How Post-Pandemic Tax Cuts Can Affect Racial Equity

An Examination of How State Tax Changes Affected Different Income Groups and Representative Households in Arizona, Maryland, New Mexico, and Ohio

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Executive Summary

As state legislative sessions begin in 2022, state policymakers across the country are considering tax cuts. Although there are many reasons and ways to cut taxes—and understanding that each state's tax proposal should be judged on its own merits as well as the state’s fiscal situation and values—state policymakers should keep two things in mind when evaluating possible tax cuts this year:

1. The pandemic's economic effects were unequal, with low-income workers, and specifically Black and Latino workers, faring far worse than high-income workers.

2. Unprecedented federal spending contributed significantly to current state tax collections, both directly and indirectly, and future state tax revenue growth remains highly uncertain.

Additionally, in calendar year 2021, 29 states and the District of Columbia enacted a significant tax cut, with nearly all of these states either cutting individual income tax rates or expanding their state earned income tax credit (EITC). Understanding how these different tax cuts affected state tax revenues and different household types can help policymakers craft tax policy in 2022.

Using the Tax Policy Center’s state income tax model, this report analyzed the tax cuts passed in Arizona, Maryland, New Mexico, and Ohio. Arizona and Ohio enacted income tax rate cuts while Maryland and New Mexico expanded their state EITC. Arizona and New Mexico have relatively large Latino populations, and Ohio and Maryland have relatively large Black populations.

The benefits of the income tax rate cuts in Arizona and Ohio went overwhelmingly to high-income households. Households earning more than $100,000 received 93 percent of the benefits from Arizona's tax cut and 73 percent of the benefits from Ohio’s tax cut. In both states, households earning below $30,000 received less than 5 percent of the tax cut's benefits. In contrast, the benefits of state EITC expansions (and a few other tax changes) in New Mexico and Maryland went overwhelmingly to lower-income workers. Households earning less than $30,000 received 91 percent of the benefits from New Mexico’s tax cuts and 81 percent of the benefits from Maryland’s tax cuts.
Although tax policy is often perceived as “race neutral,” the financial consequences of these state tax changes—similar to the economic consequence of the pandemic—were not equal across racial and ethnic groups. In this report, we created representative households (using race and ethnicity, family characteristics, and the median wage for each group) in four states and ran them through the Tax Policy Center state tax model. In general, representative white households saw the largest tax cuts in Arizona and Ohio, in part because the representative Latino households in Arizona and representative Black households in Ohio saw little or no benefit from their state’s tax cuts. In contrast, representative Latino households in New Mexico and representative Black households in Maryland saw equal or larger tax cuts than comparable white households in those states. Overall, low-income households with children saw the largest tax cuts in New Mexico and Maryland.

For example, a Latino single adult with two children earning the median wage for their group in their state did not benefit from the tax cut in Arizona but received a $459 tax cut in New Mexico. Similarly, a Black single adult with two children earning the median wage for their group in their state
did not receive a tax cut in Ohio but a similar household at the median wage for their group in Maryland received a $500 tax cut.

Even if this was not the intent of each state’s legislation, it was a consequence tax policy interacting with existing racial and ethnic economic disparities. Many Black and Latino households do not earn enough taxable income to benefit from income tax rate cuts, but their average wages and family characteristics make them prime beneficiaries of refundable tax credits. Thus, if state policymakers want to use tax policy to directly help the households most harmed by the pandemic, they need to consider refundable tax credits like the EITC.

Additionally, the costs of the tax rate cuts far exceed the costs of the expanded tax credits. The Tax Policy Center state tax model estimates, when fully phased in, the tax rate cuts will cost $1.6 billion annually in Arizona and $800 million annually in Ohio. Meanwhile, the EITC expansions (and a few other tax changes) will cost New Mexico $100 million annually and Maryland $370 million (or $170 million annually if you remove the state’s one-time stimulus checks from the cost). Although population size contributes to this cost disparity, most of it is a function of rate cuts going to all households with taxable income (with benefits growing parallel with taxable income) and tax credits delivering a set benefit to a limited number of low- and middle-income households. At this moment, given the expiration of federal assistance and the ongoing pandemic, a long-term commitment to large revenue reductions (or spending increases) might not be prudent. Thus, in addition to their equity benefits, a refundable tax credit is also a more fiscally affordable tax cut than an income tax rate reduction.

The fiscal situation in 2022 is a complex mix of opportunity, uncertainty, and responsibility. Federal fiscal assistance was unprecedented but is coming to an end. The current tax revenue surpluses are large but possibly not sustainable. The economic consequences of the ongoing pandemic are highly uncertain and unequal.

No one tax policy change can achieve every policy goal but enacting or expanding a state EITC can deliver significant economic assistance to the households most harmed by the pandemic in a fiscally responsible way. It is also one of the few ways to assist many Black and Latino households with a tax cut. At the least, given its relatively small revenue cost and strong benefits for those most harmed by the pandemic, policymakers could consider making an expanded EITC part of larger tax legislation as they try to navigate this challenging economic and fiscal situation.
How Post-Pandemic Tax Cuts Can Affect Racial Equity

As legislators gather at statehouses across the country in early 2022, many will encounter a fiscal situation that seemed inconceivable during the depths of the COVID-19 pandemic: a revenue surplus. However, most of these state surpluses are not so much a reflection of broad economic prosperity as a consequence of unprecedented federal assistance over the past two years and the disparate effects of the pandemic on households and governments.

In the spring of 2020, the pandemic shuttered state economies and sent state tax revenues off a cliff. The widespread expectation for state governments was that the next few years would become a time of austerity and painful spending cuts. However, with federal relief propping up the economy plus high-income households avoiding the worst of the economic downturn—and thus continuing to pay taxes—state tax collections beat expectations in most states. As a result, in many states the fiscal script quickly flipped from what spending to cut to what taxes to cut.

Tax cuts are far from the only prudent policy response to a state revenue surplus. In fact, a poorly designed tax cut can turn a one-year surplus into a long-term structural deficit. And states are explicitly prohibited from using American Rescue Plan (ARP) funds for tax cuts—even if, as we will explain, this federal rule does not prevent all state tax cuts.

Still, numerous states cut taxes in calendar year 2021, and many policymakers are considering tax cuts as they begin their 2022 legislative sessions. The question for many state policymakers then is, "What are the most efficient and equitable ways to reduce taxes to help promote a post-pandemic recovery?" This report helps answer that question with evidence from other states’ experiences and data from the Tax Policy Center state tax model.

Specifically, the report examines the individual income tax cuts enacted in 2021, with a close analysis of the tax cuts passed in Arizona, Maryland, New Mexico, and Ohio. Using the Tax Policy Center state tax model, this report shows which income groups primarily benefited from each states’ tax cut and which did not. Additionally, using data from Census’s American Community Survey (ACS), the report shows how these tax cuts affected different racial and ethnic groups.

Tax policy is often perceived as "race neutral" because federal and state revenue agencies do not collect information on race and ethnicity. State tax legislation also rarely explicitly mentions race and
ethnicity. However, as a recent Tax Policy Center brief on racial disparities in state and local revenues noted, “That does not mean tax systems affect people of different races and ethnicities in the same way” (Boddupalli and Rueben 2021).

For example, Black and Latino households have disproportionately smaller incomes compared to other households in all 50 states and the District of Columbia. As a result, any state tax cut that primarily benefits higher-earning households, such as reducing individual income tax rates, will provide a disparate share of its benefits to white households and relatively little benefit to many Black and Latino households—even if that was not the intention of the legislation.

Conversely, a refundable tax credit, which provides benefits to households with low or no tax liability, can provide tax relief to lower-income households. Further, some refundable credits, such as the EITC, give larger benefits to households with children, particularly single-parent households. This is notable because single-parent households are a larger share of Black and Latino households than they are of white households.

As states plan recovery strategies, policymakers should note that the effects of the pandemic's economic downturn were also not race neutral: Black and Latino households suffered higher rates of infections and deaths, faced higher rates of job and wage losses (Gould and Wilson 2020), and were more at risk to face serious financial crises, such as not having enough money to pay for housing and medical care.

Thus, policymakers attempting to assist those most harmed by the pandemic may want to take race and ethnicity into account when crafting tax legislation. Further, this is also prioritized in the US Treasury Department’s guidance for eligible uses of ARP state and local fiscal relief funds. Again, while ARP funds were specifically not approved for funding tax cuts, they are a part of the positive fiscal environment that is making tax cuts possible in many states.

This report provides guidance for state policymakers trying to craft more equitable tax policy in 2022, including explaining how the pandemic affected state tax revenue over the past two years, the types of state tax cuts enacted in 2021, and how different state tax cuts affected different income and racial and ethnic groups.
The Pandemic’s Economic and Fiscal Effects Were Unexpected and Unequal

On March 19, 2020, as the spread and severity of the public health crisis caused by the COVID-19 pandemic became apparent, California Governor Gavin Newsom issued the nation’s first statewide stay-at-home order. Over the next few weeks, governors in 42 other states and the District of Columbia issued similar “shutdown” orders. These stay-at-home measures ranged from 21 days in Georgia to 69 days in Delaware.

As a result of these orders and corresponding individual and business actions to contain exposure to the virus, economic activity halted across the country in early 2020. The unemployment rate jumped from 3.5 percent in February to 4.4 percent in March and then spiked to 14.8 percent in April. The unemployment rate topped 10 percent in 42 states in April 2020, with a high of 29.5 percent in Nevada. Meanwhile, national personal consumption spending fell 6.9 percent from February to March and then dropped another 13.6 percent from March to April.

With state tax collections plummeting—in a typical year, combined revenue from the individual income tax and general sales tax accounts for nearly 70 percent of state tax collections—state revenue estimators immediately began revising their forecasts downward. In July 2020, a Tax Policy Center analysis of state revenue forecasts estimated that total tax revenue for all 50 states would fall roughly $75 billion below pre-pandemic forecasts in fiscal year 2020 (i.e., the four quarters ending in June 2020) and $125 billion short in fiscal year 2021 (i.e., the four quarters ending in June 2021). A private analysis done by Moody’s Analytics in September 2020 similarly projected a $100 billion drop in state tax collections for fiscal year 2021 (White 2020).

