

Tax Rates

Some States Hike Income Taxes, Mostly on the Wealthy

BY DAN SEYMOUR

A handful of states raised income tax rates last year — particularly on the wealthy — as tax receipts suffered a historic plunge.

Stung by shrinking incomes and tumbling sales, states' tax revenue has been plummeting even as they face higher demand for unemployment benefits and Medicaid.

State tax receipts sank 13.3% in the first three quarters of 2009, according to the Census Bureau. The drop was especially nasty in income taxes, which fell 20.1%.

Strapped for cash, at least nine states imposed higher taxes on the wealthy, either by raising the top marginal rate or by introducing new tax brackets.

New Jersey, which is confronting a budget deficit of as much as \$11 billion next year, introduced a "millionaires tax" of 10.75% on taxable income over \$1 million in 2009. The top tax rate in 2008 was 8.97%. The state also created two other tax brackets with higher rates.

The millionaires tax will likely be short-

lived. Gov. **Chris Christie**, who took office last month, said he won't extend it or the other two tax hikes enacted last year.

New Jersey's income tax receipts sank 19.4% to \$8 billion in the first three quarters of 2009, according to Census data. Income taxes contribute roughly 40% of the state's tax revenue.

The state's neighbor, **New York**, also introduced higher tax brackets, for incomes over \$200,000, including an 8.97% tax on incomes over \$500,000.

The Empire State, which is staring down an \$8 billion budget gap for the upcoming fiscal year, suffered a 21.3% decline in income taxes through the first three quarters of last year, to \$25.3 billion.

Heavily dependent on Wall Street for its revenue, New York derives more than half its tax receipts from income taxes.

Going into 2009, **California** had the highest state income tax rate in the country, at 10.3% for the top bracket. The Golden State — which faces an additional deficit of nearly \$20 billion just after plugging a gap of \$60 billion over three years — raised the rate even further

in 2009, to 10.55%.

California's income tax receipts plunged 27.1% in the first three quarters to \$32.7 billion. Income taxes, which compose 47.5% of tax revenue, are lower than they were in 2005. Despite raising taxes, California lost its status as the state with the highest tax rate. **Hawaii** and **Oregon** each created a top tax bracket with an 11% rate in 2009. Oregon's rate, approved by voters last month, applies to incomes over \$250,000, and Hawaii's applies to incomes over \$200,000.

Connecticut created a new top tax bracket of \$500,000, and taxed it at a rate of 6.5%. The previous top tax rate in the state was 5%.

Delaware raised its the rate for its top tax bracket, which applies to incomes over \$60,000, to 6.95%, from 5.95%.

Also raising taxes on the wealthy was **Wisconsin**, which introduced a new bracket at the \$225,000 income level, with a tax rate of 7.75%. The previous top rate was 6.75%, on incomes of \$145,460 or more.

While **North Carolina** technically kept its marginal tax rates steady, the Tar Heel

state imposed a 3% surtax on incomes above \$150,000, and a 2% surtax on incomes between \$60,000 and \$150,000.

North Dakota was the only state with a significant change to its treatment of municipal bonds. The state eliminated a filing status that taxed the interest income on certain municipal bonds issued by other states. Fewer than 2% of taxpayers opted for that filing status. North Dakota now allows a single status, which does not tax municipal bonds issued out of state.

The nine states that imposed higher taxes on the wealthy represent 29% of the nation's population and produce a third of the U.S. economy, the Census indicated.

Vermont and **North Dakota** took a different approach: they lowered taxes. North Dakota cut its top tax rate to 4.86% from 5.54%, and Vermont cut the top rate to 9.4% from 9.5%. **Louisiana** also effectively lowered taxes on some residents by raising the income level of the top tax bracket to \$50,000 from \$25,000.

