



Trends in State Taxation: 2021 in Review and the Outlook for 2022

Western States Fiscal Leaders Meeting

Jackson Brainerd, Program Principal

NCSL Fiscal Affairs Program

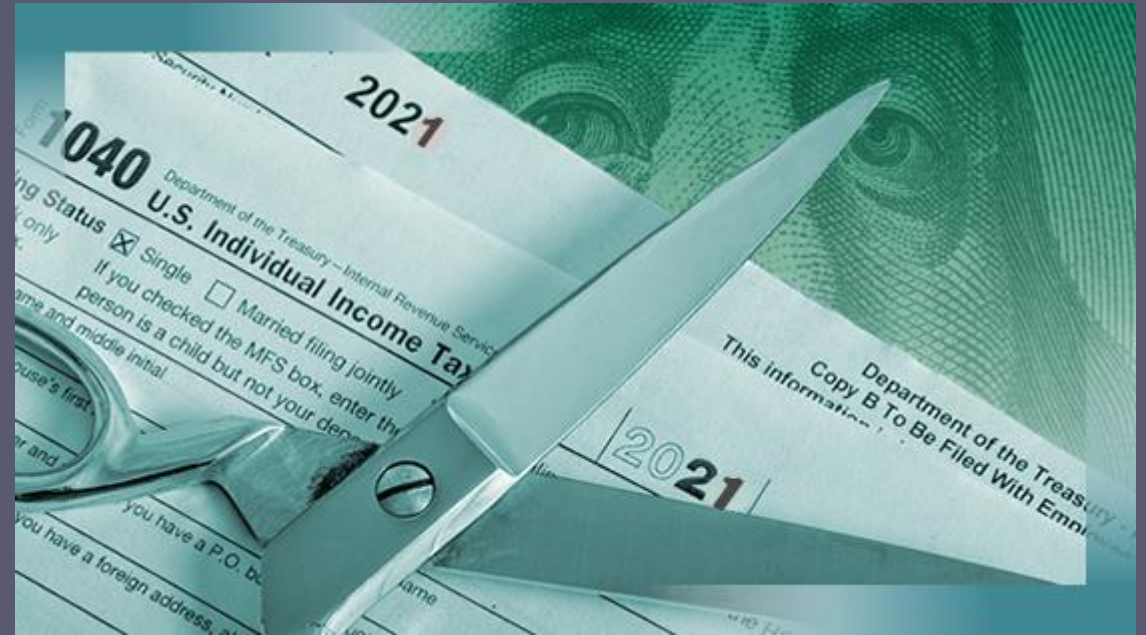
March 26, 2022

State Fiscal Situation

- Revenue growth is largely positive
- Major tax categories did not decline as much as projected
- States did not have to tap into rainy-day funds as much as expected
 - Many have been able to restore or add to RDFs
- Enhanced FMAP reduced state Medicaid burdens
- Cautious optimism

2021 State Tax Trends

- Income Tax Cuts and Other Forms of Individual Relief
- Federal Conformity (TCJA, CARES, and ARP)
- Other Business Tax Relief Efforts: SALT Cap Workarounds, Tax Credits
- Excise Tax Increases
- Digital Ads and Social Media Tax Proposals



2021 Broad-Based Rate Reductions

- Arizona (S 1828): PIT rate cut
- Arkansas (SB 1b): PIT rate Cut
- Idaho (H 380): PIT rate cut
- Iowa (S 619): Accelerated PIT rate cut; Inheritance tax phased out.
- Louisiana (H 278): PIT and CIT rate cuts, contingent on voter approval in November
- Montana (S 159): PIT rate cut
- Missouri (SB 153): PIT rate cut
- Nebraska (LB 432): CIT rate cut
- New Hampshire (HB 1): Business tax rate cuts, interest and dividends tax phased out.
- North Carolina (SB 105): CIT phased-out
- Ohio (HB 110): PIT rate cut
- Oklahoma (H 2960/H 2962): PIT and CIT rate cuts
- Wisconsin (AB 68): PIT rate cut (2nd bracket)



