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# How often do graduated and flat rate states change their tax rates?

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In November 2020, Illinois voters will consider an amendment that would strike the following two sentences from the Illinois constitution. "A tax on or measured by income shall be at a non-graduated rate. At any one time there may be no more than one such tax imposed by the State for State purposes imposed on individuals and one such tax so imposed on corporations."

Striking these two sentences would allow Illinois legislators to impose a graduated rate system, which would allow the tax rate to vary with the income of the tax filer. The Illinois General Assembly passed legislation in May of 2019 that would impose such a graduated rate system beginning in January 2021 should the constitutional amendment pass.

While that tax legislation would raise the tax rate on only a small portion of the population, there has been considerable discussion about whether future legislation might change tax rates for a larger share of the populace. Under Illinois' current flat rate system, any change in tax rates applies to all tax filers, while under a graduated rate system some taxpayers might see no change or even a tax cut while others would see a tax increase. Some believe that graduated rate systems—that is tax systems with multiple marginal tax rates that generally rise with the income of the tax filer—make it easier to reach a political consensus to increase tax rates for some taxpayers.[1] These observers argue that multiple rates allow elected officials to reduce opposition to tax rate increases for some by holding constant, or even cutting, tax rates for others.

Here, we examine past experience to better understand the frequency of tax rate changes in both flat and graduated rate states. This brief considers data on the personal income tax systems of all U.S. states and the District of Columbia from 2002 through 2019. In 2002 and every year thereafter, seven states had no personal income tax.[2] In 2002, eight states, including Illinois, had a flat rate income tax and the remaining 35 and the District of Columbia had graduated rate systems. Two of the flat tax states, New Hampshire and Tennessee, do not tax income from wages and salaries.

Between 2002 and 2019, three states, Kentucky (2018), North Carolina (2014) and Utah (2009) switched from graduated to flat rate systems. In this period, no state switched from a flat to a graduated rate system. During the period covered by the data reviewed here, tax rate changes were infrequent in all three states and were equally or less frequent during periods when the states had graduated rate systems.

ABOUT THE AUTHOR

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Figure 1 provides some information about tax rate changes in the eight states that had flat rate tax systems through this 18-year period.

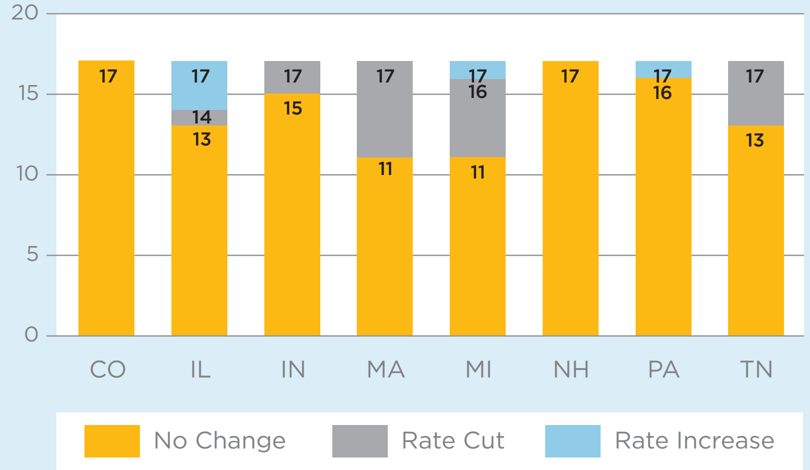
Two of the states (Colorado and New Hampshire) made no rate changes throughout the entire period. Three of the other states (Indiana, Massachusetts and Tennessee) cut the tax rate in multiple years and never raised rates. Pennsylvania raised its rate once, while Illinois and Michigan had rate increases in some years and rate cuts in others.

Comparable data for 32 states and the District of Columbia, which had graduated rate systems for the entire period, is somewhat more complex to summarize. In interpreting these data, several notes are in order. First, three states (Kentucky, North Carolina and Utah) that switched from a graduated to a flat rate system during the period were omitted because they are difficult to classify.

Second, the number of tax rates in graduated rate states varies from state to state and sometimes from year to year within a state. Connecticut had just two tax rates until 2009, while Hawaii has had as many as 12 different tax rates. Third, for each state, this analysis omits years in which the number of tax rates in a state changed. Finally, because graduated rate states, by definition, have multiple rates, some rates may increase while others stay the same or fall, so this analysis includes a category for years in which some of a state's rates increased while others fell. The data are shown in Figures 2A and 2B. Years in which the number of rates in a state changed are omitted.