All three states derive a lower percentage of their total tax revenue from income taxes than the national average of 36%. □

State Tax Treatment of Municipal Bond Interest: 2009

State	TAX STATUS		TAX RATES AND BRACKETS		
	Issued In State	Issued Out Of State	Minimum (Income Under)	Flat/None	Maximum (Income Over)
ALABAMA	Exempt	Taxable	2.0% (\$500)		5.0% (\$3,000)
ALASKA	Exempt	Exempt		None	
ARIZONA	Exempt	Taxable	2.59% (\$10,000)		4.54% (\$150,000)
ARKANSAS <i>Tax brackets are indexed for inflation.</i>	Exempt	Taxable	1.0% (\$3,899)		7.0% (\$32,600)
CALIFORNIA <i>Tax brackets are indexed for inflation and were reduced 1.5% from 2008 levels. Tax rates were raised from 2008 range of 1.0% to 10.30%.</i>	Exempt	Taxable	1.25% (\$7,060)		10.55% (\$1,000,000)
COLORADO <i>Certain bonds issued in Colorado before May 1, 1980, are taxable; see FYI Income 52 for details.</i>	Varies	Taxable		Flat 4.63%	
CONNECTICUT <i>New maximum tax rate of 6.5% was added for incomes over \$500,000.</i>	Exempt	Taxable	3.0% (\$10,000)		6.5% (\$500,000)
DELAWARE <i>Maximum tax rate was raised from 5.95% in 2008.</i>	Exempt	Taxable	2.20% (\$5,000)		6.95% (\$60,000)
FLORIDA	Exempt	Exempt		None	
GEORGIA	Exempt	Taxable	1.0% (\$750)		6.0% (\$7,000)
HAWAII <i>Three new tax rates and brackets were added for incomes over \$150,000.</i>	Exempt	Taxable	1.40% (\$2,400)		11.00% (\$200,000)
IDAHO <i>Tax brackets are indexed for inflation.</i>	Exempt	Taxable	1.6% (\$1,321)		7.8% (\$26,418)
ILLINOIS <i>Certain Illinois state and local bonds are exempt from state taxes; see Illinois Department of Revenue Publication 101.</i>	Varies	Taxable		Flat 3.0%	
INDIANA <i>Counties levy an income tax that ranges from 0.1% to 3.13%.</i>	Exempt	Exempt		Flat 3.4%	
IOWA <i>Tax brackets are adjusted for inflation. Only some in-state bonds are tax-exempt; see IA 1040 Long Form Return instructions.</i>	Varies	Taxable	0.36% (\$1,407)		8.98% (\$63,315)
KANSAS <i>Some in-state bonds issued before Dec. 31, 1987, and all in-state bonds issued thereafter are tax-exempt.</i>	Varies	Taxable	3.50% (\$15,000)		6.45% (\$30,000)
KENTUCKY	Exempt	Taxable	2.0% (\$3,000)		6.0% (\$75,000)
LOUISIANA <i>Out-of-state bonds purchased before Jan. 1, 1980, are exempt. Maximum tax bracket was increased from \$25,000 in 2008.</i>	Exempt	Taxable	2.0% (\$12,500)		6.0% (\$50,000)

