

Strong States, Strong Nation



State Corporate Income Taxes: A Primer
Wyoming Legislative Joint Revenue Committee
Jackson Brainerd

 NATIONAL CONFERENCE *of* STATE LEGISLATURES

State Corporate Income Taxes



- Forty-four states levy a Corporate Income Tax (CIT)
 - ▣ Only 14 have a graduated tax structure
- Four states (NV, OH, TX, WA) levy Gross Receipts Taxes instead of a CIT
- Treatment of S-Corporations in States with No Personal Income Tax: Alaska, Florida, New Hampshire, Tennessee

Nexus and Apportionment

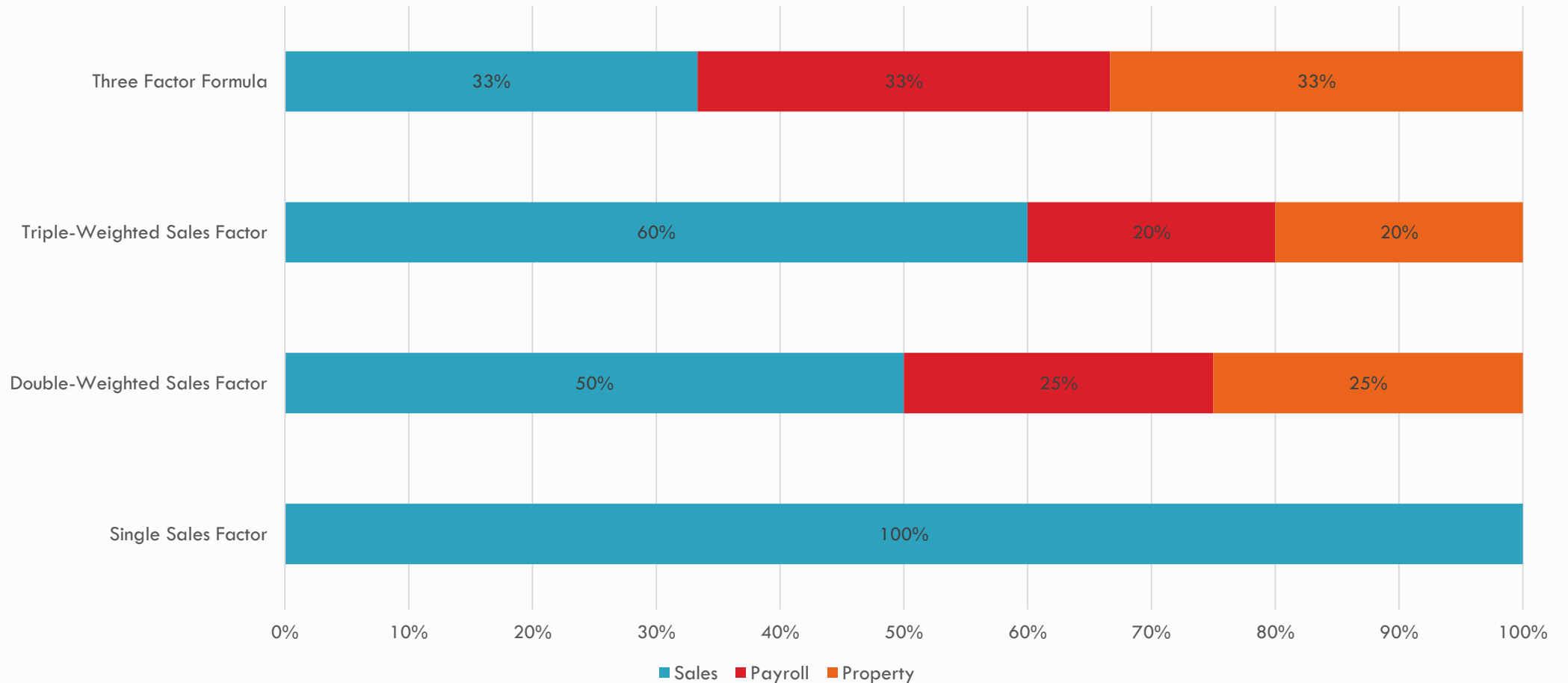


- Nexus: When can a business's activities/income be taxed?
- Apportionment: How much of a business's activities/income can be taxed?

