

Disaster-Related Income Tax Extensions Can Disrupt State Revenue and Budget Cycles

But communication, education, and informed decision-making can reduce the strain

When certain disasters occur, the Internal Revenue Service (IRS) automatically extends filing and payment deadlines for impacted counties for a minimum of 60 days. Extensions beyond this 60 day period and the end of the state's fiscal year can disrupt state revenue and budgeting processes.

Most States Levy an Income Tax

41 states, 3 territories, and the District of Columbia levy both a personal and corporate income tax. 4 additional states collect a corporate income tax.

37 states, 1 territory, and the District of Columbia generate 40% or more of their general revenue from income taxes.

When the IRS issues an extension, many states choose to (or must) also extend their tax deadlines.

Tax Extensions Delay Revenues and Reporting

Delayed revenues interfere with financial processes.

Timely receipts and reporting provide information for revenue estimates which states need for the budget process.

Delays beyond 60 days and/or the end of the state fiscal year can force states to use rainy-day funds, cash reserves, or short-term borrowing to close the gap.

Disasters Are Becoming More Frequent, Severe, and Widespread

- In the last 20 years, there has been a 154% increase in the number of billion-dollar disasters compared to the preceding 20 years.
- In 2023 alone, the U.S. experienced 28 separate billion-dollar-plus disaster events, costing \$94.9 billion

NAPA Recommendation

States, NASBO, and the IRS should work together to ensure disaster-related tax relief supports recovery without undermining fiscal stability. Proactive planning, improved communication, and intergovernmental coordination are essential to building resilient, responsive tax and budgeting systems.

Action Items

Strengthen Education and Communication

Educate state officials on IRS extension policies and their potential fiscal impacts.

Create communication channels for IRS officials to communicate, consult, and coordinate with state officials.

Provide basic information about states' income tax systems and the potential impact of extensions to IRS officials.

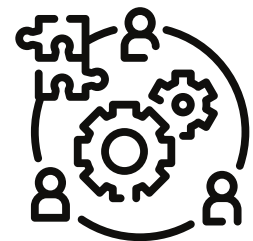


Improve State-Level Preparedness

Use past disasters to model fiscal impacts and develop contingency plans.

Consider decoupling from federal filing deadlines.

Identify reserves, borrowing options, and policy levers to manage delayed revenue.



Want to Learn More?

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* The Academy conducted this study on behalf of NASBO *



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