Champagne will flow, *Auld Lang Syne* will be sung, resolutions will be made (and soon forgot, and never brought to mind), and, in a handful of states, taxes will change.

There is less January 1st activity than we usually see, but this does not mean 2018 was a quiet year. Rather, state consideration of tax conformity after the enactment of the Tax Cuts and Jobs Act (TCJA) of 2017 moved many changes forward, with rate reductions and other adjustments adopted midyear made retroactive to the start of the year. For instance, Idaho, Utah, and Vermont all trimmed income tax rates this year—but made them effective January 1 of 2018, not 2019.¹

This was also a significant year for ballot measures, but some of the changes approved by the voters will take time to go into effect. Voters approved the legalization and taxation of marijuana in both Michigan and Missouri, but marijuana won’t go on sale in these states on January 1st.² Lawmakers and regulators still have work ahead of them before the new regimes go into effect.

Finally, many legislatures postponed at least some elements of their conformity considerations to 2019. In some cases, they didn’t update their conformity statutes at all. In others, states punted on what to do with the new revenue and will have to decide in 2019 whether to return it in the form of tax reform or other tax relief, or whether to add it to the budget baseline.

So while this January 1st will be a little quieter than usual on the tax front, there is no reason to expect anything less than a frenetic pace in the new year. Here are the significant tax changes taking effect on January 1, 2019.


In **Arkansas**, low-income tax relief legislation goes into effect on January 1st. Arkansas is unique among states inasmuch as it has three entirely different rate schedules depending on total taxable income. As taxpayers’ income rises, they not only face higher marginal rates but also shift into entirely different rate schedules. In the new year, the top rate for the lowest schedule (for income between $12,600 and $20,999) will decline from 4.4 to 3.4 percent, with lower brackets seeing rate reductions as well. The lowest bracket (the first $4,299 of taxable income) of the next rate schedule, for filers earning between $21,000 and $75,000, also sees a rate cut, from 0.9 to 0.75 percent.³

### TABLE 1.
**Arkansas Income Tax Rates (2019)**

<table>
<thead>
<tr>
<th>Total Income Under $21,000</th>
<th>Total Income Between $21,000 and $75,000</th>
<th>Total Income Above $75,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Bracket</td>
<td>Tax Rate</td>
<td>Income Bracket</td>
</tr>
<tr>
<td>$0-$4,299</td>
<td>0.0%</td>
<td>$0-$4,299</td>
</tr>
<tr>
<td>$4,300-$8,399</td>
<td>2.0%</td>
<td>$4,300-$8,399</td>
</tr>
<tr>
<td>$8,400-$12,599</td>
<td>3.0%</td>
<td>$8,400-$12,599</td>
</tr>
<tr>
<td>$12,600-$20,999</td>
<td>3.4%</td>
<td>$12,600-$20,999</td>
</tr>
<tr>
<td>$21,000-$35,099</td>
<td>5.0%</td>
<td>$21,000-$35,099</td>
</tr>
<tr>
<td>$35,100-$75,000</td>
<td>6.0%</td>
<td>$35,100-$75,000</td>
</tr>
</tbody>
</table>

Note: The exact brackets will change slightly due to Arkansas’s policy of inflation adjusting its brackets annually. Source: Act 78, Arkansas 2017.

In **Georgia**, both the corporate rate and the top marginal individual income tax rate will decline from 6.0 to 5.75 percent on January 1st to offset additional revenue due to the base-broadening provisions of the TCJA. Because many of those federal provisions are temporary, these state rate reductions have a sunset provision, expiring at the end of 2025 (when individual income tax changes are scheduled to sunset at the federal level).⁴

In **Mississippi**, a franchise tax phasedown which began in 2018 (with the implementation of a small exemption) continues with a rate reduction, from 2.5 to 2.25 mills, as of January 1, 2019. The tax will slowly phase out through 2028. The amount of federal self-employment taxes individuals can deduct is also slated to rise in 2019.⁵

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In Missouri, the first stage of a recently-adopted tax reform package will take effect with the elimination of one bracket of the state's individual income tax and the reduction of the top rate from 5.9 to 5.4 percent. This will be paired with a phased reduction in the ability of high earners' ability to claim a deduction for federal taxes paid and a cap on the expansion of the state's tax preference for pass-through income. Further reform is slated for 2020, when shifting to a unitary apportionment factor (companies currently get their choice of single sales factor or three-factor apportionment; in 2020, nearly all companies will be subject to single sales factor apportionment) will permit a reduction in the corporate rate, from 6.25 to 4.0 percent.6

In New Hampshire, the state's two business taxes will see rate reductions for the second year in a row. Legislation adopted in 2017 phases in reductions of the business profits tax (BPT, the state's corporate income tax) and the business enterprise tax (BET, a kind of value-added tax). In 2018, the BPT declined from 8.2 to 7.9 percent and the BET from 0.72 to 0.675 percent. On January 1, 2019, the rates decline further, to 7.7 and 0.60 percent respectively.7

In North Carolina, the individual income tax rate will decline from 5.499 to 5.25 percent, while the corporate income tax rate will be trimmed from 3.0 to 2.5 percent, the nation's lowest corporate rate,8 as the state continues to meet revenue targets. Although no further reductions are currently scheduled, some legislators are already beginning to contemplate repealing the tax outright in coming years. Although North Carolina's corporate income tax is now extremely competitive, the state does still have a large capital stock tax on the books.

And Georgia, Iowa, Louisiana, Nebraska, and Utah are all scheduled to begin collecting sales taxes from remote sellers as of January 1, joining 20 states which already do so.9

The coming year promises to be an active one in the realm of tax policy. With issues like the taxation of marijuana and sports betting coming to the fore and the taxation of remote sales increasingly within states' reach, along with the ongoing ripple effects of federal tax reform, January's rate changes are only the beginning.

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8 North Carolina Session Law 2017-57.