

State Tax Changes Taking Effect July 1, 2017

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Key Findings

- Eight states have tax rate changes going into effect on July 1, 2017.
- Indiana has the lone corporate income tax change, with the rate decreasing to 6 percent.
- Kansas is enacting two changes to its income tax code: the repeal of the pass-through carveout coupled with increases in individual income tax rates.
- Tennessee is decreasing its already reduced sales tax rate on groceries from 5 percent to 4 percent.
- Six states – Indiana, Montana, New Jersey, South Carolina, Tennessee, and West Virginia – have increases to their gas tax rates. New Jersey will be implementing the second part of a diesel tax increase passed in 2016.
- Colorado will increase its excise tax on recreational marijuana from 10 percent to 15 percent and will exempt recreational marijuana from the general sales tax.

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Introduction

While most states enact tax changes at the beginning of the calendar year, a number of them implement changes at the beginning of the fiscal year. Eight states have tax changes that will take effect on July 1, 2017, the beginning of the 2018 fiscal year.

Corporate Income Tax

Indiana

Indiana has been reducing its corporate income tax rate from 8.5 percent since 2011, when the state adopted tax reform. In 2014, additional reductions were passed to reduce the rate to 4.9 percent by 2022.¹

Unlike many states, Indiana's corporate tax year tracks the fiscal year, rather than the calendar year. Corresponding with the rate reduction schedule, the corporate tax rate this year will be reduced from 6.25 percent to 6.0 percent on July 1.

Individual Income Tax

Kansas

In 2012, Kansas adopted a tax package that, among other provisions, included a pass-through carveout unlike any state in the country. The carveout allowed pass-through entities to completely forgo income taxes. However, after a legislative override of Governor Brownback's veto in June, Kansas will roll back some elements of the state's 2012 tax package, including the carveout.² The repeal is retroactive to January 1, 2017. Though this is a change to the individual income tax code, it exclusively affects the taxation of certain business formations.

The rollback of 2012 legislation also slightly increases individual income tax rates, but rates remain lower than they were before 2012. The new bill also creates a third tax bracket for income above \$30,000 (single) and \$60,000 (married filing jointly), with the rate set at 5.2 percent retroactive to January 1, 2017, and 5.7 percent in 2018. The bottom two income tax brackets of 2.7 percent and 4.6 percent go to 2.9 percent and 4.9 percent respectively as of January 1, 2017, and 3.1 percent and 5.25 percent respectively in 2018 and thereafter.

¹ Scott Drenkard, "Several States Will Start 2017 with Corporate Tax Reductions," Tax Foundation, February 1, 2017, <https://taxfoundation.org/several-states-will-start-2017-corporate-tax-reductions/>.

² Joseph Henchman, "Kansas Pass-Through Carveout Repealed After Legislature Overrides Gov. Brownback's Veto," Tax Foundation, June 07, 2017, <https://taxfoundation.org/brownback-pledges-veto-kansas-tax-bill/>.

Sales Tax

Tennessee

In combination with gas tax changes, Tennessee is also reducing the sales tax rate on groceries to 4 percent effective July 1, 2017.³ The state already levied a reduced sales tax rate of 5 percent on groceries, lower than the state's general sales tax rate of 7 percent.

Gasoline Tax

Indiana

Indiana will see an increase in the state's gas tax after the state adopted a highway improvement bill this year. Under the new legislation, drivers will see the excise tax on fuel increase 10 cents, from 18 cents to 28 cents per gallon.⁴ Under the new law, all gas taxes collected at the pump will be dedicated to roads by 2025. The state also has a gasoline use tax that varies based on the statewide average retail price per gallon of gasoline (excluding taxes). The July 2017 use tax rate is 12.8 cents per gallon, bringing the total gas tax in Indiana to 40.8 cents per gallon as of July 1, 2017.

Revenues from the excise tax will be directed to the state, but a quarter will be remitted to local governments. The legislation also includes a 10-cent increase to the diesel tax and a variety of vehicle registration fees to further fund highway improvement.

Montana

Montana House Bill 473, adopted in May 2017, will raise the state's gas tax rate for the first time in twenty-four years. The rate will increase by 4.5 cents per gallon this year, raising the gas tax from its current 27 cents to 31.5 cents.⁵ The tax will be phased in over five years, eventually rising to 33 cents by fiscal year 2023. The diesel tax rate will increase 1.5 cents this year to 29.25 cents, eventually reaching 29.75 cents by fiscal year 2023.

³ 2017 TN Acts Ch. 181.

⁴ Indiana Department of Revenue, "Increase in Gasoline License Tax, Special Fuel License Tax, and Motor Carrier Surcharge Tax," May 2017, <http://www.in.gov/dor/>.

⁵ 2017 Mont. Acts Ch. 267.

