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Tax Insights
from State and Local Tax
Services

Changes in state balance of power signal potential SALT policy changes

November 6, 2026

In brief

What happened?

Democrats are projected to gain control of up to a dozen state legislative chambers and flip at least five state governorships as a result of the November 3 general elections, resulting in projected new Democratic trifectas (control of the governorship and both chambers of the legislature) in Michigan, Minnesota, Nevada, Pennsylvania, and Wisconsin (and possibly Arizona). Meanwhile, Republicans are projected to lose trifectas in Georgia, Iowa, New Hampshire, Ohio, and Texas.

Among the headline results for ballot measures, California's wealth tax initiative appears headed to defeat, while Colorado's graduated income tax (individual and corporate) with a top 8.4% rate is too close to call at this time. North Carolina voters capped individual and corporate tax rates at 3.5% while also approving an amendment requiring the legislature to establish limits on local property tax levy increases, and Florida voters approved an increase to the property tax homestead exemption.

Why is it relevant?

The incoming Democratic trifecta state governments could signal significant changes in tax policy approaches, although supermajority requirements for tax increases and intra-party differences may temper the desire for major tax policy shifts. Ballot measures also could significantly impact tax policy, including Colorado's potential major income tax increase (still too close to call) as well as Florida's property tax changes and North Carolina’s property tax restrictions that may put pressure on other revenue sources.

Actions to consider

Taxpayers should continue to monitor the election results and consider the specific circumstances in each state in interpreting the potential direction of particular state tax policies. Taxpayers also should monitor pre-filed legislation, budget proposals, and administrative rulemaking ahead of the 2027 legislative sessions. This Insight highlights some of the major results and potential implications for taxpayers.

In detail

The November 3 general elections reversed recent trends of a small number of legislative "flips" in party control, with up to 12 chambers projected to move to Democratic control and no projected Republican pick-ups. Democrats are projected to control the Arizona Senate (and potentially the Arizona House), the Georgia House, the Minnesota House (no longer tied), the Michigan House, the New Hampshire House and Senate, the North Carolina House, the Pennsylvania Senate, the Texas House, and the Wisconsin Assembly and Senate. The Democratic House gains in Michigan and Minnesota restored Democratic trifecta control in both states.

As described by the National Conference of State Legislatures (NCSL), this number of state legislative chambers changing control is near the historic average, although the recent trend has been much lower (as few as three "flips" in the last election cycle). For historical perspective, however, the Republican "wave" of 2010 resulted in more than 20 chamber control changes.

The NCSL highlights several particularly significant shifts. North Carolina's House, for example, swung from a near-Republican supermajority to Democratic control. Democrats have gained control of the Pennsylvania Senate for the first time in more than 30 years.

The gubernatorial and other statewide results further underscore the magnitude of the Democratic gains. In Texas, for example, not only did Democrats gain control of the Texas House, they flipped every statewide seat on the ballot, including but not limited to the Governor, Lieutenant Governor, Attorney General, and the Comptroller. In all, Democrats flipped control of the governorships in Georgia, Iowa, Nevada, Ohio, and Texas, with Alaska and Kansas still to be determined. Also, Democrats retained control of 17 governorships, including Michigan, Minnesota, and Wisconsin, while Republicans retained control of 12.

Below are some observations on select state election results and their potential state tax impact:

Arizona

Income tax rates have been a contentious issue in Arizona, with a 3.5% income tax surcharge initiative invalidated by the courts, a 2.5% flat individual income tax rate being enacted by the former Republican trifecta, and continued clashes between the legislature and Governor on further tax cuts. If Arizona becomes a Democratic trifecta, income tax rate increases could be a possibility in 2027. Note, however, that Arizona generally requires two-thirds legislative approval for tax increases.

California

California's wealth tax initiative, Proposition 40, at this time appears headed to defeat. While the measure received nationwide attention, its defeat might not mean the end of wealth tax consideration either in California or elsewhere in the country. In this instance, there were dynamics (like use of the

funds for health care funding) that gave rise to opposition from certain public interest groups (not to mention the Governor's opposition). Interestingly, at this time Proposition 42, which was meant as a counter to Proposition 40, is leading, and could have a future impact on California tax policy. Proposition 42 would bar retroactive taxes or any new taxes on financial assets or other personal property – which could complicate future wealth tax consideration in the state.

California Governor-elect Xavier Becerra could have even larger margins in the legislature that could provide support for increasing taxes. This could lead to renewed mandatory worldwide combined reporting proposals, and there could be renewed discussion of a proposal linking corporate taxation to employees on public assistance, among other tax proposals.

Colorado

Colorado Amendment 87 continues to hold a narrow lead, although the result remains too close to call. If the initiative passes, it would represent a major departure from the state's existing income tax structure and TABOR restrictions, replacing the current flat 4.4% individual and corporate income tax rate with graduated rates reaching 8.4% on taxable income exceeding $1 million effective for tax years beginning on or after January 1, 2027.

Georgia

Georgia's shift from trifecta Republican control to a Democratic governor and House could result in an end to the state's recent multi-year income tax rate cutting trend. The state's Republican trifecta pegged the corporate tax rate to the individual rate and has lowered the rate to 4.99%, with future rate cuts depending on state revenue. The shift in control could result in negotiation on these revenue triggers and their impact on the corporate tax rate.

Minnesota

A significant amount of tax policy was advanced previously under the last Democratic trifecta, including consideration of worldwide combined reporting and ultimately adoption of GILTI taxation. While it is too soon to tell, international tax issues could come to the fore yet again.

Minnesota Governor-elect Amy Klobuchar has emphasized fiscal oversight, an audit of state government, and no tax increases. However, this position may not foreclose corporate tax increases through changes in corporate income tax modifications or other changes that could be characterized as “loophole closing.”

North Carolina

North Carolina voters approved a constitutional amendment limiting individual and corporate income tax rates to 3.5%. The Republican-controlled legislature previously enacted a corporate income tax phase-out by 2030 (2% for 2027, declining to 1% in 2028 and 0% in 2030), as well as scheduled individual income tax rate reductions to 2.99% by 2033 (3.49% for 2027). Both Governor Josh Stein and former Governor Roy Cooper sought to halt further reductions in both rates. Consequently, the constitutional amendment could function not only as a limit on potential future rate increases, but also as a factor in negotiations over further rate reductions in a split legislature.

Pennsylvania

Pennsylvania's shift to trifecta Democratic control could mean significant tax policy shifts, including the potential adoption of mandatory unitary combined reporting. This policy has been promoted by successive Democratic governors and previously passed the House under narrow Democratic control. Other proposals that may re-emerge include digital advertising taxes, as well as increases in gaming and other taxes.

Texas

While Democrats will control the Texas governorship and House, Republicans retain control of the Senate, meaning significant tax legislative changes will require negotiations between the parties. The change in Comptroller could result in a re-examination of rulemaking initiatives undertaken by the outgoing Comptroller, including proposals concerning the sales tax treatment of marketplace platform fees and electronic health and medical record systems, as well as possibly the regulatory interpretation of IRC conformity.

Let’s talk

To discuss the potential implications of the 2026 state elections on your business, please contact:

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