TAX FOUNDATION

TAX FEATURES

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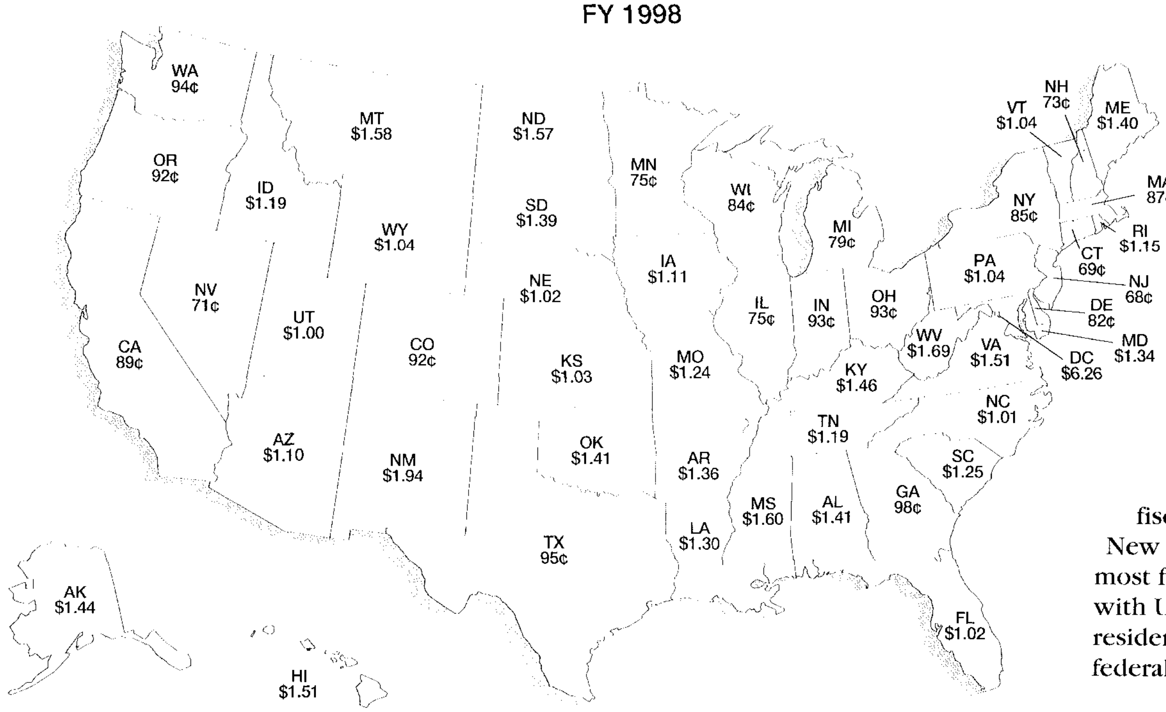
Uncle Sam's Tax and Spending Policies Benefit Some States, Leave Others Footing the Bill

The federal tax burden falls much more heavily on some states than others, according to a new Tax Foundation analysis of federal fiscal operations. Comparing the federal tax burden by state to an adjusted set of the Census Bureau's most recent data on federal expenditures by state (1998), economist Scott Moody has ranked states in order of which got the best deal in 1998 from Uncle Sam's tax and spending policies (see map at left and table on page 2).

In No. 88 of the Tax Foundation's Special Report series, titled *Federal Tax Burdens and Expenditures by State*, Moody points out that during fiscal 1998, taxpayers in New Mexico benefited the most from the give and take with Uncle Sam. New Mexico residents received $1.94 in federal outlays for every

Federal Spending by State for Each Tax Dollar Sent to Washington
FY 1998



Taxes vs. Spending *continued on page 2*

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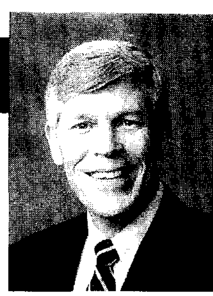

A Tax Plan for a Prosperous America

Senator Connie Mack (R-FL)

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Taxes vs. Spending *from page 1*

$1.00 they paid in federal taxes. In effect, federal benefits almost doubled the state's tax payment. Other states with high federal spending-to-tax ratios include West Virginia ($1.69), Mississippi ($1.60), Montana ($1.58) and North Dakota ($1.57). Though not comparable as a state, the District of Columbia is by far the biggest winner: In 1998 it received $6.26 in federal outlays for every dollar its taxpayers sent to the U.S. Treasury.

