

Election 2014 – State Tax Policy Remains Looming Factor as Voters in 36 States Decided Who Will Serve as Governor

November 6, 2014

Overview

On November 4, 2014, voters in each of 36 states chose a Governor for their respective state and, in doing so, may have determined the fate of important state tax policy measures. Of the 36 contested gubernatorial elections this year, the projected final results indicate that we will have at least 10 new sitting governors – in Arizona, Arkansas, Hawaii, Illinois, Maryland, Massachusetts, Nebraska, Pennsylvania, Rhode Island, and Texas – including at least 5 reflecting political party affiliation changes. Of particular note are the projected election results in Illinois, Massachusetts, and Pennsylvania – states where tax policy issues were especially prominent in the election campaigns and where we now have not only new sitting governors, but also political party affiliation changes. Also noteworthy is gubernatorial election campaigning in states such as Alaska, California, Florida, Kansas, and Michigan where tax policy was often at the forefront of the debate.

This Tax Alert highlights some of the tax policy stances voiced by the new, soon-to-be sitting state governors during their respective election campaigns, as well as by select incumbent state governors who were particularly vocal on this issue during their re-election campaigns, and what that might mean for their state tax regimes.

Alaska

The projected final gubernatorial results have yet to be announced in Alaska, with a close race between Bill Walker (I) and incumbent Governor Sean Parnell (R). Walker had supported an August 2014 failed referendum that would have repealed Alaska's newer regime for taxing oil companies, which was signed into law by Parnell in 2013. Walker has since stated that he would "give the new system ample time to work" and would monitor North Slope activity to ensure that promises for higher oil revenue and new jobs are kept.¹

Arizona

In a race involving new gubernatorial candidates, voters in Arizona chose Doug Ducey (R) over Fred DuVal (D), with Ducey having expressed the desire to reform the tax code "with the goal of pushing income tax rates as close to zero as possible."²

Arkansas

In a race involving new gubernatorial candidates, voters in Arkansas chose Asa Hutchinson (R) over Mike Ross (D). Hutchinson, who will replace outgoing Arkansas Governor Mike Beebe (D), has stressed the need for Arkansas to become competitive with its income tax structure to compete for jobs with neighboring states – "By systematically reducing our state's income tax, Arkansas will grow its economy, put more money in the hands of Arkansans and create jobs."³

California

Voters in California chose incumbent Governor Jerry Brown (D) over Neel Kashkari (R) in a race where Brown defended tax increases imposed during his current term, claiming that he was keeping his promise to "protect California's education system while returning the state to fiscal responsibility."⁴

¹ "The Issues: Our Economy – Oil and Gas," released by Walker Mallott for Alaska.

² "Doug's Plan: Promoting Economic Growth & Opportunity," released by the Doug Ducey Governor campaign.

³ "Tax Reduction Plan To Create Jobs & Spur Economic Growth," released by the Asa for Arkansas campaign.

⁴ "Candidates for California Governor Debate Tax Policy, Tesla," by Brian Bardwell. Tax Analysts State Tax Today. November 3, 2014 (2014 STT 212-7).

Florida

Voters in Florida chose incumbent Governor Rick Scott (R) over Charlie Crist (D) in a race where Scott promised to reduce taxes by an additional \$1 billion, including his desire to “eliminate Florida's manufacturing sales tax” and continue the phase-out of the state corporate income tax.⁵

Hawaii

In a race involving new gubernatorial candidates, voters in Hawaii chose David Ige (D) over Duke Aiona (R). Ige has stated that rather than raising taxes, he will secure the necessary resources for the State Department of Taxation to collect back taxes of approximately \$450 million owed.”⁶

Illinois

Voters in Illinois chose Bruce Rauner (R) over incumbent Governor Pat Quinn (D). Rauner hopes to “overhaul the tax code” and has stated that he would like to see Illinois's current increased income tax rates (including a 7% corporate income tax rate) to ultimately phase down and expire over a shorter period.⁷ Currently, these increased tax rates are scheduled to begin phasedown next year and do not entirely revert back to their lower rates until after 2024. Rauner has also stated that he would like to expand Illinois's sales tax base to include additional services.⁸

Kansas

Voters in Kansas chose incumbent Governor Sam Brownback (R) over Paul Davis (D), with the Governor promising during his re-election campaign that he would continue to work to reduce Kansans' tax burden – even in light of controversial tax cuts already enacted during his term.⁹

Maryland

In a race involving new gubernatorial candidates, voters in Maryland chose Larry Hogan (R) over Lieutenant Governor Anthony Brown (D). Hogan has suggested reducing Maryland's corporate income tax rate from 8.25% to 6%, and has stated that he wants to roll back as many tax increases as possible that were passed under Governor Martin O'Malley's (D) current eight-year tenure.¹⁰

