State Tax Reform Prospects in 2013
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Founded in 1980, the Institute on Taxation and Economic Policy is a nonprofit, nonpartisan research organization, based in Washington, D.C., that focuses on federal and state tax policy. ITEP’s mission is to inform policymakers and the public of the effects of current and proposed tax policies on tax fairness, government budgets, and sound economic policy. Among its many publications on state and local tax policy are Who Pays? A Distributional Analysis of the Tax Systems in All 50 States and The ITEP Guide to Fair State and Local Taxes. ITEP’s full body of research is available at www.itep.org.

2013 is likely to be a watershed year for tax reform in the states as lawmakers across the country have signaled their intention to overhaul the way their states collect revenue to pay for public investments. The scrutiny lawmakers will be giving to their state and local tax systems presents an extraordinary opportunity to assess and address structural flaws and ensure that states have the necessary revenue to provide vital public services now and in the future. Yet, it is already clear that “tax reform” for some state lawmakers may be little more than a vehicle for ideological goals like shrinking government spending or shifting already regressive state tax systems more heavily in favor of profitable corporations and the wealthy.

The Institute on Taxation and Economic Policy (ITEP) is closely monitoring these proposals as they develop and become more concrete. This document gives a brief description of the tax debates ahead in more than 30 states and highlights the 15 key states to watch in 2013 (these states are marked with an *).

Top 15 States with Potential for Major Tax Reform in 2013

California • Iowa • Kansas • Kentucky • Louisiana • Minnesota • Missouri • New York • North Carolina • Nebraska • Ohio • Oklahoma • Oregon • Virginia • Wisconsin

Other States to Watch

Arkansas • Colorado • District of Columbia • Idaho • Illinois • Indiana • Maine • Massachusetts • Michigan • New Jersey • New Mexico • North Dakota • Rhode Island • Pennsylvania • Texas • Utah • Washington • Wyoming

Arkansas – Democratic Governor Mike Beebe and the veto-proof Republican legislature are expected to push for tax cuts in 2013.

- Governor Beebe will continue his quest to pare back and repeal the state’s sales tax on food.¹
• Lawmakers in the House and Senate have pledged to at least cut the personal income tax, and a full elimination of the personal income tax is in the Arkansas Republican party's platform. During the last election, Americans for Tax Reform is reported to have invested heavily in candidates who took anti-tax positions.

PROS: Reducing the sales tax on food would increase the progressivity of the state’s sales tax.

CONS: A reduction in the income tax will likely increase the regressivity of Arkansas' tax structure.

*California – California Democrats gained a supermajority in both the state's House and Senate this November and according to some lawmakers they may use this new power to push for tax reform in the next two years (California is one of a few states with a supermajority requirement to pass tax changes).

• Details of what lawmakers will pursue are unknown at this date.

• Senate Leader Darrell Steinberg says talk about revenue in California “ought to be in the context of tax reform, about broadening the base, about lowering rates, about creating a more competitive environment for business, and potentially bringing in more revenue.”

PROS: Voters approved Proposition 30 in November—a temporary increase in personal income tax rates for the wealthy and a 0.25 cent increase in the sales tax which will bring much needed revenue to the state. However, lawmakers could use this opportunity to permanently address structural flaws with the state's tax system rather than offering only temporary patches.

CONS: Several government-appointed and non-government commissions have studied and recommended changes to California’s tax system in recent years, yet there has been little action in large part due to the supermajority requirement to pass tax changes. While some lawmakers seem committed to making tax reform a priority, it could take years to form a plan that has enough support to pass.

Colorado – The non-partisan group “TBD Colorado,” (To Be Determined Colorado) created by Governor John Hickenlooper, laid the groundwork for potential legislative action on taxes in 2013.

• The group spent much of 2012 meeting with Coloradans to discuss the state’s long-term problems, and in November it recommended that lawmakers consider raising additional revenue for education and transportation.

• The group also recommended a more fundamental reform of the state’s tax code “so that it more accurately reflects Colorado’s changing economy.”

PROS: TBD Colorado correctly described the outdated and inadequate nature of Colorado’s tax system, and identified a large range of revenue-raising options worthy of consideration.

CONS: The group did not endorse specific reform options, and it remains to be seen how lawmakers will use their work in 2013.
District of Columbia – The District of Columbia’s “Tax Revision Commission” recently began its work, and will spend the first part of 2013 studying the District’s tax system with an aim to make recommendations to the City Council and the mayor in September.

