



# Trends in State Taxation

2022 NCSL Regional Fiscal Leaders Meeting

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NCSL Fiscal Affairs Program

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# 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 (2<sup>nd</sup> 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



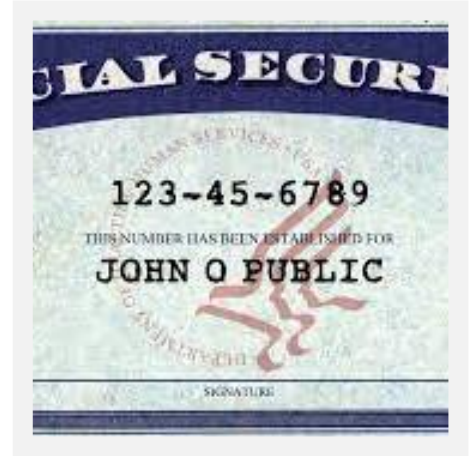
**Sales Tax Holidays**

AR, FL, TN



**Tax Rebates**

CA, ID, NM



**Standard Deduction Increase/SS Income Exemption**

GA, NE

# Tax Tidbits!

Did you know? If you live in New Mexico and make it to age 100, you can stop paying income tax! You just can't be claimed as a dependent by anyone else.



## 2022 Broad-Based Income Tax Rate Reductions

- Georgia (H 1437)
- Idaho (H 436)
- Iowa (H 2317)
- Indiana (H 1002)
- Kentucky (H 8)
- Mississippi (H 531)
- Nebraska (L 873)
- New York (S 8009)
- Virginia (H 30)
- Utah (S 59)



# 2022 Individual Tax Relief: Other Major Proposals

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





# Sales Tax Relief

- Rate cut approved in New Mexico
- Sales Tax Holidays:
  - Florida (H 7071)
  - Illinois (H 4470)
- Grocery Tax Reductions:
  - Kansas (H 2106)
  - Illinois (S 157)
  - Idaho (S 509)
  - Tennessee
  - Virginia (H 30)



# Income Tax Rebates

- **Colorado** (S 233): TABOR rebate will provide \$400 for individuals, \$800 for families
- **Delaware** (H 360): one-time direct payment of \$300 per resident taxpayer
- **Idaho** (H 436): \$75 rebate for each taxpayer and dependent
- **Illinois** (S 157): Individuals who earned less than \$200,000 during tax year 2021 will receive a one-time rebate of \$50 for single filers and \$100 for joint filers, with an additional \$100 per dependent for up to three dependents.
- **Maine** (H 1482): approved one-time, \$850 checks directly to an estimated 858,000 Maine people. Those eligible must have a Federal adjusted gross income (FAGI) of less than: \$100,000
- **New Mexico**: Two separate rebates approved. H 163 provided \$250 for individuals, \$500 for joint filers. H 2a provided \$500 to single filers and \$1000 for joint filers.
- **Virginia** (H 30): Approved \$250 rebates for individual taxpayers
- Various rebate proposals have been submitted in at least 14 other states.



# Retirement Income Relief

- **Alabama** (H 162): Up to \$6,000 of taxable retirement income is exempt from state income tax
- **Connecticut** (H 5506): Exempt pension and annuity earnings from the state income tax
- **Georgia** (H 1437): Increased retirement income exclusion
- **Iowa** (H 2317): Exempts retirement income from tax for taxpayers aged 55 and older
- **Maryland** (H 1468): Retirement income subtraction modification for public safety employees and created a new retiree tax credit
- **Nebraska** (LB 873): Accelerated phase-out of income tax on social security benefits
- **New Mexico** (H 163): Exempt social security income from income tax for certain individuals
- **Utah** (S 59): Expanded eligibility for the social security benefits tax credit by increasing the threshold for the income based phaseout
- **Vermont** (H 510): Expanded income threshold for social security exemption
- **Virginia** (H 30): Increased exemption on military retirement income



# Motor Fuel Tax Holidays

- **Connecticut** (H 5501): Gas tax suspended through November 30, 2022. Est. \$90 million loss.
- **Florida** (H 7071): Gas tax holiday for month of October 2022. Est. \$200 million loss.
- **Georgia** (H 304): Gas tax initially suspended from March 18- May 31, 2022. Then extended again until July 14 via executive order. Est. \$160 million loss per month.
- **Illinois** (S 157): Suspended the motor fuel tax inflation adjustment for six months from July 1 until Dec. 31, 2022.
- **Maryland** (H 1486): Waived the state gas tax for 30 days. Est. \$93.6 million loss.
- **New York** (S 8009): suspended the gas tax for seven months , June 1 – Dec. 31, 2022. Est. \$585 million loss.





