2018's States Most Affected by Tax Reform

Mar 28, 2018 | Adam McCann

President Donald Trump signed sweeping tax code changes into law in 2017, leaving Republicans excited and Democrats less than thrilled. Trump and his supporters see the new code as a win for both businesses and individuals. It lowers the corporate income tax from 35 to 21 percent, and is projected to increase overall after-tax income in every quintile of taxpayers.

Some people aren't confident that the new rates will be beneficial for all, though. For example, according to WalletHub's Tax Survey, 69 percent of consumers say that they believe the new tax reform will benefit corporations more than consumers, and 67 percent believe it will favor the rich over the middle class.

While the changes to the tax law won't affect most Americans' 2018 filings for the 2017 fiscal year, 2019 will be a much different story. Citizens of certain states will benefit more than others, too. In order to find out where taxpayers will get the best breaks, WalletHub compared the 50 states and the District of Columbia based on the state-specific average tax change for low, middle and high-income families. Below you'll find the full ranking, insight from a panel of experts and a full description of our methodology.

Where do you stand on the new tax policy? See how your ideas compare to other respondents in WalletHub's Tax Fairness Survey.

Main Findings

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Overall States Most Affected by Tax Reform

Overall Rank*	State	'Low-Income Families' Rank	'Middle-Income Families' Rank	'High-Income Families' Rank
1	Alaska	44	1	8
2	Alabama	47	15	1
3	Tennessee	22	14	2
4	District of Columbia	1	20	18
5	Nevada	37	2	7
6	Arkansas	8	7	4
7	Ohio	43	9	5
8	Texas	4	17	13
9	Delaware	14	4	20
10	South Dakota	30	13	12
11	New Mexico	25	3	24
12	Oklahoma	39	19	6
13	Wyoming	50	39	3
14	Washington	20	6	25
15	Kansas	42	8	17
16	Nebraska	3	24	27
17	Hawaii	27	10	26
18	Illinois	7	18	28
19	New Hampshire	12	21	22
20	North Dakota	23	44	10
21	Florida	36	34	9
22	Indiana	35	22	16
23	Colorado	19	29	21
24	North Carolina	29	16	31
25	Idaho	33	33	15
26	Utah	31	12	37
27	Louisiana	26	41	14
28	California	5	5	48
29	Montana	49	36	11
30	Vermont	51	23	19
31	Minnesota	9	37	34
32	Rhode Island	6	42	33

33	South Carolina	11	31	36
34	Iowa	13	26	38
35	Michigan	24	35	32
36	Missouri	21	40	29
37	Wisconsin	28	27	40
38	Kentucky	17	32	42
39	Massachusetts	34	11	43
40	Maine	38	47	23
41	Georgia	18	46	35
42	Pennsylvania	48	38	30
43	Oregon	45	28	39
44	Virginia	40	30	41
45	Mississippi	16	45	47
46	Arizona	2	51	51
47	New Jersey	15	25	49
48	Maryland	10	48	46
49	New York	32	43	50
50	Connecticut	41	49	45
51	West Virginia	46	50	44

*1 = Benefiting the most

States Benefiting the Most from the New Tax Reform (Low-Income Families)

1. District of Columbia
2. Arizona
3. Nebraska
4. Texas
5. California

States Benefiting the Least from the New Tax Reform (Low-Income Families)

47. Alabama
48. Pennsylvania
49. Montana
50. Wyoming
51. Vermont

States Benefiting the Most from the New Tax Reform (Middle-Income Families)

1. Alaska
2. Nevada
3. New Mexico
4. Delaware
5. California

States Benefiting the Least from the New Tax Reform (Middle-Income Families)

