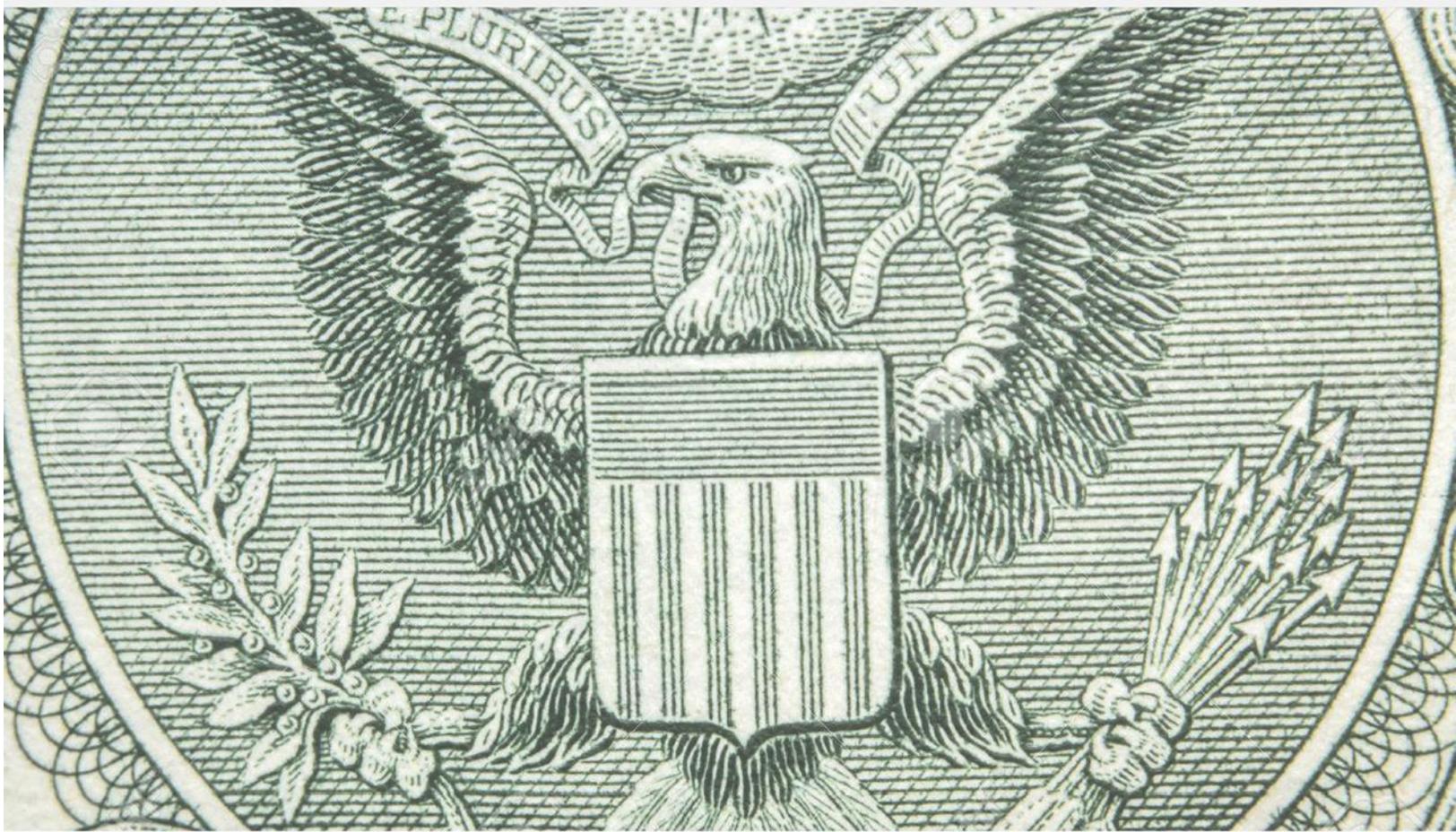


FISCAL BRIEF

States Pursue Tax Relief in 2022



NATIONAL CONFERENCE OF STATE LEGISLATURES

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Fiscal Year 2022 was a year of abundance for state legislatures. From the outset, states across the country, from California to Maryland, announced significant budget surpluses. [Halfway through the year](#), revenues continued to exceed expectations in most states:

