State Tax Actions 2019 presents information about the tax and revenue changes enacted by state legislatures during the 2019 calendar year. It also contains the results of tax measures that were voted on during any 2019 elections and special sessions. In addition to aggregate state tax information, the report contains detailed information on 50 states. The reported changes generally take effect in fiscal year (FY) 2020. For 46 states, the fiscal year begins July 1 and ends June 30. Exceptions are Alabama and Michigan, where fiscal years begin in October and end in September; Texas, September to August; and New York, April to March.

This annual report is a cooperative effort of the National Association of Legislative Fiscal Offices (NALFO) and the National Conference of State Legislatures’ (NCSL) Fiscal Affairs Program. Without the advice, expertise and timely assistance of legislative fiscal staff from around the country, the report would not be possible.

DEFINING AND MEASURING TAX CHANGES

Organizations that measure state tax and revenue changes often report different numbers, resulting in confusion about the true magnitude of state tax increases or reductions.

Calculating state tax changes is complicated because there are two distinct ways changes may be counted.

One method—the “baseline” method—includes the effect of all statutory tax law changes adopted in the current legislative session. Under this method, only statutory tax law changes adopted in the 2019 legislative sessions are included.

The second method—the “taxpayer liability” method—measures the effect of tax changes on taxpayers and the economy, without regard to when statutory changes were adopted. Under this method, a state that makes a multi-year tax rate reduction would be credited with a tax reduction in each fiscal year during which the tax rate falls.

NCSL uses the taxpayer liability method, which excludes extensions of scheduled sunsets or other changes that are anticipated under current law because they pose no immediate tax change to the taxpayer.

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Tax Highlights in 2019

Tax modernization was a key theme in 2019. States adapted tax codes to implement online sales tax collection, and took action to expand taxes to new products. In an aggregate sense, net revenue changes were still minimal.

This report includes tax actions taken during regular and special legislative sessions in 2019, as well as actions approved by voters, that result in a revenue impact of $1 million or more. Fifty states and the District of Columbia provided information, which was obtained through a survey of the National Association of Legislative Fiscal Offices. Highlights include:

- Collective actions taken by the 50 states and the District of Columbia resulted in a net tax increase of about $5 billion, representing a 0.5% increase compared to the prior year’s tax collections. Fig. 1 shows the net tax changes by year from 1995 to 2019.
- Of the 50 states and District of Columbia reporting, seven—Alabama, Illinois, New Mexico, Ohio, Oregon, Washington and the District of Columbia—increased taxes by more than 1%. One state—North Dakota—reported a net decrease of more than 1%.
- Motor fuel taxes produced the largest increase, totaling $2.5 billion. Tax changes in Illinois and Ohio primarily fueled this number. All tax categories saw tax increases, except for personal income and corporate income taxes.
- In addition to tax changes, states approved nontax revenue changes, including fee increases or decreases, revenue accelerations or decelerations, and tax compliance initiatives for a net increase of $1.2 billion. This resulted in a combined total revenue increase of $6.2 billion in 2019.

Of all the states, Illinois experienced the largest net tax increase of 4.8% over the prior year’s tax collections. The legislature expanded the tax base to capture new products, such as sports betting and recreational marijuana, in addition to a motor fuel tax increase. The actions combined totaled an estimated $1.9 billion tax increase for FY 2020. The legislature also enacted a constitutional amendment that changes the flat income tax rate to a graduated structure. This measure will go to voters in November 2020.

**Fig. 1. Net State Tax Changes by Year of Enactment, 1995-2019**

Source: NCSL, 2019
North Dakota was the only state to report a net decrease in revenues that was over 1% of total state tax collections in 2018. A 2015 tax change authorized a multi-year phase-in, changing its alternative corporate income tax apportionment method to a single sales factor formula. Taxpayers could elect to use the single sales factor apportionment formula for 2019, and will be able to do so going forward. In conjunction with several other changes, the state estimated a reduction of $66.3 million for FY 2020, or a 1.6% decrease when compared to its 2018 state tax collections.

Motor fuel taxes experienced the largest increase in 2019 despite only five states enacting changes. Sales and use taxes had the second-largest increase, primarily because states expanded their tax bases to require marketplace facilitators to collect taxes on behalf of third-party sellers. Personal income and corporate income taxes were the only categories to experience net decreases. These categories experienced a reduction of $864.4 million and $23.1 million, respectively.