47. Maine
48. Maryland
49. Connecticut
50. West Virginia
51. Arizona

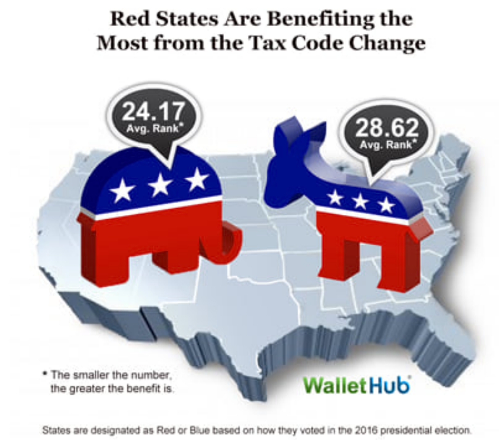
States Benefiting the Most from the New Tax Reform (High-Income Families)

1. Alabama
2. Tennessee
3. Wyoming
4. Arkansas
5. Ohio

States Benefiting the Least from the New Tax Reform (High-Income Families)

47. Mississippi
48. California
49. New Jersey
50. New York
51. Arizona

Red vs Blue States



Ask the Experts

As tax codes are long and complex, many Americans are left wondering exactly how the latest changes will affect them. For more insight into how the law will change taxes going forward, we asked a panel of experts for their thoughts on the following key questions:

1. Is the new tax code designed to be more beneficial to some states than others?
2. Who will be the most negatively affected by the new tax code in the long run?
3. Is the new tax code as much a “loophole haven” as the last one? If so, how and why?
4. Does the new tax code make preparing tax returns more or less complex? Would the average person spend more or less time/money to prepare their tax returns?

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Is the new tax code designed to be more beneficial to some states than others?

Whether it was “designed” to be more beneficial to some states over others is a political judgment. It is fair to say that one (among many) of the major features of the Tax Cuts and Jobs Act is the cap on the SALT deduction, which will disproportionately impact states with high income and property tax burdens, such as New York, New Jersey, California, and Connecticut, to name a few. Curiously, these states also tend to be “blue” states.

Who will be the most negatively affected by the new tax code in the long run? Are there any negative implications?

Virtually all taxpayers will be impacted in some way by the new law. Consequently, I think it’s too early to tell who will be the most negatively affected. Implementation of the new law will require time to see and feel its full impact. IRS regulations are needed to interpret the new law, and taxpayers have not even begun to apply much of the law to real-world transactions. Many of the individual income tax reforms are temporary (i.e., expire in 2025), so there’s a case to be made that individuals may suffer more than corporate taxpayers in the long term. Also, the anticipated resulting increase in federal debt may very well negatively affect everyone in the long run.

Is the new tax code as much a “loophole haven” as the last one? If so, how and why?

Again, it’s probably too early to tell. But, with major legislative change comes both intended and unintended consequences. There will surely be many new loopholes, for example there has been much discussion about the pass-through business reforms.

Is the new tax code increasing or decreasing the complexity of the tax preparedness process? Would the average person spend more or less time/money to prepare their tax returns?

Other than doubling the standard deduction for individual taxpayers, which should ease tax preparation for some individual filers, the new law will likely only increase complexity, at least in the short run, for everyone.

Disclaimer: The information contained in this article does not constitute tax advice and is for informational purposes only.

Methodology

In order to identify the states that would be most affected by the tax code according to one's family income group, WalletHub generated estimates of the state-specific average tax change at three income levels — low ($25,000), medium ($50,000) and high ($150,000) — in each of the 50 U.S. states and the District of Columbia. We did so using data from the Institute on Taxation & Economic Policy's 2018 report, which published estimates of average tax change at seven points in the state-specific income distribution.

As we were interested in comparing average tax changes for families at the same income level across states, we fit a regression model to estimate the relationship between income and the average tax change for each state and the District of Columbia. We used log transformations to improve model fit and used this model to generate predicted average tax change at the income levels examined.

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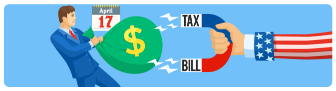

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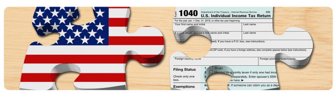

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