2021 Individual Taxpayer Relief Efforts



Exemption for Covid Relief or Unemployment Insurance Payments

AR, CA, AL, DE, MD, MN, MS



EITC/CTC Increase

CO, CT, DC, DE, IA, IN, MD, NJ, NM, OK, WA



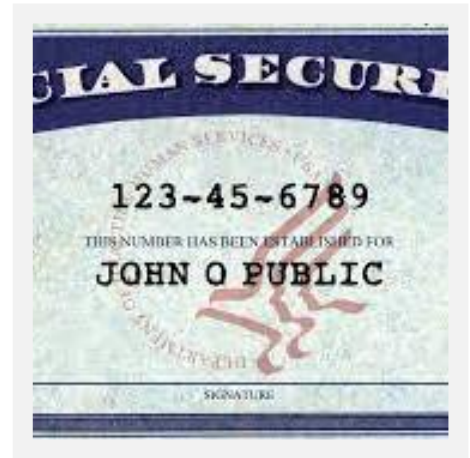
Sales Tax Holidays

AR, FL, TN



Tax Rebates

CA, ID, NM



Standard Deduction Increase/SS Income Exemption

GA, NE

2022 Broad-Based Income Tax Rate Reductions

Enacted

- Idaho
- Iowa
- Indiana
- New Mexico
- Utah

Proposed

- Colorado
- Delaware
- Georgia
- Kansas
- Kentucky
- Maine
- Michigan
- Minnesota
- Missouri
- Mississippi
- Nebraska
- New Jersey
- Oklahoma
- Pennsylvania
- South Carolina
- Virginia
- West Virginia



2022 Individual Tax Relief: Other Major Proposals

- Income Tax Rebates
- Sales Tax Reductions
- Motor Fuel Suspensions/Freezes/Cuts
- Earned Income Tax Credits/Child Tax Credits
- Property Tax Relief



SMALL BUSINESS

2021 Business Tax Relief



NATIONAL CONFERENCE OF STATE LEGISLATURES

PPP Loans

- Loans Excluded from Taxable Income
- PPP-funded Expenses Made Deductible

SALT Cap Workarounds

Alabama, Arkansas, Arizona, California, Colorado, Georgia, Illinois, Massachusetts Minnesota, Michigan, New York, North Carolina, Oklahoma, Oregon and South Carolina

Tax Incentives

- Job Creation/Investment Credits: Alabama, California, Kentucky, Maryland, Minnesota, Montana, Nebraska, New Jersey, New York, West Virginia
- Film Tax Incentives: Arkansas, California, Kentucky, Massachusetts, Minnesota, Montana, Nevada, Oklahoma, Tennessee, Utah

State PTE Taxes

Adopted: 23

- Alabama (2021)
- Arizona (2021)
- Arkansas (2021)
- California (2021)
- Colorado (2021)
- Connecticut (2018)
- Georgia (2021)
- Idaho (2021)
- Illinois (2021)
- Louisiana (2019)
- Maryland (2020)
- Massachusetts (2021)
- Michigan (2021)
- Minnesota (2021)
- New Jersey (2020)
- New Mexico **(2022)**
- New York (2021)
- North Carolina (2021)
- Oklahoma (2019)
- Oregon (2021)
- Rhode Island (2019)
- South Carolina (2021)
- Wisconsin (2018)

Proposed: 8

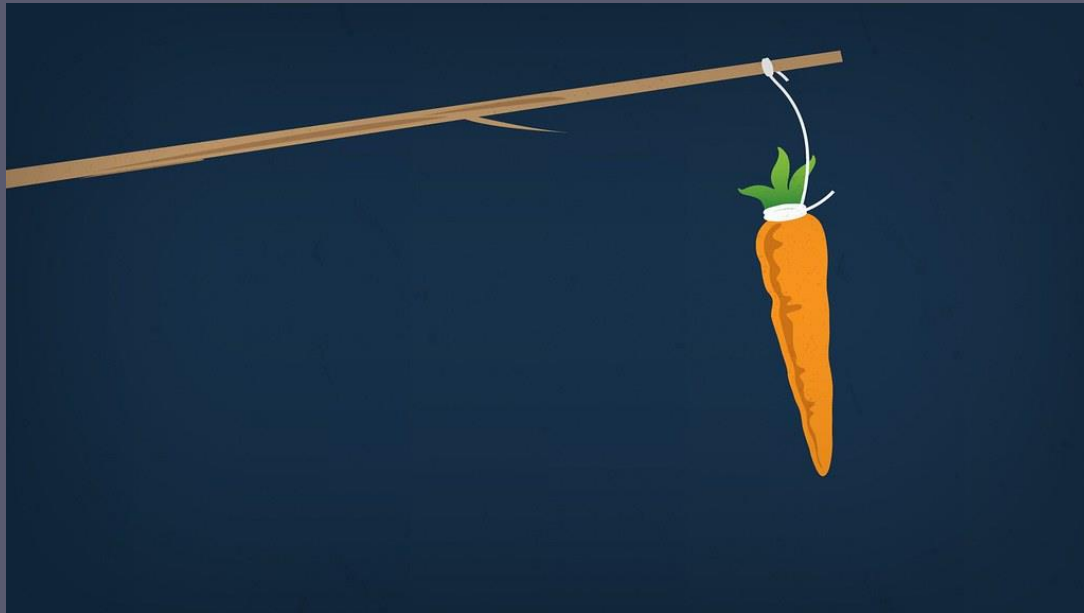
- Iowa (H 2087)
- Kansas (S 495)
- Missouri (S 1154)
- Mississippi (H 1691)
- Ohio (S 246)
- Pennsylvania (H 1709)
- Vermont (H 527)
- Virginia (H 1121/S 692)

