

SPECIAL REPORT

December 1993, No. 26

OBRA 1993: What Taxpayers Can Expect in 1994

By Arthur Hall
Senior Economist
Tax Foundation

The federal government estimates that the tax increases in the Omnibus Budget Reconciliation Act of 1993 (OBRA '93) will raise about \$35 billion in 1994. The government estimates that the Act will impose a \$268 billion tax burden on the American public over the 1994-1998 budget cycle.

Table 1 shows Tax Foundation estimates of the total tax increase for 1994 and how the tax burden resulting from OBRA '93 will be distributed among different income classes in the U.S. Figure 1 shows for the nation as a whole the increase in effective marginal tax rates for different categories of individual income. Income earned from business and investments face the largest increase in effective marginal tax rates.

The estimated additional 1994 total tax burden corresponds to a per-family average of \$298. As advertised by the Clinton administration, the individual income tax provisions target most heavily taxpayers in the upper end of the income scale. However, about 46 percent of all taxpayers will pay higher individual income taxes as a result of OBRA '93.

The provisions in OBRA '93 that pertain to the taxation of Social Security benefits account for all of the individual income tax increases for taxpayers with under \$115,000 in annual income. The key provision increased from 50 percent to 85 percent the amount of Social Security benefits subject to taxation.

The distribution of the overall OBRA '93 tax increases are more evenly distributed across income classes than the individual income tax provisions alone. The 4.3 cent per gallon gas tax increase, which took effect October 1, accounts for most of the projected revenue from the lower income groups.

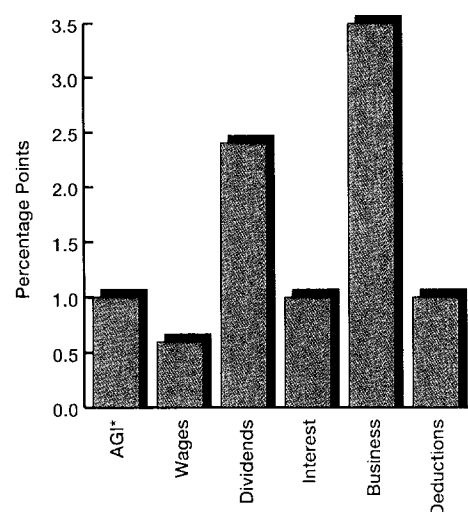
The lower income groups can also expect to bear indirectly a large portion of the tax increases affecting business. As businesses attempt to absorb the higher cost of taxation, this burden will come in the form of reduced employment opportunities, slower wage growth, or slower growth in retirement plans and pensions (as evidenced by the

higher effective marginal tax rate on dividend income shown in Figure 1). The distribution of the business tax provisions assumes the income from wages and investments bear the additional tax burden equally.

The "Biggest" and "Smallest" States

Table 6 shows the increased federal tax burden of each state as a result of the tax increases in OBRA '93. It also shows how the total burden averages out among the families residing in each state, and how the families compare with families in other states.

Figure 1
Increase in Effective Marginal Income Tax Rates for Various Categories of Individual Income as a Result of OBRA '93



* Adjusted Gross Income, i.e., gross income from all sources not specifically excluded, minus certain deductions (primarily business expenses).

Source: Tax Foundation.

Table 1
*U.S. Breakdown by Income Class of 1994
Tax Burden from the Tax Provisions of OBRA'93*

