

Effects of The Tax Cuts And Jobs Act On State Individual Income Taxes

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INTRODUCTION

In December 2017, President Donald Trump signed into law PL 115-97, commonly known as the Tax Cuts and Jobs Act (TCJA),¹ which substantially changed federal individual and corporate income taxes. Many of the income tax changes in the TCJA will affect state income taxes through existing links between the federal and state income tax laws.

This article analyzes the effect of the TCJA on state individual income taxes. We discuss the impact of the new law and simulate the change in taxes that would automatically occur in several illustrative states if they were to make no modifications to their own income tax rules. We find that the two elements of the TCJA that generate the largest changes to state individual income taxes are the increase in federal standard deductions (a large tax decrease), and the elimination of federal personal exemptions (a large tax increase). For states that link to both elements, the two changes mostly offset each other, although elimination of personal exemptions has a slightly larger effect. In contrast, states that only link to one of these elements of federal law will see more dramatic changes in state income taxes.

Part I of our Article summarizes the various ways states link to federal law. In Part II we briefly describe the Tax Cuts and Jobs Act, focusing particularly on provisions that impact state income taxes. Part III explores how state linkages in four sample states and the District of Columbia will affect overall income taxes, the distribution of tax changes by income groups, and the percentage of households that will see an increase, decrease, or no change in their state income taxes. Part III further demonstrates how

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1. Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97, 131 Stat. 2054 (to be codified in scattered sections of 26 U.S.C.).

changes in state income taxes will vary with income, and how the profile of changes for each state will depend upon the way the state's tax code is linked to federal provisions. Part IV describes the steps the states in our analysis have taken in the past year to address the TCJA.

I. HOW STATES LINK TO FEDERAL INCOME TAX LAW

As of the end of 2017, most states with an income tax linked to the federal code through their definition of income. Of the 41 states with a broad-based individual income tax, 30 states and the District of Columbia started their income tax calculations with federal adjusted gross income (AGI), and five used federal taxable income.² The former is a taxpayer's gross income after "above-the-line" adjustments such as deductions for individual retirement account (IRA) contributions and student loan interest, and the latter, prior to TCJA, was calculated as AGI minus personal exemptions and either the federal standard deduction or itemized deductions.³ States that use federal AGI but not taxable income have their own rules for standard and itemized deductions and personal exemptions.⁴ Alabama, Arkansas, Massachusetts, Mississippi, New Jersey, and Pennsylvania do not use either federal AGI or taxable income as the starting point for their income tax calculation.⁵ But even these states often refer to Internal Revenue Service (IRS) rules and definitions to establish their income tax base.⁶

2. New Hampshire taxes only interest and dividends, and Tennessee taxes only bond interest and stock dividends. Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming do not tax individual income of any kind. *See State Personal Income Taxes: Federal Starting Points (as of July 1, 2018)*, FED'N OF TAX ADMINS. (July 1, 2018), https://www.taxadmin.org/assets/docs/Research/Rates/stg_pts_070118.pdf.

3. I.R.C. § 62 (2012) (defining AGI); I.R.C. § 63 (2012) (defining federal taxable income). Idaho is sometimes listed as using federal taxable income because it uses the federal standard deduction, personal exemption, and itemized deductions. However, Idaho makes some modifications to federal AGI before these calculations to establish Idaho taxable income, so it is listed as starting with federal AGI.

4. *See, e.g.*, MO. CODE REGS. ANN. TIT. 12 § 10-2.030 (2018) (defining Missouri's personal exemption amount).

5. *State Personal Income Taxes: Federal Starting Points (as of July 1, 2018)*, FED'N OF TAX ADMINS. (July 1, 2018), https://www.taxadmin.org/assets/docs/Research/Rates/stg_pts_070118.pdf; *Commonwealth of Pennsylvania: Mid-Year Revenue Update*, TAX FOUND. (Jan. 29, 2018), <https://files.taxfoundation.org/20180130105406/Pennsylvania.pdf>; *Massachusetts Budget Writer Expects \$65 Million Windfall from Federal Tax Overhaul*, MASSLIVE (Feb. 6, 2018), https://www.masslive.com/politics/index.ssf/2018/02/massachusetts_budget_writer_ex.html; *Tax Code Connections: How Changes to Federal Policy Affect State Revenue*, PEW CHARITABLE TR. (Feb. 2016), https://www.pewtrusts.org/-/media/assets/2016/01/fiscalfedtaxcodeconnectionsmethodology_final.pdf.

6. *See, e.g.*, MISS. CODE ANN. § 35-III-2.08 (104) (2009) (referring to the federal tax code to

Table 1

TABLE 1
State Individual Income Tax Starting Points Pre-TCJA¹
 How states link to the federal tax code with definitions of income



Federal taxable income				
Colorado	Minnesota	North Dakota	South Carolina	Vermont
Federal adjusted gross income				
Arizona	California	Connecticut	Delaware	District of Columbia
Georgia	Hawaii	Idaho ²	Illinois	Indiana
Iowa	Kansas	Kentucky	Louisiana	Maine
Maryland	Michigan	Missouri	Montana	Nebraska
New Mexico	New York	North Carolina	Ohio	Oklahoma
Oregon ²	Rhode Island	Utah	Virginia	West Virginia
Wisconsin				
State definition of income				
Alabama	Arkansas	Massachusetts	Mississippi	New Jersey
Pennsylvania				

Source: Federation of Tax Administrators; state statutes.

Note: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming do not tax individual income. New Hampshire and Tennessee tax only interest and dividends.

¹ This table reflects state conformity as of December 22, 2017, when the TCJA was passed.

² Idaho and Oregon both conform to the federal treatment of pass-through income.

Some states that start with federal AGI link to other parts of the federal system. As of the end of 2017, The District of Columbia, Idaho, New Mexico, and Utah all began their tax calculations with federal AGI,⁷ then directly linked to the federal standard deduction and personal exemptions. Taxpayers in these states could claim either the full federal standard deduction or personal exemption or a percentage of these amounts on their state return. Missouri and Nebraska both linked to the federal standard deduction but not the federal personal exemption.⁸ Conversely, Maine linked to personal exemptions but not the standard deduction.⁹

Some states also link to federal credits such as the child tax credit (CTC), the child and dependent care tax credit (CDCTC), and the earned income tax credit (EITC). When the TCJA was passed, twenty-eight states and the District of Columbia had their own EITC, twenty-two states and the District

determine the income of a minor child); MISS. CODE ANN. § 35-III-2.09 (103) (2009) (referring to federal tax code to determine the income from prizes and other awards).

7. DC CODE ANN. § 47-1803.02. IDAHO CODE ANN. § 63-3011A. NEW MEX. CODE ANN. § 7-2-2 UTAH CODE ANN. § 59-10-103 (West 2018).