Apportionment Formulas

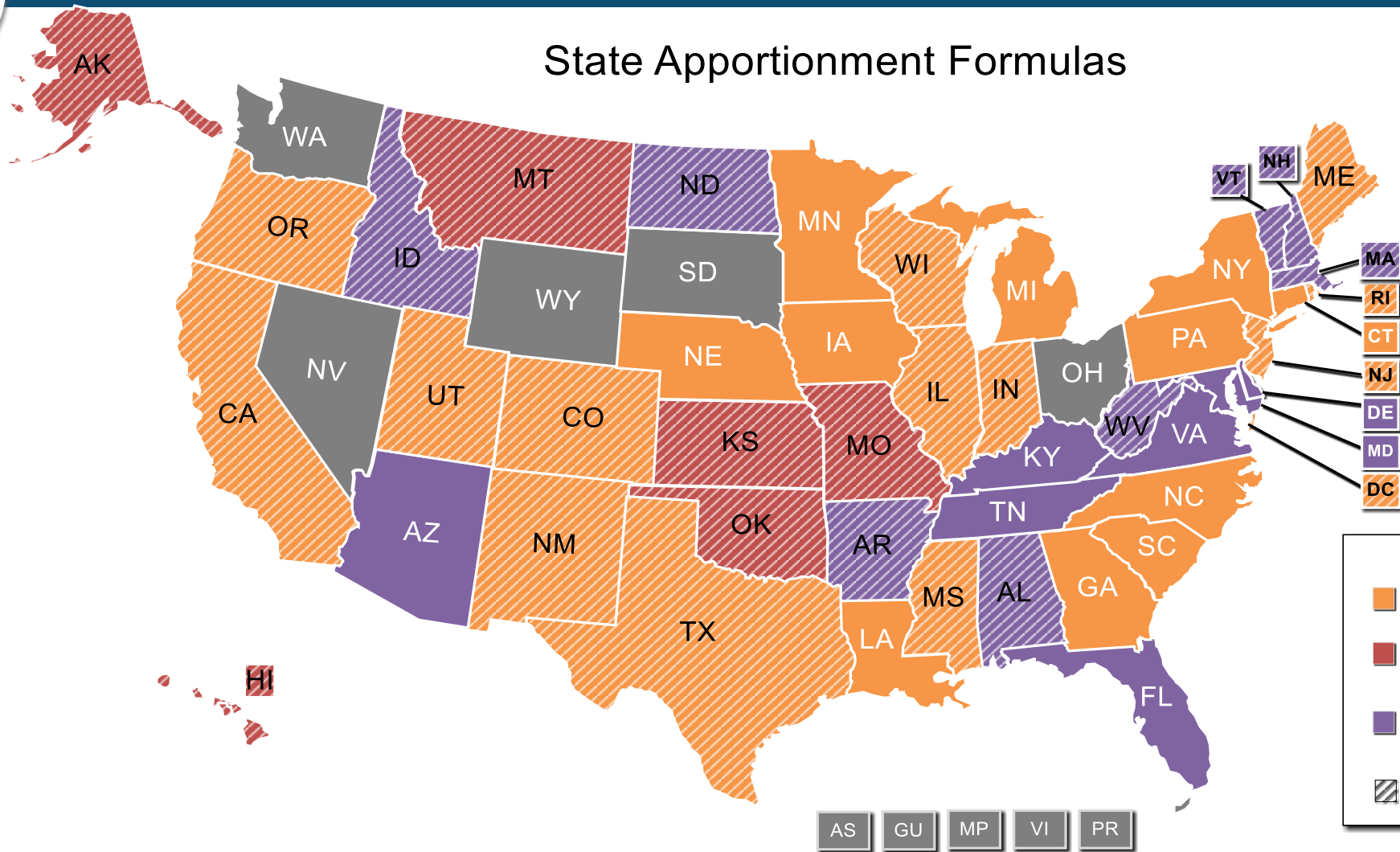


State Corporate Income Tax Apportionment Formulas





State Apportionment Formulas



LEGEND

- Single Sales Factor
- Three Factor Formula
- Three Factor, Extra Weight for Sales
- Throwback Rule for Nowhere