And state tax revenue did fall. According to the Urban Institute’s State Tax and Economic Review project, state tax collections in fiscal year 2020 were down $45 billion compared with the previous fiscal year. We now know some of this revenue loss—and its corresponding revenue growth the following fiscal year—was the result of delayed tax deadlines pushing tax payments from April (fiscal year 2020) to July (fiscal year 2021). Still, in the moment, the acute revenue loss in the spring and summer of calendar year 2020 led to tough budget decisions in many states, including spending cuts in 19 states and the use of rainy-day funds to balance the budget in 15 states (National Association of State Budget Officers 2021). But tax collections began to recover during the latter half of calendar year 2020, and tax data from 2021 shows many state collections returning to pre-pandemic levels (Urban Institute 2021).
Three dynamics prevented the worst fiscal fears from materializing in many states.

The first was the large and persistent federal response to the pandemic’s economic and fiscal emergency. Congress approved three major pieces of legislation in response to the pandemic: the Coronavirus Aid, Relief, and Economic Security (better known as CARES) Act in March 2020, the Bipartisan-Bicameral Omnibus COVID Relief Deal (as part of the Consolidated Appropriations Act) in December 2020, and the ARP in March 2021. All three bills included provisions that kept the US economy from falling into a deeper and longer economic downturn, including stimulus checks, expanded unemployment benefits, and advanced child tax credit payments, plus direct support for state and local finances. In total, and also counting two smaller pieces of legislation passed earlier in the pandemic, Congress authorized roughly $880 billion in direct, pandemic-related funds for state and local governments from March 2020 to March 2021. In particular, the ARP provided $350 billion in unrestricted funds for a wide range of expenditures, including responding to the public health emergency, replacing lost tax revenue, offsetting the pandemic’s negative economic effects, and investing in infrastructure. Governments have until December 31, 2024, to allocate their ARP funds and can spend the money through December 31, 2026.
Second, the economic downturn was incredibly unequal. When state revenue estimators released their post-pandemic forecasts in the first half of 2020, they generally assumed a traditional economic downturn with negative effects up and down the income ladder. However, during the pandemic, high-income earners were generally able to work from home and thus largely avoid economic pain, while low-income workers, particularly those in the service industry, experienced a high degree of job loss and other economic hardships. From January 2020 to August 2021, the US had nearly 26 percent fewer jobs paying less than $27,000 a year but nearly 10 percent more jobs paying over $60,000.20

Unequal effects on households of different races and ethnicities also existed during the economic collapse and the fledgling recovery. An April 2020 Pew Research survey found 61 percent of Hispanic Americans and 44 percent of Black Americans said that they or someone in their household experienced a job or wage loss due to the coronavirus outbreak, compared with 38 percent of white adults (Pew Research Center 2020). Similarly, a Child Trends analysis of the Census Bureau's Household Pulse Survey in January 2021 found that, among households with children, 31 percent of Black households and 29 percent of Latino households experienced "three or more co-occurring economic and health-related hardships as a result of the pandemic,"21 compared with 16 percent of white households (Padilla and Thomson 2021). And a December 2021 Pew Research Center poll reported Black adults (48 percent) and Hispanic adults (46 percent) were more likely than white adults (30 percent) to say that "the pandemic's economic impact is a major problem where they live." Black and Hispanic adults were also more likely to say the pandemic’s health impact was a major problem in their neighborhoods (Pew Research Center 2021).

Still, because states rely more on high-income households than low-income households for tax revenue, state tax collections beat expectations, even as many low- and middle-income households struggled. This was particularly true in states with an individual income tax with high tax rates on high levels of income.

Third, while economic activity in the service sector collapsed, Americans increasingly purchased goods during the pandemic (Dadayan and Rueben 2021). This shift matters for state tax collections because states typically levy their general sales tax on the purchase of goods but exempt from tax the purchase of services. For example, a state might not tax a payment to a home-cleaning service but will tax the purchase of cleaning supplies. Thus, states received an unexpected boost in general sales tax revenue during the pandemic. And, because states are now largely able to tax online purchases (Auxier and Rueben, 2018), they also taxed much of the economic activity that shifted from retail stores to online shopping during the past two years.
But national data can obscure individual state experiences. States with progressive income tax systems (e.g., California) fared better than states without an income tax (e.g., Florida and Texas). Meanwhile, states that rely heavily on tourism and the service industry (e.g., Hawaii and Nevada) or the oil industry (e.g., Alaska and Wyoming) saw greater revenue declines than states that do not.

Overall, from April 2020 to March 2021, state tax revenue declined in 17 states and grew in 33 states. State tax revenue declined 5 percent or more in eight states (Alaska, Florida, Hawaii, Nevada, North Dakota, Texas, West Virginia, and Wyoming) but increased 5 percent or more in four states (Idaho, Michigan, South Dakota, and Utah).
Although state revenue growth looks promising now, or at least better than anticipated, states had to make budget decisions based on pessimistic forecasts. Like many other public and private forecasters, most state revenue forecasters failed to anticipate both the unprecedented level of federal support in 2020 and 2021 and the ways in which economic downturn from the COVID-19 pandemic would differ from previous recessions. In a Tax Policy Center survey of state revenue analysts, the majority of participants responded that they were only able to “partially” gauge the effect of the pandemic on state tax revenues (Dadayan and Rueben 2021).

This affected state budget decisions which in turn affected budget surpluses. As a July 2021 National Association of State Budget Officers blog post noted, state officials “stressed that prior budget balancing actions, strong fiscal management, and conservative budgeting helped lead to year-end surpluses.” That is, many current state budget surpluses reflect both higher-than-expected tax collections and lower spending levels. Although these surpluses might not reflect broad economic growth, they still give policymakers choices, and many states chose tax cuts in 2021.

The State of State Tax Cuts in 2021

In calendar year 2021, 29 states and the District of Columbia enacted a significant tax cut. Nearly all 29 states passed individual income tax cuts, with the cuts largely taking one of two forms: individual income tax rate reductions or an expansion of the state’s earned income tax credit (EITC).

Arkansas, Arizona, Idaho, Iowa, Louisiana, Missouri, Montana, North Carolina, Ohio, Oklahoma, and Wisconsin lowered individual income tax rates. For example, Idaho reduced its number of income tax brackets from seven to five and lowered its top individual income tax rate from 6.925 percent to 6.5 percent.

Colorado, Connecticut, Delaware, the District of Columbia, Indiana, Maine, Maryland, Minnesota, Missouri, New Jersey, New Mexico, Oklahoma, Oregon, and Washington enacted or expanded a state EITC (Waxman 2021). Most states calculate their EITC as a percentage of the federal credit, and thus an expansion of a state EITC is often an increase of the state's match rate. Six states and the District of Columbia expanded their EITC this way but with a lot of variation. For example, the District of Columbia’s legislation will eventually increase its match of the federal EITC from 40 percent to 100 percent, whereas Indiana's legislation increased its match from 9 percent to 10 percent. Another state EITC expansion option is changing the credit from a nonrefundable credit to a refundable credit. If a taxpayer’s refundable credit amount exceeds their state income tax, the filer receives the excess
amount as a payment from the state. In contrast, a nonrefundable tax credit can only reduce a filer’s tax liability to $0. Delaware and Oklahoma changed their credits from nonrefundable to refundable in 2021.

FIGURE 4
State Tax Cut Type in 2021

Source: Author’s count based on over 30 media stories.

Notes: Missouri and Oklahoma both lowered individual income tax rates and expanded their state EITC. “Other” includes states that made changes to the income tax but did not enact a rate cut or EITC change (California, Georgia, Kansas, North Dakota, and Utah) and states that significantly cut taxes but did not make changes to the individual income tax (Nebraska and New Hampshire). States that created or expanded a relatively small tax credit, or enacted a similarly small tax reduction, are not included in this count.

The other common way to expand a state EITC is to make the state rules more expansive or generous than the federal rules. Two groups typically benefit from these reforms:

1. Childless workers. Childless workers include both adults without children and those with children who live with (and are thus on the tax return of) another parent. The federal rules typically restrict the EITC to only childless workers ages 25 to 64, but Colorado, Minnesota,
New Jersey, and New Mexico expanded eligibility to childless workers younger than age 25 in 2021. Additionally, eligible childless workers typically receive a far smaller federal credit than filers with children, and because most state credits are a percentage match, the state credit for childless workers is similarly smaller. (ARP boosted the federal EITC for childless workers, and this simultaneously boosted state credits but only for tax year 2021 [Maag and Weiner 2021]). To assist childless workers, Maryland increased its EITC match to 100 percent for childless workers (for all other filers, the match was increased to 45 percent). The District of Columbia was the first jurisdiction to specifically expand its EITC for childless workers. In 2014, the District of Columbia expanded the credit’s income eligibility for childless workers beyond the federal limits and increased its match to 100 percent for these filers while all others received the 40 percent match.

2. **Undocumented filers.** Workers who file their income tax return with an Individual Taxpayer Identification Number (ITIN) instead of a Social Security number, typically undocumented workers, are not eligible for the federal EITC. However, in 2021, Maine, Maryland, New Mexico, Oregon, and Washington made ITIN filers eligible for their state credit. Colorado and California enacted this reform in 2020.

In addition to income tax rate cuts and expanded EITCs, three states sent out stimulus checks: California sent payments to residents earning less than $75,000, Idaho sent payments to all income tax filers, and Maryland sent payments to filers who claimed the state’s EITC in 2019. Meanwhile, Georgia, Kansas, North Dakota, and Utah expanded various income tax deductions and credits (but without reducing state’s tax rates or changing their state EITC). For example, Georgia increased its standard deduction from $4,600 to $5,400 for single filers and $6,000 to $7,100 for married filers.

