State Tax Changes Taking Effect
July 1, 2016

By Nicole Kaeding    Jared Walczak
  Economist    Policy Analyst

Key Findings

- Nine states have tax rate changes going into effect on July 1, 2016.

- Six of the states have changes to their gas tax rates. California and North Carolina are decreasing their tax rates, while Washington State is instituting its second gas tax increase in less than a year. Three other states, Iowa, Maryland, and Nebraska, will see revisions via formula.

- Connecticut and West Virginia are increasing their cigarette tax rates.

- Indiana has the lone corporate income tax change, with the rate decreasing by 0.25 percentage points to 6.25 percent.
Introduction

States generally align tax changes with the beginning of the calendar year, but in some cases, states will implement changes at the beginning of the fiscal year. Nine states have tax rate changes that will take effect on July 1, 2016, the beginning of the 2017 fiscal year.

Corporate Income Tax

Indiana

Last year, Indiana completed a four-year phasedown of its corporate income tax rate from 8.5 to 6.5 percent, the culmination of legislation adopted in 2011. Subsequent legislation enacted in 2014 established a further schedule of rate reductions through fiscal year 2022, when the corporate income tax will drop to 4.9 percent.

Atypically, Indiana's corporate tax year tracks the fiscal rather than the calendar year, so each year's scheduled rate reduction goes into effect on July 1, whereas most states' income tax changes commence January 1. With the beginning of the 2017 fiscal year, Indiana's corporate income tax stands at 6.25 percent.¹

Cigarette Taxes

Connecticut

A quarter-a-pack increase in Connecticut’s cigarette tax brings the tax per pack to $3.90, and represents the seventh cigarette tax increase the state has adopted in the past 14 years. Through early 2002, the state imposed an excise of 50 cents per pack, but tax hikes in 2002, 2003, 2007, 2009, 2011, 2015, and now 2016 are responsible for a sharp increase in the rate,² which now ranks second in the nation behind only New York’s $4.35 statewide rate.³ The increases on July 1 of 2015 and 2016 were both enumerated in last year's budget, which increased the tax by 50 cents over two years.⁴

² See generally, Connecticut Department of Revenue Services, “Legislative Changes Affecting Cigarette Taxes,” multiple years.
³ Scott Drenkard, “How High Are Cigarette Taxes in Your State?” Tax Foundation, Mar. 28, 2016, http://taxfoundation.org/blog/how-high-are-cigarette-taxes-your-state-0. Several major cities also impose substantial local taxes, including New York City ($1.50) and Chicago ($4.18, including city and county taxes).
West Virginia

Declining state revenues, driven by a sharp reduction in severance tax collections as the state's coal and natural gas industries contracted, led both chambers of the West Virginia legislature to contemplate a cigarette tax increase. However, disputes over the size of any increase threatened to derail an agreement until the final days of fiscal year 2016. Competing bills offered $0.45 and $1.00 per pack increases to the state’s existing rate of 55 cents per pack, with legislators also diverging on a Senate proposal to impose a new tax on electronic cigarettes and vapor products.

Under compromise legislation enacted in a June special session, the legislature agreed to a tax increase of 65 cents per pack and the imposition of a new 7.5 cent per milliliter tax on e-cigarette liquid, narrowing the budget gap by an estimated $98 million and averting a possible government shutdown. With the tax increase, West Virginia's cigarette tax, at $1.20 per pack, will be substantially higher than those in Virginia (30 cents per pack), Kentucky (60 cents), North Carolina (45 cents), and Tennessee (62 cents), but remains below rates in Pennsylvania and Ohio (both $1.60). West Virginia has also joined four other states and the District of Columbia in enacting taxes on vapor products.

Gasoline Tax

California

California's gas tax rate consists of two main components: a primary excise tax and a sales tax of 2.25 percent. The primary excise tax is adjusted annually by the state's Board of Equalization to ensure that the taxes paid by consumers do not exceed what was paid in 2010 under a different tax structure. The Board of Equalization voted to decrease the state's primary excise tax from 30 cents per gallon (cpg) to 27.8 cpg, a decrease of 2.2 cpg, for the 2017 fiscal year.

North Carolina

North Carolina's gas tax will decrease on July 1, 2016, the third decrease in the state's rate in 14 months. In 2015, the state's gas tax was a tax on wholesalers, leading to revenue volatility. As oil prices started to fall, North Carolina policymakers were concerned about the amount of revenue that would be generated from the tax. The state changed the gas tax to a flat tax per gallon and lowered the rate from the effective rate of 37.5 cpg at the same time. The rate was lowered on April 1, 2015 (1.5 cpg), January 1, 2016 (1 cpg), and now again on July 1, 2016 (1 cpg), bringing the total rate to 34 cpg. The state's gas tax calculation will change on January 1, 2017, likely leading to an increase in the tax rate.

Washington

Washington State's gas tax will increase for the second time since August. In 2015, Governor Jay Inslee and the Washington State legislature agreed on a transportation overhaul plan that included two gas tax increases, a 7 cpg increase on August 1, 2015, and a 4.9 cpg increase on July 1, 2016. The two tax increases were part of a $16 billion, 16-year transportation plan.

Other Gasoline Tax Changes

Several other states will implement small changes in their gas tax rates due to formula changes, not underlying policy changes. State gasoline taxes tend to consist of two large categories: those set on a fixed cpg basis, or those that are derived by formula. States whose taxes are formula-based see frequent changes to their gas tax rates. Effective July 1, 2016, gas tax rates will change in three more states: Iowa (0.1 cpg) and Nebraska (1 cpg) will see small gas tax decreases, while Maryland will undergo a 0.9 cpg gas tax increase.

---