Income Class	Gas Tax (\$Millions)	Individual Provisions (\$Millions)	Business Provisions (\$Millions)	Total Taxes (\$Millions)	Avg. Family Taxes
under \$15,000	\$1,470.5	\$0.0	\$975.6	\$2,446.1	\$67
\$15,000 under \$22,500	605.9	0.0	382.6	988.6	66
\$22,500 under \$30,000	519.6	0.0	438.1	957.6	74
\$30,000 under \$35,000	409.9	7.6	426.9	844.4	83
\$35,000 under \$45,000	332.1	26.8	418.3	777.2	94
\$45,000 under \$60,000	528.2	16.3	842.3	1,386.8	105
\$60,000 under \$75,000	365.1	187.5	732.4	1,285.0	141
\$75,000 under \$115,000	393.3	238.1	1,128.5	1,760.0	180
\$115,000 under \$150,000	111.4	134.9	528.2	774.5	279
\$150,000 under \$300,000	78.6	324.4	688.3	1,091.4	557
\$300,000 under \$750,000	24.2	4,707.2	507.0	5,238.4	8,673
\$750,000 or more	7.8	17,517.3	914.3	18,439.4	94,561
Total	\$4,846.7	\$23,160.8	\$7,982.6	\$35,990.1	\$298

Table 2
*California Breakdown by Income Class of 1994
Tax Burden from the Tax Provisions of OBRA'93*

Income Class	Gas Tax (\$Millions)	Individual Provisions (\$Millions)	Business Provisions (\$Millions)	Total Taxes (\$Millions)	Avg. Family Taxes
under \$15,000	\$166.5	\$0.0	\$118.9	\$285.4	\$71
\$15,000 under \$22,500	71.5	0.0	40.1	111.5	64
\$22,500 under \$30,000	61.3	0.0	47.2	108.5	73
\$30,000 under \$35,000	48.4	0.8	46.2	95.5	81
\$35,000 under \$45,000	39.2	3.1	45.4	87.7	92
\$45,000 under \$60,000	63.7	1.7	94.4	159.8	103
\$60,000 under \$75,000	44.0	21.3	82.0	147.4	138
\$75,000 under \$115,000	58.1	35.6	157.1	250.7	177
\$115,000 under \$150,000	16.4	20.0	73.2	109.6	274
\$150,000 under \$300,000	11.6	42.8	95.0	149.5	530
\$300,000 under \$750,000	3.6	642.7	69.9	716.2	8,228
\$750,000 or more	1.2	2,508.9	127.1	2,637.2	93,951
Total	\$585.4	\$3,277.0	\$966.6	\$4,859.0	\$341

Table 3
*Wyoming Breakdown by Income Class of 1994
Tax Burden from the Tax Provisions of OBRA'93*

Income Class	Gas Tax (\$Millions)	Individual Provisions (\$Millions)	Business Provisions (\$Millions)	Total Taxes (\$Millions)	Avg. Family Taxes
under \$15,000	\$4.2	\$0.0	\$1.8	\$6.1	\$86
\$15,000 under \$22,500	1.5	0.0	0.7	2.2	87
\$22,500 under \$30,000	1.3	0.0	0.8	2.1	96
\$30,000 under \$35,000	1.1	0.0	0.8	1.9	105
\$35,000 under \$45,000	0.9	0.0	0.8	1.7	117
\$45,000 under \$60,000	1.6	0.0	1.8	3.4	130
\$60,000 under \$75,000	1.1	0.4	1.6	3.0	167
\$75,000 under \$115,000	0.9	0.3	1.6	2.7	189
\$115,000 under \$150,000	0.2	0.1	0.8	1.1	279
\$150,000 under \$300,000	0.2	0.3	1.0	1.5	505
\$300,000 under \$750,000	0.1	5.9	0.7	6.7	7,439
\$750,000 or more	0.0	23.5	1.4	24.9	86,028
Total	\$13.0	\$30.6	\$13.7	\$57.3	\$264

Source: Tax Foundation.

