MONTHLY TAX FEATURES

Tax Foundation, Inc.

50 Rockefeller Plaza □ New York, New York 10020 □ 212-582-0880 □ Volume 22, Number 2, March 1978

State Tax Picture: Some Cuts Planned; Increases Also Due

No one ever cuts taxes? Not so, say Tax Foundation researchers. A number of states, they find, are talking seriously about tax cuts this year.

Forty-two state legislatures will hold sessions in 1978. Of those, 16 are weighing some kind of tax reduction; 7 plan increases; and things will remain about the same in 19 others, according to a Tax Foundation survey.

State treasuries are brimming from record surpluses in 1976 and 1977. With a generally favorable budget outlook this year, state lawmakers find themselves in the unusual position of trying to figure out how to give money back to taxpayers — or at least how to lighten future tax burdens.

On balance, if this year's tax proposals are approved, state-level taxes will drop $90 million a year below payments under present tax laws. By contrast, in 1976 and 1977, states sought tax hikes amounting to almost $2 billion annually.

State and local governments in the 50 states reported an aggregate $13.3 billion surplus on general accounts in calendar year 1977. That was $10 billion more than in 1976. This was only the fourth time since World War II that any surplus at all occurred.

The surpluses in the last two years,

(Continued on Page 3)

California Tops, Vermont Lowest In Share of Federal Tax Burden

President Carter may be calling for tax cuts, but the Federal Government will cost your family 18 percent more by 1979, according to Tax Foundation computations.

Total Federal tax receipts in fiscal 1977 were $345,417 million, amounting to a $4,637 tax bill for each household in the country. This year, each family's tax bill for the Federal government will increase by $467, for a total of $5,104. Estimated taxes per household in fiscal 1979 will climb again, up $391, for a total per household share of $5,495, an increase of $858 in just two years.

MISSISSIPPIANS PAID LEAST

In 1978, families in Mississippi pay the lowest share of the Federal tax burden, says Tax Foundation. Each household in that state is assessed $3,532.

By contrast, Alaskans supply the largest slice of this year's Federal tax pie, $11,607 for every family in our largest state.

The new Federal budget gives the total Federal tax burden for 1978 as $388,022 million. That averages $5,104 per household nationwide. A state can pay high taxes per family without carrying a large portion of total U.S. taxes. Hard hit family by family, Alaska ranks forty-second as a state in its share of the Federal tax burden, paying only $1,358 million, this year.

California carries the heaviest state load, with a share totaling $43,420 million. Each household in the Golden Gate State, however, is only slightly above the national average, paying $5,241.

FORMULA REVISED ANNUALLY

The Tax Foundation formula for deriving these tax estimates has been in use for more than two decades. Updated annually, it is designed to show where the tax dollars actually originate. By contrast, U.S. Treasury figures, which show where taxes are collected, do not give as accurate a picture of the state-by-state and family-by-family impact of Federal taxation.

For example, tobacco taxes are collected in only a few southern states, but the burden of the tax falls on smokers in all states. Tax Foundation figures would reflect the national picture, while Treasury data would not.

U.S. taxes are highest for families in Alaska, Connecticut, New Jersey, Hawaii and Delaware, in that order.

(Continued on Page 2)

Share of Federal Tax Burden

(Continued from Page 1)

They are lowest in Mississippi, Arkansas, South Dakota, Alabama and South Carolina.

State by state, California, New York, Illinois, Texas and Pennsylvania foot the largest share of our nation's tax bill. Vermont, Wyoming, South Dakota, North Dakota and Montana pay the least.

The Federal tax burden in fiscal 1978 will amount to $1,784 for each man, woman and child living in the United States, according to Tax Foundation computations.

The table below gives Tax Foundation figures for all the states and the District of Columbia for the estimated total and per household share of the Federal tax burden for fiscal 1978.

Estimated Total and Per Household Federal Tax Burdens by State Fiscal Years 1977, 1978, and 1979

