

*2026*

Effects of Federal Policy and *Economic Trends* on  
State Taxes and Recent Legislative Trends

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*FTA*

***MTC UNIFORMITY COMMITTEE***

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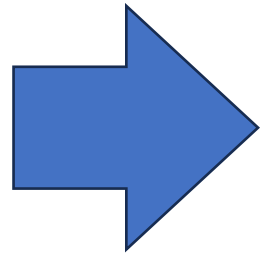


***The views  
expressed in  
this  
presentation  
are my own***

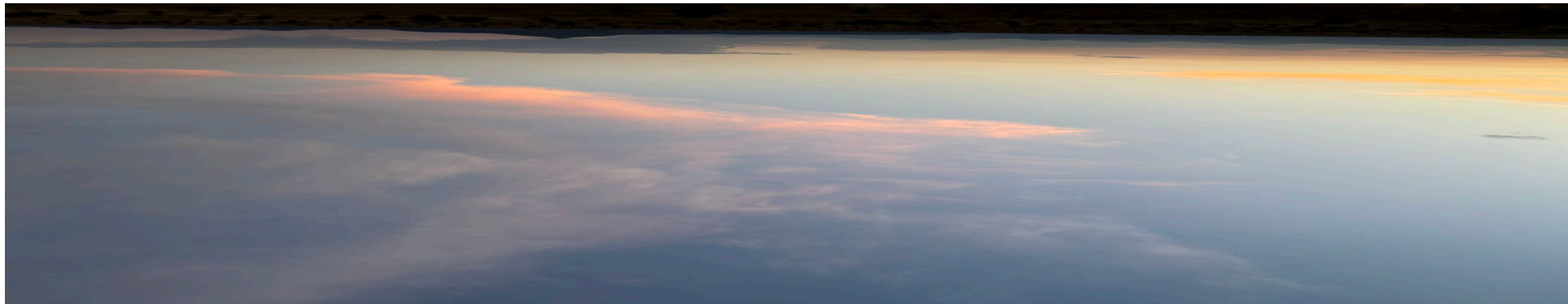
# Uncertainty

Conflicts/War

Politics/Policy

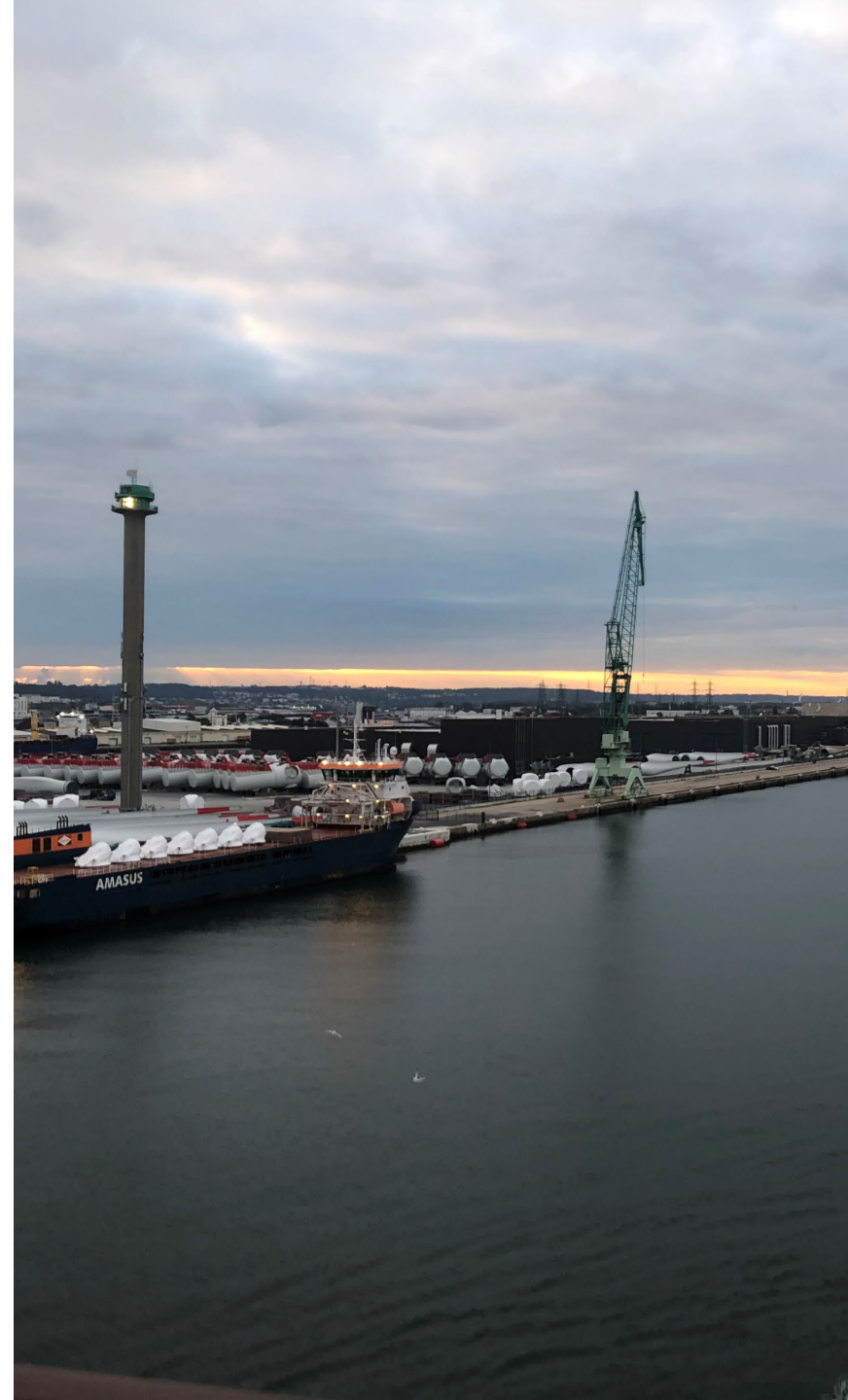


Geopolitical Change, Rapid Tech Change



# Intertwined World and Uncertainties

- Weather
- Shipping/Trade
  - Strikes
  - Port Closures
- Conflicts/War
- Energy



'26 Impactful  
Issues

OBBBA

AI

Wealth Effect

Labor Force

Tariffs

War/Energy

Political Pressures

# Expenditures Higher than Revenues

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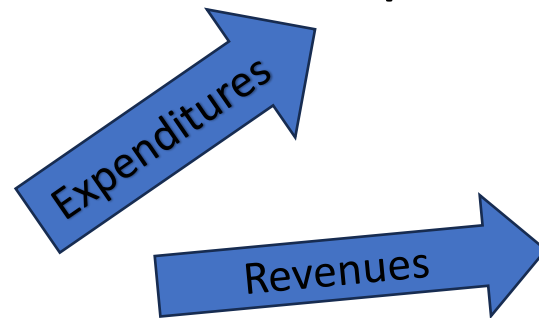
Fiscal 2026: projected **0.7% higher general fund revenues**

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For FY 2026 enacted budgets, **state general fund spending** is expected to increase by **1.3%** after four consecutive years of at least 6% growth

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**23 states** expecting year-over-year declines



# Pressures on State Revenues

## Federal Decreases

- Stimulus (Covid) Ending
- Medicaid Cuts
- Federal Cuts
- No Assistance if Downturn

## Lottery Revenues Decline

## Corporate Volatile

## Rainy Day Funds Stable

## Sales Tax Lackluster

# Federal Actions

## Latest Budget FY 2027

- Decreasing federal funding streams grants etc.
