



TAX POLICY CENTER
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2021 State Tax Trends

Presentation for the Governor's Council on Tax Reform

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Richard Auxier and Kim Rueben

Overview of 2021 tax trends

- Very few states passed major tax changes in 2020
 - Mix of fiscal uncertainty and state capitols shutting down early
 - Exception: New Jersey's income tax increase
 - This does not include “conformity” decisions resulting from CARES
- 2021 state tax legislation falls roughly into four buckets
 1. Targeted pandemic relief for individuals and business
 2. Reforms aimed at post-pandemic work (and tax) environment
 3. Tax increases for revenue (basically the same as pre-pandemic proposals)
 4. Tax cuts for economic growth (basically the same as pre-pandemic proposals)

Pandemic relief: direct checks, EITC, unemployment relief

- **California** relief package included \$600 checks for EITC recipients and ITIN filers (i.e., undocumented immigrants) with less than \$75,000 in household income plus grants for small business
- **Maryland's** relief package included checks (\$300 single; \$500 married) for EITC recipients, increasing the state's EITC from 28% to 45% (and 100% for "childless" workers), making unemployment benefits not taxable, and tax credit for business
- Taxing unemployment (2020): 34 fully taxed, 8 fully exempted, 2 had partial exemptions
- States that exempted unemployment in 2021: **Arkansas, Delaware, Maryland**
 - **DC** is considering but won't apply until next year; **Minnesota** is considering a partial exemption

Tax policy and working from home

- *New Hampshire vs. Massachusetts*
- Massachusetts wants New Hampshire residents who typically work (and pay tax) in MA but who are now working from home in NH to still pay income tax in MA
- New Hampshire took Massachusetts to court to stop them
- New Jersey, Connecticut, Hawaii, and Iowa are supporting New Hampshire
- **Connecticut** also expanded a tax credit to ensure none of its residents (who typically work in New York) are double taxed this year

- **West Virginia's** governor wants a new law that would allow remote workers to work in the state but not trigger nexus for the state's corporate income tax (no legislation yet)

Income tax hikes

- **New Jersey** increased the tax rate on taxable income greater than \$1 million from 8.97% to 10.75% (only major state tax hike in 2020)
- **New York's** governor proposes creating five new tax rates on taxable income greater than \$5 million
- **Pennsylvania's** governor wants to raise the state's flat income tax rate from 3.07% to 4.49% (but a corresponding deduction increase would prevent most residents from paying more tax and in fact give many residents tax cuts)
- **Connecticut's** legislators want new capital gains tax (or an income tax rate hike on high-earners) but the state's governor opposes these tax increases

Note: All of these governors are Democrats

Tax cuts

- Governor proposals to eliminate the state income tax: **Mississippi** and **West Virginia**
 - Both states propose “tax swaps” but are lacking full details
- Governor proposals to lower state income taxes: **Arkansas, Arizona, Iowa, Montana, South Carolina, and Utah**
 - Includes rate cuts, expanding deductions, and exempting Social Security income
- Governor proposals to reduce property taxes: **Idaho** and **Nebraska**

Note: All of these governors are Republicans