

State Tax Update: July 2009



NATIONAL CONFERENCE
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National Conference of State Legislatures
William T. Pound, Executive Director

7700 East First Place
Denver, CO 80230
(303) 364-7700

444 North Capitol Street, N.W., Suite 515
Washington, D.C. 20001
(202) 624-5400

www.ncsl.org
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The National Conference of State Legislatures is the bipartisan organization that serves the legislators and staffs of the states, commonwealths and territories.

NCSL provides research, technical assistance and opportunities for policymakers to exchange ideas on the most pressing state issues and is an effective and respected advocate for the interests of the states in the American federal system.

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- To improve the quality and effectiveness of state legislatures.
- To promote policy innovation and communication among state legislatures.
- To ensure state legislatures a strong, cohesive voice in the federal system.

The Conference operates from offices in Denver, Colorado, and Washington, D.C.



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STATE TAX UPDATE: JULY 2009

The economic recession has created serious revenue shortfalls and prompted numerous state legislatures to increase taxes and fees to shore up budgets during 2009 legislative sessions.

The actions taken by 36 reporting states to date have resulted in a net tax increase of \$24 billion that will help offset \$142 billion in budget gaps for fiscal year 2010. The tax increases represent 3 percent of total state tax collections. Sixteen states have increased taxes by more than 1 percent, while one state cut taxes by more than 1 percent. Nineteen states made no significant tax policy changes.

Two new trends developed in the personal income tax area -- states relied heavily on the income tax to raise new revenue, which has not been the case in recent years, and states specifically asked higher-income earners to temporarily shoulder more of the burden. Top rates were increased and/or capital gains breaks were scaled back by several states.

Other trends included a significant reliance on new tobacco taxes and a new focus on alcohol taxes. More than a dozen states raised tobacco or alcohol taxes. There were new assessments on the health care industry, and business tax breaks were scaled back. Some green economic incentives were curtailed, slowing a recent trend to encourage renewable energy and transportation innovations through tax policy.

By contrast, a few states cut taxes. For example, North Dakota cut individual and business income taxes by \$50 million.

Several larger states that were heavily affected by the recession raised fees or taxes. Florida approved a tobacco tax increase and more than \$1 billion in fee increases. Massachusetts raised its sales tax rate. New York and California approved billions in revenue increases to patch fiscal holes in their FY 2010 budgets.

Personal Income Tax

Nine states increased income taxes by at least \$1 million each while 10 states reduced them. Tax increases by large states, including California and New York, contributed to a total \$10.6 billion net tax increase.

- Oregon added new top rates of 10.8 percent and 11 percent to raise \$243 million.
- California raised income tax rates by 0.25 percent and reduced the dependent credit.
- Delaware raised taxes on earnings above \$60,000.
- New York raised its top bracket and scaled back a deduction for higher income earners.
- Hawaii, New Jersey and Wisconsin raised taxes on high-income earners.
- Several states scaled back capital gains preferences, including Colorado, Wisconsin and Vermont.

At the same time, states made targeted income tax reductions:

- California and Georgia approved a homebuyer credit to stimulate housing purchases.
- Idaho expanded a credit for grocery costs by \$15 million.
- Maine replaced multiple tax brackets with a single rate, plus a surcharge on income over \$250,000, which resulted in a net tax cut of \$30 million.
- South Carolina connected to current federal tax law, which reduced state taxes.

Corporation and Business Taxes

Thirteen of the reporting states raised business taxes and seven cut them. Among the tax increases:

- Oregon raised its top rate and increased its minimum tax for businesses.
- Delaware raised gross receipts and business franchise taxes.
- Wisconsin reduced corporate tax breaks.
- Nevada adjusted its modified business tax.
- Kansas reduced business tax credits.

Some states, however, reduced business taxes:

- North Dakota cut business income taxes by \$5 million.
- Georgia approved business incentives.

- Texas exempted small businesses from its net margins tax.

Sales and Use Tax

Thirteen states increased general sales taxes, though only two did so with sales tax rate increases. Six states cut sales taxes.

- California raised its sales tax rate by 1 percent.
- Massachusetts increased its sales tax rate by 1.25 percent.
- Colorado eliminated vendor compensation for tax collection to raise \$68 million.
- Maine added entertainment and other services to the sales tax base.

By contrast, some states cut sales taxes:

- Arkansas reduced its grocery tax by 1 percent cutting taxes by \$44 million.
- Mississippi approved a sales tax holiday and reduced taxes on farm equipment by \$10 million.

