



A State-by-State Estimate of Individual Income Tax Changes from Rangel's "Mother of All Reforms" Bill

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Last Thursday, House Ways and Means Committee Chairman Charlie Rangel unveiled his "mother of all tax reforms" package. On the individual tax side, the bill has two main components, a surtax levied on high-income earners and a repeal of the Alternative Minimum Tax (AMT), with other selected tax hikes and tax cuts thrown into the mix as well. In this brief *Fiscal Fact*, the Tax Foundation presents estimates of this plan (individual side only) by state for tax year 2008, which is the first year in which AMT would be repealed and the bill essentially fully implemented.

While Rangel's plan on the individual side is technically revenue-neutral over the ten-year window, we estimate that this plan actually involves a tax cut of about \$46 per person for tax year 2008. This is largely due to the fact that the benefits to taxpayers of repealing AMT are up-front but will fall once the Bush tax cuts sunset, as the scoring assumes. Therefore, because the table is only for tax year 2008, the numbers below in the third and fourth columns present a slightly more favorable look at the bill across the board relative to its full ten-year window.

Some Republicans have called Rangel's plan a "blue-state tax cut" yet the numbers don't entirely bear this out. The numbers presented here indicate that blue states do receive a larger tax cut than red states, about three times greater, but the dollar amount difference is only about \$50 per return. In fact, red and blue states are scattered throughout the ranking. The state with the biggest tax cut, Vermont (\$260 per return), and the state with the biggest tax hike, Connecticut (\$419 per return), are both blue states. The average tax cut for blue states is \$71 per return, while the average tax cut for red states is \$21 per return.

Vermont is the top state for two reasons: (1) the state has very high state and local property and income taxes, making it ripe for AMT; and (2) the state has many moderately wealthy individuals (\$75,000 - \$200,000), but relatively few very wealthy taxpayers who would be hit

by the surtax. On the other hand, many states at the bottom have low state and local taxes (e.g. Florida and Nevada) and/or a high percentage of very wealthy residents (e.g. Connecticut).

In terms of raw dollar amounts, the biggest winner is the state of California, which would receive about a \$1.39 billion tax cut (\$88 per tax return) in 2008 from Rangel's bill. Ohio is slightly lower with a tax cut of \$1.35 billion (\$251 per tax return). At the bottom is Florida, which would face about a \$2.3 billion tax increase (\$261 per tax return).

The rankings are presented in Table 1 with a brief discussion of the methodology below.

Table 1. State-by-State Estimates of Change in Individual Tax Burden for 2008 Under Rangel Plan (Relative to Current Law)

Rank	State	Average Tax Cut Per Return	Aggregate Tax Cut (in \$thousands)
	United States (Total)	\$46	\$6,227,550
1	Vermont	\$260	\$83,560
2	Ohio	\$251	\$1,353,392
3	Wisconsin	\$244	\$652,046
4	Maine	\$224	\$141,514
5	Oregon	\$223	\$368,288
6	Maryland	\$221	\$614,219
7	West Virginia	\$205	\$153,363
8	Michigan	\$194	\$883,889
9	Rhode Island	\$191	\$100,875
10	Iowa	\$181	\$251,455
11	Kentucky	\$179	\$325,841
12	North Carolina	\$165	\$658,008
13	Montana	\$162	\$73,703
14	Hawaii	\$162	\$106,094
15	South Carolina	\$158	\$305,375
16	North Dakota	\$152	\$47,141
17	Minnesota	\$152	\$383,451
18	Indiana	\$146	\$428,104
19	Alaska	\$145	\$51,476
20	Nebraska	\$144	\$115,579
21	Idaho	\$142	\$92,079
22	Pennsylvania	\$131	\$777,140
23	Kansas	\$131	\$167,471
24	Missouri	\$121	\$322,158
25	Arkansas	\$121	\$143,852
26	New Mexico	\$105	\$92,168
27	California	\$88	\$1,396,435

28	Mississippi	\$83	\$95,488
29	Alabama	\$71	\$137,656
30	Oklahoma	\$66	\$99,322
31	Georgia	\$64	\$256,076
32	New Jersey	\$61	\$264,750
33	Utah	\$45	\$48,525
34	Louisiana	\$44	\$75,965
35	South Dakota	\$43	\$16,056
36	New York	\$37	\$323,345
37	Virginia	\$37	\$135,864
38	New Hampshire	\$35	\$22,886
39	Tennessee	\$10	\$28,277
40	Delaware	-\$25	-\$10,379
41	Washington	-\$29	-\$86,160
42	Massachusetts	-\$30	-\$90,412
43	Colorado	-\$68	-\$150,860
44	Arizona	-\$69	-\$179,352
45	Texas	-\$81	-\$809,314
46	Illinois	-\$84	-\$494,289
47	Wyoming	-\$174	-\$45,071
48	District of Columbia	-\$240	-\$70,180
49	Florida	-\$261	-\$2,269,084
50	Nevada	-\$361	-\$432,714
51	Connecticut	-\$419	-\$727,519

Source: Multiple data sources, Tax Foundation calculations (see methodology below)

Conclusion

Despite the fact that this tax package involves around \$84 billion worth of tax hikes in 2008 and \$89 billion worth of tax cuts in 2008, there is not much redistribution across states. Specifically, less than \$6 billion is redistributed from those states that see a net tax hike to those that see a net tax cut. Overall, the story is essentially redistribution of the tax burden across income groups from the wealthy to the moderately wealthy, even within states, but only limited redistribution between states.

Methodology

Each provision's revenue cost or revenue raised in the bill on the individual tax side, as estimated by the preliminary release by the Joint Committee on Taxation, was allocated to each state using a system of allocators and various data sources. These data sources included: IRS (Table 2, Tables by AGI and filing status, and projected returns by state for future tax years), JCT, Urban-Brookings Tax Policy Center (AMT), Institute on Taxation and Economic Policy (AMT by state), 2006 American Community Survey from the U.S. Census Bureau (EITC and others), and the latest IRS Public Use File. Note: Adjustments were made for

differences in fiscal year and tax year, including adjustments for the interaction effect where we applied an adjusted number for 2008 based upon 2009's amount, not FY 2008.

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