



**FISCAL
FACT**
No. 771
June 2021

State Tax Changes Taking Effect July 1, 2021

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Key Findings

- Thirteen states have notable tax changes taking effect July 1, 2021.
- Indiana has the lone corporate income tax rate change, with the rate decreasing from 5.25 to 4.9 percent.
- Montana will begin using a corporate income tax apportionment formula with a double-weighted sales factor.
- Idaho will offer a one-time individual income tax rebate. (That same law reduces the state's individual and corporate income tax rates, retroactive to January 1, 2021.)
- Illinois will begin shifting revenue from its sales tax on motor fuel to the road fund.
- Two states, Florida and Kansas, have sales tax economic nexus statutes taking effect.
- New Jersey will continue removing medical marijuana from its sales tax base.
- Several changes to New Mexico's sales tax, known as its "gross receipts tax," will take effect.
- Utah will collect taxes on additional nicotine products.
- Virginia will authorize all counties to levy cigarette taxes.
- South Carolina and Virginia's motor fuel taxes will increase.
- Louisiana's taxes on sports betting will take effect.
- Vermont will require marketplace facilitators to collect and remit the universal service charge on sales of prepaid wireless telecommunications services.
- Two states, Idaho and Iowa, adopted significant tax rate changes in 2021 with effective dates that are retroactive to January 1, 2021.

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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. Individual and corporate income tax changes usually take effect at the beginning of the calendar year for the sake of maintaining policy consistency throughout the tax year, but sales and excise tax changes often correspond with the beginning of a fiscal year. Thirteen states have notable tax changes taking effect on July 1, 2021, which is the first day of fiscal year (FY) 2022 for every state except Alabama, Michigan, New York, and Texas.¹

Corporate Income Tax Changes

Indiana

Indiana has been incrementally reducing its corporate income tax rate since July 2012,² and the final planned phase of that reduction will take effect this July, when the rate will drop from 5.25 to 4.9 percent.³

Montana

Montana is among a growing number of states to adopt a corporate income tax apportionment formula that weights sales more heavily than payroll and property. Senate Bill 376, signed into law on May 11, 2021, replaces the state's equally weighted three-factor apportionment formula with a double-weighted sales factor apportionment formula, effective July 1, 2021. The state also adopted income tax rate reductions and other reforms, though these changes do not go into effect until January 1, 2022.⁴

Individual Income Tax Changes

Idaho

House Bill 380, signed into law in May 2021, contains provisions that take effect July 1. Specifically, the new law creates an Idaho tax rebate fund and directs the state to distribute a one-time refund to taxpayers in an amount equal to 9 percent of the taxpayer's 2019 individual income taxes paid or \$50 per taxpayer and dependent, whichever is greater.⁵ Rate reductions, taking the top corporate and individual income tax rates from 6.925 percent to 6.5 percent, were made retroactive to the beginning of 2021.

1 NCSL, "FY 2022 State Budget Status," June 23, 2021, <https://www.ncsl.org/research/fiscal-policy/fy-2022-state-budget-status.aspx>.

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

3 Indiana Department of Revenue, "Corporate Tax and Sales Tax History," 2021, <https://www.in.gov/dor/business-tax/tax-rates-fees-and-penalties/corporate-tax-and-sales-tax-history/>.

4 Maxwell James and Jared Walczak, "Montana Adopts Individual and Corporate Income Tax Reform," Tax Foundation, June 1, 2021, <https://www.taxfoundation.org/montana-tax-reform/>.

5 Tax Notes, "Idaho Bill Creates One-Time Individual Income Tax Rebate," <https://www.taxnotes.com/tax-notes-today-state/individual-income-taxation/idaho-bill-creates-one-time-individual-income-tax-rebate/2021/05/14/5s7nm?highlight=%22july%201%2C%202021%22>.

Sales and Use Tax and Gross Receipts Tax Changes

Florida

Effective July 1, Florida will be among the states requiring remote sellers and marketplace facilitators to collect and remit the state's sales taxes. Senate Bill 50, adopted in April 2021, requires such sellers to collect and remit Florida's sales taxes if annual sales into Florida exceed \$100,000.⁶ Missouri, the only other state without such rules going into the current legislative year, adopted similar legislation in May, but will not implement its remote seller nexus and marketplace facilitator rules until 2023.⁷

Illinois

Illinois is among the states that, in addition to levying an excise tax on motor fuel to fund infrastructure projects, also includes motor fuel in its sales tax base, with that revenue directed to the general fund. Beginning in July, however, revenue from the sales tax on motor fuel (levied at the general sales tax rate of 6.25 percent) will be shifted to the road fund, starting with 1 percentage point this year and increasing incrementally by 1 percentage point per year. By July 1, 2025, revenue from 5 percentage points of the sales tax on motor fuel will go to the road fund, with revenue from only the remaining 1 1/4 percentage points going to the general fund.⁸ This change is the result of Senate Bill 1939, enacted in June 2019.⁹