Health Care Provider and Industry Taxes

Nine states increased health care provider and industry taxes by \$1.5 billion. For example:

- Alabama increased its hospital assessment by \$200 million.
- Colorado authorized provider fees from hospitals for \$337 million.
- Oregon assessed hospitals for \$102 million.

Tobacco and Alcohol-Related Taxes

Thirteen states raised taxes on cigarettes or other tobacco products by a combined \$1.6 billion. Five states raised alcohol taxes to generate \$180 million.

Regarding tobacco:

- Florida approved a \$1 per pack cigarette tax increase to raise \$946 million.
- Kentucky raised tobacco taxes by \$107 million.
- Arkansas, Delaware, Mississippi, New Hampshire, Vermont and Wisconsin also raised tobacco taxes.

Regarding alcohol:

- New Jersey raised taxes on liquor and wine.
- Oregon included a surcharge on spirits distributed through its liquor control commission.
- Kentucky added package alcohol sales to the tax base generating \$52 million.

Motor Fuel and Vehicle Taxes

Eight states raised taxes on transportation to generate \$1.8 billion.

- California raised its vehicle license fee by 0.5 percent for an additional \$1.7 billion.
- Colorado increased vehicle fees and fines to generate \$200 million.
- Florida, New Hampshire and Utah also increased vehicle charges.
- Vermont increased taxes on gasoline to raise \$13 million.

Miscellaneous Taxes

Eleven states increased miscellaneous taxes to raise another \$1 billion.

- Delaware approved a tax on crude oil transfers.
- Nevada and New Hampshire increased room taxes.
- New York and Tennessee raised taxes on insurance companies.

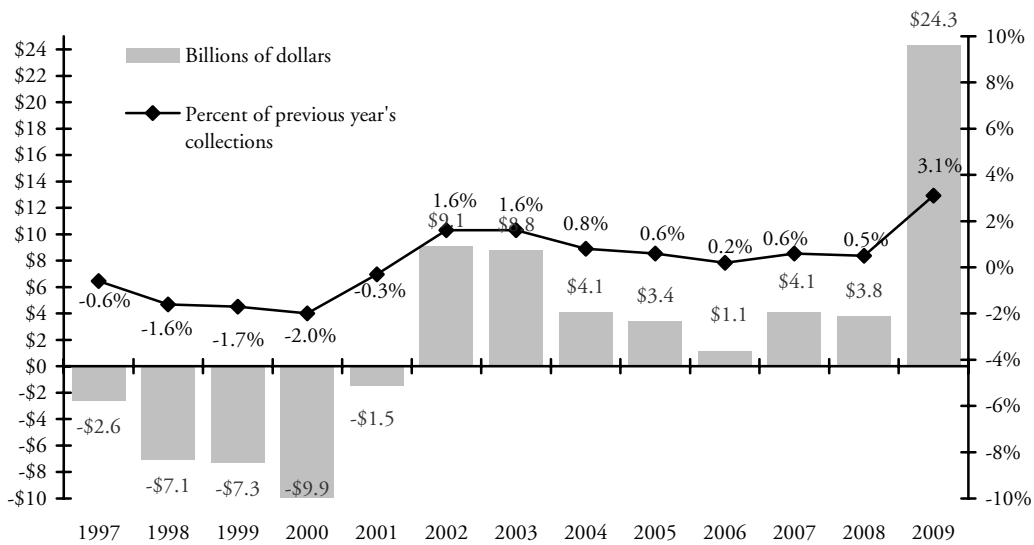
Fees and Other Nontax Changes

Fifteen states reported fee increases in 2009, while four states accelerated revenue into the fiscal year, among other nontax changes, to raise \$3.3 billion in nontax revenue.

- Colorado, Florida and New York approved significant fee increases.
- Tax amnesties took place in several states, including Maryland, New Jersey, Vermont and Virginia.
- Delaware added sports betting to its existing gaming activities to generate \$53 million.

Overall, the responding states through mid-July have made tax, fee and other revenue changes resulting in an anticipated \$27 billion in revenue increases for FY 2010.

Figure 1. Net State Tax Changes by Year of Enactment, 1997–2009



Source: National Conference of State Legislatures survey of legislative fiscal offices, 2009.

Type of Tax	Dollars (in millions)	Percent of Total
Personal Income	\$10,601.4	43.5%
Corporate Income	\$1,387.4	5.7%
Sales and Use	\$6,163.0	25.3%
Health Care	\$1,544.0	6.4%
Tobacco	\$1,589.3	6.5%
Motor	\$1,807.6	7.4%
Alcoholic Beverage	\$179.7	0.7%
Miscellaneous	\$1,066.3	4.4%
Net Change	\$24,348.7	100%

Source: National Conference of State Legislatures, 2009.



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