



State Tax Changes Taking Effect July 1, 2018

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Key Findings

- Eleven states have tax changes scheduled to go into effect on July 1, 2018.
- Indiana has the lone corporate income tax change, with the rate decreasing 0.25 percent to 5.75 percent.
- Kentucky is broadening its sales tax base by including select services.
- Louisiana extended its previous temporary 1 percent sales tax hike at a lower rate of .45 percent. The state sales tax rate will be 4.45 percent.
- Massachusetts will begin sales of recreational marijuana and levy a state excise tax rate of 10.75 percent. Localities will have the option of levying additional local taxes.
- Oklahoma and Kentucky are increasing their cigarette taxes: Oklahoma from \$1.03 to \$2.03 per pack, Kentucky from \$0.60 to \$1.10.
- Four states have online sales tax legislation, but may need more time to tweak legislation and issue guidance.
- Three states, Oklahoma, South Carolina and Tennessee, are increasing their gas tax rates.
- Oregon will levy a .001 percent payroll tax on employee wages.

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Introduction

The majority of states enact tax changes at the start of the calendar year; however, some states implement changes at the beginning of the fiscal year. Eleven states have tax changes taking effect on July 1, 2018, the beginning of the 2019 fiscal year.

Corporate Income Tax

Indiana

Indiana has been taking steps to reduce its corporate income tax rate since 2011. As part of an additional tax package passed in 2014 to phase down the corporate income tax to 4.9 percent by 2022,¹ Indiana's corporate income tax rate will decrease from 6.0 percent to 5.75 percent on July 1.²

Gasoline Tax

Oklahoma

As part of the funding package passed to raise teacher pay in the state, Oklahoma will levy an additional 3 cents per gallon tax on gasoline, and an additional 6 cents per gallon tax on diesel fuel. These increases are in addition to the existing 16 cents per gallon rate on gasoline and 13 cents per gallon tax on diesel fuel.³ All revenues from the additional gas taxes will be deposited into the General Fund until July 1, 2019, when new revenues will then be directed to the Rebuilding Oklahoma Access and Driver Safety Fund.⁴

Oklahoma's Supreme Court is currently hearing two challenges to a referendum petition being circulated to repeal House Bill 1010, the legislation responsible for Oklahoma's tax changes in July. One challenge contends that the referendum petition process being pursued by opponents of the funding package is prohibited for matters including public education. The second challenge contends the petition's summary is misleading, incomplete, and lacks the basic requirements, including providing an exact copy of the bill the petition addresses.⁵

1 Scott Drenkard, "Indiana's 2014 Tax Package Continues State's Pattern of Year-Over-Year Improvements," Tax Foundation, April 7, 2014, <https://taxfoundation.org/indiana-s-2014-tax-package-continues-state-s-pattern-year-over-year-improvements/>.

2 Indiana Department of Revenue, "Corporate Tax Rate History," IN.gov, 2018, <https://www.in.gov/dor/3470.htm>.

3 Oklahoma Tax Commission, "Important Changes to Impact July 2018 Motor Fuel Sales," ok.gov, 2018, <https://www.ok.gov/tax/documents/IMPORTANT%20CHANGES%20TO%20IMPACT%20JULY%202018%20MOTOR%20FUEL%20SALES.pdf>

4 Oklahoma Tax Commission, "Fiscal Impact Statement and/or Administrative Impact Statement," oklegislature.gov, 2018, http://webserver1.lsb.state.ok.us/cf_pdf/2017-18%20SUPPORT%20DOCUMENTS/impact%20statements/fiscal/senate/HB1010XX%20ENR%20FI.PDF

5 Chris Casteel, "Oklahoma Supreme Court to hear arguments on tax repeal as group warns of teacher walkout," newsok.com, June 11, 2018, <https://newsok.com/article/5597640/oklahoma-supreme-court-to-hear-arguments-on-tax-repeal-as-group-warns-of-teacher-walkout>.

South Carolina

An infrastructure bill that passed in 2017 will increase the gas tax from 18 cents to 20 cents per gallon.⁶ This increase is part of a five-year plan that ultimately raises the gas tax to 28.75 cents per gallon in 2022.⁷ Revenue generated through the five-year increase will go toward the Infrastructure Maintenance Trust Fund.⁸

Tennessee

As part of a road funding bill passed in 2017, the gas tax will increase this year from 24 cents per gallon to 25 cents per gallon.⁹ The diesel tax will also increase, from 21 cents per gallon to 24 cents per gallon.¹⁰ The road funding bill will ultimately raise the gas tax by 6 cents, from 21.4 cents per gallon to 27.4 cents per gallon, and the diesel tax by 18.4 cents, from 17 cents per gallon to 35.4 cents per gallon, by 2019.¹¹

Sales Tax

Online Sales Tax Collection

After the U.S. Supreme Court handed down its decision in *South Dakota v. Wayfair* permitting states to collect sales taxes on sellers with no physical presence in the state, states rushed to understand what it meant for the tax base.¹² Several states – Connecticut, Hawaii, Kentucky, and North Dakota – already had some form of online sales tax legislation with an effective date of July 1, 2018. Several of these states prepared their legislation with the *Wayfair* case pending and will likely need to make legislative tweaks and issue more guidance to retailers before they are ready to begin sales tax collections from out-of-state sellers.

