



State Tax Changes Effective July 1, 2020

FISCAL FACT

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Key Findings

- Nineteen states had notable tax changes take effect on July 1, 2020.
- Indiana had the lone corporate income tax change, with the rate decreasing from 5.5 to 5.25 percent.
- Two states, Louisiana and Mississippi, began requiring marketplace facilitators to collect sales and use taxes.
- Illinois now requires remote sellers to collect state and local sales taxes, rather than use taxes.
- North Carolina now requires marketplace facilitators to collect local meals taxes.
- New sales tax exemptions took effect in Virginia and Washington.
- As part of a gradual phaseout, New Jersey reduced the sales tax rate on medical marijuana.
- Utah, Virginia, and Wyoming have newly begun taxing vapor products, and Kentucky's new vapor tax is scheduled to take effect on August 1.
- Virginia doubled its cigarette tax from 30 to 60 cents per pack.
- Three states—California, South Carolina, and Virginia—increased their statutory excise tax rate on motor fuel.
- Iowa reduced its excise tax rate on certain ethanol-based motor fuels.
- Colorado, North Carolina, and Virginia modified various transportation-related user fees.

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Introduction

Although the majority of state tax changes take effect at the start of the calendar year, some are implemented at the beginning of the fiscal year. Nineteen states had notable tax changes take effect on July 1, 2020, which is the first day of fiscal year (FY) 2021 for every state except Alabama, Michigan, New York, and Texas.¹ Pandemic-shortened sessions contributed to less—and different—activity on the tax front than is seen in most years, and will likely yield an unusually active summer and autumn, with many legislatures considering new measures during special sessions.

Corporate Income Tax

Indiana

Indiana has been incrementally reducing its corporate income tax rate since 2011. As part of an additional tax package passed in 2014 to phase down the corporate income tax rate to 4.9 percent by 2022,² Indiana's corporate income tax rate decreased from 5.5 to 5.25 percent on July 1.³

Sales and Use Tax

Illinois

As of July 1, Illinois' sales and use tax collection rules have changed for remote sellers under S.B. 689, a bill that was enacted in June 2019. Remote sellers are now required to collect the Retailers' Occupation Tax (Illinois' sales tax), including both the state and local sales tax amounts, based on delivery location.⁴ Previously, remote sellers fell under the use tax statute, and since Chicago is the only Illinois locality with its own use tax, calculating the appropriate use tax amount was relatively straightforward.⁵

Louisiana

As of July 1, Louisiana requires remote sellers and marketplace facilitators to collect state and local sales and use taxes. Specifically, remote sellers or marketplace facilitators with more than \$100,000 in gross revenue from sales into Louisiana, or with at least 200 transactions into Louisiana, must register with the Louisiana Sales and Use Tax Commission for Remote Sellers within 30 days of exceeding such thresholds and begin collecting state and local sales and use taxes.⁶ S.B. 138, the bill that establishes the state's economic nexus policies and marketplace facilitator requirements, was signed into law on June 11.

1 Gail Cole, "Sales Tax Rate Changes, July 2020," Avalara, June 29, 2020, <https://www.avalara.com/us/en/blog/2020/06/sales-tax-rate-changes-july-2020.html>.

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

3 "Corporate Tax and Sales Tax History," Indiana Department of Revenue, 2020, <https://www.in.gov/dor/3470.htm>.

4 "State Notices & Resources for Remote Sellers," Sales Tax Institute, July 1, 2020, <https://www.salestaxinstitute.com/resources/state-notices-resources-for-remote-sellers#:~:text=H.B.%20379%20%E2%80%93%20Mississippi%20Marketplace%20Facilitator,signature%2C%20June%2019%2C%202020>.

5 Stanley R. Kaminski, "Illinois Enacts Major Tax Changes," Duane Morris LLP, July 10, 2019, <https://www.lexology.com/library/detail.aspx?g=0f529b68-fe8a-42b6-8256-8ace0704391a>.

6 Gail Cole, "New Louisiana Sales Tax Collection Requirements for Remote Sellers and Marketplace Facilitators," Avalara, June 15, 2020, <https://www.avalara.com/us/en/blog/2020/06/new-louisiana-sales-tax-collection-requirements-for-remote-sellers-and-marketplace-facilitators.html>.