The benefactors are those states where so much is collected in federal taxes that the federal dollars they receive are overwhelmed. With a high FY 1998 federal tax burden per capita and a lower than average amount of incoming federal funds, New Jersey has the lowest federal spending-to-tax ratio (0.68) and is therefore the nation's biggest net donor to federal fiscal operations. The 0.68 ratio means that New Jersey receives 68¢ in federal spending for every dollar its taxpayers send to Washington. Other states that had low federal spending-to-tax ratios in FY 1998 are Connecticut (69¢), Nevada (71¢), New Hampshire (73¢), Minnesota (75¢) and Illinois (75¢).

The table at left also shows which states' ratios rose or fell between 1988 and 1998. The state that raised its ratio the most is West Virginia where the federal spending-to-tax ratio rose from an FY 1988 level of $1.35 for each dollar in taxes to $1.69 in FY 1998. Other states that are now getting a much better deal from Uncle Sam than they were a decade ago are Kentucky, Maine and Alaska. States that have not fared so well include Utah, New Mexico, Mississippi and Colorado. Of these, Utah saw the largest decline, with its federal spending-to-tax ratio falling from $1.44 in FY 1988 to an even $1.00 in FY 1998.

Federal Spending by State Per Dollar of Federal Tax
FY 1988 and 1998

	Expenditures Per Dollar of Taxes		Ranking	
	FY88	FY98	FY88	FY98
Total	$1.00	$1.00	-	-
Alabama	$1.39	$1.41	9	11
Alaska	1.22	1.44	18	9
Arizona	1.16	1.10	22	23
Arkansas	1.36	1.36	10	14
California	0.91	0.89	39	39
Colorado	1.18	0.92	21	37
Connecticut	0.79	0.69	46	49
Delaware	0.84	0.82	43	43
Florida	0.98	1.02	29	29
Georgia	0.94	0.98	37	32
Hawaii	1.31	1.51	13	7
Idaho	1.40	1.19	8	20
Illinois	0.72	0.75	48	45
Indiana	0.89	0.93	40	36
Iowa	1.19	1.11	20	22
Kansas	1.12	1.03	26	27
Kentucky	1.15	1.46	23	8
Louisiana	1.22	1.30	19	16
Maine	1.11	1.40	27	12
Maryland	1.24	1.34	17	15
Massachusetts	0.95	0.87	34	40
Michigan	0.74	0.79	47	44
Minnesota	0.93	0.75	38	46
Mississippi	1.87	1.60	2	3
Missouri	1.35	1.24	12	18
Montana	1.43	1.58	7	4
Nebraska	1.27	1.02	15	28
Nevada	0.82	0.71	44	48
New Hampshire	0.71	0.73	49	47
New Jersey	0.62	0.68	50	50
New Mexico	2.35	1.94	1	1
New York	0.81	0.85	45	41
North Carolina	0.94	1.01	36	30
North Dakota	1.71	1.57	3	5
Ohio	0.97	0.93	31	35
Oklahoma	1.28	1.41	14	10
Oregon	0.98	0.92	30	38
Pennsylvania	0.96	1.04	32	25
Rhode Island	0.96	1.15	33	21
South Carolina	1.24	1.25	16	17
South Dakota	1.54	1.39	5	13
Tennessee	1.13	1.19	25	19
Texas	0.95	0.95	35	33
Utah	1.44	1.00	6	31
Vermont	0.87	1.04	41	26
Virginia	1.63	1.51	4	6
Washington	1.10	0.94	28	34
West Virginia	1.35	1.69	11	2
Wisconsin	0.86	0.84	42	42
Wyoming	1.14	1.04	24	24
Dist. of Columbia	5.50	6.26	-	-