State	Total burden (millions)			Per household burden			State rank - 1978	
	1977	1978	1979	1977	1978	1979	Total	Per household
U.S., total	$345,417	$388,022	$426,723	$4,637	$ 5,104	$ 5,495	—	—
Alabama	4,283	4,967	5,462	3,496	3,958	4,241	24	47
Alaska	1,036	1,358	1,494	9,170	11,607	12,143	42	1
Arizona	3,178	3,570	3,926	4,053	4,380	4,619	31	35
Arkansas	2,453	2,639	2,902	3,346	3,566	3,884	35	49
California	38,341	43,420	47,750	4,799	5,241	5,587	1	16
Colorado	4,076	4,617	5,078	4,445	4,886	5,203	26	26
Connecticut	6,321	7,178	7,894	5,908	6,592	7,099	19	2
Delaware	1,140	1,242	1,366	5,846	6,271	6,794	45	5
Florida	12,919	14,357	15,789	4,046	4,360	4,640	9	36
Georgia	6,528	7,217	7,937	3,969	4,304	4,639	18	37
Hawaii	1,554	1,746	1,920	5,800	6,326	6,761	37	4
Idaho	1,071	1,281	1,408	3,824	4,462	4,757	44	33
Illinois	21,312	23,863	26,244	5,503	6,077	6,579	3	6
Indiana	8,221	9,235	10,156	4,575	5,097	5,550	11	20
Iowa	4,732	5,006	5,505	4,695	4,907	5,324	23	24
Kansas	3,765	4,346	4,779	4,504	5,083	5,456	27	21
Kentucky	4,352	4,928	5,419	3,775	4,190	4,512	25	44
Louisiana	4,940	5,782	6,358	3,983	4,570	4,917	22	31
Maine	1,347	1,552	1,707	3,721	4,195	4,504	40	43
Maryland	7,668	8,498	9,345	5,517	6,001	6,463	13	7
Massachusetts	9,844	10,942	12,034	4,935	5,412	5,864	10	14
Michigan	15,198	17,306	19,032	5,038	5,665	6,147	7	8
Minnesota	6,148	6,868	7,553	4,538	4,948	5,308	20	23
Mississippi	2,349	2,677	2,944	3,149	3,532	3,814	34	50
Missouri	7,081	7,993	8,791	4,163	4,639	5,032	14	30
Montana	1,071	1,203	1,323	4,041	4,439	4,776	46	34
Nebraska	2,591	2,677	2,944	4,727	4,790	5,175	33	27
Nevada	1,209	1,319	1,451	5,373	5,614	5,922	43	10
New Hampshire	1,244	1,475	1,622	4,425	5,120	5,497	41	18
New Jersey	14,577	16,297	17,922	5,861	6,472	7,020	8	3
New Mexico	1,451	1,669	1,835	3,828	4,256	4,542	39	39
New York	33,056	36,008	39,600	5,118	5,502	5,963	2	12
North Carolina	7,012	7,799	8,577	3,846	4,207	4,538	15	42
North Dakota	967	1,048	1,152	4,499	4,762	5,121	47	28
Ohio	17,064	19,362	21,292	4,712	5,308	5,786	6	15
Oklahoma	3,903	4,268	4,694	3,857	4,112	4,407	28	45
Oregon	3,696	4,152	4,565	4,268	4,644	4,941	29	29
Pennsylvania	19,447	21,496	23,641	4,734	5,171	5,611	5	17
Rhode Island	1,520	1,784	1,963	4,779	5,560	6,058	36	11
South Carolina	3,351	3,764	4,139	3,662	4,021	4,307	30	46
South Dakota	898	931	1,024	3,871	3,946	4,267	48	48
Tennessee	5,734	6,247	6,870	3,971	4,238	4,556	21	41
Texas	18,963	22,272	24,494	4,448	5,070	5,403	4	22
Utah	1,554	1,746	1,920	4,134	4,512	4,837	38	32
Vermont	622	698	768	3,885	4,285	4,572	50	38
Virginia	7,806	8,847	9,729	4,616	5,117	5,497	12	19
Washington	6,321	7,450	8,193	4,774	5,466	5,836	17	13
West Virginia	2,349	2,716	2,987	3,734	4,244	4,574	32	40
Wisconsin	7,047	7,760	8,535	11,203	4,905	5,284	16	25
Wyoming	691	815	896	4,970	5,620	5,857	49	9
Dist. of Columbia	1,416	1,630	1,792	5,131	5,905	6,470	40[a]	8[a]

a. Rank if D.C. were a state; not taken account of in state rankings.

Source: U.S. total taxes are as shown in the Federal budget submitted in January 1978; computations of total and per household tax burdens by state were made by Tax Foundation.

No Simple Solutions To Tax Integration, Harvard Experts say

Double taxation of corporate earnings is like the weather — everyone complains about it, but no one seems able to do much about it. Enter Martin Feldstein and Daniel Frisch, two Harvard economists.

In "Corporate Tax Integration: A Quantitative Comparison of Alternatives," a special study sponsored by Tax Foundation, Feldstein and Frisch compare alternative methods of easing the double tax burden on corporate income with a view toward hastening the day of a constructive solution to the problem.

Corporate earnings are now taxed at the statutory rate of 48 percent. Dividends paid on those earnings are taxed again — as personal income received by individual shareholders at rates ranging from 14 to 70 percent. Still more taxes are imposed on capital gains.

