NEWSQUARE CAPITAL

November 4, 2026

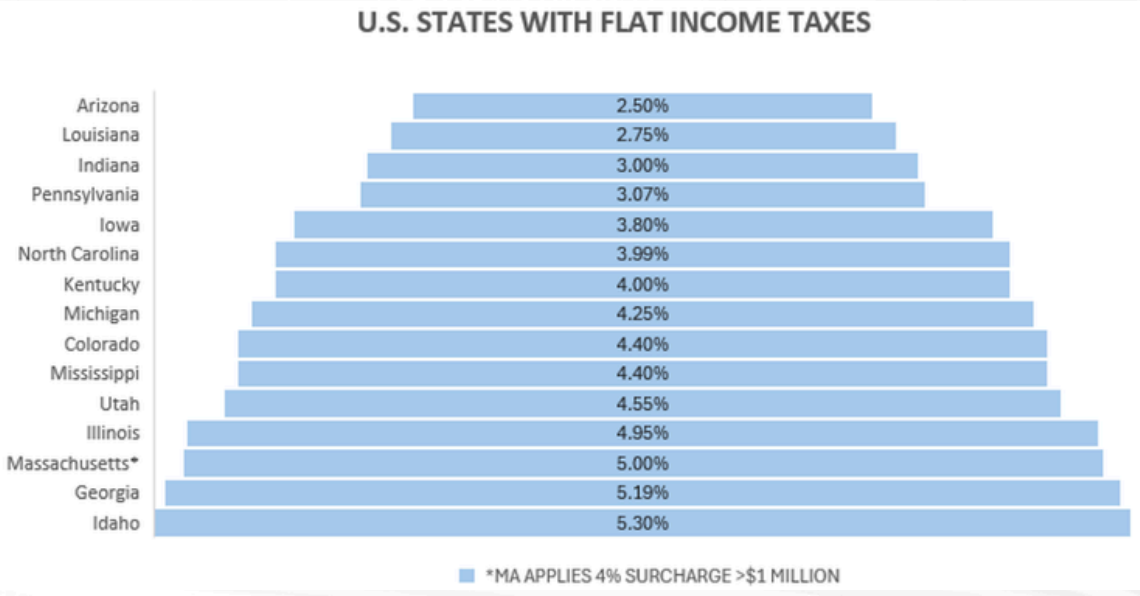
MUNI MINUTES

WITH KIM OLSAN

- Revenue impacts from reduced federal funding related to Medicaid and the end of the pandemic-aid cycle have prompted certain states to propose new tax structures. A 5.00% wealth tax in California is up for a vote and would be assessed on net worth of $1 billion or more. Colorado voters will decide whether to eliminate the current 4.40% flat tax and replace it with a graduated system, where the top rate would rise to 8.40% for incomes exceeding $1 million (placing it among the ten highest rates in the country). Washington voters will decide whether to repeal the 9.0% millionaire income tax recently passed.

- The average state income tax rate across the country is 6.11%. Using that figure and the top federal rate of 40.8%, a generic 3.50% municipal yield would offer an average TEY of nearly 6.50%. Nine states have no income tax but levy higher property or sales taxes. A group of 15 states currently applies a flat income tax, ranging from 2.50% (Arizona) to 5.3% (Idaho). Massachusetts applies a flat 5.00% tax on income up to $1 million but then imposes a 4.00% surcharge on income above that threshold. Across these states, the average flat tax rate is 4.08%, compared with an average rate of 7.16% among states with graduated income tax schedules.

- Tax collections will become a greater focal point as states confront challenges related to daily operations and rainy-day funds. Pew Trust research shows that in FY 2024, the average number of days' cash on hand was 54.5, but that figure is estimated to decline to 47.9 days by the end of FY 2026. The Colorado ballot initiative will be interesting to watch given the decision voters face regarding higher-income earners. A successful measure could encourage other states to adopt similar approaches, further embedding the value of tax-exempt income.



Source: Bloomberg; Tax Foundation

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