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History of State Corporate Income Taxes

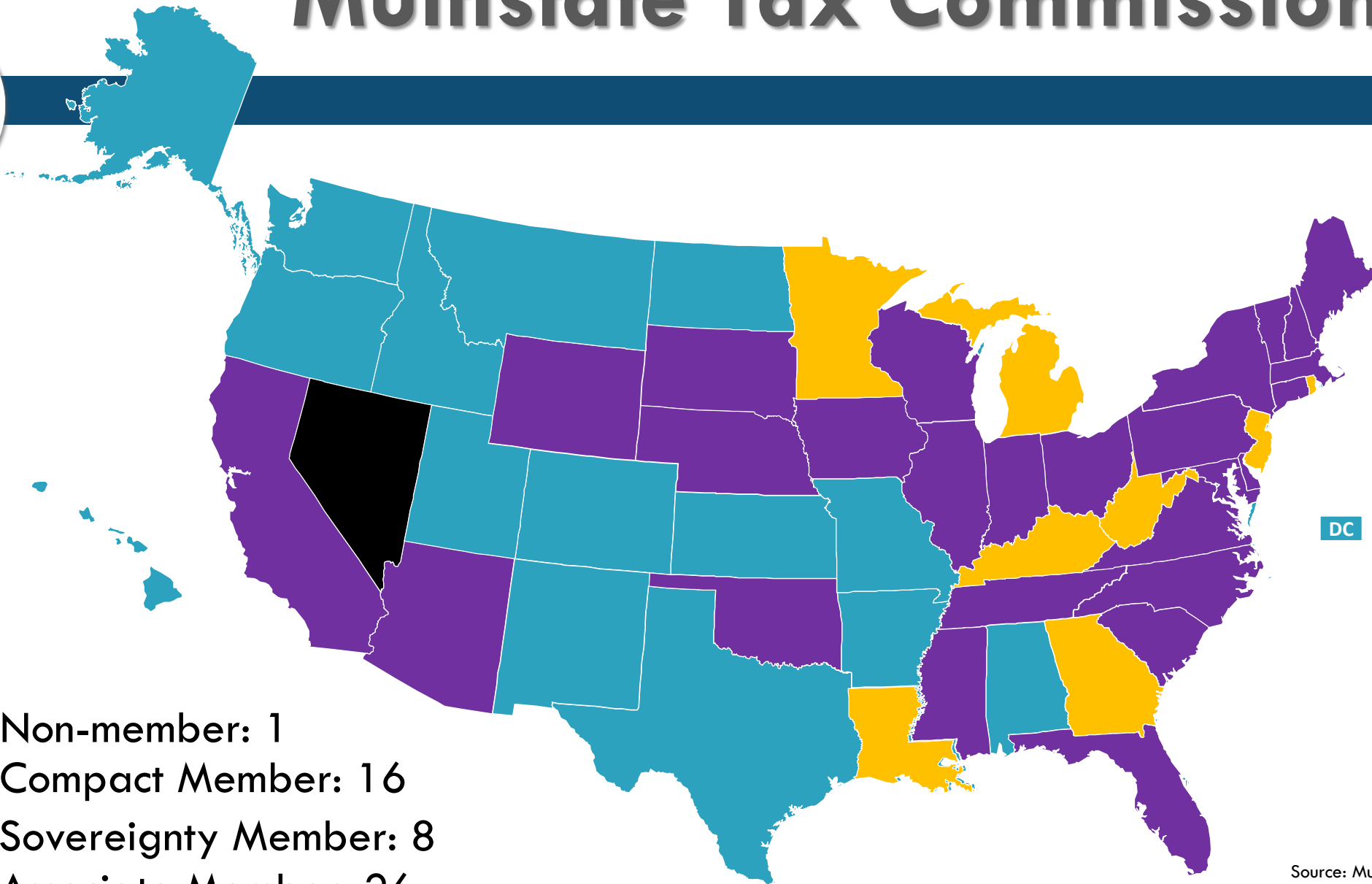
- First state Corporate Income Tax adopted in 1911
- Federal Corporate Income Tax adopted in 1913
- By 1957, thirty-four states and DC had adopted a
CIT