# Earned Income/Child Tax Credits

- **Connecticut** (H 5506): Created a \$250 per child tax credit for lower and middle-earning families and increased the earned income tax credit.
- **Illinois** (S 157): Increased earned income tax credit from 18% to 20% of the federal credit
- **Maine** (H 1482): Increased the state EITC for childless individuals from 25 percent to 50 percent of the federal credit and from 12 percent to 25 percent for all other eligible claimants for tax years beginning on or after January 1, 2022.
- **Maryland** (S 369): Established new program to identify residents who are eligible to claim the state EITC but have failed to do so and to provide them with a streamlined method to claim it.
- **New York** (S 8009): Enhanced state EITC
- **New Mexico** (H 163): New, refundable CTC ranging from \$25 to \$175 per child, depending on income
- **Utah** (S 59): Enacts a state earned income tax credit
- **Vermont** (H 510): Enacts a child tax credit and enhances state EITC.
- **Virginia** (H 30): Made the state EITC refundable





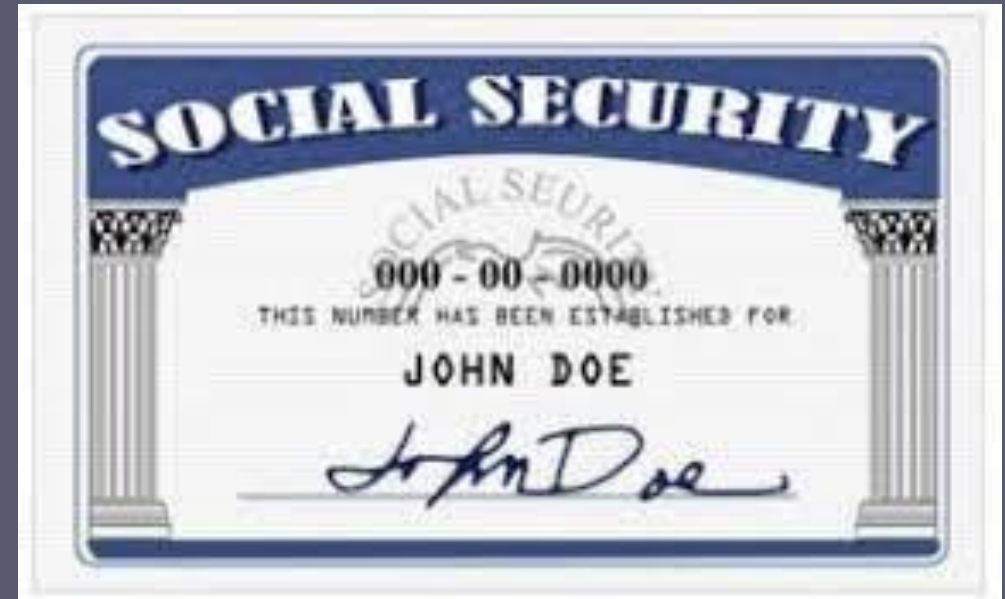
- **Colorado** (S 238): Reduces property tax assessment rates and taxable valuations for the 2023 and 2024 tax years and requires that the state government reimburse local governments for a portion of the resulting property tax revenue reductions.
- **Connecticut** (H 5506): Increased the property tax credit from \$200 to \$300.
- **Florida** (HB 7071): Provides property tax relief for residential property rendered uninhabitable for 30 days or more due to a catastrophic event.
- **Idaho** (H 550): Expanded circuit breaker tax exemption.
- **Illinois** (H 4470): Budget bill included a one-time property tax rebate for homeowners, capped at \$300.
- **Nebraska** (L 873): Refundable income tax credit for community college property taxes paid.
- **New York** (S 8009): \$2.2 billion homeowner tax rebate credit
- **Texas**: Voters approved Prop 1 and Prop 2 in May 2022, which will limit ad valorem taxes for schools and increase the homestead exemption.



## Property Tax Relief

# Tax Tidbits!

- Did you know? Roughly 7 million children “disappeared” after the passage of a 1985 tax law. It’s not as bad as it seems!