Arkansas, Delaware, and Maryland also fully exempted unemployment compensation from the state income tax for 2020 and 2021, and the District of Columbia permanently exempted unemployment benefits from its income tax starting in tax year 2021. These states are included in the count for both these tax reductions and the other tax cuts they enacted in 2021.

Some of the states that reduced individual income taxes also reduced other taxes (e.g., Oklahoma cut its individual income tax and its corporate income taxes), but of these 29 states, only Nebraska (which cut corporate income taxes and provided property tax relief) and New Hampshire (which enacted business tax cuts) significantly cut taxes without cutting the individual income tax.

This 29-state count does not include states that reduced taxes by conforming with federal tax policy, including the 20 states that conformed with the federal government’s $10,200 exemption of
unemployment compensation in tax year 2020 or the 43 states that conformed with the federal government’s tax treatment of Paycheck Protection Program loans (Loughead 2021).

A state conforms by using federal calculations and rules in its state tax code (Auxier and Sammartino 2018). As a result, if Congress changes a federal law that a state conforms with, the state's tax law is also changed unless the state enacts legislation to "decouple" from the change. Some of these tax cuts from conformity happened automatically, while in other states the legislature had to actively decide to conform with the change. For simplicity, these changes were not included in our state tax cut count.

Additionally, the 29-state count also does not include states that used ARP funds to refill unemployment trust funds. Refilling an unemployment trust fund is not a tax cut, but it is a budget decision that prevents a state tax increase. As of November 2021, 15 states had used ARP funds for this purpose, typically depositing hundreds of millions of federal dollars in their trust funds (National Conference of State Legislatures 2021).

**Does the American Rescue Plan Prevent States from Cutting Taxes?**

Although there are relatively few restrictions on how states can spend ARP funds, states explicitly cannot use ARP money for tax cuts or contributions to their public employee pension plans. A state that does so risks having to repay every federal dollar spent in violation of the rule.

Some politicians argued this rule amounts to a blanket ban on state tax cuts. Indeed, numerous state attorneys general sued the Biden administration over the rule, claiming it is "an invasion of state sovereignty" (Georgia, Arizona, and West Virginia Office of the Attorney General 2021).

However, Treasury guidance makes clear that states can cut taxes if they have sufficient tax collections to prove that a growing economy and its resulting revenue growth funded the tax cuts and not ARP dollars. Specifically, Treasury will compare each state's fiscal year tax revenue during the ARP years (March 2021 to December 2024, or whenever a state exhausts its ARP funds) to its fiscal year 2019 tax revenue, adjusted for inflation, as reported by the US Census Bureau. If a state's tax collections are above its real 2019 level, then Treasury assumes any tax cuts passed that year were paid for with the state's economic growth and not ARP funds (US Department of the Treasury 2021). If a state's revenues are below that level, then the state must show what taxes were raised or what spending was cut to offset the costs of the tax cuts. (It is important to note that states cannot make
offsetting spending cuts to a department, agency, or authority that used ARP funds).\textsuperscript{38} If the state cannot convincingly point to such offsets, only then are the ARP funds reclaimed by Treasury.

Treasury also provides states something of a safe harbor. Each state receives a 1 percent de minimis exemption to account for “the inherent challenges and uncertainties that recipient governments face.” This rule is both meant to account for unpredictable revenue changes (i.e., a state passes an estimated revenue-neutral tax change that turns into a small revenue collection loss) and to ensure states can pass small tax cuts. In fact, Treasury’s guidance explicitly mentions expanding a state EITC as a permissible use of this 1 percent rule.

**A Note of Fiscal Caution**

Most federal economic relief provided thus far has already been delivered (e.g., stimulus checks) or has expired (e.g., expanded unemployment benefits), and direct aid to state and local governments is a one-time source of revenue. More broadly, given the persistence of the pandemic and its ramifications for economic activity, long-term state tax revenue growth remains uncertain, even if current tax collections are positive.

States should therefore be cautious with large and permanent tax reductions, as these can turn one-time surpluses into long-term deficits and force tough budget decisions in future fiscal years. But there are at least three ways of mitigating this risk.

One, states can pass targeted tax reductions with relatively small revenue costs. In general, an EITC expansion costs tens of millions of dollars annually, whereas an income tax rate cut can cost hundreds of millions of dollars.

Two, states can make temporary tax changes. Maryland’s EITC expansion only applies to tax years 2020, 2021, and 2022. As such, Maryland policymakers can reevaluate the tax cut and the state’s fiscal situation before continuing or adjusting it.

Three, states can add “triggers” to their tax cuts. Some of Arizona’s tax changes will only happen once the state collects an established amount of general fund revenue.\textsuperscript{39} However, tax triggers are complicated to design.\textsuperscript{40} If the trigger level is set too low, a state could still see tax cuts take effect even during a budget crunch.
A Closer Look at Four States: Who Benefits from Different Types of Tax Cuts?

The design of a state tax cut creates different benefits for different taxpayers—by income and by race and ethnicity. To better understand how different state tax cuts affect various households, we examined the tax cuts enacted in Arizona, Maryland, New Mexico, and Ohio in 2021.

Arizona and Ohio both reduced individual income tax rates, while Maryland and New Mexico expanded tax credits that target benefits at low- and middle-income households. Arizona and New Mexico have relatively large Latino populations, while Ohio and Maryland have relatively large Black populations. To make comparisons simpler, we will present data in the following order: Arizona, New Mexico, Ohio, and Maryland.

Although there were various arguments in favor of these tax cuts, politicians in all four states emphasized that their tax cuts would have broad benefits and sometimes specifically mentioned the benefits for lower-income households:

- A press release from Arizona Governor Doug Ducey asserted the state’s tax cut "benefits all taxpayers: The average taxpayer will receive a 13% income tax reduction, saving about $350 a year."\(^{41}\)
- A press release from New Mexico Governor Michelle Lujan Grisham stated, "Working class New Mexico families stand to benefit immensely from the landmark expansions of two tax programs."\(^{42}\)
- In a statement, Ohio Senate President Matt Huffman said that Ohio’s tax cut "provides a 100% income tax cut for those earning $25,000 or less."\(^{43}\)
- And on social media, Maryland Governor Larry Hogan wrote, "It will help Marylanders barely hanging on right now as we work to bring this global pandemic to an end."\(^{44}\)

Many supporters of the income tax rate reductions in Arizona and Ohio also cited tax competition as another reason to cut taxes—that is, attracting high-income residents and businesses with low tax rates. But politicians in all four states emphasized how the "average" resident of their state would benefit from the tax cuts.

This report examines the four state tax cuts on that metric.
Methodology

For each state, we explain the tax changes enacted. Then, using the Tax Policy Center state tax model, we show the estimated revenue cost of those tax changes and how different income groups benefited from the tax cuts (i.e., a distributional analysis).

We then show how the tax cuts affected representative Black, Latino, and white households in all four states. (Throughout this report, “white” refers to non-Hispanic white people.) The Tax Policy Center state tax model does not include information on taxpayer race or ethnicity, but with 2019 ACS data we calculated how the state tax cuts affected representative households.

To do this, we examined four household types: a single adult younger than age 65 with no children, a single adult with two children, a married couple with no children in which the household head is younger than age 65, and a married couple with two children.

We are not including childless households in which the household head is older than age 65 because this analysis is focused on wage earners. In general, adults older than age 65 typically have nonwage income and benefit from tax policies not available to younger adults. We do not break out older adults for single parents and married couples with children because the share of these households in which the household head is older than age 65 is small—less than 1 percent for both types of households across all four states. All of the households with children were given two children because that is the median number of children for most households with children in these four states. We use the same number of children for each household type across all four states to make tax comparisons simpler.

All demographic data in this report comes from the 2019 ACS. Using survey data, we assigned race for each household based on the person listed as the household head. We then examined the median wage for each household type in each state (e.g., the median wage for a Latino single parent in Arizona) and then created representative households with that data (e.g., a Latino single parent with two children in Arizona earning $23,000 in wages). Finally, we put the representative households into the Tax Policy Center state tax model to understand how the state tax changes affected them. We also calculated the tax change for a household with one-half and one-quarter of the median wage for every household type to show how the tax cuts affected lower-income households.

There were two limitations to our analysis: 1) the Tax Policy Center state tax model cannot estimate changes for ITIN filers, but the effect of the tax changes on ITIN filers is discussed, and 2) the simulation results from the Tax Policy Center state tax model rely on pre-pandemic data. That is,
the model's data were based on projections made in 2019 that did not anticipate the significant effects of the pandemic. Thus, our analysis reflects the effects one might expect in a pre-pandemic or post-pandemic year rather than the unusual employment and income circumstance that occurred in 2020. As a result, an analysis of the tax treatment of unemployment benefits in 2020 would in no way capture the unprecedented spike in benefits in that year and thus was not included in this analysis.50

Arizona

WHAT DOES THE TAX CUT CHANGE?
Governor Doug Ducey signed SB 1828 in June 2021.51 Arizona’s tax legislation is somewhat complex because it interacts with an individual income tax rate increase passed by voters in a November 2020 ballot initiative (Proposition 208).52 Ultimately, SB 1828 transforms the state’s individual income tax from five tax brackets with a top rate of 8 percent to two tax brackets with a top rate of 4.5 percent. SB 1828 includes “triggers” for some of its rate cuts. These tax changes will occur over at least three years and only go into effect when the state collects a specified amount of general fund revenue.53

A separate bill signed by the governor in 2021, SB 1827, caps Arizona’s top individual income tax rate at 4.5 percent.54 As a result, the top tax rate of 8 percent approved by voters in 2020 existed in law for part of tax year 2021 but will never actually be levied on Arizona taxpayers.

To present a clear picture of who benefits from Arizona’s tax cut, we modeled Arizona’s tax changes from Arizona’s tax law before SB 1828 and SB 1827 (i.e., with five brackets and a top tax rate of 8 percent) to tax law when all of SB 1828’s rate reductions are fully implemented.