Push for Uniformity



- The Uniform Law Commission's Uniform Division of Income for Tax Purposes Act (UDITPA), 1957
- Multistate Tax Compact, 1967

Multistate Tax Commission



- Non-member: 1
- Compact Member: 16
- Sovereignty Member: 8
- Associate Member: 26

History of State Corporate Income Taxes Cont.



State	1968	Jan. 2018
Arizona	6.6%	4.9%
Arkansas	5%	6.5%
Colorado	5%	4.63%
Idaho	6%	7.4%
Iowa	8%	12%
Kansas	4.5%	4%
Louisiana	4%	8%
Montana	5.5%	6.75%
Nebraska	2%	7.81%
New Mexico	3%	5.9%
North Dakota	6%	4.31%
Oklahoma	4%	6%
Tennessee	5%	6.5%
Utah	6%	5%

Source: William Fox, LeAnn Luna. "State Corporate Tax Revenue Trends." 2002



Corporate Income Tax In Severance Tax-Dependent States

Potential Easing of Extraction Industry Tax Burdens

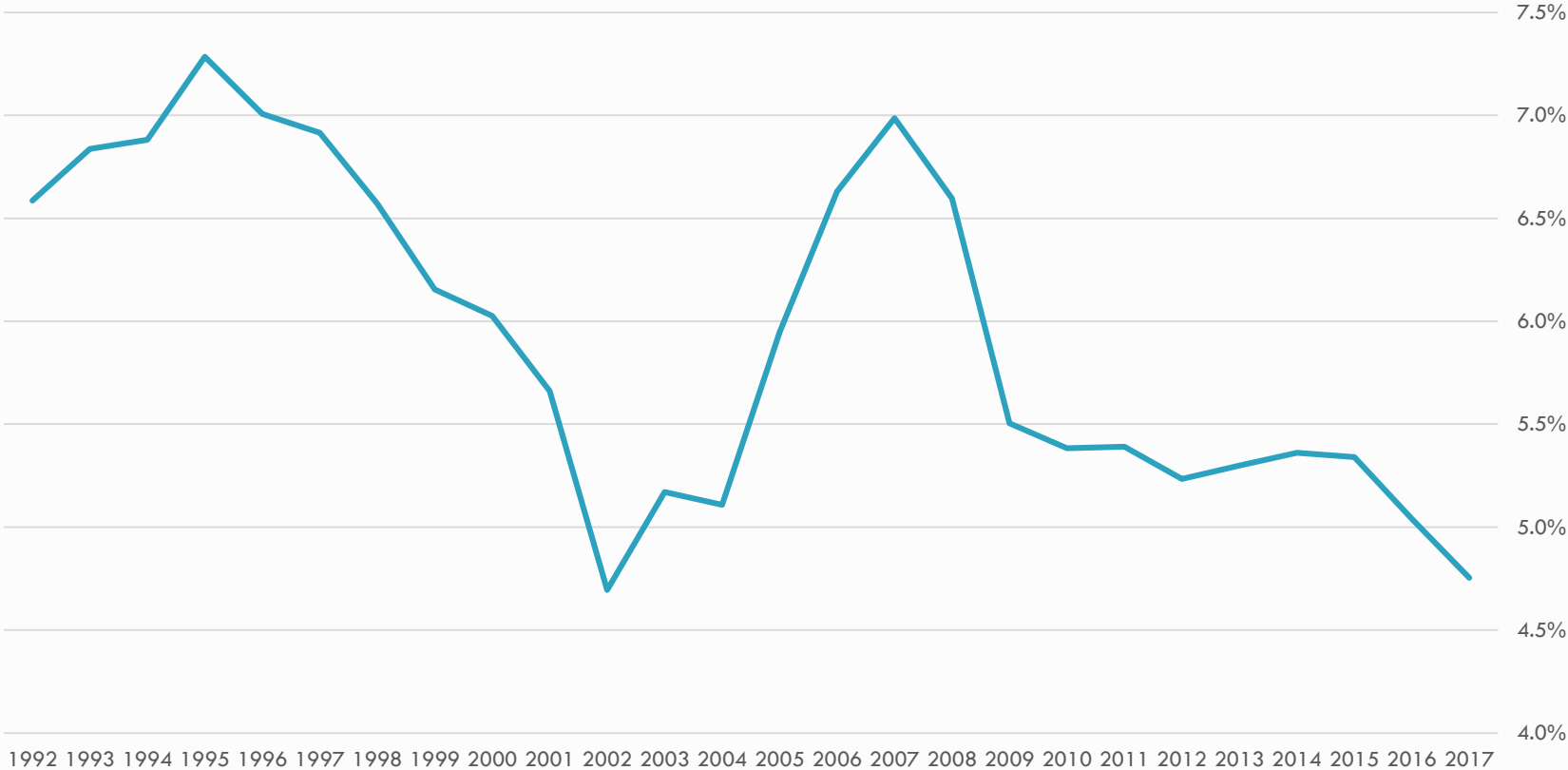
Via:

