COVID-19: LIKELY IMPACTS ON U.S. STATE AND LOCAL TAX

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US Tax Alert

Although the U.S. economy was soaring before COVID-19 went from epidemic to pandemic, many states' revenues were still struggling to recover from the last decade's recession. Now that emergency measures are in place in many jurisdictions, we can expect to see several states struggle with a new challenge: balancing taxpayers' needs for relief and flexibility against the governments' need for dollars.

In times of natural disaster, many states have enacted temporary tax relief measures intended to support impacted communities and to encourage reluctant investors and shoppers. For example, Texas has at times suspended its hotel occupancy tax in regions impacted by hurricanes or other natural disasters in order to make safe accommodations available to people who need them.

Within the past week, we have started to see many state and local taxing jurisdictions announce measures designed to help business and individual taxpayers weather the storm COVID-19 has created. For instance:

- California Governor Gavin Newsom issued an Executive Order (press release available here) directing the Franchise Tax Board, Board of Equalization, and other California state agencies to extend due dates for tax filings and payments for individuals and businesses impacted by social distancing directives.
- The Office of the Treasurer and Tax Collector for the City of San Francisco announced (statement available here) a deferral of the April 30, 2020 deadline for quarterly estimated payments of the City's gross receipts tax, payroll expense tax, commercial rents tax, and homelessness gross receipts tax. This relief is available only to businesses whose combined San Francisco gross receipts for calendar year 2019 did not exceed $10 million.
- Just about one week after New York State Comptroller Tom DiNapoli released his revenue projections for next year, Governor Andrew Cuomo has sent a letter (available here) asking the Comptroller to perform a "risk analysis" of the projections in light of the deterioration and uncertainty in the New York economy caused by COVID-19. Because the Governor is in the midst of negotiating next year's budget, he asked the Comptroller to reply within seven days.
- Texas Comptroller Glenn Hegar issued a statement (available here) acknowledging that COVID-19 has caused oil prices to decline sharply, but reassuring stakeholders that the state's economic fundamentals remain strong and that he and other economic leaders in Texas' various agencies are closely monitoring the situation.
- Maryland Comptroller Peter Franchot announced (statement available here) that his office would extend until June 1, 2020, the due date for making certain business-related tax filings currently due in March,

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April, and May of this year. The Comptroller's office also announced that the state of Maryland will conform to any extension the IRS announces in connection with the current April 15, 2020, deadline for individual and corporate income tax returns.

Like business leaders across the country, political leaders in the other U.S. states and localities are actively monitoring COVID-19-related developments and assessing the need for commentary and policy decisions; indeed, many other jurisdictions have already indicated they are actively considering measures similar to those described above. Although it is difficult now to predict how this situation will play out and how long taxpayers will continue to feel its impact, businesses should remain mindful of certain key risks and opportunities:

- Tax filing and payment deadlines will change in some jurisdictions; however, unless a state or local taxing authority has explicitly announced an extension or other COVID-19-related amnesty, businesses should assume all ordinary deadlines remain in effect and continue working toward complying with all such filing and payment requirements.
- Revenues and, consequently, tax amounts due will decrease – potentially significantly – in several industry sectors. Some businesses may wish to revisit their tax estimates and projections for their fiscal year.
- Widespread remote working by employees whose professional responsibilities, assigned offices, and homes cover multiple states could change a business's nexus footprint.
- In the coming weeks and months, state and local jurisdictions will begin to analyze the impact of unlimited paid leave policies on wage-related taxes, including employer withholding obligations.

Just as in many other contexts, the tax situation is fluid and evolving rapidly. Perhaps because of their understandable desire to disseminate information as broadly and quickly as possible, it appears that some state and local taxing authorities are making statements in unconventional ways, including through informal press releases, livestream-only briefings, and YouTube video statements. If you have questions about your obligations in any state or local taxing jurisdiction, please consult your tax advisor or reach out to any member of our state and local tax team.

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