- Personal income taxes were performing significantly better than most states anticipated;
- General sales tax collections were expected to exceed estimates in over half of states;
- Revenues from corporate income tax collections were above estimate in over 20 states;
- Severance tax collections were largely strong in states that levy them as well.

Historically speaking, states are more likely to reduce tax burdens when times are better. With most state budgets in strong, stable position, this tendency has played out once again; relief has undoubtedly been the most prominent tax policy trend in 2022.

Income Tax Rate Reductions

In 2022 thus far, at least 10 states have enacted Income tax rate cuts. Several states, including Kentucky, Georgia, Iowa, South Carolina and Virginia enacted tax reductions that will each exceed \$1 billion annually once fully phased in (ranging from 1% to over 5% of the previous year's total revenue collections, depending on the state). Nebraska and Mississippi also enacted tax cuts that will cost over half a billion dollars. In many cases, the cuts that have been approved will be phased in over several years or are contingent on revenue triggers being met. Another recent, noteworthy trend is that three of these states (Georgia, Iowa, and Mississippi) are moving from [graduated structures to a flat tax rate](#). These income tax rate reductions have been enacted in 2022:

- Georgia ([H 1437](#)): Creates a flat tax rate and gradually reduces the rate from 5.75% to 4.99% by 2029.
- Idaho ([H 436](#)): Consolidated individual income tax brackets from five to four, lowered the marginal rate being from 6.5% to 6% for both personal and corporate income taxes.
- Iowa ([H 2317](#)): Gradually reduces the personal income tax rate to 3.9% from 8.5% by 2026. Provides for a reduction in the corporate income tax rate from 9.8% to 5.5%, contingent on revenue triggers being met.
- Indiana ([H 1002](#)): Reduced the state flat income tax rate from 3.23% to 3.15%.
- Kentucky ([H 8](#)): Reduced the state flat income tax rate to 4.5% from 5% and provided for gradual elimination of the tax contingent one the state meeting a specified threshold of general fund receipts.
- Mississippi ([H 531](#)): Eliminated its lower income tax brackets to establish a flat rate and reduced the marginal rate from 5% to 4% by 2026.
- Nebraska ([L 873](#)): Gradually reduces the marginal income tax rate to 5.84% from 6.84% by 2027, and reduces the corporate rate to 5.84% as well.
- New York ([S 8009](#)): Accelerated planned tax cuts for low- and middle-income earners.
- South Carolina ([S 1087](#)): Consolidates the number of brackets from six to three and cuts the state's top individual tax rate from 7% to 6.5% for tax year 2022. Provides for additional 0.1% rate reductions each year until the rate reaches 6%, starting with tax year 2023, contingent on revenue triggers being met.
- Virginia ([H 30](#)): Did not reduce rates but provided for an increase in the standard deduction from \$4,500 to \$8,000 for individuals between January 2022 and 2026, with the full reduction contingent on revenue growth exceeding a specified amount.
- Utah ([S 59](#)): Reduced the personal and corporate income tax rates from 4.95% to 4.85%.

Other Individual Relief

In addition to income tax cuts, there are several other broad categories of individual tax relief states have pursued in 2022:

Sales Tax Reductions

At least 14 states proposed cutting sales tax rates in 2022, but New Mexico ([H 163](#)) has been the only one to enact a reduction. The state reduced the gross receipts tax rate by a quarter of a percent (5.125% to 4.875%).