- Substitutions
- Credits/Exemptions
- Single Sales Factor Apportionment

Corporate Income Tax Revenue Has Eroded Over Time



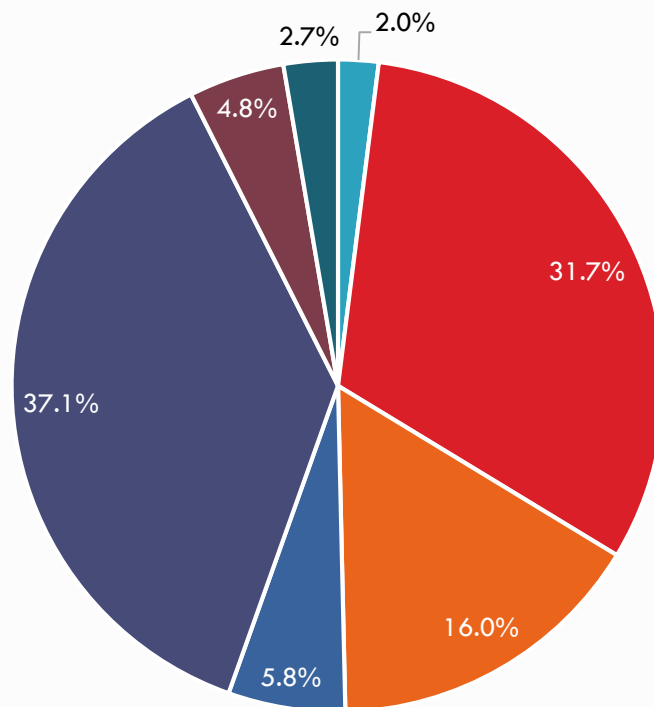
Corporate Income Tax Share of Total State Tax Collections



Source: US Census Bureau Data



CIT Revenue as a Percentage of State Tax Collections (2017)