There is wide agreement that the present system needs changing and that integrating the corporate and personal taxes on corporate source income is the way to improve things. But there is great disagreement on how to proceed, because of lack of information on the effects of alternative plans for tax integration. Feldstein and Frisch have undertaken to supply some of the missing data.

Their Tax Foundation study uses a newly developed micro-economic Tax Simulation Model based on data from the latest available Treasury Tax File, a stratified random sample of about 28,000 individual income tax returns.

The Harvard-based economists, who are also associated with the National Bureau of Economic Research, look closely at six alternative ways of reducing corporate source income. They show the effect of each alternative taxing plan on the amount of taxes

(Continued on Page 4)

State Tax Prospects

(Continued from Page 1)

according to the Tax Foundation, reflect strong growth in receipts, coupled with apparent restraint in expenditures. In both 1976 and 1977, receipts rose by 11 to 12 percent annually, while expenditures held to a 7 to 8 percent growth rate.

Under the 1978 proposals, most cuts would be in personal income and general sales levies. Cuts in income taxes in 11 states would benefit taxpayers to the tune of $625 million annually, mainly through rate reductions and/or rebates in Indiana, Maryland, Minnesota, New Mexico, New York and Vermont.

Five states - Colorado, Kansas, Maryland, Michigan and West Virginia — may lower the statutory base of the state income tax.

Colorado, Connecticut, Maryland and Missouri may roll back sales tax rates to the tune of $345 million.

Corporations aren't faring nearly as well as individuals in this sudden spate of fiscal largesse. Only New York and Maine propose cuts in corporate income tax rates, saving businesses more than $150 million a year. The picture is not all bleak, as a number of other states are looking at proposals to ease the burden on business in other ways.

States looking to boost taxes are also talking about changes in the tax structure, primarily by reducing or repealing certain local property taxes. For example, California may raise corporate income and capital gains taxes as a way to make up for the repeal of the business inventory tax. Similarly, South Dakota upped its sales tax one cent to compensate for revenues lost through repeal of the local personal property tax.

Some Connecticut legislators are trying to impose a new personal income tax as a starting point for overall state and local tax reform. The new tax is considered unlikely to pass. Some groups in Virginia want to raise several major state levies in order to repeal or reduce local gross receipts taxes.

Not all proposed state tax hikes are designed for local tax relief, however. Rhode Island needs a 12 percent increase in personal income taxes just to balance the budget. The governor of Missouri has asked for repeal of the Federal tax exemption in computing state corporate income taxes, in hopes of raising $100 million annually for the state treasury through corporate taxes.

Highway funds are in short supply elsewhere. Six states - Indiana, Pennsylvania, South Dakota, Utah, Virginia and West Virginia — may raise motor fuel taxes to bring in an additional $190 million a year. Colorado, South Dakota, Utah, West Virginia and Wisconsin may raise cigarette taxes for an extra $24 million.

Whatever the lawmakers decide this year, the bad news is that almost everyone's state taxes will continue to climb. They topped $100 billion for the first time in fiscal 1977. But there is hope that at least a substantial number of Americans will find tax bills a little lower than they would have been without changes in the tax laws. Maybe you're one of the lucky ones.

(State-by-state details appear in Tax Foundations, March *Tax Review.)*

Property Taxes Rise, But Don't Match Pace Of Other Local Taxes

Property tax payments in the 12 months ending June 1977, latest figures available, came to the whopping total of $61.9 billion — an increase of 139 percent over the amount paid ten years earlier, according to the Tax Foundation.

Yet, even this sharp increase fell behind the rise in property tax values and the increase in major non-property taxes, the Foundation says.

The Bureau of the Census recently reported that the assessed value of all property subject to local general property taxes (excluding exemptions) reached $1.2 trillion in 1976. That represents an increase of 143 percent from the $484 billion valuation in 1966.

Actual property tax collections at the same time fell from 5.1 percent of

(Continued on Page 4)

Oil Levies Provide Alaska Tax Bonanza

Alaska, with its current bonanza in North Slope oil, presents a unique tax prospects picture.

The state's House of Representatives has already approved and forwarded to its Senate a bill which substitutes an extraction factor for the sales factor currently used to compute taxes on oil and gas. This means that firms conducting oil- and gas-related business in Alaska will be asked to compute their state taxes on worldwide earnings according to a formula presented to them by Alaska's lawmakers. This would mean $150 million in additional taxes per year.

Legislators in our 49th state have changed the tax laws affecting the oil industry a dozen times since Prudhoe Bay reserves were discovered in 1968. In most instances that has meant a heftier tax bill for oil firms.