Kansas

Following the legislature's override of Gov. Laura Kelly's (D) veto of Senate Bill 50 in May 2021, Kansas' economic nexus statute for remote sellers and marketplace facilitators will take effect this July. This law will require remote sellers and marketplace facilitators to collect state and local sales taxes if they have more than \$100,000 in annual gross receipts from sales into Kansas.¹⁰ Previously, the Kansas Department of Revenue imposed sales tax collection and remittance requirements on remote sellers and marketplace facilitators despite the lack of statutory language outlining the process for doing so and despite the lack of a *de minimis* exemption for remote sellers making only occasional sales into the state.¹¹ Importantly, SB 50 makes clear that sellers exceeding the \$100,000 threshold will not be required to remit sales taxes on sales occurring prior to July 1, 2021.

New Jersey

New Jersey is in the process of removing medical marijuana from its sales tax base. The sales tax rate on medical marijuana was reduced from 6.625 to 4 percent in July 2020. This July, the rate will decline to 2 percent before being phased out completely on July 1, 2022.¹²

6 Grant Thornton, "Florida Enacts Remote Seller Economic Nexus," May 5, 2021, <https://www.grantthornton.com/library/alerts/tax/2021/SALT/F-J/FL-enacts-remote-seller-economic-nexus-05-05.aspx>.

7 Janelle Cammenga, "Florida and Missouri, the Last Wayfair Holdouts, Consider Remote Sales Tax Bills," Tax Foundation, Feb. 5, 2021, <https://www.taxfoundation.org/missouri-florida-remote-sales-tax/>.

8 Illinois Economic Policy Institute, "Sales Tax on Motor Fuels," <https://www.illinoiseipi.org/rebuild-illinois/sales-tax-on-motor-fuels/>.

9 Jerry Nowicki, "Cigarette, Gas Taxes Will Increase July 1 with Pritzker Signature," *The Southern Illinoian*, updated Aug. 4, 2019, https://www.thesouthern.com/news/local/govt-and-politics/cigarette-gas-taxes-will-increase-july-1-with-pritzker-signature/article_2cedb8d6-d979-5a87-af60-8ccfe85157f0.html.

10 Kansas Legislative Research Department, "Marketplace Facilitators and Income Tax Deductions and Exemptions; SB 50," http://www.kslegislature.org/li/b2021_22/measures/documents/summary_sb_50_2021.

11 Jared Walczak, "Kansas Invites Legal Challenge with Aggressive Remote Sales Tax Regime," Tax Foundation, Aug. 2, 2019, <https://www.taxfoundation.org/kansas-remote-sales-tax-legal-challenge/>.

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

New Mexico

Several notable changes to New Mexico's sales tax—called a gross receipts tax, and in some ways a hybrid of a traditional retail sales tax and a gross receipts tax—will take effect July 1. Most significantly, the tax will shift from being origin-sourced (with the local rate levied based on the seller's location) to destination-sourced (with the local rate levied based on the delivery location), for both goods and services, with a few exceptions.¹³

Under current law, sales of tangible property are taxed at a state rate of 5.125 percent, with a compensating tax (use tax) rate to match, which remote sellers are generally required to collect. For sales of services, however, the compensating tax rate is slightly lower, only 5 percent. Beginning July 1, the state compensating tax rate on services will increase to 5.125 percent to match the rate on goods.

Furthermore, while municipalities levy local option gross receipts taxes, under the previous origin-sourcing rules, they did not levy compensating taxes on consumers when the tax was not collected at the point of sale. Moving forward, however, consumers will be responsible for paying local compensating taxes when the tax is not collected at the point of sale, and remote sellers and marketplace facilitators with more than \$100,000 in sales into New Mexico will be required to collect state *and* local gross receipts tax amounts; previously they were required to collect just the state amount. These changes are all the result of House Bill 6, a broader tax increase package enacted in April 2019.¹⁴

Tobacco and Vapor Tax Changes

Utah

Utah will collect excise taxes on certain additional nicotine products beginning July 1.¹⁵ Starting that same date, businesses will only be allowed to sell nicotine products if they have paid the surety bond of at least \$500 beforehand. The tax on nontherapeutic nicotine device substances and prefilled nontherapeutic nicotine devices is 56 percent of the manufacturer's sales price, and the tax on alternative nicotine products, such as patches and gum, is \$1.83 per ounce. This same law also provides for a reduced tax rate, effective July 1, for products that receive a modified risk tobacco product (MRTP) designation by the U.S. Food and Drug Administration (FDA). These tax changes were agreed to with the enactment of Senate Bill 37 in March 2020.

Virginia

Virginia will authorize all counties to levy cigarette taxes at a maximum rate of 40 cents per pack starting July 1.¹⁶ Historically, the authority to levy local cigarette taxes has been restricted to cities, towns, and only some counties. This new, expanded county taxing authority is the result of Senate Bill 588, enacted in April 2020.¹⁷

13 Gail Cole, "New Mexico Increasing Tax on Services, Changing Sourcing Rules," Avalara, Sept. 17, 2019, <https://www.avalara.com/us/en/blog/2019/09/new-mexico-increasing-tax-on-services-changing-sourcing-rules.html>.