New Jersey

As part of a \$2 billion transportation funding bill passed last year, both gas and diesel taxes were increased in New Jersey, in November 2016 and January 2017 respectively. The change raised the rate from 14.5 to 37.5 cents per gallon, effective November 1, 2016. The rate on diesel fuel also increased by 15.9 cents per gallon on January 1, 2017, and the second part of the diesel tax increase will go into effect July 1, 2017, increasing the rate to 12.5 percent of the per gallon diesel fuel price (currently approximately \$2.79/gallon, including taxes).⁶ The diesel rate is currently 70 percent of 12.5 percent, or 27 cents per gallon.⁷

An important caveat is that New Jersey's gas tax is tied to consumption, not to the price of gasoline, meaning the rate has the potential to fluctuate. The law caps how much revenue the state can raise from the gas tax at the amount that 23 cents (or 12.85 percent) per gallon would have produced during the 2016 fiscal year. If consumption rises, the rate will decline slightly. If consumption falls, the rate will rise. This design ensures that the tax will bring in a consistent \$1.23 billion in revenue each year.⁸

The transportation bill was passed in conjunction with a tax bill that phases in the repeal of the New Jersey estate tax. The estate tax will be completely eliminated by January 1, 2018.⁹

South Carolina

An infrastructure bill passed this year will go into effect July 1, 2017, raising the gas tax in the state for the first time in thirty years. The gas tax will increase 12 cents over the next five years, eventually rising to 28.75 cents per gallon in 2022. The first increase of 2 cents will go into effect July 1, 2017, raising the tax to 18.75 cents for the next fiscal year. To help quell concerns about regressivity, lawmakers also expanded several tax credits, including the Earned Income Tax Credit, Two-Wage Earner Credit, Tuition Credit, and the Manufacturing Property Tax Exemption.¹⁰

6 GasBuddy, "GasBuddy NewJersey," GasBuddy, June 2017, <http://www.newjerseygasprices.com/index.aspx?fuel=D>.

7 Larry Higgs, "The next part of N.J.'s gas tax hike hits pumps Sunday," NJ.com, January 03, 2017, http://www.nj.com/traffic/index.ssf/2017/01/second_part_of_state_gas_tax_increase_hits_drivers.html.

8 Jared Walczak, "New Jersey's Gas Tax Increase is Just One Part of the Story," Tax Foundation, October 24, 2016, <https://taxfoundation.org/new-jerseys-gas-tax-increase-just-one-part-story/>.

9 Morgan Scarboro, "Does Your State Have an Estate or Inheritance Tax?" Tax Foundation, May 25, 2017, <https://taxfoundation.org/state-estate-inheritance-tax/>.

10 2017 S.C. Act No. 40.

Tennessee

As part of a road funding bill passed earlier this year, Tennessee gas taxes will increase beginning July 1, 2017. Overall the plan increases the state's fuel taxes by 6 cents, from 21.4 cents per gallon to 27.4 cents per gallon by 2019. The bulk of the increases will go into effect this year with a 4-cent increase, followed by 1-cent increases in the subsequent years. The funding bill also affects diesel taxes, increasing them 10 cents to 28.4 cents per gallon, with a 4-cent increase this year, and 3-cent increases in the following two years, eventually reaching 35.4 cents by 2019.¹¹

West Virginia

As part of a push to increase road funding, West Virginia increased the variable component of its excise tax on fuel. The state's gas tax is comprised of two parts: a flat 20.5 cents per gallon and a variable component equal to 5 percent of the average wholesale price of fuel. Previously, the average wholesale price was not allowed to drop below \$2.34, meaning the tax rate was at least 11.7 cents. However, as part of the road funding package, the new minimum wholesale price cannot drop below \$3.04, resulting in a tax equal to at least 15.2 cents.¹² Combined with the 20.5 cents flat rate, the gas tax in West Virginia has risen from 32.2 cents to 35.7 cents, effective July 1. The bill also raised the sales and use tax on motor vehicles from 5 to 6 percent.¹³

Marijuana Tax

Colorado

After Amendment 64 was passed in 2012 legalizing the possession and sale of recreational marijuana, the issue of taxation quickly arose. The question was posed to voters the following year in Proposition AA, which asked residents to approve a 15 percent excise tax and 10 percent sales tax for all recreational marijuana sales.¹⁴ The rate was originally scheduled to drop from 10 percent to 8 percent on July 1, 2017. However, earlier this year, during negotiations regarding a new spending bill, a last-minute marijuana tax hike was included to fill a budget gap. This provision, which was passed along with the spending bill, raises the sales tax from 10 percent to 15 percent, effective July 1, 2017. The bill also exempts recreational marijuana from the state's general sales tax of 2.9 percent, effective July 1, 2017.¹⁵

¹¹ 2017 TN Acts Ch. 181.

¹² W. Va. Code §11-14C-5

¹³ W. Va. Code §11-15-3c

¹⁴ Joseph Henchman and Morgan Scarboro, "Marijuana Legalization and Taxes: Lessons for Other States from Colorado and Washington," Tax Foundation, May 12, 2016, <https://taxfoundation.org/marijuana-taxes-lessons-colorado-washington/>.

¹⁵ 2017 Colo. Sess. Laws, ch. 267.

As of July 1, 2017, recreational marijuana will be subject to several taxes: the increased 15 percent excise tax on final retail sales, a 15 percent tax on the average market price of retail marijuana that's imposed on the first sale or transfer from a cultivation facility to a retail store, and any local marijuana excise taxes.