Enacted

- Indiana: New film and media production tax credit, increases economic development authority discretion over administering investment credits
- Kansas: New \$800 million investment incentive program
- New Jersey: Enhanced the digital media production credit (\$20 million annual revenue reduction)
- West Virginia: New film tax subsidy

Proposed

- Connecticut: Job Expansion Tax Credit
- New York: \$1 billion incentive package for Buffalo Bills' stadium construction



2022 Tax Incentives

ARPA Tax Cut Restriction

“The offset provision is triggered by a reduction in net tax revenue resulting from ‘a change in law, regulation, or administrative interpretation.’ A covered change includes any final legislative or regulatory action, a new or changed administrative interpretation, and the phase-in or taking effect of any statute or rule where the phase-in or taking effect was not prescribed prior to the start of the covered period...Covered changes do not include a change in rate that is triggered automatically and based on statutory or regulatory criteria in effect prior to the covered period.”

-Dept. of Treasury Guidance



Significant 2021 Revenue Increases

Tax Increases on Higher Earners

- D.C.- Rate increase on incomes over \$250K
- NY – Marginal rate increased to 9.65% from 8.82%
- MA- Millionaires' Tax Ballot Measure
- WA- New Capital Gains Tax

Business Taxes

- Illinois
- Connecticut
- Nevada
- Texas

Digital Goods/Digital Ads

- Colorado, Maryland



2021 Digital Advertising and Social Media Tax Proposals

- Maryland enacted HB 732: Gross receipts tax on digital ad revenues for companies with over \$100 million in global annual gross revenues.

Similar proposals in:

- Arkansas
- Connecticut
- Indiana
- Massachusetts
- Montana
- New York
- Texas
- West Virginia



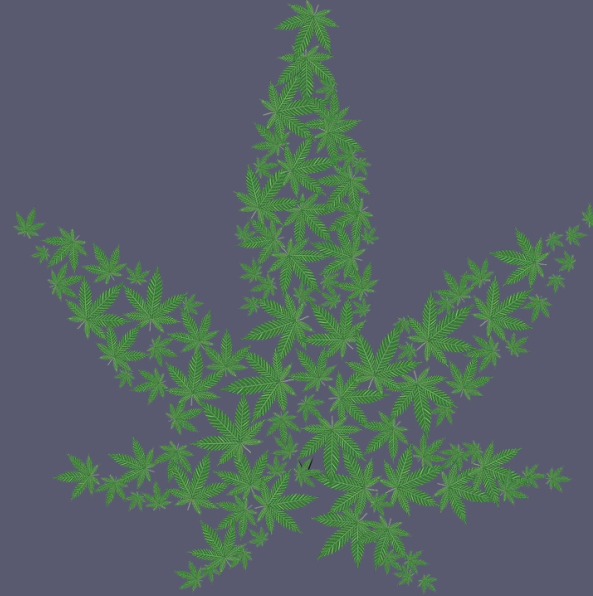
2021 Excise Tax Actions

Cannabis Legalization:

- Connecticut
- Montana
- New York
- New Jersey
- New Mexico
- Virginia

Sports Betting Legalization/Expansion:

