INSTITUTE ON TAXATION AND ECONOMIC POLICY

Webinar: The Trump Tax Law's Effect on State Tax Codes

October 8, 2025

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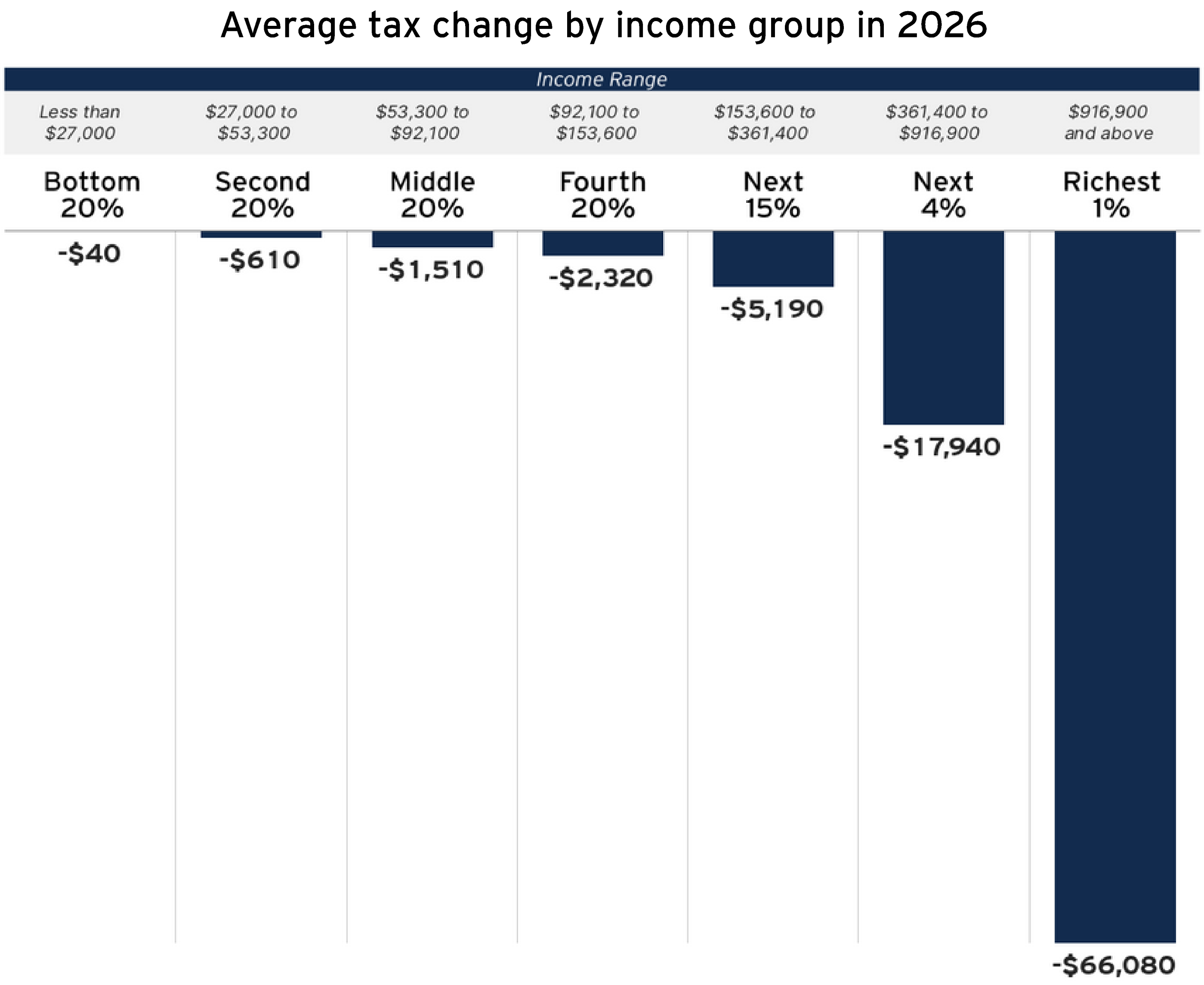
Impact of Trump Megabill (OBBBA) in the U.S.



ONLY **12% of Americans**
think the rich are paying *too much*.

And ONLY **7% of Americans**
think corporations are paying *too much*.

Source: 2025 Gallup Poll

The Silver Lining

This is your opportunity to steer tax policy back in a direction that better reflects the will of the people.

1) Be thoughtful in determining how much of this new law you want to mirror in your own tax code.