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State	TAX STATUS		TAX RATES AND BRACKETS		
	Issued In State	Issued Out Of State	Minimum (Income Under)	Flat/None	Maximum (Income Over)
MAINE <i>Tax brackets are indexed for inflation.</i>	Exempt	Taxable	2.0% (\$5,050)		8.5% (\$21,150)
MARYLAND <i>Counties levy an income tax that ranges from 1.25% to 3.20%.</i>	Exempt	Taxable	2.0% (\$1,000)		6.25% (\$1,000,000)
MASSACHUSETTS	Exempt	Taxable		Flat 5.3%	
MICHIGAN	Exempt	Taxable		Flat 4.35%	
MINNESOTA <i>Tax brackets are indexed for inflation.</i>	Exempt	Taxable	5.35% (22,730)		7.85% (\$74,650)
MISSISSIPPI	Exempt	Taxable	3.0% (\$5,000)		5.0% (\$10,000)
MISSOURI	Exempt	Taxable	1.5% (\$1,000)		6.0% (\$9,000)
MONTANA <i>Tax brackets are indexed for inflation.</i>	Exempt	Taxable	1.0% (\$2,600)		6.9% (\$15,400)
NEBRASKA <i>Additional tax of up to 0.428% levied on AGI above \$166,800 for single taxpayers.</i>	Exempt	Taxable	2.56% (\$2,400)		6.84% (\$27,000)
NEVADA	Exempt	Exempt		None	
NEW HAMPSHIRE <i>Unearned income in excess of \$2,400 is taxed at a flat 5%.</i>	Exempt	Taxable		None	
NEW JERSEY <i>Three new tax rates and brackets were added for incomes over \$400,000 for 2009 only.</i>	Exempt	Taxable	1.40% (\$20,000)		10.75% (\$1,000,000)
NEW MEXICO	Exempt	Taxable	1.7% (\$5,500)		4.9% (\$16,000)
NEW YORK <i>Two new tax rates and brackets were added for incomes over \$200,000. New York City and Yonkers also levy income taxes.</i>	Exempt	Taxable	4.0% (\$8,000)		8.97% (\$500,000)
NORTH CAROLINA <i>A 2% surtax was levied on incomes between \$60,000 and \$150,000. The surtax rises to 3% on incomes above \$150,000.</i>	Exempt	Taxable	6.0% (\$12,750)		7.75% (\$60,000)
NORTH DAKOTA <i>Alternate income tax system using Form ND-2 was repealed. Tax rates were reduced from 2008 range of 2.10% to 5.54%. Tax brackets are adjusted for inflation.</i>	Exempt	Exempt	1.84% (\$33,950)		4.86% (\$372,950)
OHIO	Exempt	Taxable	0.618% (\$5,000)		6.240% (\$200,000)
OKLAHOMA <i>Bonds issued by certain Oklahoma authorities before July 2, 2001, are tax-exempt if authorized by statute. Bonds issued after July 1, 2001, are exempt unless issued for nonprofit organizations.</i>	Varies	Taxable	0.5% (\$1,000)		5.5% (\$8,700)
OREGON <i>Two new tax rates and brackets were added for incomes over \$125,000. Tax brackets are indexed for inflation.</i>	Exempt	Taxable	5.0% (\$3,050)		11.0% (\$250,000)
PENNSYLVANIA	Exempt	Taxable		Flat 3.07%	
RHODE ISLAND <i>Tax brackets are indexed for inflation.</i>	Exempt	Taxable	3.75% (\$33,950)		9.90% (\$372,950)
SOUTH CAROLINA <i>Tax brackets are indexed for inflation.</i>	Exempt	Taxable	3.0% (\$2,670)		7.0% (\$13,350)
SOUTH DAKOTA	Exempt	Exempt		None	
TENNESSEE <i>Unearned income is subject to a flat 6% tax on amounts over \$1,250.</i>	Exempt	Taxable		None	
TEXAS	Exempt	Exempt		None	
UTAH <i>Out-of-state bonds purchased after Jan. 1, 2003, are taxable unless the issuer's state does not tax interest on Utah municipal bonds or does not impose an income tax (Alaska, Florida, Indiana, Nevada, North Dakota, South Dakota, Texas, Washington, Wyoming, District of Columbia).</i>	Exempt	Varies		Flat 5%	
VERMONT <i>Tax brackets are indexed for inflation. Tax rates were reduced from the 2008 range of 3.60% to 9.50%.</i>	Exempt	Taxable	3.55% (\$33,950)		9.40% (\$372,950)
VIRGINIA	Exempt	Taxable	2.0% (\$3,000)		5.75% (\$17,000)
WASHINGTON	Exempt	Exempt		None	
WEST VIRGINIA	Exempt	Taxable	3.0% (\$10,000)		6.5% (\$60,000)
WISCONSIN <i>Tax brackets are indexed for inflation. Bonds issued by some Wisconsin state and local authorities are exempt. One new tax rate was added for incomes over \$225,000.</i>	Varies	Taxable	4.60% (\$10,220)		7.75% (\$225,000)
WYOMING	Exempt	Exempt		None	
DISTRICT OF COLUMBIA	Exempt	Exempt	4.0% (\$10,000)		8.5% (\$40,000)
PUERTO RICO	Exempt	Exempt	7.0% (\$17,000)		33.0% (\$50,000)

Note: Tax rates and brackets are for single taxpayers.

Source: State tax forms