8. MO. REV. STAT. §§ 143.131 & 143.151 (2016). NEB. REV. STAT. § 77-2716.01 (2018).

9. ME. REV. STAT. tit. 36 §§ 5124-B & 5126 (2018).

of Columbia had a CDCTC, and four states had a state-level CTC.¹⁰ States typically set their credits equal to a percentage of the federal credit, with state EITCs ranging from 3% of the federal credit in Montana, to a nonrefundable 125% credit in South Carolina. The District of Columbia had the highest refundable credit, worth 40% of the federal EITC.¹¹ But states can also offer credits with different formulas. For example, North Carolina used the federal CTC rules to establish eligibility but then provided a flat \$100 credit per eligible child.¹²

II. THE TAX CUT AND JOBS ACT

The TCJA made many changes to the federal tax code, prompting some comparisons to the comprehensive Tax Reform Act of 1986.¹³ Unlike the Tax Reform Act of 1986,¹⁴ the TCJA did not significantly broaden AGI, the starting point for the individual income tax base. It repealed some deductions and exclusions, such as those for moving expenses, alimony paid, and bicycle commuting expenses,¹⁵ but the revenues raised from those provisions constituted little more than a rounding error in the \$1.5 trillion bill.¹⁶ Other provisions, such as the repeal of the deduction for income from domestic production activities or the limit on deductible business losses for pass-through businesses, affect relatively few individual taxpayers,

10. *State Tax Credits, TAX CREDITS FOR WORKERS & THEIR FAMILIES*, <http://www.taxcreditsforworkersandfamilies.org/state-tax-credits/#1468434107561-be99920d-11c4> (last visited Jan. 6, 2018).

11. *Id.*

12. *Id.*

13. See, e.g., Thomas Kaplan & Alan Rappeport, *Republican Tax Bill Passes Senate in 51-48 Vote*, N.Y. TIMES (Dec. 19, 2017), <https://www.nytimes.com/2017/12/19/us/politics/tax-bill-vote-congress.html>; *How The Republican Tax Bill Compares with Previous Reforms*, ECONOMIST (Dec. 9, 2017), <https://www.economist.com/united-states/2017/12/09/how-the-republican-tax-bill-compares-with-previous-reforms>.

14. Tax Reform Act of 1986, Pub. L. No. 99-514, §§ 121-144, 100 Stat. 2085, 2109-2121 (1986) (Some of the base-broadening provisions included in the TRA of 1986 were: new restrictions on tax-preferred savings plans including IRAs and 401(k) plans; limitations on the deductibility of “passive losses” for individuals; the elimination of the deduction for two-earner families; repeal of the preferential treatment of income from capital gains; and repeal of the personal interest expense deduction and state and local sales tax deduction).

15. Tax Cuts & Jobs Act, Pub. L. No. 115-97, §§ 11048-11051, 13304, 131 Stat. 2054, 2088, 2123 (2017).

16. STAFF OF JOINT COMM. ON TAX’N, 115TH CONG., ESTIMATED BUDGET EFFECTS OF THE CONF. AGREEMENT FOR H.R.1, THE “TAX CUTS AND JOBS ACT”, (Dec. 18, 2017), <https://www.jct.gov/publications.html?func=select&id=76>.

although the latter change is expected to raise a significant amount of federal revenue.¹⁷ Thus, most states that use federal AGI for their income tax base will see little revenue change if they conform, except for those states in which the limit on pass-through business losses is a significant factor. They will certainly not see the windfall that followed the 1986 tax reform.¹⁸

But the TCJA does contain changes that, if unaddressed, will significantly affect state income taxes. These changes include:

- Increasing the federal standard deduction from \$6,500 to \$12,000 for single filers, from \$9,550 to \$18,000 for head-of-household filers, and from \$13,000 to \$24,000 for married filers;¹⁹
- eliminating personal exemptions by lowering their value from \$4,150 to \$0;²⁰
- raising the CTC from \$1,000 to \$2,000 per eligible child, increasing the maximum refundable amount from \$1,000 to \$1,400, and raising the income level at which the credit begins to phase out from \$110,000 to \$400,000 for joint filers, and from \$75,000 to \$200,000 for other taxpayers;^{21,22}
- creating a \$500 credit for non-CTC-eligible dependents;²³
- providing a 20 percent deduction for qualifying pass-through business income;²⁴
- limiting the deduction for state and local taxes (SALT) to \$10,000;²⁵
- eliminating the mortgage interest deduction for interest on new mortgage debt over \$750,000;²⁶
- eliminating the limitation on itemized deductions known as the Pease limitation for high-income taxpayers;²⁷ and

17. *Id.*

18. ADVISORY COMM. ON INTERGOVERNMENTAL REL., THE TAX REFORM ACT OF 1986 – ITS EFFECT ON BOTH FED. & STATE PERS. INCOME TAX LIABS. 3 (1988) (noting nine states stood to increase revenue by at least 10% as a result of the federal change).

19. Tax Cuts & Jobs Act, Pub. L. No. 115-97, §§ 11048-11051, 13304, 131 Stat. 2054 2088, 2123 (2017).

20. *Id.* § 11041.

21. *Id.* § 11022.

22. See *What Is the Child Tax Credit?*, TAX POL’Y CTR., <http://www.taxpolicycenter.org/briefing-book/what-child-tax-credit-ctc> (last visited Jan. 18, 2018).

23. Tax Cuts & Jobs Act, Pub. L. No. 115-97 § 11022 (2017).

24. *Id.* § 11011.

25. *Id.* § 11042.

26. *Id.* § 11043.

27. *Id.* § 11046.

- reducing the number of taxpayers subject to the Alternative Minimum Tax (AMT) by increasing both the exemption amount and the thresholds at which the exemption begins to phase out.²⁸

The elimination of personal exemptions and the limits on itemized deductions will increase federal taxable income, while the increase in the standard deduction will reduce it. These changes will flow through to states that link to federal taxable income, the federal standard deduction, or personal exemptions when determining state taxable income. Those states will need to decide whether to conform to the federal changes. A further complication is that all individual income tax provisions of the TCJA are scheduled to sunset after December 31, 2025, except for the provisions designating an alternative inflation measure for indexing the tax system.²⁹ The potential impermanence of the federal changes is another factor states will need to consider.

III. MODELING THE TCJA

Our analysis uses the Urban-Brookings Tax Policy Center's combined federal and state microsimulation model to examine how certain elements of the TCJA may cause changes in state individual income tax liability.³⁰ We do not attempt to model the full TCJA, but rather look at most of the individual income tax provisions, many of which are frequently linked to state law.³¹ Our analysis does not account for legislative responses to the

28. *Id.* § 12003.

29. See, e.g., *id.* at § 11001(a)(j) (suspending the new rate schedule).

30. See Surachai Khitrakun, et al., *Incorporating State Analysis into the Tax Pol'y Ctr.'s Microsimulation Model: Documentation and Methodology*, TAX POL'Y CTR. (Mar. 2016), <https://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000697-Incorporating-State-Analysis-into-the-TPCs-Microsimulation-Model.pdf>. We simulate individual income taxes using our microsimulation model, which models both federal and state income taxes. The model is designed to estimate federal and state tax liability separately based on various itemization options and then pick the optimal solution for a taxpayer to minimize their combined federal and state tax liability. This model has been used in several papers on the relationship between federal and state taxes. See Sammartino and Francis, *Federal-State Income Tax Progressivity* TAX POL'Y CTR (June 2016), and Sammartino and Rueben, *Revisiting the State and Local Tax Deduction* TAX POL'Y CTR (March 2016). It was also used last year to produce estimates on the distributional effects of the Tax Cuts and Jobs Act. See Sammartino et al., *The Effect of the TCJA Individual Income Tax Provisions Across Income Groups and Across the States*, TAX POL'Y CTR (MARCH 2018).

