana  
November 17, 2022**

**Karl Frieden, COST**





## The Federal Inflation Reduction Act of 2022 (IRA) Compared to the Tax Cuts and Jobs Act (TCJA) of 2017

- The IRA has some significant tax law changes, but these changes are on a much smaller scale than the TCJA tax law changes.
  - The IRA has an estimated \$480 billion in tax increases and \$300 billion in tax decreases (primarily from clean energy credits) over 10 years.
  - By contrast, the TCJA had an estimated \$4.5 trillion in tax increases and \$6 trillion in tax cuts over 10 years.
- State Tax conformity with federal tax law changes depends largely on two factors:
  - Do states have “rolling conformity” (automatic updating to the federal tax law changes); or “fixed conformity” (updating to federal tax law changes only as of a fixed year)?
  - Are the federal tax laws changes included within federal Internal Revenue Code provisions that states typically conform to, or found in other outside sections of the Code?



## The Federal Inflation Reduction Act of 2022 (IRA): What's in It?

- Corporate alternative minimum tax (AMT) based on financial accounting principles
- One percent excise tax on companies' stock buybacks
- Increased IRS funding (and audit activity)
  - Implications for state reporting of federal changes
- Tax credits for climate and clean energy investments
  - Credits for electric vehicles, clean energy generation, energy efficient buildings, carbon capture, alternative fuels
- Prescription drug pricing reforms and an extension of ACA health care premium credits



## The Tax Cuts and Jobs Act (TCJA) Delayed Implementation Provisions

- Further limitations on interest expense deductions (section 163(j)) take effect in 2022
- Amortization (instead of expensing) of research expenditures takes effect in 2022
- The effective tax rate/base of global intangible low-taxed income (GILTI) increases in 2026 when the Section 250 deduction is reduced from 50% to 37.5%
- The \$10,000 SALT deduction cap lapses in 2026
- The personal income tax cuts (but not the corporate income tax changes) lapse in 2026



## The IRA's Corporate Alternative Minimum Tax: How Does It Work at the Federal Level?

- Applies only to very large companies with over \$1 billion in income
- Applies to both U.S. and foreign multinationals (with large U.S. operations)
- Based on financial accounting principles
- Generally applies to U.S. multinationals' global book income
- Provides for several adjustments to book income such as accelerated depreciation and allows business tax credits (including research and development and green credits) to reduce AMT up to 75%
- Applies generally if the 15% AMT rate applied to adjusted book income exceeds the 21% regular corporate tax rate applied to taxable income



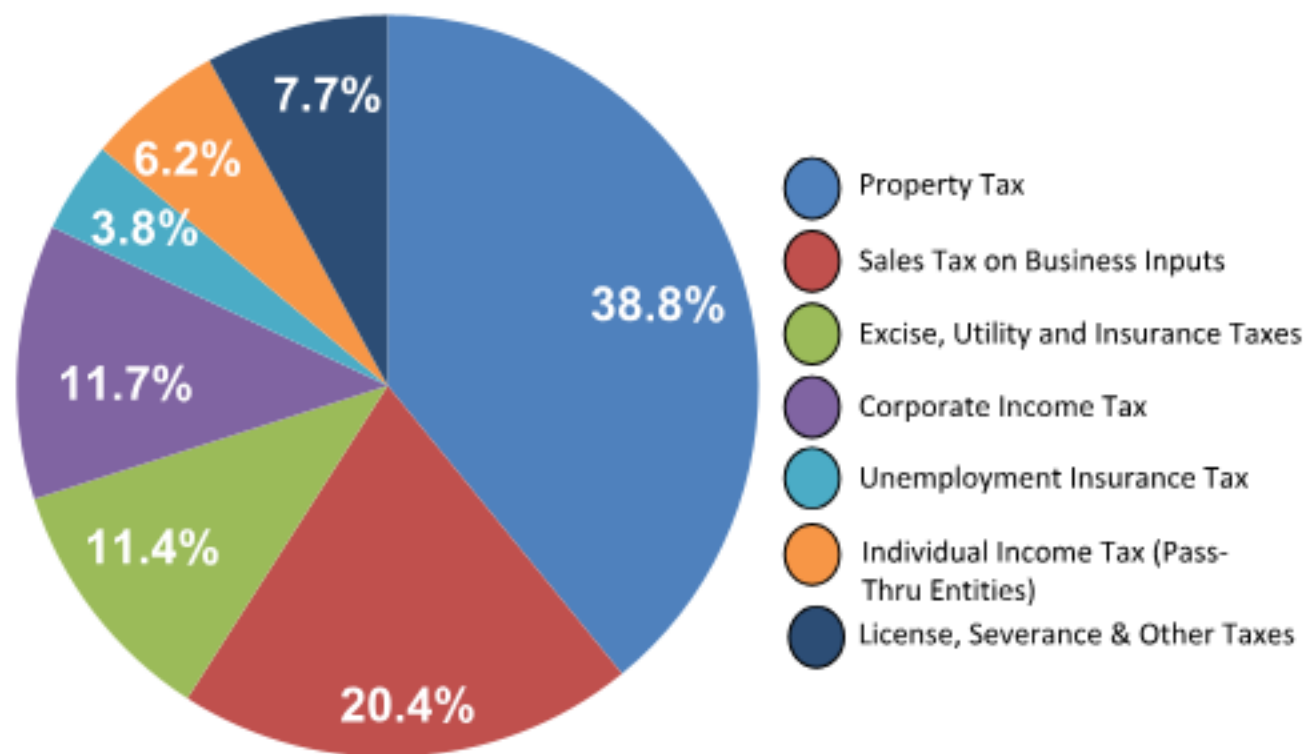


## The IRA's Corporate Alternative Minimum Tax: Potential Impacts

- Potentially impacts a few states that conform to the federal corporate AMT (Alaska), or could conform in part to the federal AMT if their state corporate income taxes are linked to the latest version of the federal IRC (e.g., California, Florida, Maine)
- A number of states have previously enacted corporate AMTs, but never based on financial accounting principles or worldwide income
- State conformity with the new federal corporate AMT would also be problematic because of federal/state differences in depreciation rules and business tax credits that are key components of the AMT calculation.