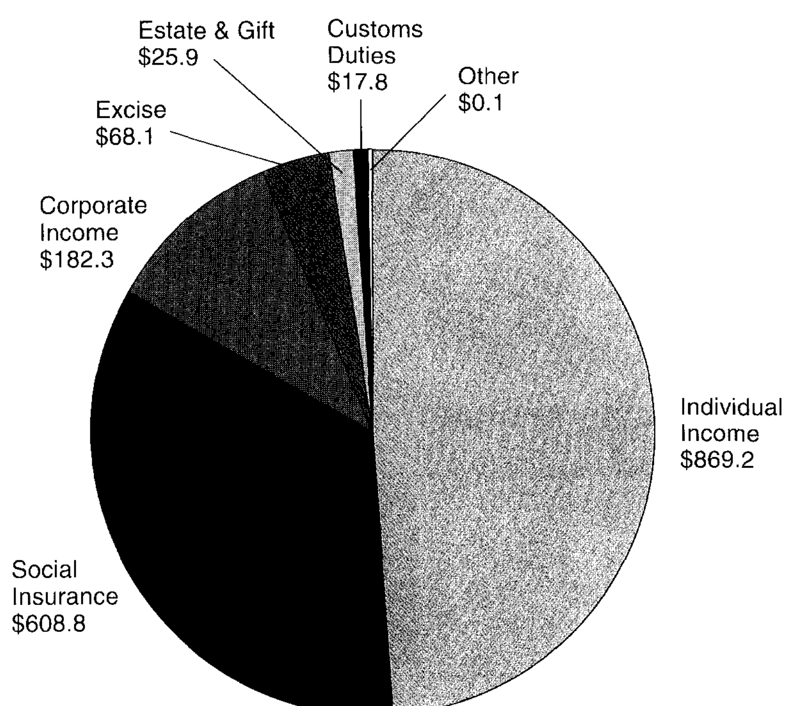
Source: Tax Foundation

Federal Taxes in Total and Per Capita

In FY 1999 the federal government is expected to collect $1.772 trillion in tax revenue, a 4.9 percent increase over FY 1998. By FY 2000 this figure is expected to rise 3.6 percent to $1.837 trillion. The pie chart below illustrates

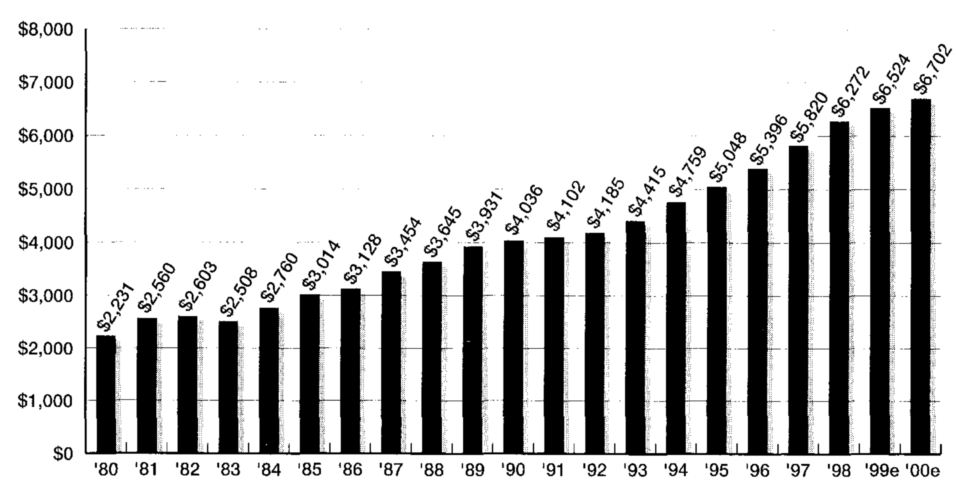
Federal Tax Collections by Type of Tax
Fiscal Year 1999e

$Billions



Source: Tax Foundation

Federal Tax Burden Per Capita
Fiscal Years 1980 - 2000



that virtually all of the FY 1999 tax revenue comes from just three sources. The largest of these, individual income taxes, is expected to raise $869.2 billion, or 49 percent of the total. Social insurance taxes, which fund programs such as Social Security and Medicare, will raise another $608.8 billion, or 34.4 percent of the total. Levies on corporate income will raise $182.3 billion, or 10.3 percent of the total.

Other levies, such as excise taxes, customs duties, estate and gift taxes, and miscellaneous taxes, will raise the balance of federal tax revenue. Federal excise taxes, such as those imposed on beer, wine, tobacco products and gasoline, will account for $68.1 billion of total federal tax, or 3.8 percent. Federal estate and gift taxes will raise another $25.9 billion, or 1.5 percent. Customs duties will raise $17.8 billion, or 1.0 percent.

The column chart illustrates how federal taxes have increased in nominal dollars over the years. The federal government will collect an estimated $6,524 for every man, woman and child in the nation during FY 1999.

Publication Summary

General: Special Report No. 88; ISSN 1068-0306; 8pp.; $10 or $50/yr. for 10 issues on varied fiscal topics

Title: Federal Tax Burdens and Expenditures by State

Author: J. Scott Moody

Date: July 1999

Subject: Calculation of how much each state's citizens pay in federal taxes, not just what state the taxes are collected in, as reported by the federal government. Taxes paid are then compared to federal payments to the citizens of each state.