31. See Frank Sammartino, et al., *The Effect of the TCJA Individual Income Tax Provisions across Income Grps. & across the States*, TAX POL'Y CTR. (Mar. 28, 2018), https://www.taxpolicycenter.org/sites/default/files/publication/154006/the_effect_of_the_tcja_individual_income_tax_provisions_across

TCJA that states have made, or may make in the future.³² Instead, we model how the law would affect states if they kept their tax systems as they were prior to enactment of the TCJA.

Because 2015 is the most recent year for which we have a complete set of state tax laws modeled, we use 2015 law as the starting point for modeling the TCJA changes. We do, however, make several adjustments to the tax rules in select states that have changed the way their tax system conforms to federal law between 2015 and 2018. These adjustments include updating DC law, which was changed to adopt the federal standard deduction and personal exemption amounts.³³

We simulate the TCJA tax changes as they would have applied in 2015 by using the chained CPI index to deflate the starting value of tax parameters associated with the new law from 2018 to 2015 dollars. We apply this adjustment to the new 2018 individual income tax brackets, the AMT exemption and phase-out amounts, the standard deduction amounts, the \$10,000 SALT deduction cap, and the credit amount and income phase-out thresholds for the CTC.

We model the major components of the TCJA listed above except for the new deduction for pass-through businesses,³⁴ focusing on the effects of the major tax changes that are linked to state income taxes: the changes to the standard deductions, personal exemptions, itemized deductions, and the CTC. We incorporate the changes to the federal rates, brackets, and to the AMT so that we more accurately measure itemization decisions that can depend on the relative benefits of itemization at the federal and state level.

We simulate the change in state income taxes for four representative states and the District of Columbia, which link to the federal rules in different ways. The states and their linkages are summarized in table 2. Again, this analysis uses state tax codes as they stood prior to the TCJA's

_income_groups_and_across_the_states.pdf (showing distributional estimates of the federal elements of the TCJA by state). We model all the provisions included in the bulleted list above, except for the 20 percent deduction for pass-through business income, which we discuss below.

32. *But see infra* Part IV (discussing the legislative changes states have made in 2018).

33. *See Gov't of D.C. Off. of the C.F.O. of Tax & Revenue, Tax Changes Pursuant to the Tax Rev. Comm'n Implementation Act Beginning Jan. 1, 2017 for Income Tax Returns Filed in 2018 (2016)* (illustrating changes pursuant to the Tax Revision Commission Implementation Act); *see* D.C. Code § 47-1801.04(44) (2018).

34. Because our focus is on personal income taxes, we omitted the deduction for pass-through business income and other provisions that only affect business income.

passage; it does not reflect new state legislation that has been passed in 2018.

Table 2

TABLE 2
State Individual Income Tax Conformity Pre-TCJA



	Federal Tax Base	Federal Personal Exemptions	Federal Standard Deduction	Federal Child Tax Credit
Colorado	Taxable Income	Yes	Yes	No
District of Columbia	Adjusted Gross Income	Yes	Yes	No
Missouri	Adjusted Gross Income	No	Yes	No
New York	Adjusted Gross Income	No	No	Yes
Utah	Adjusted Gross Income	Yes	Yes	No

Note: When the TCJA was passed, Missouri set its own state personal exemption amount, but used the number of exemptions claimed on a taxpayer's federal income tax return.

Colorado begins its income tax calculation with federal taxable income (FTI). By using FTI as the starting point for state taxable income (STI), Colorado implicitly links to the federal schedule of exemptions and deductions, and requires taxpayers to make the same itemization decision on their state tax return as they did federally. Colorado then requires taxpayers to add back to their STI the state taxes they deducted via the federal SALT deduction, but state law provides a minimum deduction safeguard to protect taxpayers from paying a state-level penalty for itemizing. Colorado conforms to the federal limitation on itemized deductions, and thus will eliminate the limitation in accordance with the federal change, unless it revises its tax law.³⁵

The District of Columbia starts with federal AGI, but taxpayers in DC use both the federal standard deduction and federal personal exemptions to calculate their DC income taxes. Taxpayers also must make the same itemization decision on both their federal and DC returns. DC calculates itemized deductions starting with the federal itemized amount less the amount of DC income or general sales taxes deducted at the federal level, but this deduction phases out with AGI differently than on the federal return. The dollar amount calculated after reducing federal itemized deductions by DC income or general sales taxes—aside from medical and dental expenses, deduction for investment interest, and casualty and theft loss deductions—

35. See Book 104: Colorado Individual Income Tax Filing Guide, COLO. DEP'T OF REVENUE, <https://www.colorado.gov/pacific/sites/default/files/104Book.pdf> (last visited Dec. 15 2018).

is reduced by 5% of the amount by which state AGI exceeds a specified threshold.³⁶

Missouri (under 2017 law) also starts with federal AGI and directly links to the federal standard deduction, but sets its own state personal exemptions. However, like sixteen other states, the number of exemptions that taxpayers can claim on their state tax return is equal to the number of exemptions allowed on their federal return.³⁷ Our analysis assumes that post-TCJA, Missouri taxpayers would still be able to claim the same number of dependents they could claim pre-TCJA, even if the amount of the federal exemption goes to zero.³⁸ It is worth noting that the language in Missouri's tax code regarding conformity to the federal personal exemption is ambiguous, and while we interpreted the statute to mean that the TCJA would not automatically disallow the personal exemption in the state, other stakeholders—including Missouri's legislature and Department of Revenue—assumed the opposite.³⁹

New York (under 2017 law) starts its income tax calculation with federal AGI but sets its own personal exemption and standard deduction schedules. It links to federal tax rules by requiring returns that claim the federal standard deduction to claim New York's standard deduction, and by allowing qualifying taxpayers to claim a state child tax credit (CTC) equal to 30 percent of their federal CTC. Itemizers in New York start with federal itemized deductions less state and local income and sales taxes, but New

36. See Form D-40: D.C. Individual Income Tax Forms & Instructions, D.C. OFF. OF TAX & REVENUE, https://otr.cfo.dc.gov/sites/default/files/dc/sites/otr/publication/attachments/2017%20FINA%20D-40%20EZ_BOOK%2010.31.17.pdf (last visited Dec. 15, 2018).

37. See Form MO-1040: 2017 Individual Income Tax Return Long Form, MO. DEP'T OF REVENUE, https://dor.mo.gov/forms/MO-1040%20Instructions_2017.pdf (last visited Dec. 15, 2018).