Mississippi

H.B. 379, signed into law June 30, requires marketplace facilitators with more than \$250,000 in sales into Mississippi to begin collecting and remitting sales and use taxes as of July 1.⁷

New Jersey

New Jersey is phasing out the application of the state sales tax to medical marijuana purchases. As of July 1, the tax has been reduced from 6.625 to 4 percent. Next July, the tax is scheduled to be further reduced to 2 percent, and in July 2022, the tax is scheduled to phase out completely.⁸

North Carolina

In North Carolina, a recently enacted law took effect on July 1 that clarifies that the application of North Carolina's sales tax to audio and audiovisual works does not include online classes.⁹

Virginia

A new sales tax exemption took effect in Virginia on July 1. The sales tax will not apply to sales of gun safes that are sold for a price of \$1,500 or less.¹⁰

Washington

SB 5147, enacted on April 3, created a permanent sales tax exemption for feminine hygiene products, effective July 1.¹¹

Cigarette, Vapor, and Marijuana Taxes

California

On July 1, California's vapor tax was reduced from 59.27 to 56.93 percent of the wholesale price. On an annual basis, California's tax on other tobacco products (OTP), including vapor products, is adjusted to bring it into parity with the effective rate of taxes levied on cigarettes.¹² An increase in the average retail price of cigarettes has thus caused the effective rate of the \$2.87 per pack cigarette tax to decline, triggering the automatic reduction in taxes on OTP, including vapor products.¹³

7 "State Notices & Resources for Remote Sellers," Sales Tax Institute.

8 "Notice: Sales Tax Rate Change for Sales of Medical Marijuana," New Jersey Division of Taxation, June 19, 2020, <https://www.state.nj.us/treasury/taxation/marijuanasalestaxchangenotice.shtml>.

9 Nyamekye Daniel, "Bill to Exempt Taxes on Some Digital Content Awaits Vote in North Carolina Senate," The Center Square, May 21, 2020, https://www.thecentersquare.com/north_carolina/bill-to-exempt-taxes-on-some-digital-content-awaits-vote-in-north-carolina-senate/article_0e80f4b8-9b9b-11ea-832f-772ace19fb15.html.

10 "New Virginia Tax Laws for July 1, 2020," Virginia Department of Taxation, <https://www.tax.virginia.gov/news/new-virginia-tax-laws-july-1-2020>.

11 Gail Cole, "Sales Tax Rate Changes, July 2020."

12 "New Tax Rate on Other Tobacco Products Effective July 1, 2020 through June 30, 2021," California Department of Tax and Fee Administration, April 2020, <https://www.cdtfa.ca.gov/taxes-and-fees/L747.pdf>.

13 "Tax Guide for Cigarettes and Tobacco Products," California Department of Tax and Fee Administration, <https://www.cdtfa.ca.gov/industry/cigarette-and-tobacco-products.htm>.

Kentucky (August 1)

Kentucky recently enacted a new vapor tax, which is scheduled to take effect on August 1 rather than July 1. HB 351, which was enacted in April, divides vapor products into open tank systems and cartridge-based systems, taxing them at separate rates. Open tank systems will be taxed at 15 percent of wholesale value, while cartridges will be taxed at \$1.50 per unit.¹⁴

Utah

Utah has begun taxing vapor products at 56 percent of the wholesale price. SB 37, enacted on March 30, established the state's vapor tax.¹⁵

Virginia

Effective July 1, excise taxes on cigarettes and other tobacco products have doubled. Cigarettes are now taxed at 60 cents per pack, up from 30 cents per pack, and other tobacco products are taxed at 20 percent of the manufacturer's sales price, up from 10 percent.¹⁶ In addition, liquid nicotine vapor products are newly taxed at a rate of 6.6 cents per milliliter.

Wyoming

Effective July 1, Wyoming has newly begun taxing vapor products. HB 73, signed into law on March 10, levies a tax on Wyoming businesses that manufacture, import, or sell vapor products. The tax is levied at 15 percent of the wholesale price.¹⁷

Transportation Taxes and User Fees

California

California's motor fuel taxes increased on July 1 due to a 2017 transportation funding law that increased gasoline and diesel tax rates. The gas tax increased from 47.3 to 50.5 cents per gallon, and the diesel tax increased from 36 to 38.5 cents per gallon. As of July 1, the gas tax, but not the diesel tax, is indexed for inflation.¹⁸

14 Ulrik Boesen, "Kentucky Legislature Passes Flawed Excise Tax on Vapor Products," Tax Foundation, Apr. 10, 2020, <https://taxfoundation.org/kentucky-tax-on-vapor-products/>.

15 "New Tax and Bond Requirement for Certain Electronic Cigarettes Products," Utah State Tax Commission Tax Bulletin 04-20, <https://tax.utah.gov/bulletin/tb-04-20.pdf>.

