States’ Tax Take Hits $125 Billion, Tops Income and Population Gains

State tax collections continued their unabated move upward in fiscal year 1979, scoring their 39th consecutive increase since 1940, when the Bureau of the Census began publication of annual state tax data, according to Tax Foundation economists. The latest year’s gain of 10.3 percent brought total collections to $125 billion. Although it represented a sizable dollar rise over 1978 (almost $12 billion), it was the smallest percentage increase since the recession year 1975, when the rise was only 8 percent. The slower rate of growth in 1979 appears to reflect recent statutory reductions in state taxes, especially personal income levies, according to Foundation researchers. The 1979 state tax take was three times as large as a decade earlier. For the period 1969 to 1979 taxpayer contributions to state treasuries swelled at an average annual rate of 11.5 percent. This increase far outpaced most economic indicators. For example, population rose an average of only eight-tenths of one percent annually, consumer prices 7.0 percent a year, and personal income 9.9 percent annually. (Federal taxes, rising by 15.1 percent from 1978 to 1979, far outpaced the latest state increase for the year; however, for the preceding decade the annual rise in Federal taxes, 9.7 percent, was almost two percentage points below the state increase.)

(Continued on page 4)

Tax Index Declines In Second Quarter As Profits Drop

The Tax Index in the second quarter of 1980 slid to 355.1 (1967 equals 100) from 359.6 in the first quarter. This represented a decline at an annual rate of 4.9 percent, and marked the first quarterly drop in the Tax Index in five years.

The latest quarter’s fall in the Index, which occurred in both Federal and state-local taxes, reflected a sharp decline in corporate profits tax accruals. Virtually all other taxes continued to rise.

The previous reduction in the Index, experienced in the second quarter of 1975, was a temporary one due solely to a statutory rebate in Federal income taxes; state-local taxes continued to climb.

In the second quarter of 1980, in contrast to the Tax Index, nominal gross national product rose very slightly (at an annual rate of 0.5 percent), and prices continued their upward spiral at an annual rate of 10.5 percent.

At a level of 355.1 in the second quarter, the Tax Index remained well above the GNP index of 317.0 and the price index of 226.5 (all on the 1967 base).

The accompanying table presents the Tax Index, along with related measures, on a quarterly basis for 1978 to date.

(Continued on page 4)
The Front Burner
By Robert C. Brown
Executive Vice President
Tax Foundation, Inc.

“Beyond the Ballot Box”

It’s that time of year, and the exaggerated rhetoric and campaign hoopla are something that we Americans cherish just as much as we sometimes cherish throwing pop bottles at the umpires at the ballgame. It’s something non-Americans never really understand.

At the Tax Foundation, we must walk a more restrained path, ever mindful that the credibility of an organization like the Foundation is always on the line. For us to take such a freewheeling approach would hamper our effectiveness. It might take people’s minds off the real issues at stake.

A lot of lip service has been paid this past year to restraining government spending, balancing the budget, enacting a constitutional amendment to require a balanced budget or limiting Federal spending to a percentage of the nation’s total income or output.

These kinds of issues have been in the public policy debates all year long. And they are going to be around for at least another congressional session.

There is a deep-seated recognition today from many quarters that our tax and fiscal policy is on the wrong track, that we really need to get on with restoring the capital stock of this country, that we can’t continue to tax it away or else we’ll simply get to the point where there isn’t anything left to tax.

I believe it was J. S. Mill who pointed out that the interest of government is to tax heavily, that of the community is to be as little taxed as the necessary expenses of the government permit. In a nutshell, that’s still the big issue. The interest of the government is to tax heavily, to provide for all of the programs that the government believes the people should be exposed to. But the people who have to pay the taxes are not always willing to continue to pay for the other guy’s pet programs. Another observation of Mill’s is this: The very principle of constitutional government requires it to be assumed that political power will be abused to promote the particular purposes of those who hold power, not because this always happens but because such is the natural tendency of things. Guarding against this tendency is the special use of free institutions.

