Governors’ budgets for FY2020: Tax and Revenue Measures

March 12, 2019

Overview

Most of governors’ fiscal 2020 budget recommendations include some form of revenue increase or decrease proposals. The net revenue impacts for the bulk of them are minor. Only five states propose recurring revenue changes exceeding two percent of general revenues. Below are many of the tax and revenue measures included in governors’ budgets. The three most common tax changes advanced in governors’ budget proposals are: excluding retirement income, taxing electronic cigarettes, and raising the gas tax.

Excluding Retirement Income from Taxation

Governors in 11 states are proposing to exclude or reduce the amount of retirement or social security income from taxation. The most common type of retirement income exclusion or exemption is for military pension income as included in the budgets for Illinois, Indiana, Maryland, Nebraska, North Dakota, South Carolina and Vermont. Michigan plans to exclude all retirement income. Connecticut, Minnesota and West Virginia propose to exempt or increase the exemption for social security income.

Electronic Cigarettes and Vaping Products

Governors in 11 states are seeking tobacco tax changes. Eight states, including Illinois, Massachusetts, New York, Oregon, Rhode Island, Utah, Vermont and Wisconsin, plan to establish taxes on electronic cigarettes and vaping products. Washington and Connecticut include tobacco tax revenue reductions by proposing to raise the legal age to purchase tobacco products to 21. Cigarette tax increases are proposed in three states: Illinois, Montana and Rhode Island.

Gas Tax Increases

Seven states are proposing to increase resources for transportation infrastructure. That would raise to 33 the number of states that have increased motor fuel taxes since 2013. Alabama would see the first increase since 1992 and index the tax to a national measure of highway construction costs. Ohio’s gas tax increase would be the first since 2005. Arkansas seeks to combine vehicle registration fee increases and dedication of casino funds with the gas tax increase to finance the highway plan. Hawaii also proposes a package of gas tax increase and vehicle registration fee increases. Michigan, Minnesota, and Wisconsin propose to index fuel taxes to inflation along with proposed increases. The Wisconsin proposal includes an offset by repealing the minimum markup law for motor fuel.

Personal Income Tax

Ten governors are proposing other changes to the personal income tax. Arkansas’ budget includes a reduction in the top rate and a reduction from six to four brackets. California, Michigan, Minnesota, Virginia and Wisconsin budgets include an increase in their states’ earned income tax credits. Illinois’ governor proposes a constitutional amendment to establish a progressive income tax rate structure to change the current flat tax rate. New Jersey’s governor seeks to apply the top tax rate to incomes over $1 million from the current $5
million threshold. New York’s governor proposes to extend the top tax rate for another five years to 2024. Washington’s governor recommended the establishment of a new capital gains tax and Wisconsin’s governor recommends lowering the income eligibility for their capital gains exclusion and creating a child and dependent care tax credit.

Sales Tax Base Changes/Online Sales

Six governors are proposing some increase in the taxable base for their sales tax. Connecticut seeks to apply the sales tax to professional and personal services along with eliminating some existing exemptions. Rhode Island also proposes to add additional services and activities to its sales tax base. Utah’s governor proposed to broaden the base to tax final consumption, in combination with a sales tax rate reduction and an income tax credit to offset the regressive effects of the sales tax. New York’s budget proposal eliminates the sales tax exemption on energy services. Florida’s governor is proposing several sales tax holidays. Indiana’s budget includes a tax credit for teacher supplies. Tennessee’s governor seeks to exempt two agricultural items. Several states, including Massachusetts, New Mexico, New York, Vermont and Wisconsin are seeking to modernize their sales tax laws by requiring marketplace facilitators to collect and remit sales taxes for online sales used by out-of-state sellers.

Corporate Income Tax/Business Tax

Oregon’s governor proposes adding five new steps to its minimum tax structure. Pennsylvania’s governor included a four-year phase down of the corporate income tax rate by one percent each year, a cap on net operating losses, and the adoption of combined reporting. Washington’s governor is proposing an increase in that state’s gross receipts tax rate. A limit on the income eligible for Wisconsin’s manufacturing tax credit is recommended. Connecticut’s budget includes the elimination of its business entity tax.

Sports Betting

Governors in four states include revenues in their budgets from enacting new sports betting laws: Illinois, Indiana, New Hampshire, and Massachusetts. They would join nine other states and the District of Columbia that have passed sports betting laws.

Property Tax

Governors in Florida and Texas are proposing local property tax relief or limits along with increasing the state funding share for schools. Nebraska’s governor recommends increases in property tax relief and the homestead exemption program. Illinois and Connecticut’s governors are recommending an expansion of property tax credits, in Illinois for homeowners under a certain income, while in Connecticut for all filers, not just elderly and those with dependents. Minnesota includes a reinstatement of an inflation index for statewide property tax paid by businesses. Wisconsin’s governor has asked the legislature to close the “dark store” property tax loophole.
Health Care

North Carolina’s governor proposes an insurance gross premium tax, a portion of which would finance Medicaid expansion. Pennsylvania’s budget includes an increase in its Medicaid provider assessment. A health insurance premium tax credit increase and elimination of the sunset of the health care provider tax are included in Minnesota’s budget recommendation. In Wisconsin’s budget proposal is a medical insurance premium deduction for self-employed individuals. Illinois’ governor proposes a managed care organization assessment for Medicaid funding. In Oregon, the governor proposes to reinstate the insurance and managed care tax that expires at the end of 2019 and revises the state’s hospital assessment structure.

Marijuana Taxes

Several state budgets highlighted new revenues from recreational marijuana taxes, including Massachusetts, New Jersey, New York and Rhode Island.

Other Items

Other tax and revenue policy proposals address a myriad of public purposes in governors’ budgets. Maryland’s governor seeks to permit student loan interest to be deducted from income tax returns. Wisconsin’s governor has advanced a first-time homebuyer tax deduction. Iowa’s budget includes an expansion of the rural workforce housing tax credit and Nevada’s budget includes a new affordable housing credit. Connecticut and Illinois advanced a new plastic bag surcharge or tax. New Jersey, Oregon and Rhode Island would impose a fee or assessment on some employers for each of their Medicaid-eligible employees. South Carolina’s governor recommends a tax rebate from its state surplus funds. Pennsylvania’s budget includes higher estimates of personal income and sales tax revenues associated with raising the state’s minimum wage. Massachusetts expects to generate revenue by taxing the gross receipts of opioid manufacturers from the sale of their products.

If you have any questions please contact John Hicks at jhicks@nasbo.org or 202-624-8804.