SB 1828 also changed various state tax credits and exempted military pension income from state tax. We were not able to model these tax changes. Although these tax changes will provide benefits to eligible taxpayers, the number of taxpayers affected is relatively small, so including them would not noticeably affect the overall distribution of the benefits from the state’s tax cut.

Finally, in November 2021, the Arizona Secretary of State’s office announced that opponents of SB 1828 submitted enough certified signatures to create a November 2022 ballot measure that, if passed, would repeal the law.55 However, that certification, and thus the ballot measure, is being challenged in court. If the ballot measure successfully appears on the November 2022 ballot, then SB 1828’s tax cuts would be suspended until the vote. Regardless, SB 1827 was not challenged. As a result, Arizona’s top individual income tax rate is 4.5 percent no matter what happens with the November 2022 ballot measure.
Table 1
Arizona Tax Rate Schedule for Tax Year 2021 Prior to SB 1828

For single filers

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $27,271</td>
<td>2.59</td>
</tr>
<tr>
<td>$27,272 to $54,543</td>
<td>3.34</td>
</tr>
<tr>
<td>$54,544 to $163,631</td>
<td>4.17</td>
</tr>
<tr>
<td>$163,632 to $249,999</td>
<td>4.5</td>
</tr>
<tr>
<td>$250,000 or more</td>
<td>8</td>
</tr>
</tbody>
</table>

Notes: The taxable income in Arizona’s tax brackets is doubled for married filers. These were Arizona’s tax brackets and rates at the start of 2021 before SB 1828 was enacted. The state's actual tax year 2021 brackets and rates will be the same minus the 8 percent tax rate and bracket. Arizona’s income brackets might be slightly different because of updated inflation calculations.

Table 2
Arizona Tax Rate Schedule When SB 1828 is Fully Phased In

For single filers

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $249,999</td>
<td>2.5</td>
</tr>
<tr>
<td>$250,000 or more</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Notes: The taxable income in Arizona’s tax brackets is doubled for married filers. These tax brackets will take effect in tax year 2024 or whenever the final tax changes are “triggered” by specified general fund revenue collections.

How much does the tax cut cost?
The Tax Policy Center state tax model estimates Arizona’s tax rate reductions, when fully phased in, will reduce annual state tax revenue by about $1.6 billion. A staff memorandum from Arizona’s Joint Legislative Budget Committee reported that the fully phased-in rate reductions and bracket elimination (not including the other tax changes) would reduce annual state tax revenue by $1.8 billion (Olofsson 2021).

What income groups benefit from the tax cut?
When all of Arizona’s income tax rate and bracket changes are fully phased in, the Tax Policy Center state tax model shows an average annual tax cut of $446 for Arizona households. The “average tax cut” described here is the total change in taxes net of refundable credits divided by the number of households in the state and thus includes both households who receive a tax cut and those who do not receive a tax cut. If you looked only at Arizona households receiving a tax cut, the average tax cut jumps to $571 because many Arizonans—mostly low-income households—do not receive a tax cut. Overall, 51 percent of Arizona households received a tax cut from SB 1828. No Arizona taxpayer sees a tax increase as a result of the legislation.
The average annual Arizona tax cut varies greatly based on the household’s income, ranging from $0 for households earning less than $10,000 in adjusted gross income (AGI) to nearly $75,000 for households earning more than $1 million in AGI. The average tax cut is less than $20 for households with an AGI between $30,000 and $40,000, roughly $200 for households between $75,000 and $100,000, and about $600 for households between $100,000 and $200,000.

In general, low-income Arizonans see small or no benefits from Arizona’s tax cut in part because the state has relatively high standard deductions: $12,550 for single filers, $18,800 for head-of-household filers, and $25,100 for married filers in tax year 2021. Thus, an Arizona household must earn above those amounts—and possibly more if they qualify for other tax deductions and credits—to have enough taxable income to benefit from the income tax rate reductions. Related, higher-income households see the largest benefits because the more taxable income a household has the bigger the tax cut they receive from the legislation.
Overall, Arizona households with an AGI below $30,000 received less than 1 percent of SB 1828's benefits, those with an AGI between $30,000 and $100,000 received 7 percent, and households with an AGI above $100,000 received 93 percent.

**FIGURE 6**
**Who Benefits from Arizona’s Tax Cut?**
*How much of Arizona’s tax cut goes to each adjusted gross income group*

![Pie chart showing benefit distribution across different income groups](image)

**Source:** Tax Policy Center state tax model.
**Note:** Benefit distribution when Arizona’s tax cuts are fully phased in.

**HOW DO THE TAX CHANGES AFFECT DIFFERENT RACIAL GROUPS?**

Although a distributional analysis gives a clear picture of how tax changes affect different income groups, household earnings vary across race and ethnicity, and thus these tax policies also have different effects on different racial and ethnic groups.

In Arizona, 64 percent of the potential tax-filer population is white, 24 percent is Latino, and 4 percent is Black. (For the potential tax-filer population, we examined household heads ages 18 and older.) If you look at Arizona’s total population, including children, Arizona’s white population is smaller (54 percent) and its Latino population is larger (32 percent) than its potential tax-filer population.
Among potential white tax-filing households, 26 percent are single without children and younger than age 65, 5 percent are single with children, 17 percent are married with no children and the household head is younger than age 65, and 14 percent are married with children. The remaining households are childless households in which the household head is older than age 65: 19 percent are single and 19 percent are married. About 2 percent of potential white tax-filing households in Arizona are noncitizens.

Among potential Latino tax-filing households, 29 percent are single without children and younger than age 65, 17 percent are single with children, 15 percent are married with no children and the household head is younger than age 65, and 25 percent are married with children. The remaining households are childless households in which the household head is older than age 65: 8 percent are single and 6 percent are married. In Arizona, 22 percent of potential Latino tax-filing households are noncitizens.

In Arizona, the median wages of white households are consistently higher than Latino households across household types. For example, the median wages for a married couple with children is $98,000 for white households and $58,000 for Latino households. Because of how the tax rate reductions work, this income disparity affects the average tax cuts for similar white and Latino households who earn the median wages for their group in Arizona.

For example, a white Arizona household with married parents and two children earning the median wages for their group receives a $206 tax cut while a similar Latino household earning the median wages for their group receives a $30 tax cut. The representative white household’s tax cut is larger because the median wages for a white married couple with children is nearly double the median wages of a similar Latino household and thus their taxable income is also significantly larger.

Further, to get a significant tax cut from the legislation, Arizona households must earn well above these median wage levels. Other than the white married couple with children, all of our representative households earning the median wage for their group, both white and Latino, received a tax cut of $55 or less, whereas among all households earning between $100,000 and $200,000 in AGI, the average tax cut was closer to $600. White households account for a larger share of these high-income households than their overall share of the potential tax-filer population. Among Arizona households earning more than $100,000, 73 percent are white and 15 percent are Latino. Among the broader potential tax-filing population, white households account for 64 percent and Latino households account for 24 percent.
TABLE 3
How Arizona’s Tax Cut Affect Representative Households
Adults in no-children households are younger than age 65

<table>
<thead>
<tr>
<th></th>
<th>White Households</th>
<th></th>
<th>Latino Households</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single no children</td>
<td>Single 2 children</td>
<td>Married no children</td>
<td>Married 2 children</td>
</tr>
<tr>
<td>Share of white households</td>
<td>26%</td>
<td>5%</td>
<td>17%</td>
<td>14%</td>
</tr>
<tr>
<td>Median wages</td>
<td>$35,000 ($20)</td>
<td>$37,000 ($17)</td>
<td>$80,000 ($55)</td>
<td>$98,000 ($206)</td>
</tr>
<tr>
<td>(Tax cut)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>½ Median wages</td>
<td>$17,500 ($5)</td>
<td>$18,500 ($0)</td>
<td>$40,000 ($14)</td>
<td>$49,000 ($22)</td>
</tr>
<tr>
<td>(Tax cut)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of Latino households</td>
<td>29%</td>
<td>17%</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>Median wages</td>
<td>$26,000 ($12)</td>
<td>$23,000 ($0)</td>
<td>$54,000 ($26)</td>
<td>$58,000 ($30)</td>
</tr>
<tr>
<td>(Tax cut)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>½ Median wages</td>
<td>$13,000 ($1)</td>
<td>$11,500 ($0)</td>
<td>$27,000 ($2)</td>
<td>$29,000 ($0)</td>
</tr>
<tr>
<td>(Tax cut)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Tax Policy Center state tax model and the US Census American Community Survey.

Notes: We assign race for each household based on the person listed as the household head in the ACS survey. Households with children are those with children younger than age 19. Households with no children in which the head filer is age 65 and older are not shown. Median wages are based on household wages. Half median wages are calculated as 50 percent of median wages and therefore may not be the same percentile of the wage distribution in each subgroup.

Alternatively, the tax cut is $0 for a Latino single-parent with two children earning the median wage for their group ($23,000). The reason this Latino household’s tax cut is $0 is because they do not earn enough wages to have taxable income above Arizona’s relatively generous standard deduction and thus does not have a state tax liability. Still, this means that most Latino single-parent households likely receive no benefit from Arizona’s tax cut. This is important because single-parent households represent nearly a fifth of Latino households. In contrast, only 5 percent of white households are composed of a single parent and children.

To help single-parent households, and low-income households more generally, Arizona could enact a refundable tax credit. In fact, a tax credit tied to a household’s number of children would disproportionately help Latino families because households with children represent a larger share of Latino households than white households. Arizona does not currently offer an EITC or child tax credit.

Because Arizona’s tax cuts were income tax rate reductions and not refundable tax credits, citizenship status does not factor into the benefit calculations. However, if Arizona enacted an EITC, it
would need to qualify ITIN filers for the state credit if it wanted to assist some of the 22 percent of Latino households (and 2 percent of white households) who are noncitizens, because some of these households use ITINs instead of a Social Security number to file their tax returns.