*Table 4
Connecticut Breakdown by Income Class of 1994
Tax Burden from the Tax Provisions of OBRA'93*

Income Class	Gas Tax (\$Millions)	Individual Provisions (\$Millions)	Business Provisions (\$Millions)	Total Taxes (\$Millions)	Avg. Family Taxes
under \$15,000	\$15.8	\$0.0	\$16.3	\$32.1	\$70
\$15,000 under \$22,500	6.3	0.0	4.3	10.5	58
\$22,500 under \$30,000	6.7	0.0	6.1	12.8	66
\$30,000 under \$35,000	5.3	0.1	5.9	11.4	74
\$35,000 under \$45,000	4.3	0.5	5.8	10.6	85
\$45,000 under \$60,000	7.6	0.2	13.1	21.0	95
\$60,000 under \$75,000	5.3	3.8	11.4	20.5	134
\$75,000 under \$115,000	7.9	7.0	26.1	41.0	181
\$115,000 under \$150,000	2.2	4.3	12.0	18.5	288
\$150,000 under \$300,000	1.6	13.4	15.3	30.3	668
\$300,000 under \$750,000	0.5	151.1	11.2	162.7	11,642
\$750,000 or more	0.2	465.7	19.8	485.7	107,747
Total	\$63.6	\$646.1	\$147.4	\$857.1	\$467

*Table 5
Mississippi Breakdown by Income Class of 1994
Tax Burden from the Tax Provisions of OBRA'93*

Income Class	Gas Tax (\$Millions)	Individual Provisions (\$Millions)	Business Provisions (\$Millions)	Total Taxes (\$Millions)	Avg. Family Taxes
under \$15,000	\$21.7	\$0.0	\$6.1	\$27.8	\$68
\$15,000 under \$22,500	8.4	0.0	3.9	12.3	78
\$22,500 under \$30,000	5.8	0.0	3.6	9.4	87
\$30,000 under \$35,000	4.5	0.1	3.5	8.2	95
\$35,000 under \$45,000	3.7	0.2	3.5	7.4	106
\$45,000 under \$60,000	4.9	0.1	5.9	10.9	118
\$60,000 under \$75,000	3.4	1.3	5.1	9.8	154
\$75,000 under \$115,000	2.5	1.0	4.9	8.3	179
\$115,000 under \$150,000	0.7	0.4	2.4	3.5	268
\$150,000 under \$300,000	0.5	0.5	3.3	4.3	458
\$300,000 under \$750,000	0.2	0.2	2.5	2.9	997
\$750,000 or more	0.0*	0.1	4.6	4.7	5,116
Total	\$56.2	\$3.8	\$49.4	\$109.5	\$103

* \$17,000

Source: Tax Foundation.

In terms of total additional tax dollars that will be sent to the U.S. Treasury, California, New York, Texas, Illinois, and Florida comprise the top five states. These states also comprise the top five under each category of taxation (the gas tax, the individual income tax, and business income taxes) with one exception—for the individual income tax, New Jersey displaces Florida in the top five.

Wyoming, South Dakota, North Dakota, Montana, and Vermont comprise the bottom five states in terms of total additional dollars sent to Washington. But there is more variability among states in the bottom five when each tax category is analyzed separately.

The above rankings are mostly attributable to the relative population levels in each state. California and Wyoming are, respectively, the most and least populated states in the country. *Tables 2 and 3* show a snapshot of how the OBRA'93 tax

burden is distributed among the citizens of these two states.

Despite the overall higher additional average family tax burden in California, notice that the average family in Wyoming with less than \$115,000 in annual income will bear a larger average additional tax burden in 1994 than the like family in California. This outcome results from two factors:

First, for lower income families in Wyoming, the largest component of the average is due to the gas tax. At \$60 for 1994, Wyoming residents face the country's highest additional per-family gas tax. Californians' \$41 in average additional gas taxes gives their state a rank of 33. Second, Wyoming families with annual incomes between \$15,000 and \$75,000 face a higher average burden from the new business tax provisions. Wyoming ranks 21st, at \$63, and California ranks

7th, at \$70, in terms of the additional business-related taxes per family.

The larger 1994 family income tax burdens account for California's higher overall average burden. In terms of the additional individual income tax burden per family, Wyoming ranks 32nd, at \$141, and California ranks 7th, at \$230.

As *Table 6* indicates, most of the highest per-family tax burdens are concentrated in the Northeastern states. Connecticut ranks the highest by a significant margin. Mississippi ranks the lowest by an even greater margin. Not surprisingly, these results correspond to the per capita income rankings of each state.