38. To elaborate, Missouri uses the federal rules to determine the number of dependents a tax unit has, then assigns their own value per member of a household. In new tax legislation passed this year, the state changed its tax code so that if the federal personal exemption amount is equal to zero, Missouri's personal exemption amount will also equal zero. However, because our analysis simulates the effect of the TCJA if the states did not pass a legislative response, we assume that Missouri would have been able to use other information to calculate the size of a household and continue to provide taxpayers with the state personal exemption amount. Additionally, Missouri takes the federal itemized deduction amount and subtracts out state and local income or sales taxes deducted at the federal level, and therefore links to itemized deduction changes at the federal level. Like several other states, Missouri only allows tax units to itemize on their state returns if they itemize on the federal returns, but does not mandate that tax units itemize at the state level if they itemized on their federal returns. MO. REV. STAT. §§ 143.131 & 143.151 (2016).

39. Missouri resolved this ambiguity by passing a tax bill in the summer of 2018 that formally disallows the state personal exemption if the federal personal exemption equals zero. 2018 Mo. Legis. Serv. (Vernon's) (West's No. 118). For a discussion of this tax bill see Part IV *infra*.

York has a separate schedule for limiting itemized deductions at higher incomes, and at very high levels of AGI only allows tax units to deduct a certain percentage of charitable deductions.⁴⁰

Utah starts with federal AGI. Utah taxpayers calculate a credit designed to equal a percentage of the deductions and exemptions claimed at the federal level. Under 2017 law, a Utah taxpayer would add together either their itemized or standard deduction amount to their allowed state personal exemption amount, which is equal to 75% of their allowed federal personal exemption amount. If the tax unit is an itemizer, they would then subtract out the amount of state income tax deducted on their federal schedule A. The taxpayer then takes 6% of that new total, which is the credit prior to the phase-out. The credit phases out if the taxpayer's income exceeds a threshold amount (\$13,978 for single taxpayers or \$27,956 for married couples in 2017).⁴¹

A. State Individual Income Taxes

The provisions in the TCJA that generate the largest changes to state income tax revenue are the increase in the value of the standard deduction, and the elimination of the personal exemption. The two provisions largely offset one another, and states that link to both see relatively small changes in revenue. Our results show small tax increases in Colorado, the District of Columbia, and Utah, all of which link to both federal provisions, indicating that revenue increases from the elimination of personal exemptions slightly outweigh the revenue losses from the increased standard deduction. In contrast, states that link to only one of the two provisions will see large net effects. For example, our analysis of Missouri, which only links to the standard deduction, suggests a dramatic drop in state individual income taxes of 8.7%. New York, which does not link to the federal standard deduction or personal exemptions, but which does piggyback on the federal child tax credit (CTC), would see a modest decrease in state income taxes because of the increased CTC.

40. New York starts to limit itemized deductions for households with over \$100,000 in AGI. They limit charitable deductions for households with over \$10 million in AGI. *See* Instructions for Form IT-201 Full-Year Resident Income Tax Return, N.Y. DEP'T OF TAX'N & FIN., https://www.tax.ny.gov/pdf/current_forms/it/it201.pdf (last visited Dec. 15, 2018).

41. *See* Individual Income Tax: TC-40 Forms & Instructions, UTAH STATE TAX COMM'N, <https://tax.utah.gov/forms/current/tc-40inst.pdf> (last visited Dec. 15, 2018).

Table 3

TABLE 3
Change in State Individual Income Taxes
Cumulative percent change



	Step 1: Personal Exemptions	Step 2: Personal Standard Deduction	Step 3: Personal Exemptions Standard Deduction Itemized Deductions	Step 4: Personal Exemptions Standard Deduction Itemized Deductions Child Tax Credit
Colorado	12.4%	2.9%	3.1%	3.1%
District of Columbia	6.4%	1.6%	0.9%	0.9%
Missouri	-0.6%	-9.1%	-9.1%	-8.7%
New York	-0.1%	0.0%	0.9%	-1.9%
Utah	13.1%	3.8%	4.2%	4.2%

Source: Tax Policy Center Microsimulation Model and authors' calculations.

Note: The table shows the cumulative percentage change in taxes from the TCJA.

If Colorado allows the federal changes we modeled to pass through to its state tax system, we estimate that state income tax liability would increase by 3.1%. Again, because Colorado starts its income tax calculation with FTI, it automatically adopts any changes to the standard deduction and personal exemptions made at the federal level. Reducing the personal exemption amount to zero would increase income taxes by 12.4%. The increase in the standard deduction would cut into that revenue increase, though not enough to fully offset it, leaving a net tax increase of 2.9% after both changes. The change in federal itemized deductions would further increase the state's income taxes by a modest amount. Though it is beyond the scope of this analysis, it is worth noting that Colorado's link to FTI also means that the TCJA's 20% deduction for most "pass-through" income would lead to a decrease in Colorado's income tax base.

Income taxes in the District of Columbia would increase by 0.9% if it accepts the new federal standard deduction, eliminates personal exemptions, and conforms with new federal itemization rules. Eliminating personal exemptions would increase taxes by about 6.4% while raising the standard deduction would decrease them by about 4.8%, leaving a net increase of 1.6% after both changes. A small tax loss from the changes to itemized deductions (explained later) would drop the net change to 0.9%.

Utah, on the other hand, would see a much larger net tax increase of 4.2% because eliminating personal exemptions would have an outsized impact in that state. The increase in taxes from eliminating personal exemptions—13.1% compared to DC's 6.4%—can be attributed in part to Utah's larger-than-average family size. In 2015, the average Utah tax unit claimed more dependents (0.89, the highest in the country) on state returns than both the

average DC tax unit (0.42, the lowest in the country) and the average US tax unit (0.64).⁴² Thus, eliminating personal exemptions would cause a large tax increase, on average, for Utah families. As in DC, the increase in the standard deduction would offset much of the tax increase from eliminating personal exemptions for the state of Utah as a whole, but not quite to the same degree as in DC. In Utah, increasing the standard deduction would decrease taxes by 9.3% points, leaving a net increase of 3.8% after both changes.

The decrease in income tax liability from increasing the standard deduction would be larger in Utah than in DC because a greater percentage of taxpayers would continue to itemize deductions in DC than in Utah even with the higher standard deduction. The percentage of taxpayers who would itemize deductions in the absence of the TCJA is about the same in the two jurisdictions (32% in DC and 30% in Utah), but the average amount that an itemizer deducted was \$34,739 in DC and \$26,152 in Utah.⁴³ The increase in the standard deduction would drop the percentage of itemizers to 22% in DC but to 14% in Utah. Therefore, a higher percentage of DC taxpayers will continue to itemize, and a higher percentage of taxpayers in Utah will reduce their taxes by switching to the standard deduction.

Changes in itemization decisions also help explain why some taxpayers in the District of Columbia would see a tax decrease because of the new federal limit on the SALT deduction. Prior to the TCJA, many DC taxpayers chose to itemize deductions on their federal returns because their federal itemized deductions were greater than the standard deduction. Taxpayers who itemize on their federal return are required to itemize on their DC return. However, for some federal itemizers, DC itemized deductions were less than the DC standard deduction in part because DC, like most states, does not allow taxpayers to claim a deduction for state income and sales taxes. Those taxpayers still chose to itemize to minimize their combined federal and DC tax liability. The new \$10,000 cap on the federal SALT deduction under the TCJA will cause some of those taxpayers to switch to the standard deduction on their federal return, and so they will be able to claim the standard deduction in DC as well. Therefore, their DC taxable

42. INTERNAL REVENUE SERV., SOI TAX STATS — HISTORIC TABLE 2 (2015), *available at* <https://www.irs.gov/statistics/soi-tax-stats-historic-table-2> (calculations done by author).