**New Mexico**

**WHAT DOES THE TAX CUT CHANGE?**
Governor Michelle Lujan Grisham signed HB 291 in April 2021. The legislation increased the state’s EITC match from 17 percent of the federal credit to 20 percent in tax year 2021 and then to 25 percent in tax year 2023 and beyond. The legislation also made ITIN filers and childless workers ages 18 to 24 eligible for the New Mexico EITC. As with the phased-in rate reductions in Arizona, we modeled New Mexico’s EITC match increase from 17 percent to 25 percent as if it happened in one year to provide a clearer picture of who benefits from the tax legislation.

Additionally, HB 291 expanded another New Mexico refundable credit for low-income families, the Low-Income Comprehensive Tax Rebate (LCTR), which is calculated based on the filer’s income and number of children. HB 291 increased the maximum income eligible for the LCTR from $22,000 to $36,000 and increased the size of the benefit (which phases out as income increases) for most eligible households. This change took effect in tax year 2021.

**HOW MUCH DOES THE TAX CUT COST?**
The Tax Policy Center state tax model estimates New Mexico’s EITC expansion (when fully phased in) and expanded LCTR will reduce annual state tax revenue by $100 million. New Mexico’s Legislative Finance Committee reported that the EITC expansion and larger LCTR will reduce annual state tax revenue by $98 million.

**WHAT INCOME GROUPS BENEFIT FROM THE TAX CUT?**
The Tax Policy Center’s state tax model shows that HB 291, when fully phased in, will deliver an annual average tax cut of $97 for all New Mexico taxpayers. The “average tax cut” described here is the total change in taxes net of refundable credits divided by the number of households in the state, and thus includes both taxpayers who will receive a tax cut and those who will not receive a tax cut. If we look only at New Mexico households that receive a tax cut, the average tax cut is $170 because many households, mostly high-income households, do not receive a tax cut. Overall, 57 percent of
New Mexico households receive a tax cut. No New Mexico taxpayer sees a tax increase as a result of the legislation.

**FIGURE 7**

**Average Annual New Mexico Tax Cut from HB 291**

*By adjusted gross income group*

Households in the three AGI groups between $0 and $30,000 received an average tax cut between $100 and $200, while households with an AGI between $30,000 and $50,000 generally received smaller tax cuts. Very few households with an AGI between $50,000 and $75,000 received a tax cut, and no households with an AGI above $75,000 received a tax cut.

Nearly all New Mexico households earning below $30,000 received a tax cut because HB 291 expanded both the state’s EITC and LICTR. Although New Mexico’s EITC is based on the federal EITC (and thus has somewhat restrictive eligibility calculations based on the filer’s income and family characteristics), the LICTR is generally available to all New Mexico residents with an income below a certain threshold (the size of the credit just varies based on household income and family characteristics). For example, while only about a third of New Mexico households with an AGI
between $20,000 and $30,000 benefited from the larger EITC, nearly all households in this income group benefited from the expanded LICTR.

Overall, New Mexico households with an AGI below $30,000 received 91 percent of the tax cut’s benefits, those with an AGI between $30,000 and $100,000 received 9 percent, and households with an AGI above $100,000 did not receive any benefit.

FIGURE 8
Who Benefits from New Mexico’s Tax Cut?
How much of New Mexico’s tax cut goes to each adjusted gross income group

Source: Tax Policy Center state tax model.
Note: Benefit distribution when New Mexico’s tax cuts are fully phased in.

HOW DO THE TAX CHANGES AFFECT DIFFERENT RACIAL GROUPS?
In New Mexico, 47 percent of the potential tax-filer population is white, 42 percent is Latino, and 2 percent is Black. (For the potential tax-filer population, we examined household heads ages 18 and older.) As in Arizona, if you look at New Mexico’s entire population, including children, the share of Latino residents is larger (49 percent) and the share of white residents is smaller (37 percent) than the potential tax-filer population.63

Among potential white tax-filing households, 26 percent are single without children and younger than age 65, 6 percent are single with children, 16 percent are married with no children and the
household head is younger than age 65, and 13 percent are married with children. The remaining households are childless adults in which the household head is older than age 65: 22 percent are single and 16 percent are married. About 1 percent of potential white tax-filing households in New Mexico are noncitizens.

Among potential Latino tax-filing households, 31 percent are single without children and younger than age 65, 16 percent are single with children, 14 percent are married with no children and the household head is younger than age 65, and 18 percent are married with children. The remaining households are childless adults in which the household head is older than age 65: 13 percent are single and 9 percent are married. In New Mexico, 10 percent of potential Latino tax-filing households are noncitizens.

In New Mexico, the median wages of white households are consistently higher than Latino households across household types. For example, the median wages for a single parent with children is $33,000 for white households and $26,400 for Latino households. Because of how refundable tax credits work, this disparity affects the average tax cuts for some similar white and Latino households who earn the median wages for their group in New Mexico.

A white single parent earning the median wages for their group with two children received a $293 tax cut, while a similar Latino household earning the median wages for their group received a $459 tax cut. The representative Latino single-parent household received a larger benefit than the representative white single-parent household because the Latino household's wages were lower, which gives this representative household both a larger EITC and LICTR. Similarly, a Latino married couple with two children earning one-half of the median wages for their group received a $493 tax cut while a similar white household earning one-half of the median wages for their group received a $65 tax cut.

Overall, New Mexico's largest tax cuts went to households with children for both white and Latino households, and these tax cuts were often roughly equal among soe similar white and Latino households at lower wage levels. But single-parent households make up a larger share of Latino households (16 percent) than white households (6 percent).

New Mexico also made its EITC available to ITIN filers. This means a filer using an ITIN receives the same New Mexico EITC as a filer with a Social Security number. In New Mexico, 10 percent of Latino households are noncitizens and a subset of this group file their tax returns with an ITIN.
### TABLE 4
How New Mexico’s Tax Cut Affect Representative Households

*Adults in no-children households are younger than age 65*

<table>
<thead>
<tr>
<th></th>
<th>White Households</th>
<th>Latino Households</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single no children</td>
<td>Single no children</td>
</tr>
<tr>
<td>Share of white households</td>
<td>26%</td>
<td>6%</td>
</tr>
<tr>
<td>Median wages (Tax cut)</td>
<td>$29,000 (50)</td>
<td>$33,000 (293)</td>
</tr>
<tr>
<td>½ Median wages (Tax cut)</td>
<td>$14,500 (78)</td>
<td>$16,500 (594)</td>
</tr>
<tr>
<td>¼ Median wages (Tax cut)</td>
<td>$7,250 (183)</td>
<td>$8,250 (504)</td>
</tr>
<tr>
<td>Share of Latino households</td>
<td>31%</td>
<td>16%</td>
</tr>
<tr>
<td>Median wages (Tax cut)</td>
<td>$22,000 (70)</td>
<td>$26,400 (459)</td>
</tr>
<tr>
<td>½ Median wages (Tax cut)</td>
<td>$11,000 (114)</td>
<td>$13,200 (557)</td>
</tr>
<tr>
<td>¼ Median wages (Tax cut)</td>
<td>$5,500 (159)</td>
<td>$6,600 (446)</td>
</tr>
</tbody>
</table>

**Source:** Tax Policy Center state tax model and the US Census American Community Survey.

**Notes:** Based on tax year 2020 federal law and thus does not reflect the larger EITC for childless workers. We assign race for each household based on the person listed as the household head in the ACS survey. Households with children are those with children younger than age 19. Households with no children in which the head filer is age 65 and older are not shown. Median wages are based on household wages. Half and one-quarter median wages are calculated as 50 percent and 25 percent of median wages and therefore may not be the same percentile of the wage distribution in each subgroup.

### Ohio

**WHAT DOES THE TAX CUT CHANGE?**
Governor Mike DeWine signed HB 110 on July 1, 2021. The legislation eliminated an individual income tax bracket and reduced income tax rates in the state’s remaining brackets, including dropping the state’s top individual income tax rate from 4.797 percent to 3.99 percent. All HB 110’s tax changes took effect for tax year 2021.
TABLE 5
Ohio Tax Rate Schedule for Tax Year 2021 Prior to HB 110

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $22,150</td>
<td>0</td>
</tr>
<tr>
<td>$22,151 to $44,250</td>
<td>2.85</td>
</tr>
<tr>
<td>$44,251 to $88,450</td>
<td>3.326</td>
</tr>
<tr>
<td>$88,451 to $110,650</td>
<td>3.802</td>
</tr>
<tr>
<td>$110,651 to $221,300</td>
<td>4.413</td>
</tr>
<tr>
<td>$221,301 or more</td>
<td>4.797</td>
</tr>
</tbody>
</table>

Note: Ohio uses the same income tax brackets for all filers.

TABLE 6
Ohio Tax Rate Schedule for Tax Year 2021 after HB 110

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $24,999</td>
<td>0</td>
</tr>
<tr>
<td>$25,000 to $44,250</td>
<td>2.765</td>
</tr>
<tr>
<td>$44,251 to $88,450</td>
<td>3.226</td>
</tr>
<tr>
<td>$88,451 to $110,650</td>
<td>3.688</td>
</tr>
<tr>
<td>$110,651 or more</td>
<td>3.99</td>
</tr>
</tbody>
</table>

Note: Ohio uses the same income tax brackets for all filers.

HB 110 also made changes to the taxation of Ohio-based capital gain income and a tax credit related to homeschooling and private schools. These changes will affect very few Ohio taxpayers. We did not model these tax changes.

HOW MUCH DOES THE TAX CUT COST?
The Tax Policy Center's state tax model estimates HB 110's tax rate reductions will reduce annual state tax revenue by roughly $800 million. Ohio's Legislative Budget Office of the Legislative Service Commission reported that the rate reductions would reduce annual state tax revenue by $816 million (Cummins 2021).