FIGURE 1

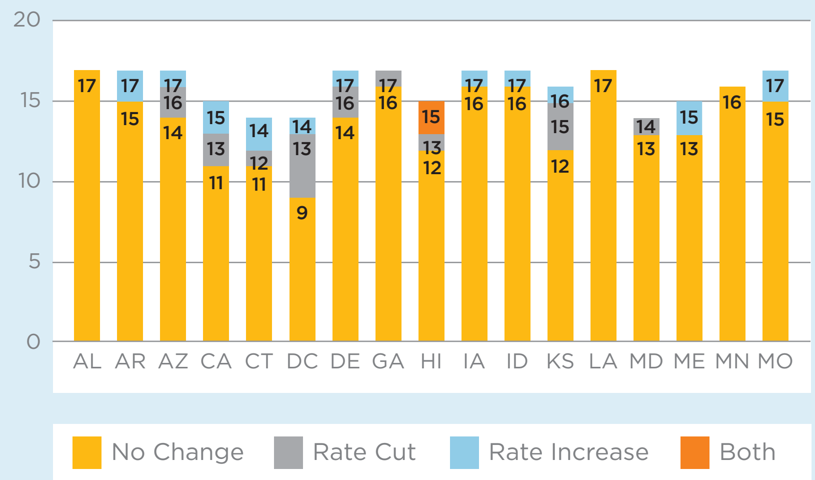
**Number of years with no tax rate changes, rate cuts and rate increases in states with a flat rate tax 2003–2019**




*Source:* Taxfoundation.org and state websites.
Number in bars indicate cumulative total number of years.

FIGURE 2A

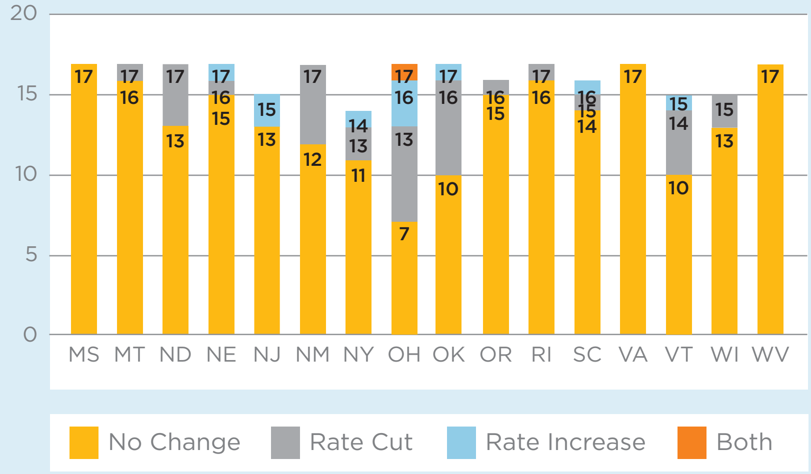
**Number of years with no tax rate changes, rate cuts and rate increases in states with a graduated rate tax 2003–2019**




*Source:* Taxfoundation.org and state websites. Numbers in bars indicate cumulative total number of years. State-years when number of tax rates changed are omitted. KY, NC and UT switched from graduated to flat rate systems during these years and are omitted.


FIGURE 2B

**Number of years with no tax rate changes, rate cuts, rate increases and both cuts and increases in states with a graduated rate tax 2003–2019**




*Source:* Taxfoundation.org and state websites. Numbers in bars indicate cumulative total number of years. State-years when number of tax rates changed are omitted. KY, NC and UT switched from graduated to flat rate systems during these years and are omitted.

In most years, most tax rates do not change. Every state and the District of Columbia had at least nine years in which the jurisdiction did not change any of its tax rates. Alabama, Louisiana, Mississippi, Virginia and West Virginia did not change any of their rates throughout the entire period shown. More than half the states never increased any tax rate during the period, and 24 states and the District of Columbia cut a tax rate or rates at least once during the period.

Three states, Kentucky (2018), North Carolina (2014) and Utah (2009), switched systems, and all switched in the same direction, from graduated to flat rate systems. Figure 3 provides information about these states' tax policies before and after the structural change. Prior to 2005, Kentucky had five marginal rates, North Carolina had four and Utah had six. Kentucky increased the number of marginal rates to six in 2005 before switching to a flat rate system in 2018. North Carolina cut the number of rates to three in 2009 before switching to a flat rate system in 2014. Utah simply switched from six rates to one in 2009.

Kentucky neither increased nor cut any tax rate between 2002 and 2019. Neither North Carolina nor Utah increased any tax rate in any year under either the graduated or flat rate tax system. North Carolina cut one of its four tax rates in 2008 and cut its single flat rate in 2015, 2017 and 2019. Utah cut one of its six tax rates in 2007 and cut its single flat rate in 2019.