- The Commission has been asked to examine options for broadening the city’s tax base and improving the fairness, simplicity, transparency, and competitiveness of the DC tax system.

**PROS:** DC’s tax code is in need of closer study and reform. ITEP has shown that middle-income DC residents pay far more of their incomes in city taxes than their upper-income neighbors. Recent limits on itemized deductions and a new top rate for high-income DC taxpayers have reduced, but not eliminated, this inequity.

**CONS:** In other states, the recommendations made by tax reform commissions of this sort have often been ignored when they are seen as being politically unpopular.

Idaho – Idaho’s most influential business group has made repealing the state’s business personal property tax on equipment and machinery its top priority, and Governor Butch Otter has made clear that he supports the idea.

- Speaking before the Idaho Association of Commerce and Industry, Otter said “I want you to know my commitment to the personal property tax and the reduction and eventual elimination of that is undaunted.”

- House Majority Leader Mike Moyle says that the chances of repeal occurring in 2013 are high: “we're on the verge of getting something done … the stars are aligned now.”

**PROS:** Business personal property taxes are among the more difficult taxes to administer.

**CONS:** The personal property tax raises 11 percent of property tax revenue statewide, and in some counties it raises more than 25 percent. Some legislative leaders in the Senate have expressed doubts about the affordability of repeal, especially on the heels of last year’s $35 million income tax cut for wealthy Idahoans—a change that put more than $2.600 in the pocket of each member of Idaho’s top 1 percent, while failing to cut taxes at all for four out of every five Idaho families.

Illinois – The Democrats may use their supermajority to push for tax changes and potentially make the recent tax rate hikes permanent.

**PROS:** Keeping tax rates at their current levels would significantly improve Illinois’ ability to raise adequate revenue over the long term.

**CONS:** Rather than simply making higher tax rates permanent, lawmakers should consider more fundamental reforms that could improve both the fairness and sustainability of the state’s tax system.

Indiana – Indiana’s governor-elect, Mike Pence, hopes to follow through on his campaign promise to cut the state’s flat income tax rate from 3.4 percent to 3.06 percent, but the likelihood of enactment is far from clear.

- Indiana’s revenue outlook is uncertain, given recent cuts in the corporate income tax, the repeal of the inheritance tax, and the slump in gambling revenues that occurred after new gambling venues opened in nearby states.
• Legislative leaders, including the House Speaker, have expressed skepticism that the state can afford the cut. And two-thirds of Indiana voters would rather see the money spent on education and workforce training.

**CONS:** ITEP analyzed Pence’s proposal and found that more than half of its benefits would go to the best-off 20 percent of Indiana residents—a group that already spends less of its income in state and local taxes than anyone else in the state. Many of the state’s poorest taxpayers, by contrast, would receive no tax cut at all.

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**Iowa** – Governor Terry Branstad has made cutting the property taxes paid by Iowa businesses a top priority since taking office.

- In 2013, Governor Branstad may embrace a much more broad-scoped tax plan than in years past: a reduction in business property tax rates, property tax caps for residential and agricultural property, reductions in the personal and corporate income tax rates, and a small gas tax increase.
- The Governor has not provided specific details, but did float the idea of allowing Iowans to either choose a new flat personal income tax rate or continue using the state's deduction for federal income taxes.

**PROS:** An increase in Iowa’s gas tax is long-overdue. The tax has not been raised in over two decades, during which time its value has been eroded by more than 40 percent by construction cost inflation alone. If tax rate reductions are paid for with a broadening of the state’s tax base, Iowa could eliminate the deduction for federal income taxes paid—a sharply regressive tax giveaway that has made the state’s tax system vulnerable to the whims of the federal government.

**CONS:** Reducing income tax rates without offsetting the revenue loss in a careful manner is likely to make Iowa’s tax system less adequate and even more regressive than it is today.

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**Kansas** – In 2012 Governor Sam Brownback signed into law a tax cut package that reduces state revenues by $3.7 billion over five years. The legislation increased taxes on low income families and cut taxes on business income.

- In 2013 the Governor has said he may not allow a temporary sales tax hike to expire because the state will need the revenue generated from the sales tax hike to help the state balance its budget.
- The State’s Budget Director has said that the Governor supports more reductions in state income tax rates and property tax limits.