WHAT INCOME GROUPS BENEFIT FROM THE TAX CUT?
The Tax Policy Center state tax model shows that HB 110 will deliver an annual average tax cut of $121 for all Ohio taxpayers. The average tax cut described here is the total change in taxes net of refundable credits divided by the number of households in the state and thus includes both taxpayers who will receive a tax cut and those who will not receive a tax cut. If you looked only at Ohio households receiving a tax cut, the average tax cut increases to $232 because some Ohio households, particularly low-income households, do not receive a tax cut. Overall, 52 percent of Ohio households receive a tax cut. No Ohio taxpayer will see a tax increase as a result of the legislation.
HB 110’s average annual tax cut ranges from $0 for Ohio households with less than $10,000 in AGI to over $13,000 for households with more than $1 million in AGI. The average tax cut is roughly $50 for households in an AGI group between $20,000 and $50,000, while households with an AGI between $100,000 and $200,000 received an average tax cut of nearly $200.

As in Arizona, some low-income Ohio households don’t benefit from the tax cut because they do not have enough taxable income. Ohio’s standard deductions ($2,400 for single filers and $4,800 for married filers in tax year 2021) are significantly lower than Arizona’s standard deductions, but Ohio has a 0 percent tax bracket that functions like a standard deduction. HB 110 increased the 0 percent bracket from $22,151 in taxable income to $25,000 for all filing types. Thus, an Ohio household must earn above these levels before seeing any benefit from the legislation. Meanwhile, high-income households benefited from all of HB 110’s tax rate reductions, with benefits increasing along with taxable income.
As a result, Ohio households with an AGI below $30,000 received 4 percent of the tax cut’s benefits, those with an AGI between $30,000 and $100,000 received 22 percent, and households with an AGI above $100,000 received 73 percent.

**FIGURE 10**

**Who Benefits from Ohio’s Tax Cut?**

*How much of Ohio’s tax cut goes to each AGI group*

![Pie chart showing distribution of tax cuts by AGI group: $0 to $30,000, $30,000 to $100,000, $100,000+]

**Source:** Tax Policy Center state tax model.

**HOW DO THE TAX CHANGES AFFECT DIFFERENT RACIAL GROUPS?**

In Ohio, 81 percent of the potential tax-filer population is white, 12 percent is Black, and 3 percent is Latino. (For the potential tax-filer population, we examined household heads ages 18 and older.) If you look at Ohio’s entire population, including children, the share of white residents (78 percent) and Black residents (13 percent) is similar to the potential tax-filing population.65

Among potential white tax-filing households, 27 percent are single without children and younger than age 65, 7 percent are single with children, 18 percent are married with no children and the household head is younger than age 65, and 17 percent are married with children. The remaining households are childless adults in which the household head is older than age 65: 17 percent are...
single and 13 percent are married. About 1 percent of potential white tax-filing households in Ohio are noncitizens.

Among potential Black tax-filing households, 42 percent are single without children and younger than age 65, 20 percent are single with children, 9 percent are married with no children and the household head is younger than age 65, and 8 percent are married with children. The remaining households are childless adults in which the household head is older than age 65: 17 percent are single and 5 percent are married. In Ohio, 3 percent of potential Black tax-filing households are noncitizens. Additionally, 4 percent of the potential Latino tax-filing households are noncitizens.

In Ohio, the median wages of white households are higher than Black households across household types. For example, the median wages for a single adult with no children who is younger than age 65 is $32,000 for white households and $21,000 for Black households.

Because Ohio’s income tax rate reductions benefited high-income earners, on average, benefits are higher for white households than Black households, regardless of family characteristics. For example, white Ohio households with married parents and two children earning the median wages for their group received a tax cut of $111, while a similar Black household earning the median wages for their group received a $79 tax cut.

Of our representative families earning median wages for their group, only the white married couple with children earn enough to receive a tax cut of at least $100. Thus, to receive larger tax cuts a household must earn well above these median wage levels. White households account for a larger share of high-income households than their overall share of the population. Among Ohio households earning more than $100,000, 89 percent are white and 4 percent are Black. Among the broader potential tax-filing population, white households account for 81 percent and Black households account for 12 percent.

Both white and Black single-parent households earning median wages for their groups do not receive a tax cut because they do not earn enough taxable income to benefit from the tax rate reductions. Single-parent households make up a larger share of Black households (20 percent) than white households (7 percent). Additionally, single Black adults younger than age 65 with no children earning median wages for their group, by far the largest share of Black households (42 percent), do not see any benefit from Ohio’s tax cuts.
To help lower-income households, including many Black single-parent households, Ohio could make its EITC refundable. Ohio has a non-refundable EITC and thus its credit can only eliminate a household’s tax liability. Thus, like the tax rate cuts, Ohio’s non-refundable EITC does not help households with no or low taxable income. Additionally, if Ohio wanted to support its disproportionally large share of single Black workers with no children, it could expand its EITC specifically for childless workers—as Maryland’s tax legislation did.

Maryland

WHAT DOES THE TAX CUT CHANGE?
Governor Larry Hogan signed SB 496 in February 2021. Maryland was one of a few states to enact its tax legislation before Congress passed the ARP. A related piece of legislation, SB 218, became law in March 2021 without the governor’s signature.
In combination, these two bills made the following changes to Maryland’s tax system:

- Increased the state’s EITC match from 28 percent to 45 percent of the federal credit, with the exception of childless workers who had their match increased to 100 percent.
- Sent a stimulus check to households who claimed the state EITC in tax year 2019, with $300 going to single filers and $500 going to married and head-of-household filers.
- Made the state’s EITC available to ITIN filers. (This change was in SB 218. All other tax changes were in SB 496.)

Both the EITC match rate increase and ITIN eligibility changes are in effect for tax years 2020, 2021, and 2022. In tax year 2023, the state’s EITC match rate is scheduled to fall back to 28 percent, and ITIN filers will no longer be eligible for the Maryland EITC.

SB 218 also exempted unemployment benefits from state tax for eligible filers in tax year 2020 and 2021. Because the Tax Policy Center state tax model uses a pre-pandemic baseline, it cannot capture the unprecedented number of unemployment recipients in 2020 and 2021. However, given what we know about the economic effects of the pandemic and how the exemption works, we know this tax change mostly benefited low- and middle-income households, including a disproportionate many Black and Latino households.

The legislation also provided $200 million in sales tax credits for eligible businesses. We did not model this because it is not an individual income tax change.

HOW MUCH DOES THE TAX CUT COST?
The Tax Policy Center state tax model estimates Maryland’s EITC expansion and stimulus payments will cost the state a combined $370 million in the first year of the law (i.e., when the stimulus checks and EITC changes were both in effect). Maryland’s Department of Legislative services reported that the EITC expansion and stimulus payments would reduce state tax revenue by $336 million in its first year (Department of Legislative Services Maryland General Assembly 2021). The Tax Policy Center state tax model estimates that the expanded EITC, on its own, costs roughly $170 million annually.

WHAT INCOME GROUPS BENEFIT FROM THE TAX CUT?
The Tax Policy Center state tax model shows that SB 496 delivers an average tax cut of $108 for all Maryland households in its first year. The average tax cut described here is the total change in taxes net of refundable credits divided by the number of households in the state, and thus includes both households who will receive a tax cut and those who will not receive a tax cut. If we look at only
Maryland households receiving a tax cut, the average tax cut jumps to $805 because many Maryland households do not receive a tax cut. In fact, only 13 percent of Maryland households receive a tax cut. But most of these households benefited from both the expanded EITC and stimulus checks because eligibility for the checks was based on receiving the state EITC.71 No Maryland taxpayer will see a tax increase as a result of the legislation.

All of Maryland’s tax relief is concentrated among low- to middle-income households. The average tax cuts range from roughly $75 to $400 for households in AGI groups between $0 and $50,000. Very few households with an AGI between $50,000 and $75,000 receive a tax cut, and no households with an AGI above $75,000 receive a tax cut.

Figure 1
Average Maryland Tax Cut from SB 496
By adjusted gross income group

<table>
<thead>
<tr>
<th>Adjusted Gross Income Group</th>
<th>$0</th>
<th>$50</th>
<th>$100</th>
<th>$150</th>
<th>$200</th>
<th>$250</th>
<th>$300</th>
<th>$350</th>
<th>$400</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $10,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$10,000 to $20,000</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>$20,000 to $30,000</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>$30,000 to $40,000</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>$40,000 to $50,000</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$50,000 to $75,000</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$75,000 to $100,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$100,000 to $200,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$200,000 to $500,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$500,000 to $1,000,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$1,000,000+</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Tax Policy Center state tax model.
Note: “Average tax cut” accounts for both Maryland residents who will get a tax cut from the legislation and those who will not. Maryland’s tax cut is not "annual" because it included one-time rebates and tax provisions that are set to expire.

Because Maryland’s benefits were concentrated among households eligible for its EITC, the tax relief was large for eligible households but not broad. For example, only a quarter of Maryland households with an AGI between $20,000 and $30,000 received a tax cut, but the average tax cut for
those who got one was over $1,000. However, three-fourths of this group did not receive a tax cut. Overall, the resulting average tax cut for this AGI group—including those with and without a tax cut—was roughly $290.

SB 496’s tax cut for most eligible Marylanders was roughly evenly split between the larger EITC and the one-time stimulus check. If Maryland made its EITC changes permanent (but did not send out new stimulus checks) the average annual tax cut would be roughly $50 for all taxpayers and $482 for households receiving a tax cut.

Overall, Marylanders with an AGI below $30,000 received 81 percent of the tax cut’s benefits, while those with an AGI between $30,000 and $100,000 received 19 percent. Maryland households with an AGI above $100,000 did not receive any of the tax cut’s benefit.

FIGURE 12
Who Benefits from Maryland’s Tax Cut?
How much of Maryland’s tax cut goes to each adjusted gross income group

[Pie chart showing distribution of tax cut benefits by income group]

Source: Tax Policy Center state tax model.