Tables: Federal Tax Burden by State, FY1998–FY2000; Federal Tax Burden Per Capita by State, FY1998–FY2000; Federal Expenditures Per Capita by State and Type, FY1998; Federal Taxes and Expenditures Per Capita as a Percentage of the U.S. Average; Adjusted Federal Expenditures Per Dollar of Taxes

New Analysis of the Telephone Excise and the FCC's E(ducation)-Rate Tax Analyzed in New Tax Foundation Publication

According to a new study in the Tax Foundation's Special Brief series, "the justification for the telephone tax has evolved from that of a luxury tax to a war tax to a deficit-reduction tax; none of these justifications apply today."

Titled *The Telephone Excise and The E-Rate Add-on Tax* and written by the Tax Foundation's executive director and chief economist J.D. Foster, Ph.D., the study explains the tax policy rationales that justify an excise tax and finds that the telephone excise does not measure up.

The study gives an account of how the congressional will to subsidize telecommunications services in poor and rural areas grew into the new e(ducation)-rate tax. Foster is critical of Congress's delegation of its taxing authority to the FCC and wonders at the lack of opposition to the tax considering its regressive distribution among taxpayers. Most excise taxes hit the poor and middle class harder than the wealthy, and the e-rate is no exception (see table below).

Tax Foundation Background Paper No. 29, *Federal Excise Taxes and the Distribution of Taxes Under Tax Reform*, has more information on the income distribution of excise taxes.

Publication Summary

General: Special Brief, July 1999; 6pp.; $10

Title: The Telephone Excise and the E-Rate Add-on Tax

Author: J.D. Foster, Ph.D.

Date: July 1999

Subject: Analysis of the telephone excise's place in tax policy, and the new E-rate imposed by the FCC.

Who Will Pay for the E-Rate Tax Imposed by the FCC?

Income Range (Adjusted Gross)	1998 Collections ($Millions)	Increase ($Millions)	1999 Total ($Millions)	Percentage Paid
Less than $25K	422.0	308.4	730.4	32.5%
$25K - $50K	332.8	243.2	576.0	25.6%
$50K - $75K	209.5	153.1	362.6	16.1%
$75K - $100K	106.8	78.1	184.9	8.2%
$100K - $200K	111.8	81.7	193.6	8.6%
$200K - $500K	53.4	39.0	92.4	4.1%
More than $500K	63.6	46.5	110.1	4.9%

Source: Tax Foundation

A Tax Plan for A Prosperous America

U.S. Senator Connie Mack (R-FL)

Ronald Reagan once gave us a definition that no legislator or citizen should ever forget: "The taxpayer—that's someone who works for the federal government but doesn't have to take a civil service examination." The joke stings because there's so much truth in it. Americans are spending more and more time working, only to give more of their hard-earned dollars in taxes every year to the federal government.

In the pages of *Tax Features* three months ago, the Tax Foundation announced its annual calculation of Tax Freedom Day—that Americans have to work until May 11 this year before they've earned enough to pay their federal, state and local taxes. That's well over one third of the year devoted to funding government!

While Tax Freedom Day measures all taxes, we can get a good idea of where the rapid growth has been by focusing on just the federal government. In 1999, the federal government will collect more tax revenue as a share of GDP (20.7 percent) than at any time since 1944. That is the highest level in peacetime history.

Since 1993, federal tax revenues have grown 52 percent faster than personal income has grown. Last year alone, federal revenues grew 80 percent faster than personal income.

We have a balanced budget this year, and soon, we'll have a federal surplus as far as the eye can see. Our challenge now is to deal with that surplus. And I think it's easy to see what will happen to this overpayment by the American taxpayer—if we leave it in Washington's hands. There will be numerous new government programs, and they will paid for by the federal surplus.

We've got to change the terms of the debate—and we've got to do it now before the surplus is spent. Let's not forget that the American economy does not exist to feed the federal budget. Now that the budget is balanced, we've got to get our priorities straight.

To begin with, there's no such thing as "public money." Every dollar of the federal surplus was paid into the U.S. Treasury by American taxpayers. If we have a persistent surplus, our duty is to give the money back. For years my fellow Republicans and I argued that it was wrong for the government to spend more than it took in. We were right. Now we're arguing that it's equally wrong for the government to take in more than it spends.

By making the rates of taxation on dividends and capital gains uniform, this plan eliminates the current bias against dividend income—making investing a more level playing field.

With that in mind, I have introduced a tax plan that would accomplish three goals: provide tax relief for all American income taxpayers; promote even stronger economic growth; and ensure the United States's continued technological leadership in the 21st century. It works exclusively with the funds in the "on-budget" surplus, without using one penny from the Social Security surplus.