14 Jared Walczak, "New Mexico Tax Increase Package Advances," Tax Foundation, Mar. 7, 2019, <https://www.taxfoundation.org/new-mexico-tax-increase-package-advances/>.

15 Utah State Tax Commission, "Tax Bulletin 05-21," May 21, 2021, <https://tax.utah.gov/bulletin/tb-05-21.pdf>.

16 Virginia Legislative Information System, "Title 58.1. Taxation," 2021, <https://law.lis.virginia.gov/vacode/title58.1/chapter38/section58.1-3830/>.

17 Virginia Legislative Information System, "SB 588 Localities; authority to levy taxes," 2020, <https://lis.virginia.gov/cgi-bin/legp604.exe?201+sum+SB588>.

Various States

In some states, including California and Ohio, various tobacco tax rates are adjusted annually for inflation or for changes in the average wholesale price of the product.

Transportation Tax Changes

South Carolina

South Carolina's motor fuel tax will increase from 24 to 26 cents per gallon (cpg) as part of a six-year phased-in gas tax increase that was adopted in 2017. Under that law, the tax is increasing by two cents per year until it reaches 28 cpg in July 2022, up from 16 cpg in 2016.¹⁸

Virginia

Virginia's gas tax will increase by five cents to 26.2 cpg on July 1.¹⁹ This is the second of two five-cent gas tax rate increases, the first of which raised the tax from 16.2 to 21.2 cpg in July 2020. Beginning in July 2022, the tax will be adjusted annually for inflation.

Various States

In multiple states, motor fuel taxes will be adjusted July 1 either due to inflation, changes in the average wholesale price of fuel, or other automatic factors.

Sports Betting Tax Changes

Louisiana

House Bill 697, which was signed into law in June 2021, takes effect on July 1, establishing taxes on sports wagering. The tax will apply to net gaming proceeds, with a rate of 10 percent for brick-and-mortar establishments and 15 percent for online sports betting.²⁰ The law also establishes various fees for obtaining a sports betting license. For brick-and-mortar establishments, the application fee is \$250,000, and the fee for a five-year license is an additional \$500,000. For sports wagering platform providers, the permit application fee is \$100,000, and the fee for a five-year permit is an additional \$250,000.

Miscellaneous Tax Changes

Vermont

House Bill 954, signed into law in October 2020, requires marketplace facilitators to collect and remit the universal service charge on sales of prepaid wireless telecommunications services starting July 1.²¹

18 South Carolina Department of Revenue, "Motor Fuel User Fee," 2017, <https://dor.sc.gov/tax/motor-fuel>.

19 Jeff Williamson, "Say Hello to a Higher Gas Tax in Virginia," WSLs.com, July 1, 2020, <https://www.wsls.com/news/virginia/2020/07/01/say-hello-to-a-higher-gas-tax-in-virginia/>.

20 Lauren Loricchio, "State Gets Ready to Tax Sports Wagering," *Tax Notes*, June 14, 2021, <https://www.taxnotes.com/tax-notes-state/excise-taxes/state-gets-ready-tax-sports-wagering/2021/06/14/76158?highlight=sports%20betting>.

21 *Tax Notes*, "Vermont Requires Marketplace Facilitators to Collect Universal Service Charge," Oct. 8, 2020, <https://www.taxnotes.com/tax-notes-today-state/legislation-and-lawmaking/vermont-requires-marketplace-facilitators-collect-universal-service-charge/2020/10/16/2d2cp?highlight=%22july%201%2C%202021%22>.

Notable Tax Rate Changes Retroactive to January 1, 2021

This legislative session, several states have reduced their individual or corporate income tax rates. While most of these changes take effect January 1, 2022, Idaho's rate changes are retroactive to January 1, 2021.²² Specifically, Idaho's corporate income tax rate and top individual income tax rate are now 6.5 percent, down from 6.925 percent. The state also consolidated seven individual income tax brackets into five and reduced each of the remaining rates. In addition, legislation was adopted in Iowa in June 2021 that phases out the state inheritance tax over four years, with the first phase—a 20 percent reduction—retroactive to January 1, 2021.²³

22 Tax Notes, "Idaho Bill Creates One-Time Individual Income Tax Rebate," May 14, 2021, <https://www.taxnotes.com/tax-notes-today-state/individual-income-taxation/idaho-bill-creates-one-time-individual-income-tax-rebate/2021/05/14/5s7nm>.

23 Carolina Vargas, "Governor Approves Tax Relief Bill," Tax Notes, June 21, 2021, <https://www.taxnotes.com/tax-notes-state/individual-income-taxation/governor-approves-tax-relief-bill/2021/06/21/76n0y>.