Kentucky

Kentucky's House Bill 366 broadens the sales tax base by now including select services previously exempt from taxation. The sales tax base expansion is part of a larger tax reform package passed earlier this year that cuts rates on the individual and corporate level and broadens the tax base. Extended warranty services, facility/event admission fees, indoor skin tanning services, janitorial services, labor charges for installation or repair of personal or digital property, or services sold, landscape services, limousine services, laundry/dry cleaning services, nonmedical and weight-reducing services, pet care services, campsite rentals, and veterinary services are now subject to a 6 percent sales tax, effective July 1, 2018.¹³

6 South Carolina Department of Revenue, "Motor Fuel User Fee," dor.sc.gov, 2018, <https://dor.sc.gov/tax/motor-fuel>.

7 Morgan Scarboro and Andrew Eichen, "State Tax Changes Taking Effect July 1, 2017," Tax Foundation, June 27, 2017, <https://taxfoundation.org/state-tax-changes-july-1-2017/>.

8 South Carolina Department of Revenue, "Motor Fuel."

9 Tennessee Department of Revenue, "Due Dates and Tax Rates," TN.gov, n.d., <https://www.tn.gov/revenue/taxes/motor-fuel-taxes/due-dates-and-tax-rates.html>.

10 Ibid.

11 Scarboro and Eichen, "State Tax Changes Taking Effect July 1, 2017."

12 Joseph Bishop-Henchman, "Supreme Court Decides Wayfair Online Sales Tax Case," Tax Foundation, June 21, 2018, <https://taxfoundation.org/supreme-court-decides-wayfair-online-sales-tax-case/>.

13 TaxAnswers, "Sales and Excise Taxes," ky.gov, 2017, <https://taxanswers.ky.gov/Sales-and-Excise-Taxes/Pages/default.aspx>.

Louisiana

In the state's third special session, Louisiana approved a partial extension of the state's temporary sales tax hike. A 1 percent increase in the sales tax was scheduled to expire July 1, but after heated debate, legislators have approved an extension at a lower rate, a .45 percent increase. As of July 1, the state sales tax rate will be 4.45 percent.¹⁴

Cigarette Tax

Oklahoma

Included in the same funding package as the gas tax, House Bill 1010 also increases the tax on cigarette sales from \$1.03 per pack of 20 cigarettes to \$2.03 per pack of 20 cigarettes.¹⁵ Additional revenues from the tax increase will be deposited into the the General Fund for one year. After July 1, 2019, funds will be deposited into the Health Care Enhancement Fund.¹⁶

Kentucky

An additional component of Kentucky's House Bill 366, which broadens the sales and income tax bases and lowers the corporate and individual income tax rates among other changes, is an increase of the cigarette tax from \$0.60 to \$1.10 per 20-count pack of cigarettes.¹⁷

Marijuana Tax

Massachusetts

Voters approved the sales of recreational marijuana via Question 4, a ballot initiative, in November 2016.¹⁸ After more than a year spent crafting regulations and rules, Massachusetts will begin recreational marijuana sales on July 1, 2018.¹⁹ Worried the tax rates outlined in Question 4 were too low, policymakers increased the rates. The state sales tax of 6.25 percent was maintained, the state excise tax was increased from 3.75 to 10.75 percent, and the localities' option of levying a maximum 2 percent tax was increased to 3 percent, for a maximum tax rate of 20 percent.²⁰

14 Louisiana Department of Revenue, "Revenue Information Bulletin 18-016," revenue.louisiana.gov, 2018, <http://revenue.louisiana.gov/LawsPolicies/RIB%2018-016%20Decrease%20in%20State%20Sales%20Tax%20Rate%20to%20be%20Effective%20July%201%202018.pdf>.

15 Laura Lieberman, "Extras on Excise: Oklahoma's New Tax Bill Spells Big Changes for Excise Tax Regimes," Bloomberg BNA, April 4, 2018, <https://www.bna.com/extras-excise-oklahomas-b57982090816/>.

16 Oklahoma Tax Commission, "Fiscal Impact Statement And/Or Administrative Impact Statement," oklegislature.gov, 2018, http://webserver1.lsb.state.ok.us/cf_pdf/2017-18%20SUPPORT%20DOCUMENTS/impact%20statements/fiscal/senate/HB1010XX%20ENR%20FI.PDF

17 Morgan Scarboro, "Kentucky Legislature Overrides Governor's Veto to Pass Tax Reform Package," Tax Foundation, April 16, 2018, <https://taxfoundation.org/kentucky-tax-reform-package/>.

18 *The New York Times*, "Massachusetts Question 4 - Legalize Marijuana - Results: Approved," Aug. 1, 2017, <https://www.nytimes.com/elections/results/massachusetts-ballot-measure-4-legalize-marijuana>.

19 Nik DeCosta-Klipa, "Marijuana shops become legal in Massachusetts in less than two months. Here's what to expect," boston.com, May 7, 2018, <https://www.boston.com/news/local-news/2018/05/07/massachusetts-recreational-marijuana-stores-july-1>.

20 Morgan Scarboro, "Massachusetts Increases Marijuana Tax Rate," Tax Foundation, Aug. 1, 2017. <https://taxfoundation.org/massachusetts-marijuana-tax-increase/>.

Payroll Tax

Oregon

Oregon will begin levying a .001 percent payroll tax on employee wages, on both residents and non-residents. Employers will withhold the tax from employee wages, but will not face an employer-side payroll tax. Revenue from the tax will be used to fund a transportation package passed in 2017.²¹

²¹ Oregon Department of Revenue, "New transportation tax withholding starts July 1," oregon.gov, June 26, 2018, <https://www.oregon.gov/newsroom/Pages/NewsDetail.aspx?newsid=2793>.