Of the 13 states that applied sales tax to grocery purchases going into 2022, several reduced or eliminated for such taxes. Kansas enacted a measure to phase out the grocery taxes by 2025 ([H 2106](#)) and Virginia eliminated the state's reduced 1.5% grocery tax ([H 30](#)) as well. Illinois suspended sales taxes on groceries for one year ([S 157](#)), Tennessee [authorized](#) a one-month food tax holiday, and Idaho approved an increase in the state grocery tax credit ([S 509](#)). Food purchases are a significant component of sales tax bases in states that tax them, and most of these reductions were estimated to reduce revenues by hundreds of millions of dollars.

Income Tax Rebates

At least eight states have adopted new, one-time income tax rebate programs this year. Most of these relief programs have been projected to cost states hundreds of millions of dollars as well. A recently enacted rebate in South Carolina has a \$1 billion price tag; in Colorado the rebates will reduce revenues by \$900 million. Rebates were estimated to cost \$1 billion in South Carolina, \$900 million in Colorado, \$682 million in Maine, \$350 million in Idaho, and \$230 million in Delaware.

- Colorado ([H 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](#)): One-time, \$850 checks will be sent directly to an estimated 858,000 Mainers. Those eligible must have a Federal adjusted gross income (AGI) of less than: \$100,000.
- New Mexico: Two separate rebates were approved in 2022. [H 163](#) provided \$250 for individuals, \$500 for joint filers. [H 2a](#) provided \$500 to single filers and \$1000 for joint filers.
- South Carolina ([H 5150](#)): Rebates for individuals up to \$800 based on the amount paid in state income tax.
- Virginia ([H 30](#)): Approved \$250 rebates for individual taxpayers.

Retirement Income Relief

At least 10 states have adopted legislation to provide beneficial tax treatment for social security benefits or retirement income.

- 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 phaseout 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

At least 20 states have considered legislation regarding a motor fuel tax relief in the face of high prices at the pump. Legislation has been approved in at least six states. Most enactments have provided temporary tax holidays lasting anywhere from a month to up to half a year. Rather than create a tax holiday, Illinois suspended gas tax inflation adjustments. Most of these are expected to reduce revenues by tens to hundreds of millions.

- Connecticut ([H 5501](#)): Gas tax suspended through Nov. 30, 2022. Estimated \$90 million loss.
- Florida ([H 7071](#)): Gas tax holiday for month of October 2022. Estimated \$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. Estimated \$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. Estimated \$93.6 million loss.
- New York ([S 8009](#)): Suspended the gas tax for seven months, June 1 – Dec. 31, 2022. Estimated \$585 million loss.

Earned Income/Child Tax Credits

To provide relief for lower- and middle-income earners five states expanded existing earned income tax programs or created new ones. Three states also adopted new child tax credits.

Connecticut ([H 5506](#)): Expanded state EITC program and created a new child tax credit.

Illinois ([S 157](#)): Expanded state EITC program.

Maine ([H 1482](#)): Expanded state EITC program.

New Mexico ([H 163](#)): Created a new child tax credit

New York ([S 8009](#)): Expanded state EITC program.

Vermont ([H 510](#)): Expanded EITC program and implemented new child tax credit

Utah ([S 59](#)): Created a new, nonrefundable earned income tax credit equal to 15% of the federal amount.

Property Tax Relief

Several states have also pursued property tax relief this year.

Colorado ([S 238](#)): Reduces property tax assessment rates and taxable valuations for the 2023 and 2024 tax years, which is estimated to provide \$700 million in relief over two years.

Connecticut ([H 5506](#)): Increased the property tax credit from \$200 to \$300.

Idaho ([H 550](#)): Expanded the circuit breaker tax exemption

Illinois ([S 157](#)): Approved a property tax rebate that was estimated to cost \$475 million.

Nebraska ([L 873](#)): Created a refundable income tax credit for community college taxes paid.

New York ([S 8009](#)): Created a \$2.2 billion property tax rebate credit ([S 8009](#)).