43. *Id.*

income and income tax liability will fall, especially as the standard deduction rises to conform to the TCJA.

Had Missouri allowed the TCJA provisions we modeled to flow through to its tax system, total income tax liability for the state would have decreased 8.7%, the largest net change of any state we analyzed. The bulk of this potential tax loss comes from the increase in the standard deduction, which drives down state taxable income and therefore tax liability. Because Missouri does not link to federal personal exemptions, there is no offsetting tax increase. In fact, Missouri taxpayers would have seen their state income taxes fall from the elimination of federal personal exemptions because taxpayers in the state can deduct their federal taxes on their state income tax returns. Therefore, the increase in federal taxes from eliminating personal exemptions translates to a small decrease in state income taxes. Tax revenue rises slightly following the increase to the CTC for the same reason; if taxpayers receive a larger federal child tax credit, they reduce their federal taxes but increase their state taxable income and taxes by a small amount.

If New York adopted the TCJA changes that we included in our model, it would see state income tax liability drop 1.9%, mostly due to the expansion of the CTC. New York sets its own state-level personal exemptions and standard deduction, so the state experiences a negligible tax change from those federal changes. The tax change from changes to federal itemized deduction rules is also small because New York allows taxpayers who itemize on their federal return to take the standard deduction at the state level if they choose.⁴⁴ Therefore, prior to the TCJA, many of the tax units that itemized at the federal level—taking advantage of their ability to deduct the high state and local taxes in New York via the SALT deduction—could still claim the standard deduction on their state tax returns. New Yorkers' itemization rate on state returns (16 percent) has been consistently lower than on their federal returns (27 percent) in recent years.⁴⁵ Taxpayers' ability to make separate itemization decisions on their state and federal returns isolated New York from some of the impact of the TCJA because many of the taxpayers who will stop itemizing on their federal return

44. Although New York allows federal itemizers to opt not to itemize at the state level, the state does require taxpayers who take the standard deduction on their federal return to take the standard deduction at the state level. N.Y. TAX LAW § 615 (McKinney, Westlaw through L.2018) (defining New York's itemized deduction rules).

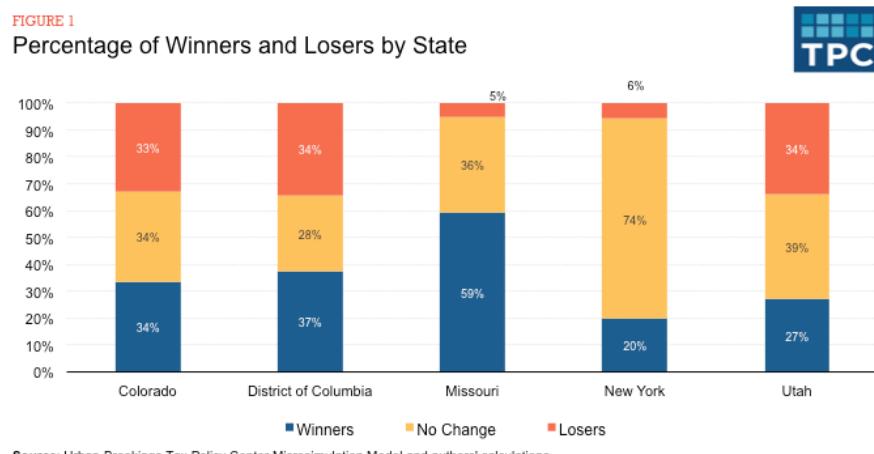
45. INTERNAL REVENUE SERV., *supra* note 42.

because of the increase in the standard deduction amount and the cap on the SALT deduction were already claiming the standard deduction on their state return.

B. Winners and Losers

While a state might see an overall increase or decrease in income tax liability if it accepts the TCJA's changes, the changes in the law will not affect all taxpayers within the state in the same way. Some will experience no change in taxes, some will see their taxes go down ("winners") and others will see their taxes go up ("losers"). Figure 1 shows the distribution of winners, losers, and tax units with no change across the four states and the District of Columbia.⁴⁶

Figure 1



Missouri has the highest proportion of winners, with 59% of tax units receiving a tax cut, mostly because Missouri links to the increased standard deduction but does not link to the decreased personal exemptions. Colorado, the District of Columbia, and Utah—which either begin their tax calculations with FTI or link to both the personal exemption amount and the

46. We include taxpayers with a tax change of \$10 or less (in either direction) as part of the group with no change.

standard deduction—each have roughly an equal number winners, losers, and tax units with no net change, although Utah has somewhat more tax units with no change and fewer tax units with tax cuts. Most taxpayers in New York, see no change in state liability because their decision to itemize or take the standard deduction was not affected by federal tax changes. In New York, 20% of tax units will see a decrease in taxes, primarily due to the expansion of the state CTC, and most other taxpayers see no net tax change (74%).

C. Distribution by Income Groups

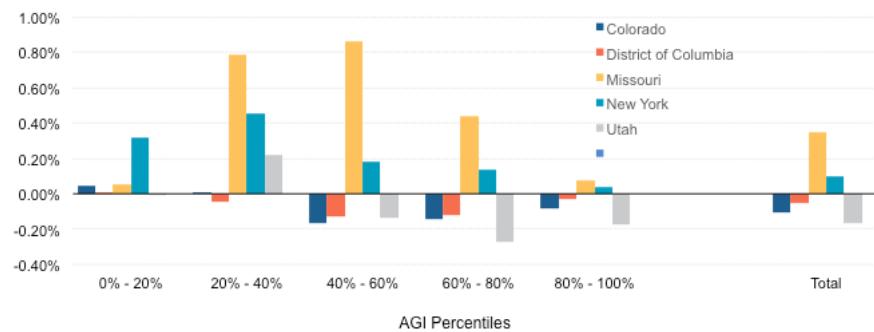
The changes from the TCJA will differ across income groups. At the national level, the individual income tax provisions of the new law will increase the after-federal-tax income of the 20% of households with the lowest income by about 0.3% change but increase it by about 2.2% for the 20% with the highest income.⁴⁷ Here, we model the effects of the TCJA on the average percent change in income measured after state income taxes for taxpayers in different income groups as defined at the state level. Overall, the changes in state taxes are all less than 1% of income, reflecting the relatively small size of state income taxes as a percentage of income.⁴⁸

Figure 2

47. See Sammartino, et al., *supra* note 31, at 18.

48. In 2018, the top tax rate in these states were: 4.63% in Colorado, 8.95% in DC, 7.15% in Maine, 9.85% in Minnesota, 5.9% in Missouri, 5.00% in Utah, 8.82% in New York, and 5.00% in Oklahoma, versus a top federal tax rate of 39.60% in 2017 (prior to the TCJA) and 37% in 2018 (after the TCJA). *State Individual Tax Rates 2000-2018*, TAX POL'Y CTR., <https://www.taxpolicycenter.org/statistics/state-individual-income-tax-rates-2000-2018> (last visited Dec. 15 2018) (providing a complete set of marginal tax rates by state); *Analysis of the “Tax Cuts and Jobs Act*, TAX POL'Y CTR., <https://www.taxpolicycenter.org/feature/analysis-tax-cuts-and-jobs-act> (last visited Dec. 15, 2018).