- Arizona
- Connecticut
- Florida
- Louisiana
- Maryland
- Nebraska
- New York
- South Dakota
- Wisconsin
- Wyoming



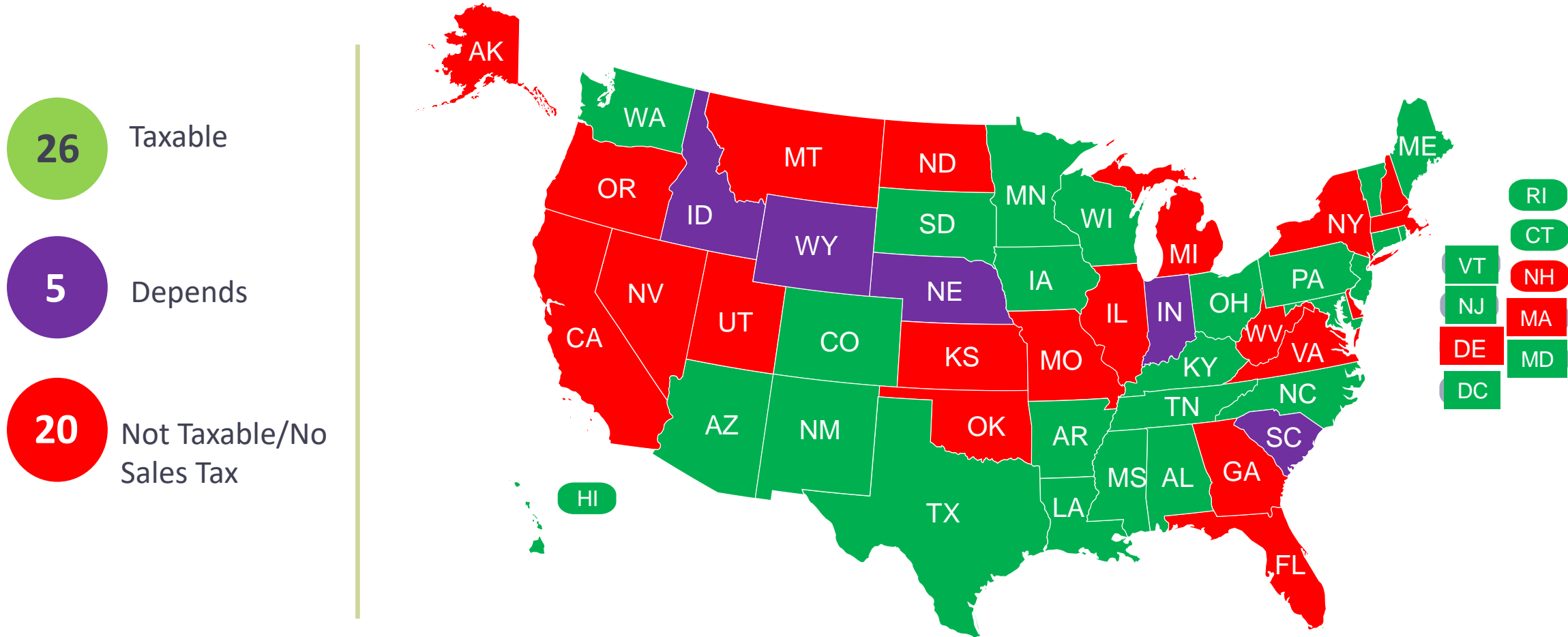
2022 Excise Tax Increases

- Tobacco/E-cigarettes:
- Online Gambling and Sports Betting
- Marijuana Legalization