**CONS:** More tax cuts on top of already unaffordable income tax reductions would mean that the Kansas tax structure is likely to become more regressive and less able to meet the needs of taxpayers.

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**Kentucky** – After almost a year of studying Kentucky’s tax code, the Kentucky Blue Ribbon Commission on Tax Reform recently released a set of detailed recommendations to modernize the state’s tax system.

- The Commission’s tax reform recommendations would raise nearly $700 million in the first year of enactment and include: a $17,500 cap on itemized deductions, reduction in the retirement income exemption, adding a 15%
Earned Income Tax Credit (EITC), expanding the sales tax base to some services starting with those considered luxuries, and cutting business taxes.  

- Armed with these recommendations, Governor Steve Beshear has said that he will meet with lawmakers in the legislative branch to discuss “common ground” on a tax plan.

**PROS:** The Commission correctly identified the need for Kentucky to raise additional revenue. Coupling a new state EITC with a broader personal income tax base would benefit both low-income families and the sustainability of the state’s tax system.

**CONS:** Proposals for significant tax breaks for corporations mean that the state’s corporate income tax is likely to become even less adequate and sustainable in the future.

*Louisiana* – Tax reform will be Governor Bobby Jindal’s top priority in 2013. In a statement released in August, Jindal said, “Our top priority next legislative session is to reform Louisiana’s tax system so that we can make our tax code fairer, flatter, and lower for Louisiana families and businesses.”

- With the aid of the state’s Revenue and Economic Development directors, the Governor is building a case to simplify and modernize Louisiana’s tax code.

- A specific proposal has not yet been unveiled, but the Revenue Director has said a plan will likely include lower tax rates and fewer exemptions and credits.

**PROS:** The Governor’s interest in tax reform is promising and the focus on fairness could mean that Louisiana’s tax structure will become less regressive in the future.

**CONS:** The focus on revenue neutrality means that tax reform is unlikely to help Louisiana better meet the needs of its taxpayers in future years.

Maine – Maine Governor Paul LePage’s tax cutting agenda will likely come to a halt in 2013 since Democrats took back control of both legislative chambers.

- Governor LePage’s plans to continue paring back the personal income tax and eliminate the corporate income tax will likely be blocked.

- Democratic House and Senate members are expected to introduce revenue-raising packages or bills to reverse tax cuts put into place in 2011 that disproportionally benefited wealthy Mainers.

**PROS:** The tax cuts enacted in Maine in recent years were unaffordable and left local governments cash-strapped, and this shift in the attitude of the state’s legislature is likely to impede any further moves in this direction.

**CONS:** Governor LePage might still see his tax cutting proposals through the legislature as many Democrats approved his plans in recent years. The Governor also has the power to veto any attempt to reverse the regressive tax cuts the state recently enacted.
Maryland – Governor Martin O’Malley unsuccessfully pushed for an increase in the state’s gasoline tax in 2012, and transportation advocates are likely to make the issue a priority in 2013.

- O’Malley’s 2012 efforts fell short largely due to high gas prices, and a spokesman for the Governor has said that pursuing a gas tax increase in 2013 “is not something that’s come under heavy discussion.”
- But the Chamber of Commerce, local officials, and some members of legislative leadership support a gas tax increase.25

PROS: Maryland is long overdue for a gas tax increase, having gone two full decades since the tax was last raised. Since then, construction cost inflation alone has eroded the value of the tax by some 40 percent.26

CONS: The gas tax is regressive, so lawmakers will need to consider pairing any increase with enhancements to the state’s refundable tax credits for low-income families.

Massachusetts – The chair of the legislature’s Joint Committee on Revenue, Jay Kaufman, wants to pursue tax reform starting with the recommendations offered by the Massachusetts’ Tax Expenditure Commission last April. 27 Governor Deval Patrick is also likely to include tax increases or some reform elements in the budget he unveils in early 2013, including changes to the gas and personal income taxes.

- Representative Jay Kaufman wants to overhaul the entire state tax system and is “hoping for a conversation regarding the tax exemptions and the "regressive" nature of the current policy.” 28
- Governor Deval Patrick is expected to support a plan to increase revenues for transportation projects, including a gas tax increase.29
- In the past, Governor Patrick has said he would support changes to the personal income tax to make it more progressive.30

PROS: Massachusetts’ Tax Expenditure Commission issued reform recommendations last year which could serve as a good starting point for reducing and rationalizing the state’s costly web of tax breaks.