Tables 4 and *5* show a snapshot of the tax burden distribution in the two states. Connecticut's top-ranking per-family tax burden results from its top ranking in the individual income tax category and its second highest ranking in the per-family business tax burden category. Similarly, Mississippi has the lowest per-family ranking in the individual income tax category and the second lowest ranking in the per-family business tax burden category. Mississippi, however, ranks second behind Wyoming in terms of the gas tax, with an average additional burden of \$53 for 1994. Connecticut ranks 42nd with an average of \$35.

Anomalies

A few states have a particularly noticeable disparity between their average additional individual tax burdens and their business-related tax burdens. The disparity takes two general forms: (1) States with high per-family individual income tax rankings and relatively low business income tax rankings; and (2) states with high per-family business income tax rankings and relatively low individual income tax rankings.

The most prominent examples from the first category—high individual and low business tax burden—are Alaska and Georgia. Alaska is ranked 14th highest in terms of per-family individual income taxes at \$192, but it has the lowest ranking (51st) in terms of business taxes, at \$44. The rankings for Georgia, respectively, are 17th (\$183) and 34th (\$58). The most probable explanation for this disparity is that taxpayers in Alaska and Georgia, on average, rely more on wage and salary income than income from investments, like stock dividends.

Montana and Florida represent the most prominent examples of states that have a high per-family business tax ranking and a relatively low individual income tax ranking. Montana is ranked second lowest (50th) in per-family business tax burden at \$82, but it is ranked 30th in terms of individual income taxes at \$60. The same rankings for Florida, respectively, are 1st (\$81) and 18th (\$180). The probable explanation for these disparities is the reverse of that for Alaska and Georgia. Taxpayers in

Table 6
State by State Tax Impact of OBRA93

State	Total Taxes (\$Millions)	Avg. Family Taxes	Rank by Average
Alabama	\$412.4	\$232	38
Alaska	96.1	262	26
Arizona	427.5	257	27
Arkansas	204.6	201	49
California	4,859.0	341	6
Colorado	452.4	277	19
Connecticut	857.1	467	1
Delaware	111.9	324	10
Dist. of Col.	108.7	306	12
Florida	1,898.0	301	13
Georgia	876.8	292	17
Hawaii	144.6	254	30
Idaho	89.9	210	47
Illinois	1,912.7	336	7
Indiana	683.9	256	28
Iowa	286.9	214	43
Kansas	323.6	275	22
Kentucky	370.9	232	40
Louisiana	414.2	233	37
Maine	129.5	211	46
Maryland	911.8	365	4
Massachusetts	1,115.6	344	5
Michigan	1,450.5	326	8
Minnesota	630.1	294	16
Mississippi	109.5	103	51
Missouri	653.3	269	24
Montana	72.0	193	50
Nebraska	184.5	239	35
Nevada	186.6	274	23
New Hampshire	180.0	298	14
New Jersey	1,814.6	413	2
New Mexico	145.3	214	44
New York	3,420.7	387	3
North Carolina	756.5	236	36
North Dakota	66.1	217	42
Ohio	1,341.6	250	31
Oklahoma	335.4	243	33
Oregon	336.1	247	32
Pennsylvania	1,629.0	275	21
Rhode Island	165.8	320	11
South Carolina	348.7	218	41
South Dakota	65.7	202	48
Tennessee	547.2	239	34
Texas	2,262.3	295	15
Utah	161.0	232	39
Vermont	79.4	277	20
Virginia	986.8	325	9
Washington	657.4	282	18
West Virginia	157.4	212	45
Wisconsin	606.5	256	29
Wyoming	57.3	264	25
United States	\$35,990.1	\$298	

Note: Numbers may not add up to total due to rounding.

Source: Tax Foundation.

Montana and Florida, on average, rely more on investment income than on wage and salary income. Montana has a relatively high number of cattle ranchers, whose income takes the form of capital gains. Florida is home to a relatively large number of retired people whose livelihood depend upon income from investments or pensions.