2) Claw back some of the deeply regressive tax cuts by enacting offsetting, progressive tax reforms.

Topics for Today

Bonus depreciation	Qualified Small Business Stock
Opportunity Zones	SALT cap increase
R&D	529 accounts
FDII (now FDDEI)	Exemptions for tips & overtime

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Types of state conformity to the federal tax code

- Rolling
- Static
- Selective

Types of state conformity to the federal tax code

Federal Adjusted Gross Income (FAGI)

Rolling

Static

Selective

Federal Taxable Income (FTI)

Timing is KEY & there's a limited window.

OBBBA Contains Numerous Corporate Tax Breaks States Should "Decouple" From

Most costly and highest priority for states' decoupling:

- Immediate write-off of cost of machinery/equipment/factories
- Immediate deduction of R&D expenses
- Relaxed cap on deductibility of interest
- Permanent extension of Opportunity Zone program
- Deduction of "foreign derived intangible income"

States Can't Afford to Stay Coupled

OBBBA's corporate tax breaks are costly, and states can ill-afford to provide them given balanced-budget requirements and the current deep hits to their budgets from cuts to Medicaid, SNAP, and other federal assistance programs.

Estimated revenue losses from failure to decouple from business tax breaks:

- Arizona: $138M (FY26)
- Maryland: $218M (FY27)
- Michigan: $540M (FY26)

A Common Rationale for Decoupling from All Five of These OBBBA Corporate Tax Breaks

Leaving aside significant potential revenue losses and questionable policy justifications for each of the five very different provisions, there is a common rationale for decoupling from all of them:

Because of the way state corporate taxes work – states tax a share of the nationwide profit of multistate corporations – failing to decouple will result in states forgoing vitally needed revenue to incentivize investment, R&D, etc. that will mostly (if at all) occur in other states and provide no benefit to their own economies.

Immediate Write-Off of Cost of Machinery/Equipment/Factories

(Sections 70301 and 70307)

If you're going to tax corporate profits, you have to allow them to first recover the costs of their investments in plant, equip., etc.

Thus, law allows deductions for "depreciation," which should be spread over time frame reasonably matching useful life of assets.

But tax law has long allowed various forms of "accelerated" depreciation, bunching deductions in early years, to incentivize investment.

Immediate Write-Off of Cost of Machinery/Equipment/Factories

(Sections 70301 and 70307)

OBBBA permanently restores "100% 'bonus' depreciation," write-off of full cost of machinery/equipment in 1st year placed in service; provides new, temporary 100% write-off for manufacturing plants

Large majority of states have decoupled from previous rounds of bonus depreciation due to cost and out-of-state benefit problem

Recommendation: All states should decouple from both provisions.

Immediate Write-Off of R&D Expenses
(Sections 70302)

2017 Trump tax bill (TCJA) required corporations to start deducting R&D expenses over 5 years rather than immediately; made sense because benefits of R&D are realized over multiple years

OBBBA proposes to restore immediate write-off going forward and to do so retroactively to 2022 for businesses with less than $31M in receipts. Latter is a pure windfall; no incentive effect

Recommendation: All states should retain 5-year write-off; no retroactivity.

Relaxing Cap on Deductibility of Interest
(Section 70303)

TCJA imposed new cap on ability of large corporations to deduct interest on bonds and other debt: limited to 30% of taxable income

2021 law made technical change in how taxable income was calculated, tightening the limit; OBBBA proposes to restore more generous TCJA provision

Recommendation: All states that coupled to limit should retain current law, and majority of states that never coupled should do so.

Permanent Extension of Opportunity Zones
(Section 70421)

TCJA created the OZ Program, providing 3 different tax breaks for capital gains rolled over into OZ funds investing in real estate developments and businesses in depressed areas/neighborhoods.

Most costly break was permanent exemption from capital gains tax of gains from sale of OZ fund projects held for 10 years or more.

Considerable evidence has accrued that OZ funds substantially investing in luxury real estate in gentrifying neighborhoods, creating few jobs.

Permanent Extension of Opportunity Zones
(Section 70421)

OBBBA permanently extended OZ program, which was to have expired at end of 2026.

To extent that OZ tax breaks are incentivizing some worthwhile projects, that's being driven by federal tax breaks; no need for states to layer on their own. Most OZ funds investing nationally or regionally, meaning conforming states losing revenue from OZ investments in other states.

Recommendation: All states should decouple from OZ tax breaks.

