

# EFFECTS OF TAX CONFORMITY OR NONCONFORMITY

## CONFORMITY

### Adopt Federal Income Tax Changes

- Simplest for taxpayers and least likely to result in non-compliance
- No changes to tax processing or revenue flow

### BUDGET/REVENUE ISSUES

\$205 Million Revenue Increase\* (\$180 Indiv.; \$25 Corp.)

For Individual Tax Filers:

- Decreased Tax Liability: 31%
- Increased Tax Liability: 27%
- Unchanged Tax Liability: 42%

\*Before any state tax reform

## NONCONFORMITY

### Decouple from Federal Tax Code

- Significant change for taxpayers, tax professionals, and DOR
- Potential for unintended tax liability impacts
- Taxpayers must follow two sets of tax laws

### BUDGET/REVENUE ISSUES

Unknown Impacts on Compliance

- Voluntary Compliance
  - Taxpayer confusion may have unintended revenue effects
- Involuntary Compliance
  - Tens of millions in audit revenue affected
- Short Time for Implementation
  - Processing Delays - revenue timing and budget cash flow would be affected, especially if electronic filings are affected

## ISSUES FOR TAXPAYERS

- Federal and state tax law differences
  - Significant differences between federal and state standard deductions and personal exemptions may affect compliance
  - Different thresholds for medical deductions
- Taxpayers will need to follow two sets of tax rules and complete another set of forms to duplicate federal returns under old law
  - Individuals and business may have much higher tax preparation expenses. For example, Indiana estimates their businesses' expenses will increase by \$100 million.<sup>1</sup>
- Delays in processing would mean taxpayers would have to wait to receive refunds

<sup>1</sup>Indianapolis Business Journal, March 23, 2018 <https://www.ibj.com/articles/68093-without-state-fix-federal-tax-change-could-cost-indiana-firms-100m>