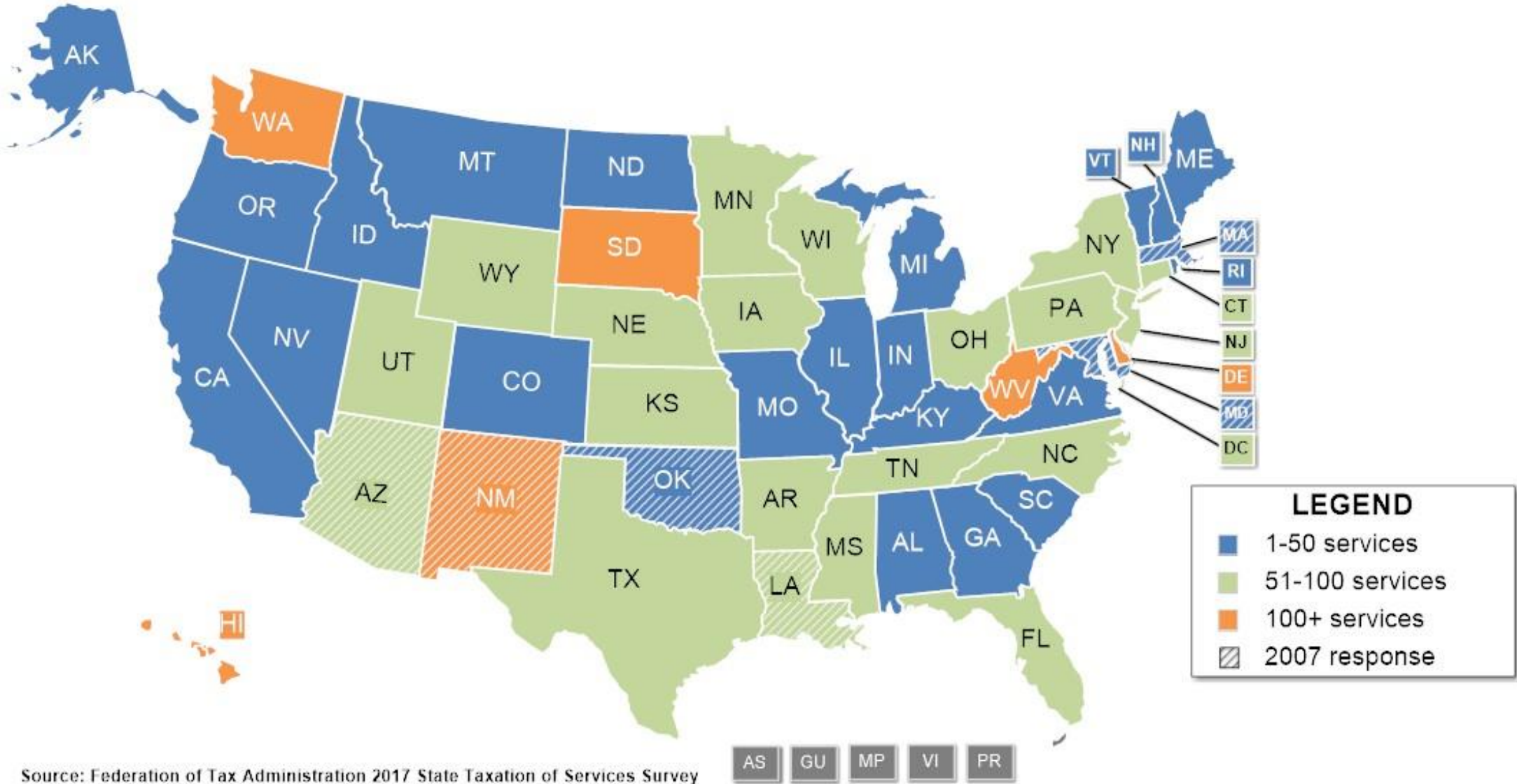
Digital Products Taxation (Generally)

States that apply sales and use tax to digital goods



Source: Bloomberg BNA

State Taxation of Services: 2017 FTA Survey



Source: Federation of Tax Administration 2017 State Taxation of Services Survey

AS GU MP VI PR

Interesting New 2022 Tax Proposals

Hawaii: Carbon Tax

Colorado: Accepting cryptocurrency
for tax payments

Oregon: Luxury Sales Tax

Washington: Fuel Export Tax



Other Tax Issues in 2022

- Remote Work Guidelines
- Corporate Apportionment
- Nonresident Property Taxation
- Responding to Possible Federal Activity



Roundtable Discussion

- *What are the most pressing tax issues that your state is looking to address in the future?*
- *Are there any tax actions that have been taken by other states that are of particular interest to you?*
- *Do you feel your state's tax system has kept pace with changes in the modern economy? If not, what steps would you like to see taken to improve its relevance/efficiency?*

Thank You!

Contact:

Jackson Brainerd

jackson.brainerd@ncsl.org



This Photo by Unknown Author is licensed under [CC BY-NC-ND](https://creativecommons.org/licenses/by-nc-nd/4.0/)