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State Income Tax Calculations

Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming don't have a state income tax (Winters, 1999). In the tax year 1999, North Dakota, Rhode Island and Vermont calculated their state income tax rates as a percentage of the federal income tax rate. Colorado, Illinois, Indiana, Massachusetts, Michigan, New Hampshire, Pennsylvania, and Tennessee all calculated their state income taxes as a flat rate of personal income. All other states used a progressive tax rate based on income to calculate the state income tax rate (State of Wisconsin, Legislative Fiscal Bureau, 2001). See Figure 1.

State Responses to the 2001 Federal Tax Cut

The 2001 Federal Economic Growth and Tax Relief Reconciliation Act lowered individual federal income tax liability, forcing the two other states that calculated their income taxes as a percentage of federal income tax liability to change their tax law.

North Dakota

North Dakota's response to the 2001 Federal tax cut was to adopt legislation in 2001 that changes their method for calculating personal income tax liability. Before the change, North Dakota's method of taxation was a flat rate of an individual's federal income tax liability (State of Wisconsin, Legislative Fiscal Bureau, 2001). They now calculate state personal tax liability through a progressive tax rate that is a percentage of an individual's federal taxable income. There are five income tax brackets for North Dakota taxpayers under this new law (North Dakota State Legislature 2001). [See the Bill with North Dakota's Tax Brackets.](#)

Rhode Island

Prior to 2001, Rhode Island's method of taxation was a flat rate of an individual's federal income tax liability. Following the federal tax cut, Rhode Island created a progressive tax system that applied new rates to federal taxable income. This system created tax brackets that approximated the tax rates that Rhode Island had prior to the tax cut (Rhode Island Division of Taxation 2001).

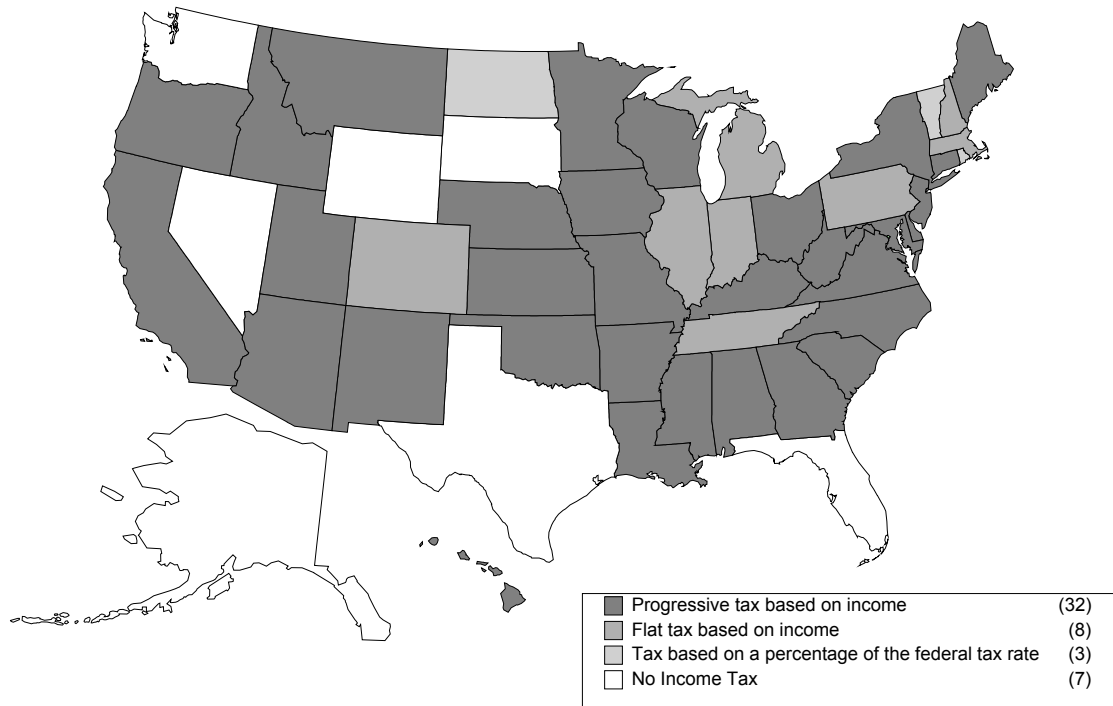


Figure 1: Income Tax Calculations by State (1999)

Source: State of Wisconsin, Legislative Fiscal Bureau, 2001

References

North Dakota State Legislature. 2001. "H.1399."

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