Tax Cuts for All American Income Taxpayers

Under this plan, we would double the standard deduction to $14,400 for married filers and raise the standard deduction for single filers to $7,200. This change would provide much-needed relief to all low-income taxpayers. Moreover, it would significantly reduce the much-discussed marriage penalty and simplify the tax code. Nearly three quarters of all taxpayers use the standard deduction and would benefit from this increase.

In addition, our plan would repeal the 1993 Clinton tax increase on Social Security benefits. In 1993, President Clinton imposed this tax increase on the elderly's benefits because he said it was needed to eliminate the budget deficit. Since there is no longer a deficit, we no longer need this unnecessary surcharge on Social Security recipients.

Tax Cuts for Economic Growth

The U.S. economy is enjoying unprecedented prosperity. In fact, our economy has grown for more than 16 years with only 9 months of recession. That's the longest period with only nine months of recession since at least the 1850s! But while my Washington colleagues and I may be able to take pride in the performance of the economy, we really can't take credit. That belongs to the American people because the strength of our economy is a tribute to every American who uses his or her freedom to turn work into reward—to every individual who turns energy into a business plan or an idea into a new product.

These are the heroes of the American economy—the entrepreneurs and innovators who are creating economic growth, generating trillions in new wealth and reordering the global economy. We must provide pro-growth tax cuts that will ensure the continued strength of our economy and allow our entrepreneurs and innovators to flourish.

My plan would provide pro-growth tax cuts that would spur economic growth in four ways: It would cut capital gains tax rates from their current 10% and 20% rates to 7.5% and 15%, then index them for inflation. Secondly, it would cut dividend taxes to the same levels, 7.5% and 15%, making them uniform with capital gains tax rates. Third, it would repeal estate and gift taxes; and fourth, it would index the exemption amount for the individual alternative minimum tax.

Capital Gains Taxes

Lowering capital gains tax rates will stimulate greater investment and keep the economy humming. Indexing capital gains for inflation will end the government's unfair practice of taxing people on phantom gains caused by inflation.

Taxes on Dividends

Currently, people earning dividends face among the highest tax rates in the tax code—as high as 60 percent—because they are double-taxed. Many investors, particularly the elderly, count on their dividends as a major source of income during their retirement years. Therefore, this change would have a significant, positive impact on their standard of living.

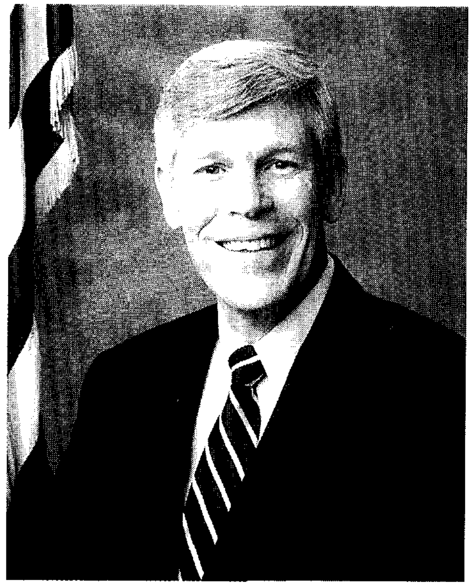
Furthermore, the tax code would no longer encourage companies to hold onto locked-in earnings that investors could use more wisely. By making the rates of taxation on dividends and capital gains uniform, this plan eliminates the current bias against dividend income—making investing a more level playing field.

The Alternative Minimum Tax

Another major problem with the tax code concerns the alternative minimum tax (AMT), which was designed to ensure that all taxpayers paid their fair share of taxes. In recent years it has instead become an additional tax burden on middle-income taxpayers for whom it was never intended. Since the AMT exemption amount was never indexed for inflation, each year more and more taxpayers are subject to it. My plan would stop this AMT creep by indexing the exemption amount for inflation, and relieve the unintended consequences of this counterproductive tax that undermines other tax relief already provided in the code.

The Estate and Gift Tax

My plan also calls for the elimination of the estate and gift tax, sometimes referred to as the death tax. Death and taxes may be inevitable, but they should not be simultaneous. Death taxes are among the worst provi-



sions in the tax code, imposing tax rates as high as 55%. After paying taxes all your life—surely people shouldn't have to pay even more taxes upon their deaths. That's just not fair, and this tax should be abolished.

Tax Cuts for U.S. Technological Leadership in the 21st Century

Last, but definitely not least, my plan recognizes the importance of the technology industry to the success and continued growth of the U.S. economy. We need to maintain policies that give the strongest possible support to innovation, and my plan seeks to do this in two ways: by making the Research and Development tax credit permanent, and by raising the capital expensing limit from $25,000 to $500,000, indexed for inflation.