- Property Taxes
- License Taxes
- Other Taxes

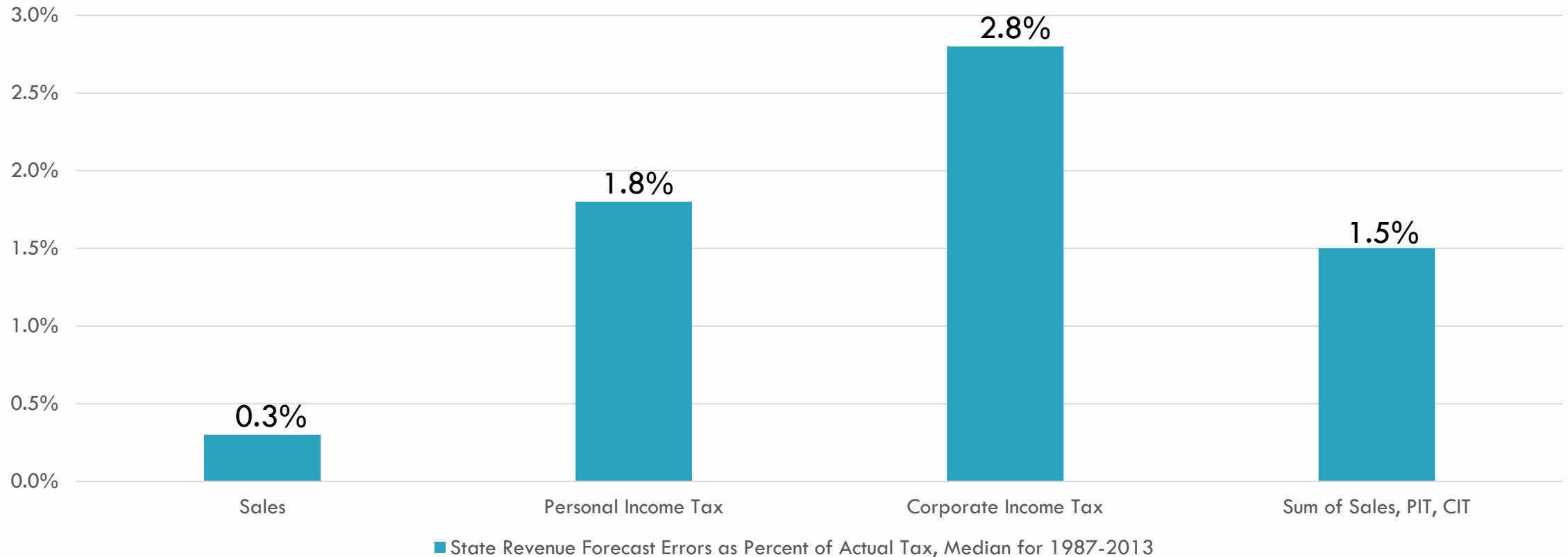
- General Sales and Gross Receipts Taxes
- Individual Income Taxes

- Selective Sales and Gross Receipts Taxes
- Corporations Net Income Taxes



Corporate Income Tax Volatility

State Revenue Forecast Errors as Percent of Actual Tax, Median for 1987-2013



Causes of Deteriorating CIT Revenue



- ❑ Changes in Apportionment (Single Sales Factor)
- ❑ Base Narrowing (Use of Credits/Exemptions)
- ❑ Business vs. Nonbusiness Income
- ❑ Tax Planning
- ❑ Increasing Popularity of S-Corporations

