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## **Tax Trends Heading Into 2019.**

### **Key Findings**

- State tax changes are not made in a vacuum. States often adopt policies after watching peers address similar issues. Several notable trends in tax policy have emerged across states in recent years, and policymakers can benefit from taking note of these developments
- The enactment of the federal Tax Cuts and Jobs Act (TCJA) expanded many states' tax bases and drove deliberations on tax conformity. At year's end, only five states conform to an older version of the federal tax code, though many have yet to resolve issues raised by their tax conformity regimes.  
Several states experimented with mechanisms to allow their high-income taxpayers to avoid the new cap on the state and local tax (SALT) deduction, efforts cast into doubt-though not entirely ended-by draft U.S. Treasury regulations.
- Three states and the District of Columbia cut corporate taxes in 2018, with rate reductions pending in two other states. Reductions in other taxes on capital are ongoing as well, with Mississippi beginning the phaseout of its capital stock tax.
- The U.S. Supreme Court's *Wayfair v. South Dakota* decision ushered in a new era of sales taxes on e-commerce and other remote sales, but many states have yet to implement the provisions the Court strongly suggested would protect such tax regimes from future legal challenges.
- A second state (Arizona) adopted a constitutional amendment banning the expansion of the sales tax to additional services, with similar efforts-which have the effect of locking an outdated sales tax base in place-expected to emerge in other states in 2019 and beyond.
- A court ruling has states scrambling to legalize and tax sports betting, while shifting public attitudes continue to render the legalization and taxation of marijuana an attractive revenue option in a growing number of states. In 2018, seven states adopted sports betting taxes, while two legalized and taxed marijuana.
- States continue to grapple with the appropriate taxation, if any, of e-cigarettes, with two states adopting taxes at rates reflective of vapor products' potential for harm reduction, while the District of Columbia increased its tax to a punitive 96 percent rate.
- Business head taxes came out of nowhere to become a key consideration for several cities, particularly those with thriving tech sectors.
- Consideration of gross receipts taxes continue as corporate income tax revenues decline, though concerns about their economic effects have generally helped stave off their adoption.
- Two states repealed their estate taxes in 2018, continuing a decade-long trend away from taxes on estates and inheritances.
- Revenue triggers, a relatively modern innovation, again featured prominently in tax reform packages and will continue to do so.

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### **Tax Foundation**

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