The R&D tax credit creates two dollars of research and development for every one dollar of credit. It more than pays for itself, and we need to quit playing games with it. Our current practice—letting it expire every year and then bringing it back to life—is completely counterproductive. No company can plan and invest for the long-term against a policy that changes every 12 months. This inefficiency impedes innovation and will make it difficult for the U.S. to maintain its technological edge in the 21st century.

Especially in high technology industries, rapid innovations are rendering equipment obsolete within a year.

We are all familiar with this phenomenon regarding computers, but the same problems arise with medical, telecommunications and other high-tech equipment. Under current law, companies are required to spread these costs over time periods of five or more years. Under my plan, the capital expensing limit would be raised from $25,000 to $500,000 so companies would be able to keep pace with ever-changing technology. This will particularly stimulate investment in small firms.

In total, this plan would provide $140 billion in tax relief over the next five years and $755 billion over ten years—well within the estimated $800 billion surplus in this year's budget proposal.

Of course, the total amount of the tax cuts is important, but to make good tax policy and good social policy, it is also important to look at which taxpayers would benefit most from the plan.

Over one half of the tax relief associated with the individual tax cuts would flow to households earning less than $75,000 a year. Additionally, nearly one third of my tax plan would go to people with incomes under $50,000, who currently pay 22% of taxes. So in addition to providing cuts for economic growth and ensuring the U.S. remains a technological leader, my plan provides substantial relief for all American income taxpayers, and simplifies our burdensome tax code.

The Congress must stay focused on policies that keep the U.S. economy energized. What that often comes down to is finding ways to make sure Washington does less of what today it does most—tax, spend, and regulate—so that Americans can do more of what they do best—build, create and innovate. Our plan does just that, cutting taxes, getting the government out of the way, and giving the American people the freedom to pursue their own dreams—not Washington's.

The Tax Foundation invites a national leader to provide a "Front and Center" column each month in Tax Features. *The views expressed are not necessarily those of the Tax Foundation.*

Cross-Border Shopping by Beer and Cigarette Buyers Highlights Tax Competition Among States

Tax competition is the bane of governments worldwide seeking higher levels of tax receipts. On the other hand, tax competition is an effective force protecting taxpayers from higher taxes.

At the state and local levels, governments must compete for private sector investment in much the same way that companies compete for customers. State where taxes are low consistently lure private investment away from states where taxes are high. Similarly, if a state imposes a beer or cigarette excise that is lower than in surrounding states, the low-tax state will gain sales from the residents of surrounding states who live near the border.

Cigarette and beer excise taxes have been many politicians' favorite revenue raisers for years, and no year was better proof than 1998. No state raised its sales tax rate, its individual income tax rate or its corporate income tax rate, and many excise taxes were down, but the beer tax was up in one state and cigarette taxes were up in five.

Proposals to raise these excise taxes rarely mention that most of the people who will pay them have low incomes. Nor do advocates of these "sin" taxes talk much about the higher prices that these low-income consumers will pay. Instead, they make claims about deterring smoking and drinking. That so-called deterrence is often "confirmed" by data that takes no account of cross-border shopping. To improve their understanding of these important public policy issues, legislators and the public need to understand how the cigarette and beer markets react to high and low excise taxes.

Publication Summary

General: Background Paper No. 31; 16pp.; $25 or $60/yr. for 6 issues on varied fiscal topics
Title: How Excise Tax Differentials Affect Cross-Border Sales of Beer in the United States
Author: Patrick Fleenor
Date: May 1999
Subject: Measurement and discussion of the amount of money spent by purchasers of beer who cross state borders to shop in a lower-tax jurisdiction.
Tables: Variation Among the States in Per Capita Beer Sales, 1997; Sales Taxes and State Beer Excise Taxes by State, 1997; Cross-Border Activity by State; Regression Results - Dependent Variable: Per Drinker Beer Sales.

Two recent Tax Foundation studies have explored the many different avenues that consumers take to save money on these highly taxed items. By using sophisticated economic models of the cigarette market and the beer market, we can follow the trends in taxation up to 1997, all the while examining the ways that excise taxes in each state changed smokers' and beer drinkers' purchasing habits.

Cross-Border Shopping for Beer

The sale of beer in the United States is an interesting case study of this cross-border shopping phenomenon, and it is the subject of the Tax Foundation senior economist Patrick Fleenor's most recent Background Paper, No. 31 in the series and titled *How Excise Tax Differentials Affect Cross-Border Sales of Beer in the United States*.