**Tax Trends of 2019**

States continued to capitalize on their new authority to require tax collection on remote sales, and moved quickly to streamline the process through marketplace facilitator collection. “Sin” taxes were another trending issue, especially with the growth of e-cigarette usage.

**MARKETPLACE FACILITATOR TAX COLLECTION LAWS**

There’s no doubt that marketplace facilitator collection laws were one of the most widespread tax trends in 2019. These provisions aim to transfer collection responsibilities from third-party sellers to marketplace facilitators. Marketplace facilitators contract with third-party sellers to sell goods and services through the marketplace’s platform. For example, websites such as Amazon and eBay must now collect and remit taxes on behalf of their third-party sellers to the state. Heading into 2019, 10 states and the District of Columbia had...
some form of these requirements. As of Dec. 16, 2019, 38 states and the District of Columbia have marketplace facilitator collection provisions.

State laws varied significantly on this issue. Some have what the Multistate Tax Commission has deemed narrow definitions, and others have enacted more broad definitions. Amid the swift action and variance in state laws on this issue, NCSL’s Executive Committee Task Force on State and Local Taxation convened a working group to create more uniformity. The effort included members of the task force and the business community. In November 2019, the task force approved guidance on the issue that may serve as a resource to states as they continue to work on these laws.

E-CIGARETTE AND VAPING PRODUCT TAXES

The nation’s awareness about vaping grew tremendously over the course of the year, which affected the tax world. Nine states and the District of Columbia applied an excise tax on these products heading into 2019. Additionally, Iowa required sales tax collection for these products purchased online. At the close of 2019, 21 states and the District of Columbia had enacted taxes on these products. As a result, the tobacco tax category experienced an increase of $149.1 million, and most of the changes reflected states moving to tax these newer tobacco products.

States have taken a mixed approach on how they tax e-cigarettes and vaping products. Some levy a tax based on volume, while others apply a percentage on the price. The percentage rates vary widely. As public awareness of vaping continues to grow, this trend is likely to continue during 2020 legislative sessions.

Visit NCSL’s e-cigarette tax webpage to get the latest information on state tax rates.

CONTINUED FEDERAL TAX REFORM RESPONSES

A majority of the states that conform to the Internal Revenue Code (IRC) on a static basis responded to the Tax Cuts and Jobs Act (TCJA) during the 2018 calendar year. However, two states only enacted temporary conformity measures in 2018, including Arizona and Virginia. Both states enacted conformity measures in 2019 that ensured conformity for tax years moving forward. The Minnesota Legislature passed several conformity measures in 2018 that were vetoed by Governor Mark Dayton, but a large IRC conformity package was enacted in 2019, updating the state’s conformity date and responding to the TCJA’s provisions.

Other states that had previously responded to federal tax reform in 2018 continued to tinker with their tax codes. For example, Idaho enacted HB 183, which authorized certain deductions for the foreign income
provisions included in TCJA. Florida decoupled from the global intangible low-taxed income (GILTI) provisions during the 2019 legislative session. New Mexico took action to mitigate the effects of TCJA on families by enacting a state-level dependent deduction and increasing the working families tax credit, which is the state’s version of the Earned Income Tax Credit (EITC).

**MOTOR FUEL TAX RATE INCREASES**

The motor fuel tax category had the largest revenue increase compared to other tax categories in 2019. However, it’s worth noting that only five states reported changes to raise revenue. Motor fuel tax changes typically generate large sums of revenue as a result of the gas tax’s large base. This category’s five-year snapshot reveals that changes have been driven by infrastructure’s funding needs.

Alabama enacted its Rebuild Alabama Act, which increased motor fuel tax rates by 10 cents over the course of several years. Arkansas enacted a tax reform package that included a 6-cent motor fuel tax rate increase. Similar to Alabama, these increases will be phased in over a period of time. Illinois doubled its gas tax rate during the 2019 legislative session, raising it from 19 cents per gallon to 38 cents per gallon. This increase is expected to generate an additional $1.3 billion in revenue for FY 2020, which largely drove the fact that this category experienced a $2.5 billion net increase. Ohio increased its motor fuel and diesel tax rates. The motor fuel tax rate increased by just over 10 cents and the diesel tax rate increased by nearly 20 cents, resulting in an increase of $865 million in FY 2020. Lastly, South Carolina joined this group by increasing its gas tax by 2 cents for FY 2020 and FY 2021.