CONS: It remains to be seen how reform-minded the Governor’s approach will be in 2013, as he has often sought low-hanging fruit options such as increasing taxes on alcohol.

Michigan – Michigan lawmakers recently debated the idea of a personal income tax cut for 2013, as a follow-up to the large cuts in business income and property taxes enacted over the last two years.

- In 2011, the state enacted a “tax shift” that sliced business income taxes by 83 percent while raising personal income taxes on poor, middle-class, and elderly Michiganders.31 That change was followed in December 2012 with the elimination of the personal property tax on business equipment and machinery.
- Shortly before the 2012 election, the State House passed a significant cut in the state’s personal income tax rate, and while the Senate did not act on that plan this year, a number of senators have spoken favorably of the idea.

PROS: Interest in cutting the personal income tax seems to be rooted in a recognition of the unfairness associated with the state’s recent shift of taxes away from businesses and onto individuals.
CONS: A personal income tax rate cut is unaffordable given the rash of tax cuts already enacted these last two years. It would also disproportionately benefit the state’s upper-income residents, as opposed to the poor and elderly families hit hardest by the 2011 tax changes.

*Minnesota – Governor Mark Dayton has made tax reform one of his top legislative priorities in 2013.32

- Revenue Commissioner Myron Frans says that the Dayton administration is looking for changes that will make the system "fair, simple and support a strong and growing economy."

- The plan is likely to include broadening the sales, corporate and personal income tax bases and increasing taxes paid by the wealthiest Minnesotans.33 Details of Dayton’s plan will be announced in January.

PROS: The Governor’s interest in fundamental tax reform is promising. Reform that broadens the tax base could put Minnesota on its way to improved long term fiscal solvency and a fairer tax system.

*Missouri – Thanks in part to the tax cut package enacted in Kansas this year and a newly gained Republican supermajority in the state legislature, there is renewed interest to push for eliminating Missouri’s income tax next year.34

- A new group, Save Missouri Jobs, started running ads this fall calling on lawmakers to follow Kansas’ tax cutting lead.35 Several key legislators have signaled that they will heed the call and consider tax changes that would promote “economic development” in 2013. Specific details have not been revealed though any plan is likely to include a scale back of tax credits and cuts in the personal income tax.

- One lawmaker has proposed allowing a personal income tax deduction for up to 50 percent of business income (Kansas exempted all business income from the personal income).36

CONS: Missouri lawmakers run the risk of making their state’s tax structure more regressive, less sustainable, and possibly more prone to abuse if they adopt radical proposes to eliminate entire taxes or offer tax breaks targeted solely for business income.

*Nebraska – Governor Dave Heineman has said he will propose a large overhaul of his state’s tax system in early 2013.37

- The ideas circulating include eliminating the state’s inheritance tax and restructuring or altogether eliminating the state’s personal income tax, and making up the lost revenue with an expanded sales tax.38

CONS: Eliminating the state inheritance tax will leave local governments with a large revenue shortfall, and eliminating the state’s personal income tax would make the state’s tax structure more regressive.

New Jersey – Governor Christie started 2012 with a proposal to cut personal income taxes across the board and the House and Senate countered with smaller, more targeted packages to reduce property taxes. The tax cut proposals evolved throughout the year.39 Most likely, the increased demand on public services created by Superstorm Sandy has put an end to tax cut conversations for now and into 2013.
New Mexico – Governor Susana Martinez is reported to be interested in reducing New Mexico’s corporate income tax and advocating that companies use only their sales when figuring their corporate income tax liability.

- Governor Martinez recently said, "I, for one, am sick and tired of hearing that high taxes is the cost one must pay for the privilege of doing business in our state. If we are to attract outside companies to invest in New Mexico, I would like to see us reform the way we calculate taxes. Right now, when a multi-state company either hires an employee in New Mexico or invests in its New Mexico operations, they are hit with a tax increase. Instead, what I propose is to give companies an option to choose between the current system and a new, simple method of calculating taxes on these companies based only on the amount of their sales within the state."  

- A recent Albuquerque Journal article says that “There is a growing consensus in state government that New Mexico’s tax system is long overdue for a major overhaul.”

CONS: Reducing the state’s reliance on corporate income taxes will reduce both revenue and tax fairness, and offer many corporations a way to avoid paying for many of the public services they use every day.