While the study measures cross-border shopping in every state, the results are naturally most dramatic along borders where the tax differential is high. For example, Washington state, which levies a statewide 6.5 percent sales tax, additional local sales taxes and a $7.172 per barrel beer excise tax, shares a border with Oregon, which levies no state or local sales taxes and has a state beer excise of just $2.60 per barrel.

Huge quantities of beer cross the border in these circumstances, but this migration of economic activity affects more than just sales and product-specific excise tax collections. Cross-border shopping affects income and property tax collections, license fees, and a host of other sources of government revenue.

Policymakers are frequently surprised by the magnitude of the revenue effects, and such surprises can be particularly unnerving when the government in question is required to maintain a balanced budget.

Smokers' Tax Avoidance

Published in late 1998 as No. 26 in the Tax Foundation's Background Paper series, *How Excise Tax Differentials Affect Interstate Smuggling and Cross-Border Sales of Cigarettes in the United States,* also by senior economist Patrick Fleenor, examines all the methods smokers have used over the years to avoid highly taxed cigarettes.

They all involve crossing borders of some sort, either state borders, international borders, or the "borders" of such low-tax jurisdictions as military bases and Native American tribal reservations. In the case of cigarettes, not all cross-border activity is innocent bargain shopping. The extensive organized smuggling of cigarettes that occurs between high- and low-tax jurisdictions is a major focus of this study, and the results should be of interest to federal and state law enforcement officials as well as policy makers.

Publication Summary

General: Background Paper No. 26; 25pp.; $25 or $60/yr. for 6 issues on varied fiscal topics
Title: How Excise Tax Differentials Affect Interstate Smuggling and Cross-Border Sales of Cigarettes in the United States
Author: Patrick Fleenor
Date: October 1998
Subject: Measurement and discussion of the smuggling and cross-border shopping that results from dramatic differences in cigarette taxes across the nation.
Tables: Variation in Per Capita Cigarette Pack Sales Among the States, FY 1997; State Cigarette Consumption by Supply Source, FY 1997; Total U.S. Cigarette Consumption by Supply Source, FY 1960 – 1997; Regression Results - Dependent Variable: Adult Per Capita Sales of Taxable Cigarettes

FOUNDATION MESSAGE

To Spend or to Cut, That is the Question

J.D. Foster, Ph.D.
Executive Director & Chief Economist
Tax Foundation

How much to spend. For both a family and a government, that is the most fundamental money question. Rarely has the country or the Congress faced this question in such stark terms as it does right now.

Most congressional Republicans are pushing hard for a $794 billion tax cut, spread over ten years. It has been suggested that the Republicans are pushing for a tax cut because that is what Republicans do. Like it's politico-genetic. There may be some truth in this. For many Republicans there is no bad time to propose a tax cut. For some there is no bad time to pass a tax cut. But this time around there are bigger issues involved than just cutting taxes because that is what one does as a Republican.

Some Republicans want to cut taxes because taxes are at historic highs. Tax Freedom Day, for example, came on May 11 this year, the latest date ever. Something must be done to slow this tax revenue juggernaut, they reason.

In 1999 there is something even bigger at issue. This year, Republican tax cut fervor is driven by the looming budget surpluses. Those budget surpluses have many Republicans running scared. They are scared that if the surplus persists some of their own will join with their Democratic friends across the aisle to use the surpluses to ratchet up spending. They are afraid this era of fiscal plenty will spawn a new era of rapidly growing government if Republicans don't nip it in the bud.

Are Republicans just fiscal phobic or are they right? Are they just crying wolf to buttress their arguments in support of their tax-cutting predisposition? Or is the big government wolf really at the door?

Consider the comments of chief White House economic adviser Gene Sperling when he said on July 18 that Republicans "simply want to talk about how large their tax cut is without acknowledging they leave nothing for Medicare over the next 10 years and nothing for key priorities such as education, veterans, and health." In the interest of brevity, Mr. Sperling kept the list short, but he could have easily added the environment, transportation, and a great many other key issues.

Let's be clear about this. Republicans are not calling for spending cuts in this tax bill. The numbers in this tax bill are predicated on the spending caps as agreed to by President Clinton and the Congress in the 1997 budget bill. Those spending caps imply some reductions in the growth in spending, and in some cases they would require some reductions in the absolute amounts of monies spent. But the President has already agreed to these. He agreed to them when he supported and signed the 1997 budget bill.

Republicans are not calling for spending cuts in this tax bill. The numbers in this tax bill are predicated on the spending caps agreed to by President Clinton and the Congress in the 1997 budget bill.