# FY 2021 State and Local Business Tax Burden Study

State and Local Business Taxes by Type, FY21

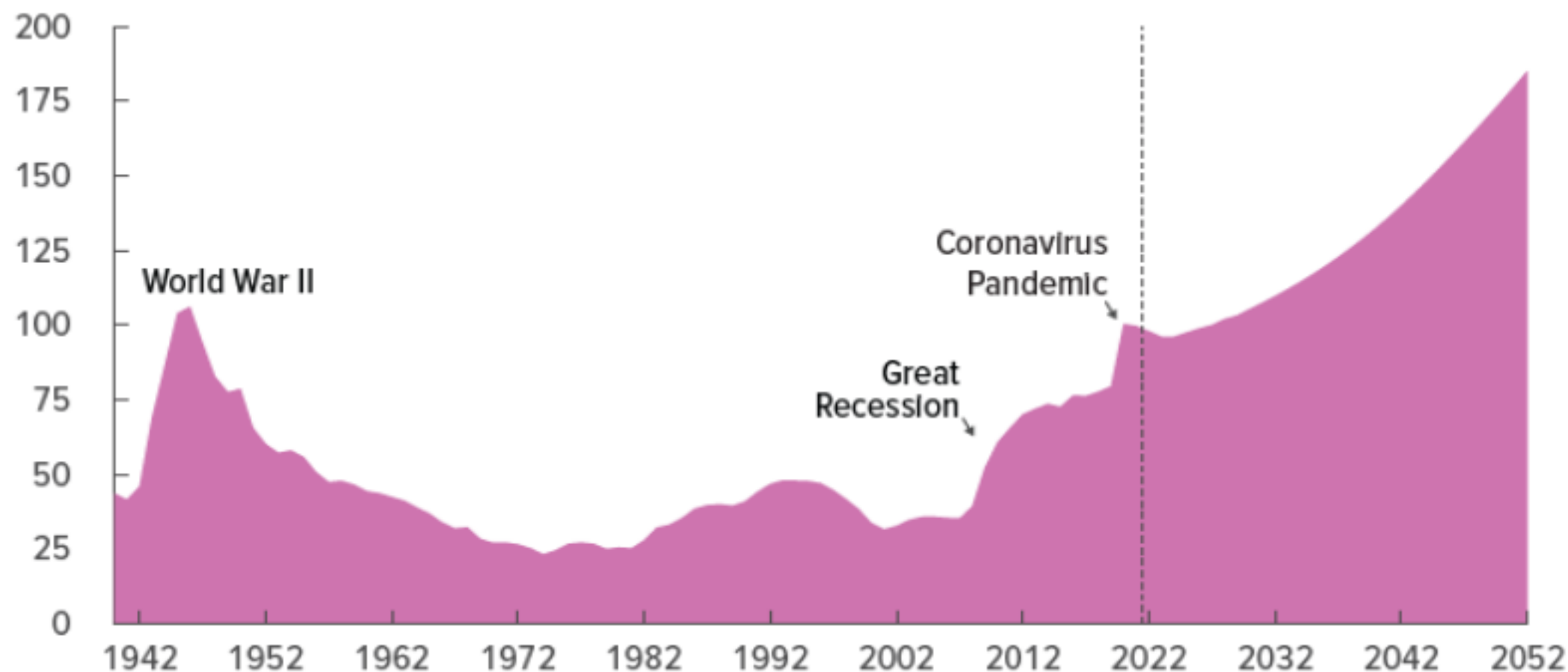


Source: Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2021, study prepared by Ernst & Young LLP for the State Tax Research Institute and the Council On State Taxation (forthcoming November 2022)

## How Much Do Businesses Pay?

- Businesses paid more than \$951 Billion in U.S. state and local taxes in FY21, an increase of 13.6% from FY20
- State business taxes increased by 17% and local business taxes grew by 10.2%
- Corporate income tax revenue increased by 53.3% in FY21
- In FY21, business tax revenue accounted for 43.6% of all state and local tax revenue
- Remarkably, the business share of SALT nationally has been within approximately 1% of 44% since FY03

# Federal Debt Held by the Public: 1940 to 2052 (projected)



Data source: Congressional Budget Office. See [www.cbo.gov/publication/57971#data](https://www.cbo.gov/publication/57971#data).

Primary deficits exclude net outlays for interest.

# Global Tax Reform Update

**Pillar One** addresses issues relating to **digitalization**:

- **Key proposal:** partially applies economic presence and market sourcing rules to MNCs with revenue over €20 billion (about 100 MNCs)
- Withdrawal of national Digital Services Taxes (DSTs) if Pillar 1 is adopted
- Implementation requires a **multilateral agreement** that supplants existing tax treaties and individual country enactment. Requires a “critical mass” of countries

**Pillar Two** addresses issues relating to **globalization**, focusing on low tax rate comp.

- A global minimum (top-up) tax imposed on MNCs' foreign income at a 15% rate
- A domestic minimum (top-up) tax imposed by the low-tax country that takes precedence over the global minimum tax
- Requires **individual country enactment**, not a change in tax treaties or a multilateral agreement. Designed for a “first mover” advantage
- **At this point, Pillar Two is much more likely to move forward than Pillar One.**