Preservation of Tax Break for "Foreign-Derived Intangible Income" (FDII)

(Sections 70321 and 70322)

TCJA created new "FDII" category, carve-out of a share of corporations' existing profits deemed to be attributable to non-US sales of goods/services embodying "intangibles" – patents, trademarks, etc. – held within the U.S. Has been far more costly than originally estimated.

Profit determined to be FDII taxed at well below standard 21% corporate tax rate via 40% deduction; intended to incentivize U.S. development of intangibles and repatriation of foreign ones.

Preservation of Tax Break for "Foreign-Derived Intangible Income" (FDII)

(Sections 70321 and 70322)

OBBBA renames FDII as "Foreign Derived Deduction Eligible Income" and makes deduction slightly less generous.

Recommendation: Minority of states not already decoupled from FDII should do so immediately; again, no guarantee that any additional R&D, marketing, management of intangibles, etc. incentivized by FDII will occur in states losing revenue.

Detailed State-Specific Analysis Is Vital

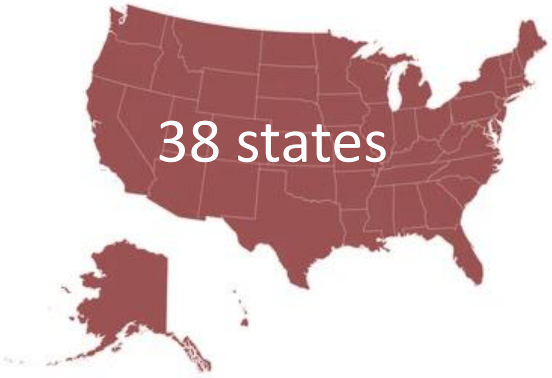
Press your state revenue department to report on a provision-by-provision basis which OBBBA provisions you're coupled to (many states already decoupled from some) or would be coupled to if you rolled static conformity date forward.

Press as well for a provision-by-provision estimate of revenue loss from being coupled or revenue gain from decoupling.

We can help determine from your statute and tax forms if you're coupled, but DoR determination may be required in some cases.

Qualified Small Business Stock (QSBS)

(Title VII, Section 70431)