Texas: Voters recently approved two ballot measures ([prop 1](#)/[prop 2](#)) that will reduce property tax revenues by roughly \$2.3 billion from 2023 through 2026.

Other Business Tax Relief

States have also pursued business-specific tax relief in 2022.

Business Tax Rate Cuts

In addition to corporate income tax reductions noted above, New Hampshire passed legislation (H 1221) to reduce the business profits tax by a tenth of 1%.

SALT cap workarounds

There has been a recent explosion in new entity-level taxes for S-corporations ever since the federal government capped the deduction for state and local income, sales and property taxes as part of the Tax Cuts and Jobs Act. Going into 2021, seven states had adopted [new entity-level taxes](#), which are fully deductible at the federal level, and created off-setting state income tax credits as a way to allow businesses to access the full value of their state and local tax deductions. Fifteen additional states enacted SALT cap workarounds in 2021 and at least six more have done so in 2022:

- Kansas ([H 2239](#)),
- Mississippi ([H 1691](#)),
- New Mexico ([H 102](#)),
- Ohio ([S 246](#)),
- Utah ([H 444](#)),
- Virginia ([H 1121](#)),

Tax Incentives

Several states have expanded or created new business tax credits, often geared towards encouraging greater rates of hiring or capital investment. [Film tax credits](#), in particular, have been pursued by many states in 2022.

- Illinois ([S 157](#)): Extended the Growing Economy Tax Credit.
- Kansas ([S 347](#)): Created a new \$800 million investment incentive program for specified industries.
- Maryland ([H 2](#)): Allowed employers to claim a Work Opportunity Tax Credit for certain wages paid to individuals with barriers to employment.
- New York ([S 8009](#)): Provided \$600 million in incentives for Buffalo Bills' stadium construction.
- Ohio ([H 687](#)): Passed \$2.1 billion incentive package targeted toward Intel Corporation.
- Oklahoma ([H 4455](#)): Approved the Large Scale Economic Activity and Development Act, creating a \$698 million incentive program.
- New or expanded film tax subsidies approved in at least seven states: Illinois ([S 157](#)), Indiana ([S 361](#)), Maryland ([S 536](#)), New Jersey ([S 4094](#)), Oregon ([H 4153](#)), Utah ([S 49](#)), Washington ([H 1914](#)) and West Virginia ([H 2096](#))

Apportionment

Attention continues to be paid to the apportionment formulas that states use to determine tax liability for multistate corporate taxpayers. Many states continue to move away from what used to be the traditional three-factor apportionment formula, based on payroll, property and sales in a state, in favor of single sales factor apportionment for determining corporate income tax liability. A goal of single sales factor apportionment is to incentivize businesses to build-out payroll and property in a state and states typically anticipate that it will [reduce revenues](#).

This year, Idaho (H 563) and Vermont (S 53) have adopted measures moving to single sales factor apportionment, and several states, including Kansas, New Mexico, Oklahoma all considered similar legislation as well.

Looking Forward

Despite the current rosy revenue picture for states, financial concerns are on the horizon. Much of the robust revenue growth states have experienced is attributable to one-time federal transfers that were included in the Coronavirus Aid, Relief, and Economic Security Act and the [American Rescue Plan Act](#) and there is still uncertainty in many states about what their economies and budgets would look like without that aid. Ongoing concerns also exist around issues like [inflation](#), [stock market performance](#), [new COVID strains](#), and the [ongoing economic reverberations](#) that have accompanied the Russian invasion of Ukraine. While the recovery from the recent downturn featured [growth in consumer spending](#) due to pent up demand and increases in income, there are signs that this activity is beginning to slow. According to [The Tax Policy Center](#), inflation-adjusted sales tax revenues declined 1.2% in April 2022 compared to a year earlier. Most states are forecasting weaker tax revenue growth in 2023 and, given inflation rates and public sector job vacancies, states will likely face growing spending and wage pressures. State tax relief efforts will probably slow as these issues linger or build momentum.

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