- IRS House Appropriations Committee: \$10.2 billion in fiscal 2027 funding for the IRS, White House proposal: \$9.8 billion
- The Administration requests an increase of over 40% in budgetary resources for defense
- Reductions in non-defense discretionary spending of 10%

## OBBBA Medicaid cuts:

Estimated to fall by **\$911 billion** over 10 years (about 14% of projected federal Medicaid expenditures)

**7.6 million enrollment decline** by 2034

# Markets – *Income Tax Revenues*



- Market stats
  - 10% since '22
  - 16.8% through March
- "Magnificent Seven"  
*Apple, Amazon, Microsoft, Meta, Alphabet, Tesla and Nvidia*

# Interest Rates and Mortgages

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- 3.5-3.75%
- January Forecast: 3 quarter point cuts (June, Oct, December??)
- Now: One in December ?

- 6.3-ish Mortgage Rates

**Spring 2026 housing market more balanced for buyers and sellers**



# Labor Force

- Participation Rate below 62%
- Annual growth 1.4% - Now:  
Near Zero
  - Productivity Growth Key

## WHY?

- Low Birth Rate
- Less Immigration
- Aging

# Consumers

## **K shaped economy**

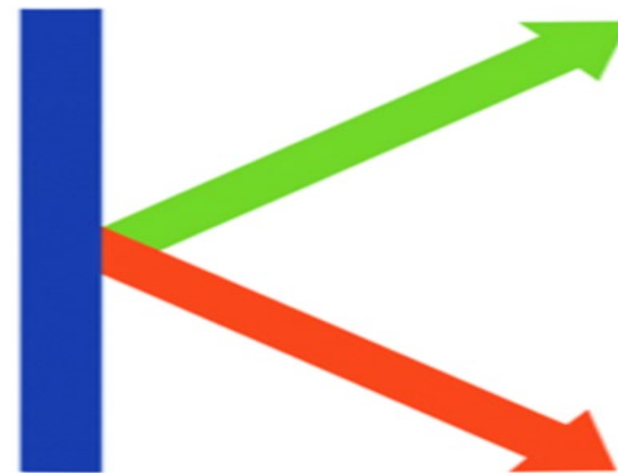
- 10% of Americans account for 49% of all consumer spending, a record
- 10% of Americans contribute about one third of the GDP
- Bottom 60% about one third

*Retail Sales Up 7% (excludes gasoline)*

*Tax Refunds Driving?*

*Consumer Sentiment Low*

### **The K-Shaped Economy**



**Affluent  
Americans  
Getting Ahead**

**Low  
Income/Asset  
Households  
Falling Behind**

?

**Optimistic/Pessimistic**

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