Insights: Publications

5 Key Takeaways | Navigating Indirect and Operational Tax Challenges for Companies in Economic Downturns

OCTOBER 28, 2025

Kilpatrick's David Hughes recently spoke on the topic of "**Navigating Indirect and Operational Tax Challenges for Companies in Economic Downturns**" at the Chicago Tax Club Fall Seminar. The seminar featured a diverse program with nationally recognized speakers, authors, and tax technicians who delved into a variety of current tax issues.

David's key takeaways from his presentation include:

1. Taxpayer Challenges and Personal Liability
Economic downturns present significant tax challenges for businesses, including bankruptcy, bad debts, and decreased vendor's discounts. Notably, personal liability for unpaid taxes can extend to corporate officers and persists even after business dissolution with the "willfulness" standard for personal liability often interpreted as "reckless disregard."

2. Legislative and Regulatory Changes Expanding Tax Bases
States are responding to fiscal pressures by broadening their tax base, often targeting digital services and transactions. Examples include new legislation in Maryland, New York, Washington, and Texas, which expand sales and excise taxes to digital assets, IT services, and marketplace provider activities, reflecting an evolving tax landscape.

3. Automation and AI in Tax Department Operations
Tax departments are increasingly leveraging automation and AI to address manual repetitive tasks and improve accuracy in tax reporting. These technologies support intelligent document processing, data analysis, classification, and decision-making, helping to reduce errors, save time, and enhance data management.

4. Remote Work and Nexus Implications
The shift to remote work during economic downturns can create new state tax nexus and compliance obligations for employers. Having employees work from home might trigger wage withholding, unemployment insurance contributions, and other tax responsibilities in jurisdictions where a taxpayer did not previously file.

5. Government Responses: Audits, Tariffs, and Amnesty Programs
States are increasing audit activity, revising budgets, and introducing amnesty programs to raise revenue and support compliance. Tariffs add complexity by impacting sales tax collections, often passing additional costs to consumers, while targeted amnesty programs offer relief from penalties and interest for qualifying taxpayers.

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