Behind all the rhetoric and all the election hoopla, that is still one of the major issues confronting our nation this fall, regardless of who is elected on November 4. The Tax Foundation’s contribution to the evolution of public policy is to provide the economic and fiscal data for that debate in an objective fashion. It is very frustrating to come from such an organization and, in dealing with the political elements of government, to see that data misused, distorted for short-term gain, or ignored—frustrating, but also greatly challenging.

In my opinion, unless we meet the challenge and continue to keep these basic issues on the front burner, no matter who wins in November, we will all end up losers.

State-Local Pension Assets Climb; Governments Now Pay Lion’s Share

Thanks largely to taxpayer contributions and high investment earnings, the financial assets of state-local employee pension systems chalked up a $19 billion gain in fiscal year 1979, rising to a new high of $161.6 billion, Tax Foundation economists report. Holdings of these pension funds are now almost nine times as large as they were in 1960 and three times their size as recently as 1975.

Annual receipts of the funds mirror this trend in assets, and also reflect a gradual shift in financing on the part of governments (taxpayers), investment earnings, and employees. Total receipts amounted to $31.9 billion in fiscal year 1979, more than nine times receipts in 1960. Over the 19-year span, government contributions accounted for 48 percent of the rise in annual receipts, investment earnings for 35 percent, and employee contributions for 17 percent. Investment earnings have shown the fastest relative growth over the years, and thus somewhat obscure the shifting mix of employee versus employer contributions. For example, in fiscal 1979, for every dollar contributed by employees to the systems, taxpayers put up $2.51. In contrast, in 1960 taxpayers paid just $1.55 for every dollar of employee contributions.

Nineteen years ago, Foundation economists note, state-local retirement systems had total receipts of $3.4 billion, of which $1.1 billion (32.4 percent) was derived from employee contributions, $1.7 billion (50 percent) from government contributions, and $0.6 billion (17.6 percent) from earnings on investments. By 1979, total receipts had risen to $31.9 billion, and the mix had altered sharply.

State and local governments poured $15.3 billion (48 percent) into their retirement systems in 1979 while employees were supplying less than half that amount ($6.1 billion, or 19.1 percent), considerably less than investment earnings which provided $10.5 billion (32.9 percent).

In 12 states and the District of Columbia, governments supplied more than half of the pension fund revenue.

About Tax Features

Tax Foundation, Inc., is a publicly supported, non-profit organization engaged in non-partisan research and public education on the fiscal and management aspects of government. Members of Tax Foundation are urged to pass their copies of Tax Features along to editors of their house publications.

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For additional information write to Tax Foundation, 1875 Connecticut Avenue, N.W., Washington, D.C. 20009, or call (202) 328-4500.

(Continued on page 3)
32nd National Conference

9:00 A.M.
Conference Sessions: $30
Baroque Suite

12:15 P.M.
Reception and Luncheon: $30
Grand Ballroom

43rd Annual Dinner

6:30 P.M. (Black Tie Optional)
Reception and Dinner: $65
Grand Ballroom

IMPORTANT NOTES
Your reservation will be acknowledged by the Tax Foundation. Tickets will be mailed prior to the Dinner and Conference. Notice of cancellation must go to Ms. Betty Austin (202) 328-4540 and tickets must be returned for refund. Full refunds will be made before November 24; after that, there will be an 80 percent refund on the return of tickets. No refunds after Conference date. Requests for hotel accommodations should be sent directly to the hotel of your choice. Conference attendees will receive the published Proceedings.

Reservation Form
To: Tax Foundation, Inc. / 1875 Connecticut Avenue, N.W. / Washington, D.C. 20009

Please make the following reservations. Enclosed is check payable to Tax Foundation, Inc. in the amount of $__________.

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State Taxes
(Continued from page 1)

Fastest growing offspring in the family of state taxes are individual and corporate income levies, according to economists at the Tax Foundation. From 1969 to 1979, individual income taxes chalked up the highest average annual growth rate (15.8 percent). Corporate income taxes were second (14.3 percent), while general sales taxes placed third (12.2 percent). Since 1969, the combined share of individual and corporate income levies has grown from 25.6 percent of total state taxes to 35.8 percent.