16 "What is Virginia's Cigarette Tax?" Virginia Department of Taxation, <https://www.tax.virginia.gov/cigarette-tax>; "What is Virginia's Tobacco Products Tax?" Virginia Department of Taxation, <https://www.tax.virginia.gov/tobacco-products-tax>.

17 "Taxing Issues," Wyoming Department of Revenue, Vol. 23, Qtr. 2, June 2020, https://0ebaeb71-a-84cef9ff-s-sites.googlegroups.com/a/wyo.gov/wy-dor/06-2020TaxingIssues.pdf?attachauth=ANoY7crdzwENQJkpSBx4Nb-GyCQNi72zzwBzjmu2TBPWjCMeRU87j_H4u_B2UdRWJu-O7KvnlZ5veL2T4TnDAm7FmXa8mTi4Lc7oG1UNG0tcagMPwQ9UfzGOKrBp9LbgWr9LUNFyYww1zMml_qOqzTUIp1WDfO-yXobhNXXNj2Or2ftqQANX5gAN3IFqJsecSxCVPCvFShlCDs-EYobLF-sy6XadDul2Yxg%3D%3D&attredirects=0.

18 Keith Goble, "Fuel Tax Rate Changes Begin in Eight States on July 1," *Land Line*, July 1, 2020, <https://landline.media/fuel-tax-rate-changes-begin-in-eight-states-on-july-1/>.

Colorado

The Colorado Division of Motor Vehicles has increased driver license fees in accordance with an existing state law that allows the Division to increase fees by no more than 5 percent per year.¹⁹

Iowa

SF 2403, enacted on June 30, reduced the excise tax on ethanol-blended motor fuel, effective July 1. Gasoline will be taxed at 30 cents per gallon, down from 30.5 cents per gallon, and other ethanol-blended fuel types will be taxed according to ethanol content.²⁰

North Carolina

In accordance with state law, North Carolina's Division of Motor Vehicles adjusts transportation-related fees every four years to account for inflation. As of July 1, approximately 90 transportation-related fees have increased by 7.86 percent.²¹

South Carolina

South Carolina is continuing to phase in a two-cent-per-year increase in its motor fuel tax following enactment of a 2017 transportation funding law. As of July 1, South Carolina's gas tax is 24 cents per gallon, and it is scheduled to increase two cents per year until it reaches 28 cents per gallon in 2022.²²

Virginia

Virginia's gas tax increased from 16.2 to 21.2 cents per gallon as part of a transportation bill enacted earlier this year. Next July, the gas tax will increase by another five cents, to 26.2 cents per gallon.²³ While gas taxes have increased, vehicle registration fees for most types of vehicles have been reduced by \$10. In addition, the \$64 annual fee on electric and alternative fuel vehicles has been replaced with a highway use fee that varies with fuel efficiency but will reportedly average \$19 for fuel-efficient vehicles in the first year, and will initially be set at \$88.20 for the owners of electric and alternative fuel vehicles.²⁴

Various States

In multiple states, including Connecticut, Illinois, Indiana, Maryland, and Nebraska, motor fuel taxes were adjusted July 1 either due to inflation or changes in the price of fuel.²⁵

19 "Colorado Division of Motor Vehicles Adjusts Licensing Fees for First Time in Years," Colorado Department of Revenue, June 22, 2020, <https://www.colorado.gov/pacific/dmv/colorado-division-motor-vehicles-adjusts-licensing-fees-first-time-years>.

20 "Iowa Fuel Tax Rate Change Effective July 1, 2020," Iowa Department of Revenue, June 30, 2020, <https://tax.iowa.gov/iowa-fuel-tax-rate-change-effective-july-1-2020>.

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22 "Coming July 1: Changes at the Pump – Motor Fuel User Fee Increases \$0.02," South Carolina Department of Revenue, June 2, 2020, [https://dor.sc.gov/resources-site/media-site/Pages/Coming-July-1--Changes-at-the-pump--Motor-Fuel-User-Fee-increases-\\$0-02.aspx](https://dor.sc.gov/resources-site/media-site/Pages/Coming-July-1--Changes-at-the-pump--Motor-Fuel-User-Fee-increases-$0-02.aspx).

23 Keith Goble, "Fuel Tax Rate Changes Begin in Eight States on July 1," <https://landline.media/fuel-tax-rate-changes-begin-in-eight-states-on-july-1/>.

24 "New Law Means Lower Vehicle Registration Fees in Virginia, But Added Highway Use Fee," WHSV3, June 5, 2020, <https://www.wHSV.com/content/news/New-law-means-lower-vehicle-registration-fees-in-Virginia-571046151.html>.