Because Republicans are not calling for spending restraint beyond what the President agreed to two years ago, the only way in which their 1999 tax cut bill would "leave nothing" for any given federal program is if the hope and the goal is to increase that spending over and above the amounts specified in the caps. In other words, Mr. Sperling is correctly saying that the tax bill would preclude increasing spending beyond the caps. In other words, the Republicans are right to be scared. The big government wolf is panting at the door. If Congress doesn't return the surplus to the taxpayers so taxpayers can spend the money on their own, then the wolf will gobble it up.

Of course, if "key" programs really are at risk of underfunding due to the spending caps, the President can propose other spending reductions. Hopefully, the Office of Management and Budget can find in a government with thousands of programs a few that can be cut or eliminated. Presumably the congressional budget and appropriations committees, working with the Congressional Budget Office and the General Accounting Office can find a few redundant or ineffective programs. So many bright and dedicated individuals, working together, with clear instructions to do so must be able to find some reductions in less critical programs to free up funding for truly "key" programs.

Republicans want to cut taxes as much as possible in part to preclude the government from spending the money. The Clinton/Gore Administration wants a much smaller tax cut. While they won't say so directly, the Administration's clear motivation is to use some of the surplus to increase spending. This is not an economic policy debate, though it has economic consequences. Neither side is *a priori* right or wrong here, though it would be helpful to the American people if both sides would speak more plainly. Congressional Republicans have through their big tax cut bill brought the matter to a head. It's time now for the country to decide which way to go.

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Tax Foundation Calculates State-by-State Benefits of House Bill Cutting Taxes $792 Billion over Ten Years

H.R. 2488, the Financial Freedom Act of 1999, was passed today by the House Representatives. Of the $3.1 trillion surplus that the Congressional Budget Office predicts will accrue over the next ten years, this bill proposes to return 25.9 percent of it to the taxpayers, mostly in the later years because that is when the surplus is predicted to be the largest.

One provision contains more than half of the bill's promised tax relief: gradually cutting each of the current individual income tax rates by 10 percent. The next largest broad-based provision is the so-called marriage penalty provision, which aims to help middle and upper-middle income married taxpayers by gradually raising the standard deduction for married couples filing jointly to exactly double the standard deduction for single taxpayers.

The first column in the table below shows the Tax Foundation's calculation of how much the total bill, which contains many other provisions, would save taxpayers in each state and Washington, DC. Census data is then used to compute a dollar amount per household.

People in high-income, high-tax states would save the most, as is the case in most any federal tax cut. Taxpayers in New York and Connecticut would save more than $10,000 per household.

However, most states are bunched around the average, with 32 states within $1,500 of the average savings of $7,391.

HR 2488's Tax Reduction by State

FY 1999 – 2009

	Total ($Millions)	Per Household
United States	$ 791,257	$ 7,391
Alabama	$ 9,261	$ 5,342
Alaska	1,763	6,726
Arizona	11,012	5,624
Arkansas	5,003	4,860
California	98,070	7,606
Colorado	12,090	7,228
Connecticut	16,504	13,291
Delaware	2,355	7,864
Florida	53,271	8,741
Georgia	19,409	6,162
Hawaii	3,203	6,375
Idaho	3,604	6,504
Illinois	41,997	9,146
Indiana	15,622	6,714
Iowa	7,879	7,156
Kansas	6,921	6,696
Kentucky	8,008	5,220

	Total ($Millions)	Per Household
United States	$ 791,257	$ 7,391
Louisiana	$ 8,858	$ 5,217
Maine	2,884	5,996
Maryland	17,290	8,448
Massachusetts	22,192	9,394
Michigan	28,328	7,751
Minnesota	14,984	7,997
Mississippi	4,938	4,536
Missouri	15,030	7,021
Montana	2,422	6,432
Nebraska	4,350	6,598
Nevada	5,315	6,859
New Hampshire	3,771	7,864
New Jersey	31,193	9,929
New Mexico	3,508	4,648
New York	69,208	10,130
North Carolina	19,337	6,278
North Dakota	1,387	5,473

	Total ($Millions)	Per Household
United States	$ 791,257	$ 7,391
Ohio	$ 29,904	$ 6,990
Oklahoma	6,692	5,121
Oregon	9,132	6,751
Pennsylvania	33,754	7,342
Rhode Island	2,630	6,942
South Carolina	8,662	5,737
South Dakota	1,905	6,283
Tennessee	12,756	5,711
Texas	48,673	6,051
Utah	4,280	4,742
Vermont	2,210	9,253
Virginia	19,426	7,085
Washington	17,330	7,397
West Virginia	3,277	4,734
Wisconsin	15,981	7,791
Wyoming	1,464	6,883
Dist. of Columbia	2,211	11,167

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