HOW DO THE TAX CHANGES AFFECT DIFFERENT RACIAL GROUPS?
In Maryland, 55 percent of the potential tax-filer population is white, 30 percent is Black, and 7 percent is Latino. (For the potential tax-filer population, we examined household heads ages 18 and
older.) If you look at Maryland’s entire population, including children, the share of white residents (50 percent) and Black residents (31 percent) is similar to the potential tax-filing population.72

Among potential white tax-filing households, 24 percent are single without children and younger than age 65, 5 percent are single with children, 20 percent are married with no children and the household head is younger than age 65, and 20 percent are married with children. The remaining households are childless adults in which the household head is older than age 65: 17 percent are single and 14 percent are married. About 1 percent of potential white tax-filing households in Maryland are noncitizens.

**TABLE 8**

How Maryland’s Tax Cut Affect Representative Households

*Adults in no-children households are younger than age 65*

<table>
<thead>
<tr>
<th>White Households</th>
<th>Single no children</th>
<th>Single 2 children</th>
<th>Married no children</th>
<th>Married 2 children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of white households</td>
<td>24%</td>
<td>5%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Median income (Tax cut)</td>
<td>$50,000 ($0)</td>
<td>$45,000 ($500)</td>
<td>$115,000 ($0)</td>
<td>$135,000 ($0)</td>
</tr>
<tr>
<td>⅓ Median income (Tax cut)</td>
<td>$25,000 ($0)</td>
<td>$22,500 ($1,393)</td>
<td>$57,750 ($0)</td>
<td>$67,500 ($0)</td>
</tr>
<tr>
<td>¼ Median income (Tax cut)</td>
<td>$12,500 ($300)</td>
<td>$11,250 ($1,265)</td>
<td>$28,875 ($0)</td>
<td>$33,750 ($1,201)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Black Households</th>
<th>Single no children</th>
<th>Single 2 children</th>
<th>Married no children</th>
<th>Married 2 children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of Black households</td>
<td>37%</td>
<td>15%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Median income (Tax cut)</td>
<td>$42,000 ($0)</td>
<td>$38,000 ($500)</td>
<td>$98,000 ($0)</td>
<td>$105,800 ($0)</td>
</tr>
<tr>
<td>⅓ Median income (Tax cut)</td>
<td>$21,000 ($0)</td>
<td>$19,000 ($1,506)</td>
<td>$49,000 ($0)</td>
<td>$52,900 ($500)</td>
</tr>
<tr>
<td>¼ Median income (Tax cut)</td>
<td>$10,500 ($536)</td>
<td>$9,500 ($1,146)</td>
<td>$24,500 ($0)</td>
<td>$26,450 ($1,462)</td>
</tr>
</tbody>
</table>

Source: Tax Policy Center state tax model and the US Census American Community Survey.

Notes: Based on tax year 2020 federal law and thus does not reflect the larger EITC for childless workers. We assign race for each household based on the person listed as the household head in the ACS survey. Households with children are those with children younger than age 19. Households with no children in which the head filer is age 65 and older are not shown. Median wages are based on household wages. Half and one-quarter median wages are calculated as 50 percent and 25 percent of median wages and therefore may not be the same percentile of the income distribution in each subgroup.
Among potential Black tax-filing households, 37 percent are single without children and younger than age 65, 15 percent are single with children, 12 percent are married with no children and the household head is younger than age 65, and 13 percent are married with children. The remaining households are childless adults in which the household head is older than age 65: 16 percent are single and 6 percent are married. In Maryland, 4 percent of potential Black tax-filing households are noncitizens. Additionally, 35 percent of the potential Latino tax-filing households in Maryland are noncitizens.

In Maryland, the median wages of white households are consistently higher than Black households across household types. For example, the median wages for a single parent with children is $45,000 for white households and $38,000 for Black households.

Among households earning median wages for their household group, only single-parent households qualify for the EITC and thus receive a tax cut: both white and Black single-parent households earning median wages for their group received a $500 tax cut. All other household types earning median wages for their groups, for both white and Black households, earn too much to claim the EITC and receive a tax cut from the legislation.

A Black married couple with two children earning one-half of the median wages for their group received a $500 tax cut while a similar white household earning one-half the median wages for their group did not receive a tax cut. However, generally at lower levels of wages, there is little difference in the size of the tax cuts for similar representative white and Black households.

Maryland’s tax cuts for single adults younger than age 65 with no children who earn a quarter of median wages are also notable—for both Black and white households. These households received a significant tax cut ($536 for the representative Black household and $300 for the representative white household) because Maryland specifically increased its EITC match (to 100 percent) for childless workers.73

These tax cuts were far larger than the tax cuts for similar childless single adult households in Arizona, Ohio, and New Mexico. A single adult with no children earning one-quarter of median wages for their group in New Mexico received a $183 tax cut (white household) or $139 tax cut (Latino household), while similar childless adults in Arizona and Ohio did not get a tax cut.

Maryland also made ITIN filers eligible for its state EITC. In Maryland, 35 percent of Latino households and 4 percent of Black households are noncitizens, and a subset of both of these groups use ITINs instead of Social Security numbers to file tax returns.
Lessons for the 2022 State Legislative Sessions

There are many reasons and ways to cut taxes, and each state tax proposal should be judged on its own merits and state-specific fiscal and economic circumstances. However, in 2022, state policymakers should keep two things in mind when evaluating a possible tax cut:

1. **The pandemic's economic effects were unequal.** Across the country, low-income workers, and particularly Black and Latino workers, fared far worse than high-income workers. This was true both during the economic shock in the spring of 2020 and the fledgling economic recovery. If policymakers want to help these workers—and specifically households with children—recover from the pandemic with tax policy changes, they need to consider refundable tax credits like the EITC. Many Black and Latino households do not earn enough taxable income to benefit from income tax rate cuts.

2. **The future of state budgets remains highly uncertain.** We know federal assistance—both direct transfers to state governments and broader economic stimulus programs—contributed significantly to recent state tax revenue growth, and those federal programs have or will soon expire. We also know that conservative state budget decisions and strong fiscal management in calendar year 2020 created a lower spending baseline that in part made large surpluses possible in 2021 and 2022 but might not reflect a desired or sustainable level of state services. However, we do not know how the pandemic and its related economic effects will alter state finance going forward. In general, at this moment, a long-term commitment to large revenue reductions or spending increases might not be prudent.

On both equity and cost, the tax cuts in Arizona, New Mexico, Ohio, and Maryland are instructive. The benefits of the tax cuts enacted in Arizona and Ohio overwhelming went to households earning $100,000 or more. Further, the size of the average tax cuts in these states grew with income, with the largest tax cuts going to households earning $1 million or more. In Arizona and Ohio (and all other states), white households make up a disproportionate share of households earning these high levels of income relative to the state’s overall population.

But households in Arizona and Ohio earning $30,000 or less received little or no benefit from their state’s tax cuts. This is because tax rate reductions give larger benefits to households with large amounts of taxable income and little or no benefits to households with little or no taxable income. In Arizona and Ohio (and all other states), Black and Latino households, on average, earn less than comparable white households and thus are more likely to see little or no benefit from income tax rate cuts.
In contrast, the benefits of the tax cuts enacted in New Mexico and Maryland overwhelmingly went to households earning less than $30,000 because these states expanded refundable tax credits that provide benefits directly to households with little or no taxable income.

The disparity in who benefits from state tax cuts was also stark when we looked at representative households across racial and ethnic groups in these four states. For example, single parents with children earning median wages for their group, regardless of race or ethnicity, received a small tax cut or no tax cut in Arizona or Ohio but sizeable tax cuts in New Mexico and Maryland. But the share of Latino single-parent households in Arizona (17 percent) and New Mexico (16 percent) and Black single-parent households in Ohio (20 percent) and Maryland (15 percent) is far higher than the share of white single-parent households in these four states (5 to 7 percent). Thus, a disproportionate share of Black and Latino households did not benefit from the tax cuts in Arizona and Ohio, but many similar Black and Latino households in New Mexico and Maryland significantly benefited from their state's tax cuts.

Source: Tax Policy Center state tax model.
Note: Comparison of each state's fully phased-in tax cut. The bars add up to less than 100 percent either because of rounding or because values less than 1 percent are not shown.
TABLE 9
Amount of Each State’s Tax Cut for Single Parents with Two Children Earning Median Wages

Median wages are specific to each state and the adult’s race or ethnicity

<table>
<thead>
<tr>
<th>White households</th>
<th>Latino households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>$17</td>
</tr>
<tr>
<td>(Share of AZ households)</td>
<td>(5%)</td>
</tr>
<tr>
<td>New Mexico</td>
<td>$293</td>
</tr>
<tr>
<td>(Share of NM households)</td>
<td>(6%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>White households</th>
<th>Black households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ohio</td>
<td>$0</td>
</tr>
<tr>
<td>(Share of OH households)</td>
<td>(7%)</td>
</tr>
<tr>
<td>Maryland</td>
<td>$500</td>
</tr>
<tr>
<td>(Share of MD households)</td>
<td>(5%)</td>
</tr>
</tbody>
</table>

Source: Tax Policy Center state tax model and the US Census American Community Survey.
Note: We assign race for each household based on the person listed as the household head in the ACS survey. Households with children are those with children younger than age 19. Median wages are based on household wages.

Similarly, single adults younger than age 65 with no children comprise a far higher share of Black households than white households in Ohio and Maryland. (There is a smaller difference among white and Latino single childless adults in Arizona and New Mexico.) Low-income single adults without children—those earning one-fourth the median wages for their group—do not benefit from the tax rate cuts in Arizona and Ohio but do benefit from the refundable tax credits in New Mexico and Maryland. Notably, the benefit for these adults is larger in Maryland than New Mexico because Maryland specifically expanded its EITC for childless workers. Thus, states could consider expanding their state EITC for childless workers if they want to assist a relatively large share of their Black households.