**PERSONAL INCOME TAX RATE AND BRACKET CHANGES**

A handful of states made changes to their personal income tax rates and brackets. Actions in six states resulted in a revenue decrease in this tax category. In conjunction with Arizona’s federal tax reform conformity passed in the 2019 session, the state reduced the number of income tax brackets from five to four and lowered the state’s marginal tax rates. Arkansas enacted a tax package that included reforming the state’s personal income tax brackets and lowering the top rate by a percent. These changes will be phased into the state’s tax code through 2021. Minnesota modified its starting point for the fourth-tier bracket and reduced the second-tier rate from 7.05% to 6.8%. Similar to these examples, Ohio modified its brackets and reduced the top bracket’s tax rate from 4.997% to 4.797%. Oregon reduced rates in its bottom three income brackets. Following the increase in revenue from remote sales taxation, Wisconsin enacted a measure that would reduce its second bracket’s income tax rate proportionally to those newer collections. The first rate reduction applies to tax year 2019, the second rate reduction applies to tax year 2020 and annually going forward.

In addition to these efforts, two other states moved to increase revenue in this category. New Mexico added a new top bracket that will tax certain filers a percentage higher. New York also extended its surcharge on higher incomes, which will now sunset Dec. 31, 2024. The array of state action in this area has been consistent with the last several years of State Tax Action reports.

**SPORTS BETTING**

States continued to capitalize on the newfound authority to legalize and tax sports betting. Seven states reported tax changes on this issue. While some Eastern states continued the 2018 trend of authorizing sports betting, Colorado, Illinois, Indiana, Montana and Tennessee brought these changes to other parts of the country. In addition to new states entering the scene, conversations have been growing on expanding these gaming options to online platforms. In 2019, Rhode Island took action to expand its sports betting

**Fig. 6. Five-Year Snapshot: Motor Fuel Tax Changes**

In millions.

<table>
<thead>
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<th>Year</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
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</tr>
<tr>
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<td>$500</td>
</tr>
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<tr>
<td>2019</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

Source: NCSL, 2019
online, and is estimating an additional $17.2 million in revenue for FY 2020 as a result. We expect states to continue to authorize or expand sports betting to online platforms in 2020 legislative sessions as well.

Not Trending, but Significant Changes Worth Noting

In 2019, Oregon became the sixth state to levy a gross receipts tax. The state enacted a corporate activity tax of 0.57%, which is projected to bring in an additional $290 million in FY 2020 and $1.3 billion in FY 2021. The tax is dedicated to school funding, and is similar to Ohio’s commercial activity tax (CAT). Washington also made amendments to its gross receipts tax in 2019, commonly known as the business and occupation (B&O) tax. The state added a 1.2% surcharge on specific financial institutions with at least $1 billion in annual net income.

Also, several states adopted market-based sourcing rules for apportionment purposes for the corporate income tax. Market-based sourcing references an apportionment methodology that calculates based on where a service is received, rather than where a company is located. New Hampshire, New Mexico and North Carolina all made these changes in 2019.

Lastly, there continued to be a growing conversation across states on paid family leave. While at least 25 states introduced measures on this topic, only Connecticut and Oregon enacted new policies. Similar to other states with these programs, both states enacted payroll taxes to fund the new programs.

Other Revenue Trends

The State Tax Actions report separates changes based on whether they constitute a tax change, fee change or other nontax change, such as tax amnesty programs. Other revenue changes encompass both fee and nontax changes. Illinois and Wisconsin both experienced the largest revenue increases from these types of changes, and in line with the motor fuel tax changes mentioned above, both efforts sought to increase transportation funding. Each state increased title and registration fees for residents. Several states also made changes accelerating tax liability, which shifts when certain tax revenue is received.

Tax changes in 2019 as a percentage of 2018 tax collections are listed in Appendix A. State changes by tax type are in Appendix B. Appendix C shows both tax and nontax revenue changes by state. Property tax actions affecting local revenues are discussed in Appendix D. Tax changes by state are displayed in Appendix E.