*New York – A year after Governor Andrew Cuomo convinced lawmakers to pass a temporary revenue-raising package with the promise of overhauling the state’s tax code, the Governor appointed 10 members to his New York State Tax Reform and Fairness Commission.

- According to a statement from the Governor: “This commission will now undertake a broader review of the state’s complex tax code to find ways to make it simpler, and more fair, and help reduce the tax burden faced by New Yorkers and businesses.”

- Commission members will review New York’s corporate, sales and personal income taxes and offer revenue neutral recommendations.

- While the members do not have a reporting deadline, speculation is that the Governor wants to act on recommendations during the upcoming legislative session.

PROS: New York’s tax code is in need of closer study and reform, and the Governor’s commission is likely to provide this closer look.

CONS: Governor Cuomo promised to put the Commission together last year, but it took almost a year to appoint members. There is some concern that the Commission will not present any meaningful recommendations, or that those recommendations will not be acted upon.

*North Carolina – North Carolina’s newly elected governor, Pat McCrory, ran on a promise to overhaul the state’s tax code and House and Senate lawmakers have also signaled that tax reform will be their top legislative priority in 2013.

- Governor-elect McCrory was short on specifics during his campaign, but suggested he would like to work towards cutting or eliminating the personal income, corporate income, and estate taxes.
Legislators have been floating a more specific plan—one that would greatly reduce or eliminate personal and corporate income and estate taxes, and replace some of the lost revenue by expanding the sales tax base to groceries and services, and increasing the sales tax rate.

House Majority Leader Paul Stam told reporters after the election that lawmakers want “a fairer system to collect the same or less in taxes.”

**PROS:** Lawmakers and advocates have been discussing the need for tax reform in North Carolina for years and are finally poised to act.

**CONS:** The proposal to eliminate or greatly reduce the personal income tax and replace it with an expanded sales tax will result in a significant tax reduction for the wealthy and businesses, and a large tax increase on low- and moderate-income households. This would exacerbate the inequity already present in North Carolina’s tax code. Expanding the sales tax base has proven to be politically challenging in other states so it is also likely that North Carolina lawmakers could pass significant personal income tax cuts but not be able to agree on the revenue to make up the difference, thereby forcing large spending cuts in a package similar to what was enacted in Kansas in 2012.

**North Dakota**—Governor Jack Dalrymple’s budget plan for the next two years includes significant reductions to property taxes and small income and corporate tax rate cuts.

- The Governor’s plan would expand an existing property tax reduction program, doubling the amount of money the state invests in education and cutting property tax bills by at least 20 percent.

- The Governor also supports cutting the top rate of the personal and corporate income taxes.

**CONS:** North Dakota has experienced a significant revenue boom due to the success of the state’s oil and gas industry. Rather than using the surplus revenue from severance taxes to finance cuts in the personal and corporate income tax, and across the board property tax reductions, lawmakers should consider more targeted and less costly tax breaks. Lawmakers could also use the boost in revenue to invest in the state’s infrastructure, which is sorely needed due to the influx of people to the state.

**Ohio**—Governor John Kasich ran for Governor advocating for the elimination and then later a steep reduction in the personal income tax. In 2012, the Governor tried to pay for a personal income tax cut with a higher severance tax on natural gas fracking, but that plan was blocked in the legislature.

- In 2013, Governor Kasich has said he will continue to push for a significant state income tax cut, potentially paid for by eliminating sales tax exemptions and reducing spending.

**CONS:** Eliminating or reducing the personal income tax will make the state’s tax structure less sustainable and more regressive.

**Oklahoma**—On the heels of last year’s failed effort to reduce and eventually eliminate the state personal income tax, lawmakers appear poised to try again in 2013.
Governor Mary Fallin's spokesperson says that the Governor “believe[s] that the lower the income tax rate is the more economic growth and job creation we'll see in Oklahoma and that in turn will lead to more revenue.”

That same spokesperson claims that “the majority of House and Senate members support lower taxes so theoretically [an income tax cut] is something that we should be able to accomplish.”

Oklahoma lawmakers are widely expected to focus on cutting the income tax rather than repealing it entirely, in order to improve their political chances of success. But conservatives in the state say they are continuing to work with supply-side economist Arthur Laffer “as we continue to build the case for Oklahoma becoming the next no-income-tax state.”