This limited evidence does not support the idea that states with graduated rate systems alter their rates frequently. Kentucky made no tax rate changes during the 17-year period it had a graduated rate system. During the periods that North Carolina and Utah had graduated rate systems, both states made only one tax rate change, a rate cut. During the period Utah had a flat rate system, it made one tax rate change, a rate cut. During the period North Carolina had a flat rate system, it made three tax rate changes, all of them rate cuts.

The other states did not make changes in their basic tax structure. Table 1 provides some basic data for all states about the number of rate changes. Eight states had a flat rate tax for the entire period, and three states had a flat rate tax for part of the period. In total, we observed 153 cases of annual tax rate dynamics. Similarly, we observed 592 cases of tax rate dynamics in states with graduated rate taxes. In each state, in each year, we checked whether any tax rate changed. As shown in Table 1, out of 153 total cases there were tax rate changes in 27 cases (17.76%) in states with

TABLE 1

| Any Rate Change | Structure | | Total |
|---|---|---|---|
| | Flat | Grad-uated | |
| **No** | 126<br>82.24 | 498<br>84.15 | 624<br>83.26 |
| **Yes** | 27<br>17.76 | 94<br>15.85 | 121<br>16.24 |
| **Total** | 153<br>100.00 | 592<br>100.00 | 745<br>100.00 |


a flat rate tax. In graduated rate states, out of 592 total cases there were tax rate changes in 94 cases (15.85%), which is slightly lower than the frequency of changes in flat rate states.

The proposed constitutional amendment on November's ballot would move Illinois from a flat rate to a graduated rate system which is a change unlike any that a U.S. state has made since at least 2002. The full implications of this change for tax-setting behavior are difficult to predict. However, examination of the recent experience of other U.S. states finds little difference in the frequency of tax rate changes in general, and whether tax rate increases occur in particular, in states with graduated and flat rate tax systems.

## ENDNOTES

* The author thanks Amanda Kass, Michael Disher, Francis Choi and Mingyue Kan for help preparing data on state tax systems and rates.

[1] Holcombe, R.G., "Tax Policy from a Public Choice Perspective," *National Tax Journal*, 1998, pp. 359-371.

[2] The seven states that levy no personal income tax are: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

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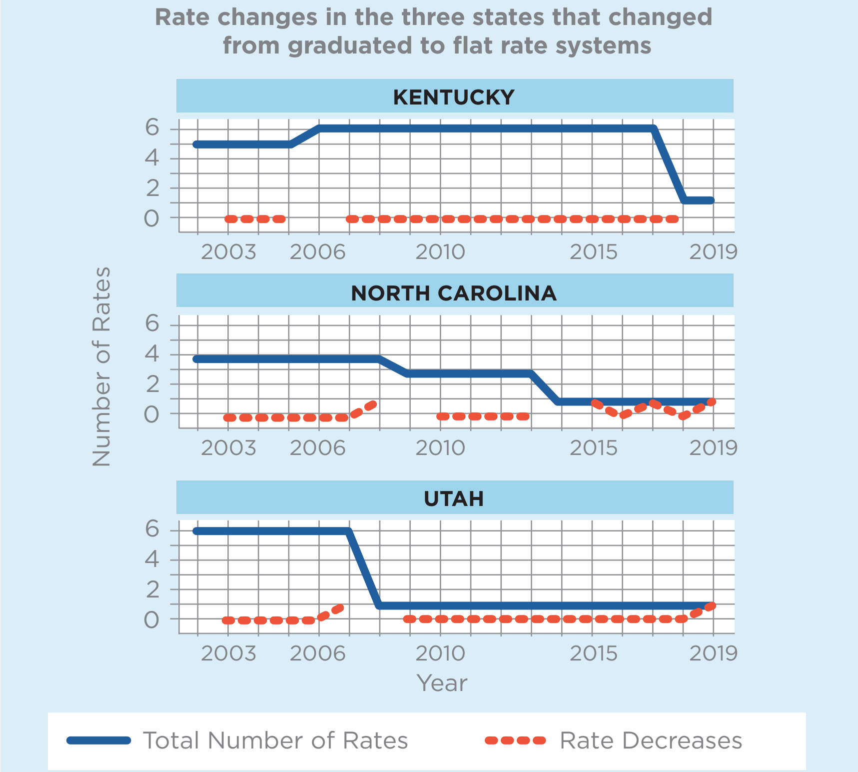
FIGURE 3




*Notes:* No U.S. state changed from a graduated rate system between 2002 and 2019. There were no tax rate increases in Kentucky, North Carolina or Utah during this period. Kentucky increased the number of rates from 5 to 6 in 2006. North Carolina decreased the number of rates from 4 to 3 in 2009. The number of tax changes is coded as missing in years when the number of rates changed.

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