FIGURE 2
Percent Change in After-Tax Income



Source: Tax Policy Center Microsimulation Model and authors' calculations.
Note: After-Tax Income equals Adjusted Gross Income minus state individual income taxes.

Taxpayers in Colorado, DC, and Utah, states either using federal taxable income as a starting point or conforming to both the federal standard deduction and personal exemption amounts, would on average see a small net decrease in income after taxes, ranging from -0.1% in DC to nearly -0.2% in Utah. Note that this estimate for Colorado does not include the change to the pass-through deduction, which would likely raise after-tax income for wealthier taxpayers.

Taxpayers in Missouri would see an average increase in after-tax income of 0.3%, with the largest changes coming in the second and middle quintiles. These effects illustrate the increase in income for households that benefit from the increased standard deduction without an offsetting reduction in personal exemptions.

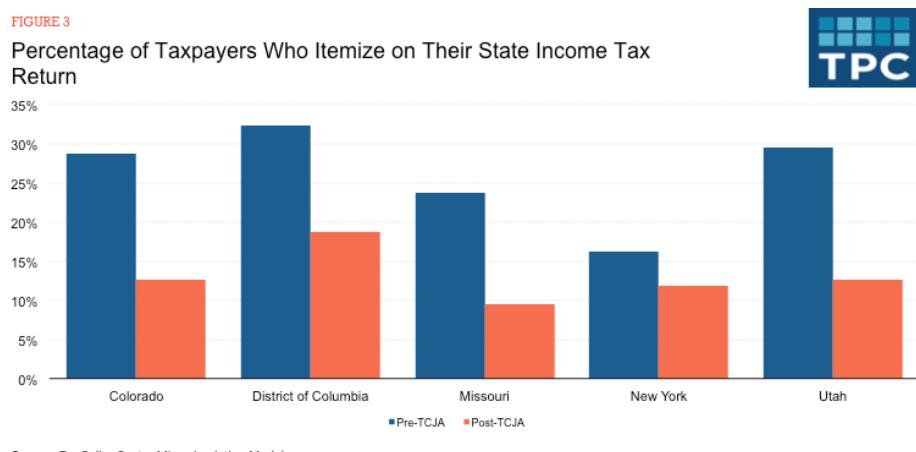
In New York, which links to the federal CTC, taxpayers in all quintiles would see an increase in after-tax income, with the largest changes in the first and second quintiles, resulting from the increase in the state CTC.

D. Itemizers on State Income Returns

The large increase in the standard deduction and other changes from the TCJA will cut the percentage of taxpayers who itemize on their federal income tax return by more than half. The effect on the percentage of itemizers on state income tax returns will vary across the states depending upon the size of the state standard deduction, the rules for who is eligible to

itemize, and the allowable itemized deductions in each state.

We estimate that the percentage of taxpayers who itemize deductions will fall by more than half in Colorado, Missouri, and Utah, states that use the federal standard deduction; by about 40% in the District of Columbia, a jurisdiction that also uses the federal standard deduction but one in which average itemized deductions are much higher than the national average; and by about 25% in New York, a state that has its own relatively generous standard deduction and therefore has a lower initial level of itemizers.

Figure 3

IV. MOVING FORWARD

Our analysis examines how specific provisions of TCJA could change taxes across states with differing income tax structures, links to federal legislation, and demographic composition. However, our analysis does not account for legislative responses by the states since December 2017. The TCJA already has provoked a flurry of activity by state policy makers as governors and legislators grapple with the questions raised by the new law.⁴⁹ Some states adopted new tax legislation while others ended their 2018 sessions without passing a legislative response to the TCJA. Of the states (and DC) we profiled, Missouri, New York, and Utah have passed substantial state income tax legislation.⁵⁰ We have not yet modeled the impact of these legislative changes for our profiled states with the exception of Missouri, for which we have included some estimates below.

Colorado's 2018 legislative session adjourned on May 9, 2018, without

49. See, e.g., Richard C. Auxier, *Conformity & Child Tax Credits: How Idaho's \$100 Million Tax Cut Could Raise Taxes on Large Families*, TAX POL'Y CTR.: TAXVOX (Mar. 21, 2018) (providing Idaho as an example of a state struggling to determine how best to respond).

50. 2018 Mo. Legis. Serv. (Vernon's)(West's No. 118); 2018 N.Y. Sess. Laws Ch. 59 (S. 7509-C) (McKinney's, Westlaw through L.2018); H.B. 293, 2018 Gen. Sess. (Utah 2018) (enacted).

any major changes to the structure of the state's income tax system. Governor John Hickenlooper did sign into law four bills related to fiscal policy, but none of them addressed the state income tax code's links to federal law or any of the provisions discussed in this paper. Rather, they included a new deduction for military retirement benefits, a change to the way business income taxes are calculated in the state, a new tax credit related to organ donation, and a tax credit for employer contributions to employee's 529 college savings plans.⁵¹ Colorado did not address the fact that, because it uses FTI to calculate state taxable income, the TCJA's deduction for pass-through income will lead to a decrease in state tax liability. In comparison, Vermont, another state that linked to FTI prior to the TCJA, passed legislation that decouples from FTI and therefore avoids the new pass-through deduction.⁵²

Unlike most state governments, the District of Columbia's legislative body meets throughout the year, rather than meeting for a limited session., DC's government did not pass any legislation that directly responds to the provisions modeled in this paper. However, the DC budget, passed on May 15, 2018, does decouple the District's estate tax from the federal tax code, meaning that DC will not conform to the TCJA's new federal estate tax exemption, which is roughly twice the old exemption.⁵³ No other measures have been passed to address the TCJA.⁵⁴

Of all the states we studied, we predicted the largest change in tax liability for Missouri, largely because our analysis assumed that Missouri would not automatically conform to the federal personal exemption (set to zero by the TCJA). As noted above, the language around personal exemptions was

51. *2018 Legislative Wrap Up: Is this the Year Colorado Stops Digging? Stay Tuned.*, COLO. FISCAL INST. (May 10, 2018), <http://www.coloradofiscal.org/2018-legislative-wrap-up/?eType=EmailBlastContent&eId=5ccdb342-3883-4272-b702-0ed69bcd0021>.

52. Act 73 of 2017, Secs. 13a, 32(5); 32 V.S.A. § 5811(21).

53. See Fenit Nirappil, *Taxes on Cigarettes, Uber Rides, & Estates Rising under Approved DC Budget*, WASH. POST (May 15, 2018), https://www.washingtonpost.com/local/dc-politics/taxes-on-cigarettes-uber-rides-and-estates-rising-under-approved-dc-budget/2018/05/15/a352a2d6-585d-11e8-858f-12becb4d6067_story.html?utm_term=.c5971a7269f3.