PROS: Oklahoma offers a variety of inefficient and/or regressive tax credits and deductions that could be repealed to both raise revenue and fund a modest reduction in the state's income tax rates. By repealing various business tax incentives and the deduction for state income taxes paid, for example, this goal could be accomplished without exacerbating the regressive nature of Oklahoma's tax system.

CONS: Income tax rate cuts are likely to benefit high-income Oklahomans the most, but some of the ideas discussed to pay for those cuts (such as eliminating the Earned Income Tax Credit) would disproportionately affect poor Oklahomans. Moreover, Oklahoma recently cut its top income tax rate, effective January 2012, which gave the state's richest 1 percent of taxpayers an average tax cut of almost $2,000 per year. Finally, ITEP has shown that the main motivation behind the push for an income tax cut is misguided. Specifically, Oklahoma should not expect improved economic growth to result from a reduction in its income tax rate.

*Oregon – This fall, Governor John Kitzhaber announced that he plans to make tax reform a top priority in the upcoming legislative session, but has not made any specific proposals known. In early December, three legislators unveiled the tax reform plan they intend to pursue in 2013.

The legislators' reform plan would raise more than $1 billion per year and includes: establishing a 5% sales tax (Oregon currently does not have a sales tax), large cuts in personal income tax rates with a new preferential rate for capital gains, an increase in the state's Earned Income Tax Credit (EITC), corporate income tax rate cuts, and a new property tax break.

PROS: The concrete proposal from three Oregon lawmakers includes a significant increase in the state's EITC to offset the impact a new sales tax would have on low-income working families' tax liability. Adding a sales tax could provide more balance to Oregon's tax system as long as offsets are in place. The plan would also raise revenue for K-12 education.

CONS: The proposal is likely to have the greatest negative impact on middle-income taxpayers who earn too much to qualify for the EITC, but who also have little or no capital gains income. Wealthy households will see a large tax break from the lower personal income tax rates and a lower rate for capital gains.

Pennsylvania – Pennsylvania property taxes are likely to be a focal point in 2013. In 2012, a House lawmaker introduced the Property Tax Independence Act, which would have eliminated residential property taxes and made up the revenue with a broader sales tax base and higher sales and personal income tax rates. This bill did not gain enactment in 2012, but led to the creation of a 13 member bipartisan House committee to study property taxes.
- Unanimous recommendations from the Committee include a significant homestead exemption and giving local governments more authority to levy alternative taxes.

**PROS:** Low and fixed-income homeowners and renters could benefit from property tax reductions. Some advocates support the introduction of an all-ages circuit breaker property tax credit as the best means to lower property taxes without fully eliminating or diminishing this tax source.

**CONS:** The property tax is the oldest major revenue source for state and local governments and the main source of funding for local services like schools and public safety. The stability and enforceability of the property tax make it among the best options available for providing local governments with a predictable revenue stream that can be used to fund indispensable services like schools, roads, and public safety. If state lawmakers make changes that reduce local property tax revenue, they should consider reimbursing local governments for the lost revenue.

**Rhode Island** – Rhode Island lawmakers made major improvements to their state’s personal income tax code in 2010. A year later, new Governor Lincoln Chafee attempted to reform the state’s sales and corporate taxes, but was largely blocked by lawmakers (he managed to expand the sales tax base to a handful of services).

- While there are no known reform plans under discussion in 2013, given the past success and attempts at reform, and that so many other states will be taking on similar issues, it is likely Rhode Island lawmakers will continue working towards updating their state tax code.

**South Carolina** – Legislators have already started prefiling legislation on a wide variety of issues related to taxes.

- A “Fair Tax” proposal that would eliminate all taxes currently levied by the state and replace the revenues with an exemption-free sales tax has already been filed.

- Earlier this year Governor Nikki Haley called for the elimination of the state’s corporate income tax.55

**CONS:** The elimination of the state’s personal income tax or the state’s corporate income tax would make the state’s tax structure more regressive and less sustainable over the long term.

**Texas** – Some Texas legislators have set their sights on reducing or even repealing the property tax for 2013.56

- The most radical plans under discussion would drastically cut or even eliminate the property tax, and would be paid for with a much higher sales tax.

- The idea more likely to garner support is lowering the state’s cap on annual growth in a home’s assessed value for tax purposes.