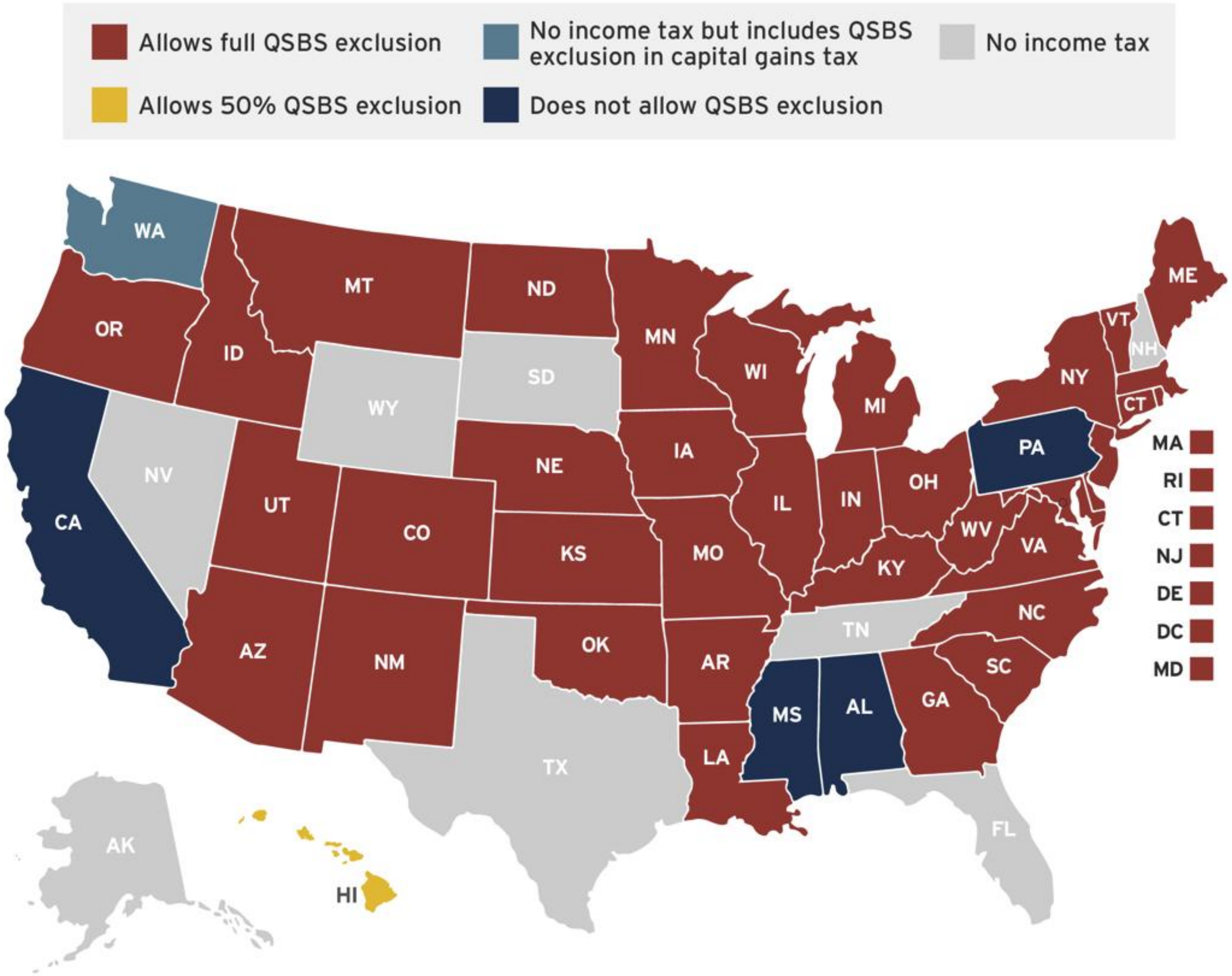


A subsidy for “small business” in name only.

In reality, a giveaway to venture capitalists.
This does NOT foster real economic growth in the states.

Recommendation: Fully decouple, including not just the OBBBA expansion but from the exclusion as a whole.

States Losing Revenue Due to QSBS Exclusion



Source: Institute on Taxation and Economic Policy (ITEP), October 2025

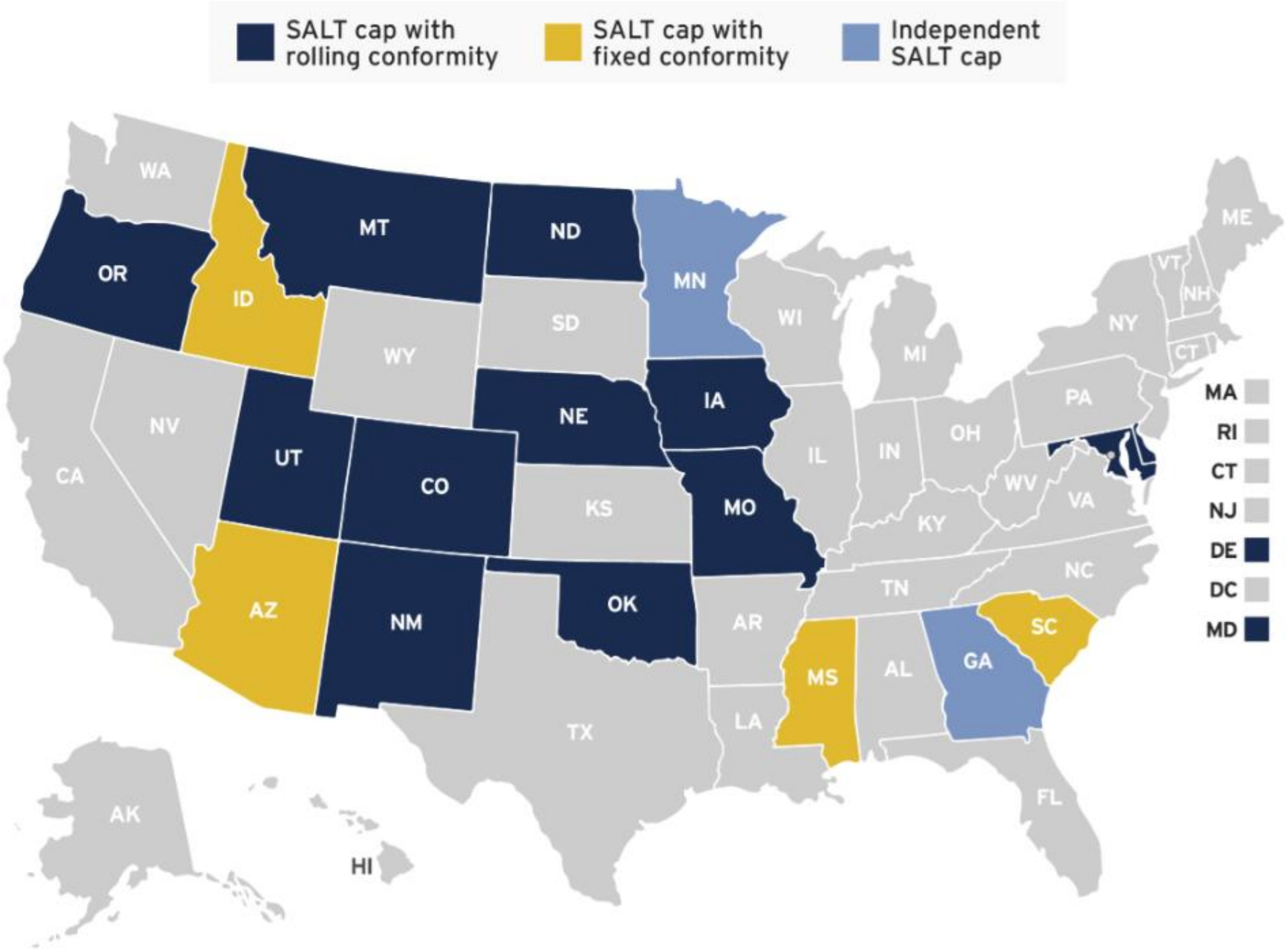
Cap on state and local tax (SALT) deductions
(Title VII, Section 70120)