25 Keith Goble, "Fuel Tax Rate Changes Begin in Eight States on July 1."

Miscellaneous Excise Taxes

Connecticut

Amid the COVID-19 pandemic, Connecticut suspended collection of its 10-cent-per-bag fee on single-use plastic bags starting on March 27, but the fee was reimposed effective July 1.²⁶ The state is also continuing a two-step reduction in its admissions tax. Last July, the tax decreased from 10 to 7.5 percent, and this year, the tax was further reduced to 5 percent.²⁷ A new top marginal rate for the state's real estate conveyance tax is being imposed as of July 1. Finally, the business filing fee has increased from \$20 to \$80, applicable as of July 1.

North Carolina

H.B. 1080, signed into law the day before it took effect, requires marketplace facilitators that facilitate the ordering and delivery of prepared foods and beverages to collect and remit local meals taxes to the localities that levy them.²⁸

Utah

Under SB 114, enacted on March 31, restaurants, rather than marketplace facilitators that facilitate restaurant ordering and delivery services, will be responsible for collecting and remitting any applicable sales and restaurant taxes.²⁹

Virginia

Electronic skill game distributors are now subject to a tax of \$1,200 per game per month for each qualifying game provided for play. Of the revenue collected, 84 percent will be designated to the state's new COVID-19 Relief Fund. This tax is scheduled to expire after one year.³⁰ In addition, Virginia's "litter tax" has doubled. The tax will now be levied at a rate of \$20 per business location per year (and an additional \$30 per location per year for businesses that sell groceries, soda, or beer). Virginia's litter tax is due on May 1 every year and is paid by any business that manufactures, distributes, or sells food, beverages, tobacco products, containers, motor vehicle parts, and certain paper, household, and personal care products.³¹ The Virginia Department of Taxation has published a report detailing these and many other less notable tax changes that were enacted in Virginia during the 2020 legislative session and took effect on July 1.³²

26 Eliza Fawcett, "The Pandemic Continues, but Connecticut's Single-Use Plastic Bag Fee will Return Wednesday," *Hartford Courant*, June 30, 2020, <https://www.courant.com/news/connecticut/hc-news-plastic-bag-tax-returns-20200630-xyixfuxfhzdyzf2ieeqm6bncgq-story.html>.

27 "Effective Dates of Tax Changes in FY 20-21 Budget Act," Connecticut Office of Legislative Research, Jan. 7, 2020, <https://www.cga.ct.gov/2020/rpt/pdf/2020-R-0021.pdf>.

28 Lauren Loricchio, "North Carolina Governor Signs IRC Conformity Bill," *Tax Analysts*, July 1, 2020, <https://www.taxnotes.com/tax-notes-today-state/federal-and-state-conformity/north-carolina-governor-signs-irc-conformity-bill/2020/07/01/2cp37>.

29 "Restaurants Must Collect and Pay Taxes on Deliveries," Utah State Tax Commission, Notice May 2020, <https://tax.utah.gov/notice/2020-07-01-tax-notice.pdf>.

30 "Virginia Tax Department: New Tax Laws in Effect July 1," *Tax Analysts*, July 1, 2020, <https://www.taxnotes.com/tax-notes-today-state/legislation-and-lawmaking/virginia-tax-department-new-tax-laws-effect-july-1/2020/07/01/2cnyc>.

31 "Who Must Pay Litter Tax?" Virginia Department of Taxation, <https://www.tax.virginia.gov/litter-tax>.

32 "2020 Legislative Summary," Virginia Department of Taxation, May 29, 2020, <https://www.tax.virginia.gov/sites/default/files/inline-files/2020-legislative-summary.pdf>.

Other Taxes and Fees

Tennessee

Effective July 1, Tennessee has expanded eligibility for an existing tax credit that reduces franchise and excise tax liability for cleanup and development of brownfield sites.³³

Wisconsin

Several obsolete refundable tax credits were repealed following enactment of S.B. 362 in November 2019. Most of these credits were repealed effective November 24, 2019, but the repeal of the Woody Biomass Harvesting and Processing Credit took effect July 1.³⁴

33 Caleb Wethington, "Tennesseans, Some New Laws Starting July 1," WATE.com, June 30, 2020, <https://www.wate.com/news/tennessee/tennesseans-some-new-laws-starting-july-1/>.

34 "Wisconsin Tax Bulletin," Wisconsin Department of Revenue, No. 208, January 2020, 2, <https://www.revenue.wi.gov/WisconsinTaxBulletin/208-01-20-WTB.pdf>.