**PROS:** Texas has one of the most regressive tax systems in the entire country, and some of the highest taxes on the poor. Property taxes are a significant component of this problem, requiring the state’s poorest residents to spend roughly 4 percent of their income—more than any other group—in property tax.57

**CONS:** Assessed value caps are most valuable for taxpayers whose homes are appreciating most rapidly, and will provide no tax relief at all for homeowners whose home values are stagnant or declining. As a result, such caps can
shift the distribution of property taxes away from rapidly-appreciating properties and towards properties experiencing slow or negative growth in value—many of which are likely owned by low-income families. Assessed value caps can also result in wildly different tax bills between homeowners with similar homes, since new homeowners pay significantly more in property taxes than their long-term neighbors who have seen increases in their home’s taxable value capped for many years. A much better approach that seems to have received little consideration so far is a property tax “circuit breaker” targeted specifically to lower- and middle-income families.

Utah – An influential senator on the Senate Revenue and Taxation Committee plans to push for restoring the sales tax on groceries, but offsetting that tax with a refundable grocery tax credit and a new Earned Income Tax Credit (EITC).

- Sen. Valentine (R) explains that “my whole goal is to try to bring some stability to the state of Utah and to give back to some of our lowest-income people a little more than they’re getting now.”

- Five states already offer refundable tax credits designed specifically to offset regressive sales taxes for low-income families.

**PROS:** Expanding the sales tax base to include groceries can stabilize a state’s sales tax collections, and using targeted tax credits to offset the tax can ensure that the impact of the change is progressive overall.

**CONS:** An outreach campaign will be needed to inform low-income Utahans about the availability of these tax relief credits, and to encourage them to apply.

*Virginia – Tax reform and transportation policy are two closely intertwined topics that are likely to be intensely debated by Virginia lawmakers in 2013.*

- Two themes have emerged in comments made by Governor McDonnell and various legislators: tax reform should raise revenue for transportation, but it should not raise revenue overall.

- McDonnell himself has yet to announce a specific reform proposal, though there are early indications that his plan could include allowing the state gas tax to rise gradually alongside inflation.

- Specific plans that have been made public include a one senator’s idea to tax gasoline based on its price and to cut income tax rates, as well as a conservative group’s proposal to greatly expand the sales tax base but negate the revenue gain to the state with income tax rate cuts and the repeal of local business taxes.

**PROS:** Virginia has gone longer than any state except Alaska without increasing its gas tax, during which time the tax has lost nearly 50 percent of its value due to construction cost inflation alone. An increase in the state’s gas tax is long overdue.

**CONS:** Given the Governor’s preference that tax reform not raise revenue overall, it’s likely that the debate will focus on options designed to better fund roads at the expense of other areas of the state budget—a misguided idea that has recently been proposed or enacted in Iowa, Michigan, Nebraska, Oklahoma, Utah, and Wisconsin. Moreover, some of the proposals for offsetting the impact of a gas tax increase—like cutting top income tax rates—would provide no benefit to the state’s poorest residents.
Washington – Outgoing Washington Governor Christine Gregoire has a transportation package in the works that could include a gasoline tax increase.65

PROS: Raising the gas tax can raise significant revenue and shore up the tax against inevitable decreases in its value that will come about from construction cost inflation and gains in vehicle fuel-efficiency.

CONS: The gas tax is regressive, so lawmakers will need to consider enacting or expanding refundable tax credits or rebates for low-income families, such as the state EITC that has yet to be funded.

*Wisconsin – Governor Scott Walker is making tax reform a top priority in 2013.

- During a major policy speech at Ronald Reagan Presidential Library and Foundation, Governor Walker said “we are working on massive tax reform ... we are going to continue to lower our property taxes. We are going to put in place an aggressive income tax reduction reform in the state of Wisconsin.”66

- The new Assembly Speaker-elect, Robin Vos, is also advocating a major reduction in personal income taxes.67

CONS: A reduction in income taxes could increase the regressivity of Wisconsin’s tax structure.

Wyoming – Governor Matt Mead and the Wyoming legislature’s Joint Revenue Committee have both voiced their approval for raising the state’s gasoline tax to better fund transportation.

- Support for an increase comes from a diverse set of groups, including local officials, businesses, and truckers. A bill raising the tax is expected to be introduced in January.

PROS: Wyoming has the second lowest gas tax rate in the country. The state is long overdue for an increase, having gone fifteen years since the tax was last raised. Since then, construction cost inflation alone has eroded the value of the tax by more than 30 percent.68

CONS: The gas tax is regressive, so lawmakers will need to consider pairing any increase with some form of targeted credit or rebate for low-income families.

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