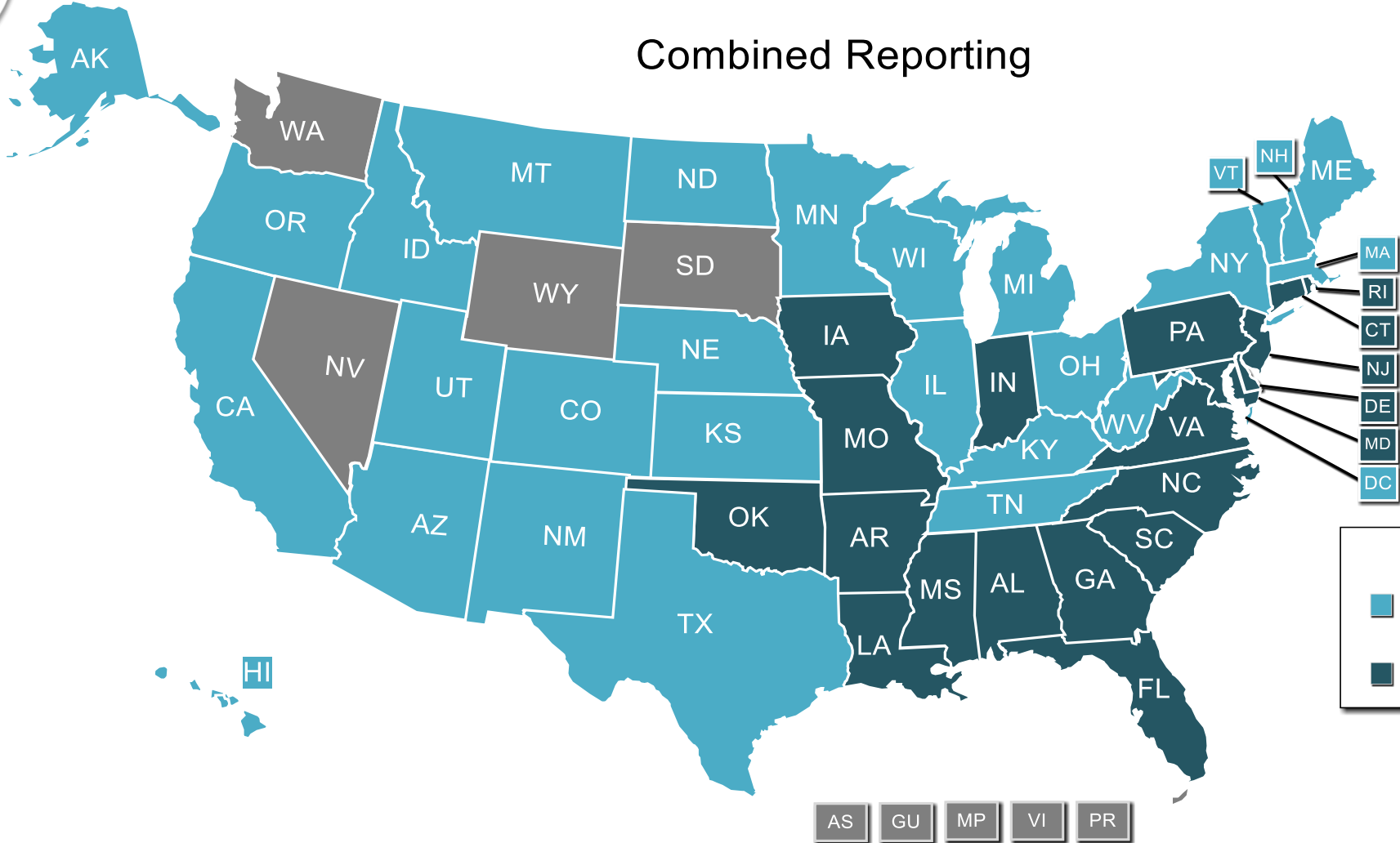
State Responses to Reduced CIT Revenues



- ❑ Expanded Nexus Threshold
- ❑ Throwback Rules
- ❑ Incentive Evaluation
- ❑ Combined Reporting
- ❑ Tax Haven Legislation



Combined Reporting



LEGEND

- Requires Combined Reporting
- Does Not Require Combined Reporting

Recent Corporate Income Tax Changes and Reform Efforts



State	Year	Description
Georgia	2018	CIT rate was cut from 6 percent to 5.75 percent eff. January 1, 2019.
Idaho	2018	CIT rate was cut from 7.4 percent to 6.92 percent, retroactive to January 1, 2018.
Iowa	2018	Eff. 2021, CIT rates will be cut across the board, with the marginal rate falling from 12 to 9.8 percent. Federal deductibility will also be repealed.
Kentucky	2018	CIT rate set at flat rate of 5 percent. Previously had a graduated tax structure with a marginal rate of 6 percent.
Missouri	2018	CIT rate will be cut from 6.25 percent to 4 percent eff. January 1, 2020.
Illinois	2017	Increased the CIT rate from 5.25 percent to 7 percent.
North Carolina	2017	Reduced the CIT rate from 3 percent to 2.5 percent eff. January 1, 2019.

How did Federal Tax Reform Affect State Corporate Income Taxes?



- Significant CIT changes in the Tax Cuts and Jobs Act:
 - ▣ Bonus depreciation
 - ▣ Expensing
 - ▣ Limitation on interest deduction
 - ▣ NOL limitation
 - ▣ New deduction for certain passthrough income
- International provisions:
 - ▣ Repatriation
 - ▣ Foreign intangible income (FDII and GILTI)



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