54. In February 2018, the District of Columbia released an analysis that predicts a revenue increase from the TCJA of \$56.4 million or roughly 2.8%— much larger than our projected increase of \$ 15.6 million or 0.9%. D.C. OFF. OF THE C.F.O., SUMMARY OF THE EFFECTS OF MAJOR PROVISIONS OF THE “TAX CUTS & JOBS ACT” ON DIST. RESIDENTS & BUS. 31 (2018). The discrepancy between our estimates and DC's can partially be explained by different assumptions about how taxpayers will allocate their state income and property taxes toward the SALT deduction. Our modeling approaches also behave differently when choosing how to minimize a taxpayer's combined state and federal tax burdens. *Id.*

ambiguous and open to interpretation, allowing other groups (including Missouri's legislature and department of revenue) to assume that Missouri would automatically conform. The state's legislature removed this ambiguity as part of a tax reform package in the summer of 2018.⁵⁵ The bill explicitly disallows Missouri's personal and dependent exemptions when the federal exemption amount is set to zero. We estimate that on its own, this provision would mostly offset the revenue loss from the standard deduction, leaving the state with a 1.9% decrease in tax liability, rather than our original estimate of 8.7% (figure 4).

In addition to formally conforming to the federal personal exemption, Missouri's 2018 tax bill includes a tax cut and broadens the tax base by eliminating the state's deduction for federal income taxes, provisions we also modeled. The tax cut affects Missouri's top marginal tax rate, which would have been 5.9% in 2019. Under the new law, the top tax rate immediately falls 0.4 percentage points—from 5.9 to 5.5%—and will continue to fall over time, landing ultimately at 5.1%.⁵⁶ We estimate that in 2019, the immediate 0.4 percentage point tax cut would reduce Missouri's tax liability by about 6.0%. In combination with the TCJA and conformity to the federal personal exemption, the new tax bill would generate a 7.8% decrease in tax liability from the baseline.

The final change to Missouri's income tax code that we modeled is a base-broadening provision that sharply scales back Missouri's federal income tax deduction (FITD)—eliminating the deduction for high earners and reducing it for all other taxpayers.⁵⁷ We estimate that this provision would raise almost enough revenue to offset the 2018 tax cut. Overall, we predict that the TCJA plus the three provisions we modeled from Missouri's 2018 tax bill will reduce the state's overall income tax liability 2.2% from the baseline.

Figure 4

55. H.B. 2540, 2018 99th Gen. Assemb., 2d Reg. Sess. (Mo. 2018).

56. See Allison Kite, *Missouri General Assembly Votes to Cut Individual Taxes, Sends Bill to Greitens*, KAN. CITY STAR (May 26, 2018), <https://www.kansascity.com/news/politics-government/article211391344.html>; see also Allison Kite, *Gov. Parson Signs Missouri Tax Cut Long Sought by Republican Lawmakers*, KAN. CITY STAR (July 12, 2018), <https://www.kansascity.com/news/politics-government/article214768515.html>.

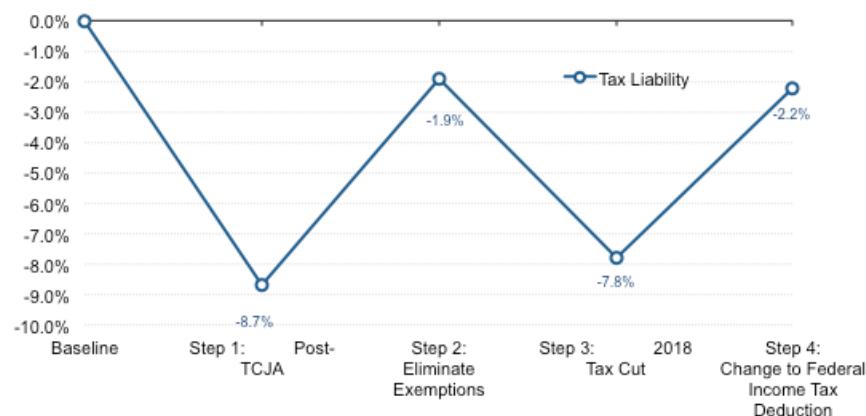
57. There is another base-broadening provision in the tax bill, a cap on a tax break for pass-throughs, which we do not model.



FIGURE 4

Change in Missouri Individual Income Tax Liability

Cumulative percent change from baseline modified 2015 law



Source: Tax Policy Center Microsimulation Model and authors' calculations.

Note: This analysis treats the policy changes in Missouri as a series of steps, wherein each step adds an additional provision. The results above should be interpreted as the percent change in revenue from the baseline, including all changes in that step. For example, Step 3 includes the TCJA, the elimination of the personal exemption, and the 2018 tax cut.

In April 2018, New York made a major change to its state tax system by decoupling the state's itemized deduction schedule from federal law.⁵⁸ Prior to the new legislation, itemizers in New York used the federal itemization schedule as the starting point for calculating itemized deductions at the state level.⁵⁹ If New York had conformed to the TCJA, the cap on the SALT deduction would have hit New York taxpayers twice, as it would have limited the amount of claimable itemized deductions on both the federal and state tax returns. By decoupling, taxpayers in New York will still be able to claim property taxes over \$10,000 as an itemized deduction on their state returns, providing some state tax relief for high-tax, high-income families.

Although decoupling will ease state income tax burdens for New Yorkers, the state has been perhaps more concerned about increased federal income tax burdens post-TCJA thanks to the cap on the SALT deduction. A previous Tax Policy Center analysis found that thanks to the state's high state income and property taxes, New York is expected to have the fifth

58. S.B. 7509C, 2017-18 Leg. Sess. (N.Y. 2018) (including the change to New York's itemized deduction schedule).

59. N.Y. TAX LAW § 615 (McKinney, Westlaw through L.2018) (defining the state of New York's itemized deduction schedule).

highest share of taxpayers that face a federal tax increase.⁶⁰ The state was vocal about its goal to provide a workaround to the SALT cap, and in early April 2018 it became the first state to pass legislation specifically designed to circumvent the cap. The bill offered a two-pronged approach. First, it creates state-administered charitable funds that can receive contributions to support education, health care, and other public services. In return for contributions to these funds, taxpayers will receive a partial credit against their state income taxes, and, New York contends, also be able to deduct them as charitable gifts on their federal tax returns. Second, the bill outlines a plan for a voluntary state payroll tax paid by employers. Workers would receive a tax credit to compensate them for any decline in their take-home pay resulting from the new payroll tax.⁶¹ Other high-SALT states have acted to circumvent the SALT cap as well; New Jersey passed a bill in April 2018 that allows cities, counties, and school districts to create charitable funds to collect contributions, with offsetting income tax credits for taxpayers making the contributions, and Connecticut passed a similar bill in early May.⁶² The US Treasury recently released proposed rules that would block the SALT deduction workaround through state-administered charitable funds.⁶³

Utah lawmakers passed a tax cut in April 2018, which dropped the marginal tax rate from 5.00% to 4.96%.⁶⁴ Additionally, in July the state unlinked from the federal personal exemption and introduced a new “Utah personal exemption” of \$565, which will replace the zeroed-out federal exemption in calculating the state’s nonrefundable credit against taxes due.

60. Sammartino, et al., *supra* note 31, at 15-16 (California, Connecticut, Maryland, New Jersey and the District of Columbia are the only jurisdictions that have a higher percentage of taxpayers facing a tax increase).