Massachusetts

Voters in Massachusetts chose Charlie Baker (R) over Martha Coakley (D). Baker will replace outgoing Massachusetts Governor Deval Patrick (D). Baker has stated that he would not raise taxes, and has suggested an economic plan that includes a corporate excise tax exemption for businesses with net income of less than \$500,000. Baker has also suggested a phase-out of the “inventory tax,” which refers to the local property tax levied on stock in trade of unincorporated entities as well as a portion of the non-income measure of the excise tax imposed on corporations.¹¹

Michigan

Voters in Michigan chose incumbent Governor Rick Snyder (R) over Mark Schauer (D) in a race that often debated Snyder's 2011 overhaul of Michigan's corporate tax system – notably, the repeal of a personal income tax exemption on pension income, and what the Schauer campaign referred to as a coinciding “tax break for big corporations,” an apparent reference to the replacement of the Michigan Business Tax with the imposition of a 6% Corporate Income Tax.¹²

Nebraska

In a race involving new gubernatorial candidates, voters in Nebraska chose Pete Ricketts (R) over Chuck Hasebrook (D). Ricketts has pledged to “hold the line on taxes,” and “improve Nebraska's tax climate to enable existing in-state businesses to grow in Nebraska and encourage out-of-state companies to relocate to Nebraska.”¹³

⁵ “Florida Governor Proposes \$1 Billion in Tax Cuts,” by Eric Yauch. Tax Analysts State Tax Today. September 3, 2014 (2014 STT 170-4)

⁶ “**David Ige's Action Plan: Engineering Hawaii's Future**,” released by David Ige for Governor 2014.

⁷ “**Bring Back Blueprint**,” released by the Bruce Rauner / Evelyn Sanguinetti campaign. July 2014.

⁸ “**Bring Back Blueprint**,” released by the Bruce Rauner / Evelyn Sanguinetti campaign. July 2014.

⁹ “Second Credit Rating Agency Downgrades Kansas,” by Jennifer DePaul. Tax Analysts State Tax Today. August 8, 2014 (2014 STT 153-4)

¹⁰ “**Brown, Hogan Tight-Lipped on Tax-Cut Strategy, Repercussions on Budget**,” by John Wagner. The Washington Post. October 30, 2014.

¹¹ “**Great Again Massachusetts: A New Direction for Prosperity**,” released by the Charlie Baker / Karyn Polito campaign. September 2014.

¹² “Candidates for Michigan Governor Spar Over Tax Changes for Retirement Income,” by Brian Bardwell. Tax Analysts State Tax Today. October 21, 2014 (2014 STT 203-5).

¹³ “**Pete's Principles**,” Pete Ricketts for Governor.

Pennsylvania

Voters in Pennsylvania chose Tom Wolf (D) over incumbent Governor Tom Corbett (R). Wolf has expressed that he would like to adopt a combined reporting corporate income tax regime, change the historically flat-rate personal income tax to make it more progressive, and impose a 5% severance tax on natural gas extraction.¹⁴

Rhode Island

In a race involving new gubernatorial candidates, voters in Rhode Island chose Rhode Island Treasurer Gina Raimondo (D) over Cranston Mayor Allan Fung (R). Raimondo has stated that she opposes higher taxes and is focused on bringing newer high-tech advanced manufacturing to Rhode Island within the “global trend” to re-shore advanced manufacturing in the United States – with emphasis on marine science, food technology and medical device manufacturing.¹⁵

Texas

In a race involving new gubernatorial candidates, voters in Texas chose Attorney General Greg Abbott (R) over Texas State Senator Wendy Davis (D) to succeed current Governor Rick Perry (R). Abbott had pledged throughout his campaign to “keep taxes low.”¹⁶

Summing it Up

Overall, it is apparent that tax policy has played a prominent role in many of the contested gubernatorial elections across the country this year, and it remains to be seen if and how the new sitting governors, as well as certain incumbent governors who were particularly vocal during their re-election campaigns, will impact the ever-changing state tax landscape in their respective jurisdictions.

Contacts

If you have questions regarding the gubernatorial elections this past year and / or the variety of state tax policy measures addressed during the various campaigns, please contact either of the following multistate tax specialists.

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¹⁴ “Tom Wolf’s Fresh Start for Pennsylvania,” released by the Tom Wolf Campaign for Governor. February 2014.

¹⁵ “Gina Raimondo for Governor: Jobs Plan,” released by Friends of Gina Raimondo.

¹⁶ “Greg Abbott Tops Wendy Davis in Texas Governor’s Race,” by Christy Hoppe. The Dallas Morning News. November 5, 2014.