That said, no one tax change can achieve every policy goal. For example, among households receiving a tax cut, the average tax cut was generally greater in Maryland than New Mexico, but a larger percentage of New Mexico households than Maryland households benefited from their state’s tax cut. This is because all of Maryland’s benefits were delivered to households eligible for the state’s EITC (which is limited by family size and income eligibility), while New Mexico both expanded its EITC and expanded a credit generally available to all households under an income threshold. Thus, a state could consider multiple tax changes and combine the substantial but targeted benefits via a state EITC expansion with another change that benefits a larger share of households, such as increasing the state’s standard deduction.
**TABLE 10**

**Amount of Each State’s Tax Cut for Single Adults Younger than Age 65 with No Children Earning One-Fourth the Median Wages**

*Median wages are specific to each state and the adult’s race or ethnicity*

<table>
<thead>
<tr>
<th>White households</th>
<th>Latino households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>$0</td>
</tr>
<tr>
<td><em>(Share of AZ households)</em></td>
<td><em>(26%)</em></td>
</tr>
<tr>
<td>New Mexico</td>
<td>$183</td>
</tr>
<tr>
<td><em>(Share of NM households)</em></td>
<td><em>(26%)</em></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>White households</th>
<th>Black households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ohio</td>
<td>$0</td>
</tr>
<tr>
<td><em>(Share of OH households)</em></td>
<td><em>(27%)</em></td>
</tr>
<tr>
<td>Maryland</td>
<td>$300</td>
</tr>
<tr>
<td><em>(Share of MD households)</em></td>
<td><em>(24%)</em></td>
</tr>
</tbody>
</table>

**Source:** Tax Policy Center state tax model and the US Census American Community Survey.

**Note:** Based on tax year 2020 federal law and thus does not reflect the larger EITC for childless workers. We assign race for each household based on the person listed as the household head in the ACS survey. “Single” refers to unmarried adults with no children who are younger than age 65. Median wages are based on household wages.

Finally, the annual cost of the rate cuts in Arizona and Ohio far exceed those of the expanded tax credits in New Mexico and Maryland. This disparity is affected by population size—Arizona and Ohio have more residents than New Mexico and Maryland—but it is also a function of rate cuts going to all households with taxable income (with large benefits going to high-income households) and tax credits delivering a set tax benefit to a limited group of low- and middle-income households. The revenue allocated for a tax cut is no different than any other fiscal decision and ultimately should fit a state’s budget and values. However, given ongoing fiscal volatility, large revenue reductions could possibly lead to difficult budget decisions in the future if current revenue growth is not sustained.

Additionally, the large revenue costs in Arizona and Ohio and lower revenue costs in New Mexico and Maryland are evidence that states that want to cut taxes can enact both tax rate cuts and expand refundable tax credits. That is, if a state like Arizona or Ohio is set on reducing tax revenue by a certain amount, it could create or expand a refundable tax credit and still have revenue remaining to fund tax rate cuts. And by enacting both tax rate cuts and refundable credits the state could possibly achieve other goals plus directly help low-income workers—specifically Black and Latino workers—who do not benefit from income tax rate cuts.
Conclusion

The 2022 legislative session will provide state lawmakers with a complex mix of opportunity, uncertainty, and responsibility. The combination of one-time federal funds, previous conservative budget decisions, and higher-than-expected tax collections created revenue surpluses in many states. These unanticipated surpluses give policymakers many opportunities to invest in programs and people as they map out recovery plans for their state.

However, the recent volatility of state tax collections and the continuing unpredictability of the pandemic injects a high degree of uncertainty into this ostensibly optimistic fiscal picture. Policymakers should therefore be wary of long-term tax and spending commitments.

The pandemic also had disparate health and economic consequences. Black and Latino households were more likely than white households to be infected and die from COVID-19 as well as suffer from...
its financial effects—and Black and Latino households on average had fewer economic resources on hand than white households.

A 2021 Tax Policy Center report on race and state revenue noted that state tax systems comprise "a myriad of policy choices that come with their own sets of motivations and disparate impacts based on access, eligibility, benefits, or liabilities" (Boddupalli and Rueben 2021). But just as past policy decisions in part amplified existing inequity, future decisions can be shaped to address those inequities.

We know the pandemic had an outsized negative effect on Black and Latino households, particularly those with children, but we also know there are tax policies that can have an outsized positive effect on these same households. Enacting or expanding a state earned income tax credit targets benefits on both lower-income workers (who are disproportionately Black and Latino) and households with multiple children (who are disproportionately Black and Latino). Policymakers can also make additional reforms—specifically, increasing EITC benefits for childless workers and making the EITC available to ITIN filers—that will provide even greater benefits to more workers and communities.

And these refundable tax credits are more fiscally affordable than tax rate reductions.

The relatively large revenue surpluses available to policymakers can and will be used for numerous deserving projects and possibly numerous types of tax reductions. But enacting or expanding state earned income tax credits is one of the few tax cuts available to lawmakers that provides targeted and significant economic assistance to those most harmed by the pandemic in a fiscally responsible way.
The economic and fiscal consequences of the pandemic varied significantly across states. While some states will decide how to spend a budget surplus in calendar year 2022, others, particularly states with large tourism and hospitality sectors, are facing tougher budget decisions on taxes and spending.


Governors did not issue stay-at-home orders in Arkansas, Iowa, Nebraska, North Dakota, South Dakota, Utah, and Wyoming.


Forty-six states begin their fiscal year on July 1. The exceptions are New York (April 1), Texas (September 1), and Alabama, Michigan, and the District of Columbia (October 1).


CARES Act, HR 748 (2020).

Consolidated Appropriations Act, HR 133 (2021).


Congress approved about $1 billion to support the public health response by states and localities in the Coronavirus Preparedness and Response Supplemental Appropriations Act and an estimated $40 billion in additional Medicaid funds in Families First Coronavirus Response Act.


21 The seven types of hardships examined were unemployment, difficulty paying expenses, not being caught up on rent or mortgage, food insecurity, physical health problems, symptoms of anxiety or depression, and lack of health insurance.

22 This count is based on the author’s tracking of state media coverage. Such stories typically focus on relatively large tax changes. There are states not included in this count that possibly enacted tax changes, such as creating or expanding a relatively small tax credit.


25 For tax year 2021 only, the EITC is available to most childless workers ages 19 and older (there is no age cap). https://www.irs.gov/newsroom/looking-ahead-how-the-american-rescue-plan-affects-2021-taxes-part-1.

26 In Colorado, childless filers ages 19 to 24 are eligible for the state EITC. In New Jersey, childless filers ages 21 to 24 are eligible for the state EITC. In New Mexico, childless filers ages 18 to 24 are eligible for the state EITC.


32 Delaware’s exemption only covers tax year 2020.

33 New Hampshire does not levy a broad-based individual income tax.

34 Bloomberg Tax. Count does not include states that exempted unemployment compensation from state tax before the pandemic.


Office of the Governor Doug Ducey, "How Does Arizona’s New Tax Cut Benefit You?"


The share of single parents and married couples with children older than age 65 is less than 1 percent for both types of households in all four states with one exception: the share of married couples with children older than age 65 is 1.3 percent in New Mexico.

The median number of children is one for Black single parents in Maryland and white single parents in all four states. The median number of children is two for all other Black, Latino, and white households in the four states.

We used wages rather than total household income because we are analyzing how these state tax changes affect taxable income. For most households near median income, other sources of taxable income, such as investment income, are small.

The ACS data provide us the share of noncitizen households in each state. Some noncitizens have Social Security numbers, but all ITIN filers are noncitizens.


In 2020, Arizona voters approved Proposition 208, which created a 3.5 percent "surcharge" on taxable income above $250,000 for single filers and $500,000 for married filers. Tax year 2021 is the first year the surcharge was set to take effect. The legislature was not permitted to repeal the surcharge. Instead, SB 1827 capped the state's top tax rate at 4.5 percent for tax year 2021 and beyond. Thus, the tax rate on taxable income above $250,000 (single) and $500,000 (married) in tax year 2021 becomes 1 percent, but when the 3.5 percent surtax is added, the effective tax rate on that income is 4.5 percent. See Ballotpedia, "Arizona Proposition 208, Tax on Incomes Exceeding $250,000 for Teacher Salaries and Schools Initiative (2020)," accessed November 22, 2021, https://ballotpedia.org/Arizona_Proposition_208,_Tax_on_Incomes_Exceeding_$250,000_for_Teacher_Salaries_and_Schools_Initiative_(2020).

Arizona's general fund revenue must exceed $12.8 billion in fiscal year 2022 and $13.0 billion in fiscal year 2023 and each following fiscal year to trigger the subsequent tax changes.


For all states, the percentage of households receiving a tax cut is counting households with an average tax cut of at least $10. Households who receive a tax cut smaller than that are not included.

The differences in our estimates are due to the characteristics of the survey's heads of households, who we assume would most likely be the tax-filer. This means we do not capture multiracial, multietnic, or multigenerational household characteristics, or the characteristics of those younger than age of 18. We also are not including spouses who may have a different race or ethnicity identification than the head of household into our calculations.


Only single filers with less than $75,000 in adjusted gross income (AGI) and married filers with less than $100,000 in AGI are eligible for Maryland’s exemption for unemployment benefits.


Maryland’s stimulus checks went to residents who qualified for the state EITC in 2019 or 2020, and its EITC expansion was for tax year 2020. Only a household who qualified for the state EITC in 2019 but not 2020 (or vice versa) could receive one benefit but not the other.


This analysis uses 2020 federal tax law as the baseline to evaluate state tax changes and thus does not include the larger federal childless EITC for tax year 2021. As such, the benefits for Maryland taxpayers eligible for the childless EITC in 2021 are even larger than we show. These data show the benefits for the childless EITC for tax year 2022 unless Congress extends the larger EITC for childless workers.
References


About the Author

**Richard C. Auxier** is a senior policy associate in the Urban-Brookings Tax Policy Center. His work focuses on state and local tax policy, budgets, and other finance issues. Before joining Urban, Auxier was on the staff of the DC Tax Revision Commission and helped write the commission's final report on recommendations for improving the District’s tax system. He also previously was a researcher and editor at the Pew Research Center. Auxier attended the University of Maryland for his undergraduate degree and his master’s degree in public policy.
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