61. 2018 N.Y. Sess. Laws Ch. 59 (S. 7509-C) (McKinney’s, Westlaw through L.2018). See Russ Buettner & Jan Ransom, *New York Crafts Loophole to Protect Property Tax Deductions. But the I.R.S. Could Close It*, N.Y. TIMES (Apr. 1, 2018), <https://www.nytimes.com/2018/04/01/nyregion/budget-new-york-federal-tax-law.html>; see also Press Release, Governor of N.Y., Governor Cuomo Signs Bill to Protect New York Taxpayers from Federal Tax Increases on Tax Day (Apr. 17, 2018), <https://www.governor.ny.gov/news/governor-cuomo-signs-bill-protect-new-york-taxpayers-federal-tax-increases-tax-day>.

62. New Jersey’s bill is Public Law 2018, c. 11, formerly Senate Bill 1893 (see here: https://www.njleg.state.nj.us/2018/Bills/S2000/1893_R1.PDF). S. Bill No. 1893, CONN. GEN. STAT. ANN. § P.A. 18-49 (West, Westlaw through Feb. 2018 Reg. Sess.).

63. Prop. Treas. Reg. § 1.170A-1, 83 Fed. Reg. 43,563 (Aug. 27, 2018).

64. H.B. 293, 2018 Gen. Sess. (Utah 2018) (enacted); see also David DeMille, *Report: Utah’s Tax Rate Tweak This Year & Its Impacts*, SPECTRUM (Apr. 8, 2018), <https://www.thespectrum.com/story/news/2018/04/08/report-utahs-tax-rate-tweak-year-and-its-impacts/497192002/>.

This translates to a \$34 credit per qualifying dependent in the household, alleviating some of the pressure that households with multiple children would have faced.⁶⁵

CONCLUSION

The provisions of TCJA that generate the largest changes in state taxes are the elimination of federal personal exemptions, and the increase in the standard deduction. Combined, the two provisions largely offset one another, but the elimination of personal exemptions has a slightly larger effect. Therefore, we expect states that link their personal exemptions to federal law (Colorado, DC, and Utah) will likely see an overall increase in income taxes if they continue to conform. The tax increases will be most pronounced for families with multiple dependents, and thus a state like Utah, which links to federal personal exemptions and has the largest average family size in the country, will see particularly large changes. States that are not linked to federal personal exemptions (like pre-2018 Missouri, and New York), will not see comparable tax increases.

At the federal level, TCJA offsets the tax increase from the loss of personal exemptions for units with dependents by expanding the CTC and adding a dependent credit. However, few states will automatically follow suit. Most states do not have their own CTC and the handful that do typically allow a credit that is a small percentage of the federal credit. More states could offset the loss of personal exemptions by adopting a CTC, but size matters. We estimate that New York, with a CTC that is 30% of the federal credit, will see a 2.8% tax decline from the federal CTC expansion. Several states, including Arizona, Idaho, Maine, and Wisconsin, have passed or seriously considered introducing a CTC, and Utah's new state-level personal exemption will function similarly to a CTC as it is based upon the number of qualifying dependents.⁶⁶ Because eligibility at the federal level is set to expand due to the increase in the income cap on eligibility, many

65. H.B. 2003, 2018 2d Spec. Sess. (Utah 2018) (enacted); *see also* Lisa Riley Roche, Lawmakers Approve \$30 Million Child Tax Credit for Utah Families in Special Session, DESERT NEWS (July 18, 2018), <https://www.deseretnews.com/article/900025224/child-tax-credit-up-to-dollar30-million-as-lawmakers-continue-to-work-out-details.html>.

66. Arizona's legislature considered a bill that would provide a CTC of \$250 per child, H.B. 2459 (<https://legiscan.com/AZ/text/HB2459/id/1695395>.) Idaho passed a \$205 CTC in March. 2018 Idaho Sess. Laws 111. Wisconsin passed a one-time \$100 child tax credit for dependent children in April 2018, S.B. 789 (<https://docs.legis.wisconsin.gov/2017/proposals/sb798>). Utah's personal exemption is included in H.B. 2003, 2018 2d Spec. Sess. (Utah 2018). (enacted).

more families will qualify for such credits.

The TCJA's increase in the federal standard deduction helps offset the tax increase from the elimination of personal exemptions. It will also cause many taxpayers to change their itemization decisions, both at the federal and state levels. Thanks to the higher standard deduction and new limits on itemized deductions, many taxpayers who would have itemized under pre-TCJA law will now take the standard deduction. Nationally, the Tax Policy Center estimates that the percentage of households that itemize on their federal taxes will fall from 26 percent to 11 percent in 2018.⁶⁷

This overall drop in the share of taxpayers claiming itemized deductions means that the change to the federal standard deduction will affect state taxes as well, even in states that do not directly link to the federal standard deduction amount. States can be linked to federal itemization decisions in two ways: they can require taxpayers to choose the same itemization status on both their federal and state returns (such as in Colorado, DC, and Utah), or require taxpayers to take the standard deduction on their state tax return if they claimed it on their federal return but allow taxpayers to choose whether to itemize at the state level if they itemize federally (such as in Missouri and New York).

In New York, the increase in the standard deduction will not have a substantial effect on state individual income tax liability for at least two reasons. First, federal itemizers could always choose whether to itemize at the state level, so their state-level decision does not need to change when they change their federal itemization decision. Additionally, New York is one of three states whose pre-TCJA standard deduction was greater than the federal amount (North Carolina and Rhode Island were the other two).⁶⁸ Many tax units that itemized on their federal returns already claimed the standard deduction at the state level, so a change in federal itemization status will have no effect. For those tax units that itemized at the state level prior to the increase in the federal standard deduction, a switch to the standard deduction at the federal and state level will cause a smaller increase in state taxes for NY than for other states because of the relatively higher NY

67. TAX POL'Y CTR., *Impact on the Number of Itemizers of H.R.1, The Tax Cuts & Jobs Act (TCJA), by Expanded Cash Income Level*, 2018 (Jan. 11, 2018), <https://www.taxpolicycenter.org/model-estimates/impact-itemized-deductions-tax-cuts-and-jobs-act-jan-2018/t18-0001-impact-number>.

68. State Income Tax Deductions, TAX POL'Y CTR., <https://www.taxpolicycenter.org/statistics/state-income-tax-standard-deductions> (last visited Dec. 20, 2018).

standard deduction amount.

States that are concerned about the automatic effects of the TCJA can look to states that have already made changes, such as Missouri, which conformed to the elimination of the federal personal exemption to avoid a substantial tax loss, or Utah, which decoupled from the personal exemption and introduced a credit to help protect families with multiple children from seeing their taxes increase. Vermont, which decoupled from FTI in order to avoid a decrease in state tax liability from the new pass-through deduction, is another good example.

In sum, this analysis illustrates how the links between state tax systems and the federal tax code generate automatic changes in state income tax liability when the federal law is changed. The sweeping reforms included in the TCJA and the various ways that our illustrative states link to the federal tax code highlight the different effects that changes to the federal code create for the states. States can either accept these changes or take steps to decouple from federal law.