Industry spokesmen point out that Alaska is already the most costly state in which to do business and warn that additional levies will seriously jeopardize further oil exploration. Income from the oil and gas industries, they claim, currently accounts for approximately 67 percent of the state's revenue, including taxes and royalties.

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.

Original material in *Monthly Tax Features* is not copyrighted and may be reproduced freely by the news media and others. Please credit Tax Foundation.

For additional information write to *Tax Foundation, 50 Rockefeller Plaza, New York, N.Y., 10020, or call (212) JU 2-0880.*

Property Taxes Rise

(Continued from Page 3)

assessed values to 4.8 percent in the latest year reported, said the Tax Foundation.

All non-property taxes paid to state and local jurisdictions rose to $112.3 billion in 1977, for an increase of 222 percent in the previous ten years. Among these taxes, individual income taxes rose the most, 392 percent; corporate income taxes climbed 304 percent; and general sales taxes climbed 259 percent from 1967 to 1977.

This disproportionate rise for other taxes meant that the role of property taxes in state-local tax structures has actually dropped — from 43 percent of the $60.7 billion tax total in 1967 to 36 percent of the $174.2 billion collected in 1977.

Tax Foundation researchers called attention to a number of reasons why property taxes have not grown as rapidly as other taxes: new properties and increases in existing property values are not always reflected promptly in the assessed valuation on which the tax is levied; stepped up efforts of the states to grant property tax relief to homeowners and the elderly, as through added exemptions and circuit-breaker provisions; more intensive use of general sales, individual income and corporate income taxes, which are highly responsive to economic growth and inflation; and a general expansion of the financial role of state governments relative to that of local governments. State-level taxes rose by 215 percent from 1967 to 1977, nearly 40 percent faster than the rise in all local taxes, including property taxes.

Individual Payments To Claim Nearly 45% of 1979's Tax Dollars

Almost 45 cents of every dollar of Federal spending in fiscal 1979 will go to individuals in the form of "payments under open-ended programs," according to a Tax Foundation analysis of the new Federal budget. In 1970, such payments accounted for only 32 cents per outlay dollar.

The budget calls for $224 billion in payments to individuals in 1979, well more than triple the $62 billion spent for this purpose in 1970.

Among major types of these payments in 1979 will be: Social Security (OASDI), $104 billion; Medicare and Medicaid, $19 billion; Federal employees' retirement and insurance, $10 billion; and public assistance and related programs, $10 billion.

Other points highlighted in the Tax Foundation analysis were:

Outlays for all domestic civilian functions will rise by 263 percent from 1970 to 1979, or from 44 to 63 percent of total Federal outlays.

No Simple Solutions

(Continued from Page 2)

individuals in different income groups would pay both on their corporate source income alone and on their total personal income.

Under one approach, the individual tax payer would receive a 30 percent dividend-received credit against taxes paid at the corporate level. This plan would lower from 47 to 43 percent the average effective rate of tax on corporate source income, including the tax paid by the corporation and the subsequent taxes paid by the individual on dividends and capital gains.

Feldstein and Frisch point out that lower income shareholders stand to gain most from such a change. Those with adjusted gross incomes between $5,000 and $10,000 would pay 18 percent less on corporate source income; those over $100,000 would receive only a 6 percent reduction.

Other approaches to eliminating "double taxation" explored in this Tax Foundation study include: complete dividend credits; a partial dividend credit at the 20 percent rate; complete integration by the partnership method; and reductions in the average corporate tax rate from the current 45 percent to 42 and 40 percent.

From their analysis, the authors draw six broad conclusions:

1) The likely forms of integration would raise the return to equity investors and encourage equity investment.

2) A 30 percent dividend-received credit would reduce the tax on corporate source income by approximately the same amount as a reduction in the corporate tax rate from 48 to 43 percent.

3) Some forms of integration could actually raise the effective tax on corporate source income; it is important to evaluate each proposal separately.

4) The effect of any dividend credit plan depends substantially on how firms respond in adjusting their dividends.

5) The impact of integration depends on what other changes in the tax law are made at the same time.

6) In evaluating the impact of any change, it is important to examine the full tax effect including the implied tax on accruing capital gains and not just the immediate impact on tax collections.

Copies of "Corporate Tax Integration: A Quantitative Comparison of Alternatives," Government Finance Brief No. 28, may be obtained for $1.00 from Tax Foundation, 50 Rockefeller Plaza, New York, NY 10020.

Also Available

Just off press is a three-part series of Tax Foundation special reports on the 1979 Budget. Ask for:

The Federal Budget for Fiscal Year 1979.

I. Highlights and Summary

II. Domestic Assistance Outlays

III. Federal Employment and Personnel Costs.

These Tax Foundations publications are available free of charge.