Incredibly ill-targeted property tax cut.

Cap increased from $10,000 to $40,000.
Provides high-income owners of high-value homes larger property tax deductions.

<u>**Recommendation**</u>: Act quickly to decouple; consider repealing property tax deductions outright.

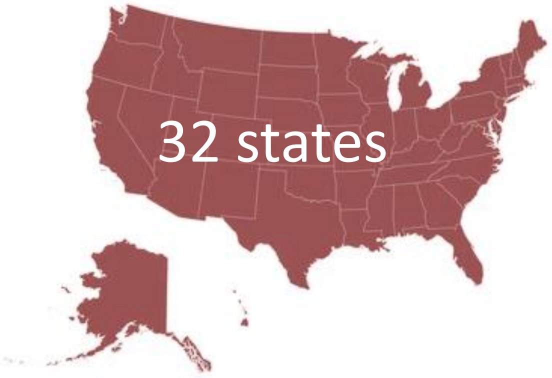
Exposure to Federal SALT Cap Increase



Note: These 18 states are "coupled" to the SALT cap for at least property taxes. Virginia is also coupled to the federal cap but exempts property taxes from it. Georgia and Minnesota adopted $10,000 caps but they are not statutorily tied to federal law. Utah couples to the federal cap via a nonrefundable credit equal to 6 percent of most federal deductions and exemptions. Arizona, Georgia, and North Dakota also allow a deduction for state income taxes.

Source: Institute on Taxation and Economic Policy analysis of states tax codes, May 2025

Expansion of 529 Accounts
(Title VII, Section 70413)



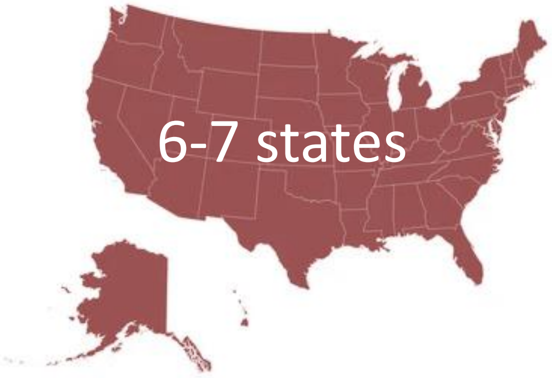
Tax-advantaged savings accounts
geared toward college savings.

Federal bills (TCJA and OBBBA) have attempted to fundamentally change the purpose of these programs. NINE STATES have declined to go along with that.

Recommendation: Decouple from the relevant portion of federal law, 26 U.S. Code § 529(c)(7)

Partial deduction for tips and overtime

(Title VII, Section 70201+202)



Politically motivated carveout that's widely disliked by tax policy experts.

Each taxpayer's income tax liability should be based on their ability to pay, not their profession.

Recommendation: Act quickly to decouple (if relevant) and avoid creating carveouts for certain forms of income.


$15 billion in new costs over the next decade


STATE OF OREGON

ITEP

INSTITUTE ON TAXATION AND ECONOMIC POLICY