General sales taxes, the Foundation's researchers point out, continue to be the largest single source of state tax revenues, accounting for 31.6 percent of the tax take in 1979. Individual income taxes are next, comprising 26.1 percent of the total. Selective sales taxes (combined) run third at 19.3 percent, followed by corporate income taxes at 9.7 percent.

The state tax profile outlined by Tax Foundation economists shows a great diversity in tax structure:

- Nine states have no broad-based personal income tax. These are Connecticut, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.
- Five states have neither a corporate income tax nor a personal income tax. These are Nevada, South Dakota, Texas, Washington, and Wyoming. (The 45 remaining states impose a corporate levy.)
- Washington State has the highest dependence on general sales tax in the country, deriving 56.1 percent of its tax revenues from this source. South Dakota is second most dependent on general sales, which account for 53.2 percent of the state's tax revenues.
- Per capita income taxes are highest in Delaware ($371), Oregon ($319), and Minnesota ($309), compared with a national average of $149.

Tax Index
(Continued from page 1)

The Tax Index is a new fiscal yardstick unveiled in May 1980 by Tax Foundation economists. The Index is designed to provide a continuing measure of trends in taxes, on a basis comparable to official indexes for other segments of the economy. (For other perspectives on the Tax Index see Monthly Tax Features, May 1980 and August 1980.)

- Corporate taxes, per capita, are highest in Alaska ($633), Michigan ($108), and California ($105), compared with a national average of $55. (Alaska's 1979 corporate tax collections catapulted 667 percent over 1978, reflecting a legislative change in the methods used for computing, allocating, and apportioning the taxable income of multistate oil and gas producers and pipeline transportation companies, effective January 1, 1978. The tax rate remains unchanged.)
- The state most dependent on individual income taxes for revenue is Oregon, which derives 58.3 percent of state levies from this one source. Massachusetts is second (45.1 percent); Delaware, third (43.9 percent); New York, fourth (43.5 percent); and Wisconsin, fifth (42.2 percent).

The table below shows the growth pattern and makeup of state tax revenues for selected years from 1969 to 1979.

TF Dinner/Conference Will Hear Addresses by McCracken and Volcker

Tax Foundation's 32nd National Conference and 43rd Annual Dinner will take place December 3 at New York City's Plaza Hotel. As reported in the August issue of Monthly Tax Features, the theme of this year's Conference is "Tax Policy, the Budget, and Unemployment." The day-long Conference will explore major tax and fiscal issues confronting the U.S. economy at the beginning of the 1980s and will feature analysis and discussion by leading authorities and public officials.

Paul W. McCracken, former chairman of the President's Council of Economic Advisers and currently Edmund Ezra Day University Professor of Business Administration at the University of Michigan, will be the featured speaker at the Luncheon.

The Honorable Paul A. Volcker, Chairman of the Board of Governors of the Federal Reserve System, will receive Tax Foundation's Distinguished Public Service Award for 1980 at the Foundation's Annual Dinner. Mr. Volcker will be the featured speaker at the Dinner, which will be held in the Grand Ballroom of the Plaza Hotel.

For the convenience of our readers, the Reservation Form for the Conference and Dinner on December 3 is attached.

Composition and Growth of State Tax Revenues by Source
Selected Fiscal Years 1969-1979

<table>
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<tr>
<th>Fiscal year</th>
<th>Total state taxes a (millions)</th>
<th>General sales, use, or gross receipts</th>
<th>Motor vehicle sales</th>
<th>Tobacco products sales</th>
<th>Alcoholic beverage sales and licenses</th>
<th>Motor vehicle and operators' licenses</th>
<th>Individual income</th>
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<td>26.1</td>
<td>9.7</td>
<td>16.0</td>
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Percentage rates of growth, 1969-1979

| Annual ...... | 11.5                            | 12.2                                | 5.9               | 5.9                  | 5.7                                 | 5.9                                | 15.8             | 14.3                | 11.1        |
| Cumulative e | 198.0                          217.5                                76.8              77.0                  74.0                                78.0                                333.4             281.4                187.2 |

*Excludes unemployment insurance taxes.
**Includes other selected sales and gross receipt taxes, licenses, property, severance, death and gift, and miscellaneous taxes.

Source: Department of Commerce, Bureau of the Census, and Tax Foundation computations.