# 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

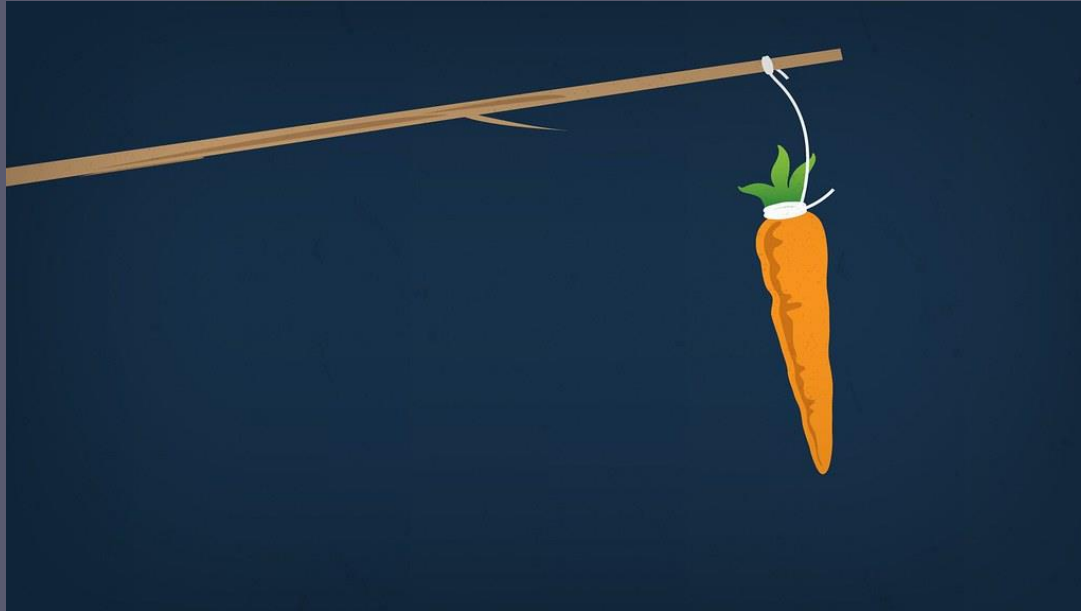
- Job Creation/Investment Credits: Alabama, California, Kentucky, Maryland, Minnesota, Montana, Nebraska, New Jersey, New York, West Virginia
- Film Tax Incentives: Arkansas, California, Kentucky, Massachusetts, Minnesota, Montana, Nevada, Oklahoma, Tennessee, Utah

## At Least 27 Have Approved New PTE Taxes Since 2018

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

## Enacted

- **Illinois:** Growing Economy Tax Credit
- **Indiana:** New film and media production tax credit, increases economic development authority discretion over administering investment credits
- **Kansas:** New \$800 million investment incentive program
- **Maryland:** Work Opportunity Tax Credit
- **New Jersey:** Enhanced the digital media production credit (\$20 million annual revenue reduction)
- **New York:** \$600 million for Buffalo Bills' stadium construction
- **Ohio:** Passed \$2.1 billion incentive package targeted toward Intel Corp.
- **Oklahoma:** \$698 million Large Scale Economic Activity and Development Act
- **Utah and West Virginia:** New film tax subsidy



# 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

- 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



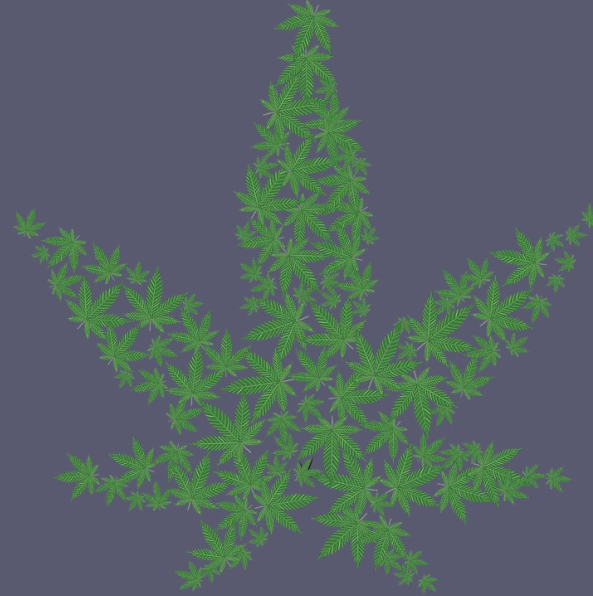
# 2021 Excise Tax Actions

## 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 Revenue Increases

- Sales Tax Base Expansion
  - Kentucky (H 8)
- New Paid Family Leave Payroll Taxes
  - Maryland (S 275)
  - Delaware (SB 1)
- Tourism Taxes
  - Kentucky (H 8): peer to peer car sharing excise tax
- Online Gambling/Sports Betting
  - Kansas (S 84)
- Marijuana Legalization
  - Delaware (H 372)
  - Maryland (H 1/ H 837)
  - Rhode Island (S 2430)





# Tax Tidbits!

Did you know? Astronaut Jack Swigert, the command module pilot for Apollo 13, got the assignment at the last minute because of health concerns surrounding another astronaut. In the rush, Swigert neglected to file his taxes. According to the transcript of the moment he realized his mistake, the crew on the ground thought he was joking, but Swigert was seriously asking how to file an extension.



# 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
- 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!**

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