State and Federal Public Finance

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Overview

• Brief frame of reference: Federal and State tax and expenditure composition
• Trends we see in taxes and expenditures
• “Problem areas”
• What are policy makers discussing in terms of reform options?
Total State Tax Collections by Category

2003 State Government Tax Collection
- General Sales and Gross Receipts Taxes 33.6%
- Individual Income Taxes 33.1%
- Licenses Taxes 6.5%
- Selective Sales Taxes 16.3%
- Corporation Net Income Taxes 5.2%
- Property Taxes 1.9%
- Other Taxes 3.4%

2013 State Government Tax Collection
- General Sales and Gross Receipts Taxes 30.1%
- Individual Income Taxes 36.6%
- License Taxes 6.6%
- Selective Sales Taxes 16.3%
- Corporation Net Income Taxes 5.3%
- Property Taxes 1.6%
- Other Taxes 3.6%

Source: U.S. Census Bureau, 2003, 2013 Annual Survey of State Government Tax Collections
Total State Expenditures by Category

**2002 State Expenditures by Category**
- Education: 30.4%
- Public Welfare: 22.5%
- Highways: 6.6%
- Other Expenditures: 15.9%
- Governmental Administration: 3.2%
- Health: 3.9%
- Correction: 3.0%
- Hospital: 2.9%
- Insurance Trust Expenditure: 11.6%

**2012 State Expenditures by Category**
- Education: 29.8%
- Public Welfare: 24.7%
- Highways: 5.7%
- Other Expenditures: 12.8%
- Governmental Administration: 2.7%
- Health: 3.1%
- Correction: 2.5%
- Hospital: 3.5%

Total Federal Receipts by Category

2003 Federal Receipts by Category
- Social Insurance and Retirement Receipts: 40.0%
- Individual Income Taxes: 44.5%
- Corporate Income Taxes: 7.4%
- Excise Taxes: 3.8%
- Other: 4.3%

2013 Federal Receipts by Category
- Social Insurance and Retirement Receipts: 34.2%
- Individual Income Taxes: 47.4%
- Corporate Income Taxes: 9.9%
- Excise Taxes: 3.0%
- Other: 5.5%

Source: Office of Management and Budget, Historical Table 2.1
http://www.whitehouse.gov/omb/budget/Historicals
Total Federal Expenditures by Category

2003 Federal Expenditures by Category
- National Defense: 18.7%
- Health: 10.2%
- Medicare: 11.5%
- Income Security: 15.5%
- Social security: 22.0%
- Other Expenditures: 15.0%
- Net Interest: 7.1%

2013 Federal Expenditures by Category
- National Defense: 18.3%
- Health: 10.4%
- Medicare: 14.4%
- Social security: 23.5%
- Income Security: 15.5%
- Other Expenditures: 11.4%
- Net Interest: 6.4%

Source: Office of Management and Budget, Historical Table 3.2
http://www.whitehouse.gov/omb/budget/Historicals
Composition of Mandatory Expenditures: Feds

Non-discretionary revenues will continue to grow as a share of the budget

Source: Budget Projections, Congressional Budget Office, 2014
Expected Future Trends: Revenues

• Individual income tax will continue to be very important
• Corporate tax revenues are a question
• State-Federal mix probably stable
• Problem areas—more on this in a few minutes
Focus: Individual Income Tax

- **Base:**
  - Wages
  - Capital income: interest, dividends, capital gains
  - Business income
- **Standard/Itemized deductions**
- **Personal Exemptions**
- **Tax liability**
  - Minus credits
- **Net tax liability**
- **SIMPLE?!**
### Federal Income Tax Schedules 2013

<table>
<thead>
<tr>
<th>Married Filing Jointly</th>
<th>Single</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxable Income Bracket</strong></td>
<td><strong>Tax is:</strong></td>
</tr>
<tr>
<td>Not over $17,850</td>
<td>10% of the income over zero</td>
</tr>
<tr>
<td>$17,851 - $72,500</td>
<td>$1,785 plus 15% of the income over $17,850</td>
</tr>
<tr>
<td>$72,501 - $146,400</td>
<td>$9,982.50 plus 25% of the income over $72,500</td>
</tr>
<tr>
<td>$146,401 - $223,050</td>
<td>$28,457.50 plus 28% of the income over $146,400</td>
</tr>
<tr>
<td>$223,051 - $398,350</td>
<td>$49,919.50 plus 33% of the income over $223,050</td>
</tr>
<tr>
<td>$398,351 - $450,000</td>
<td>$107,768.50 plus 35% of the income over $398,350</td>
</tr>
<tr>
<td>Over $450,000</td>
<td>$125,846 plus 39.6% of the income over $450,000</td>
</tr>
</tbody>
</table>
## Georgia Income Tax Schedules 2013

<table>
<thead>
<tr>
<th>Married Filing Jointly</th>
<th>Single</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxable Income Bracket</strong></td>
<td><strong>Tax is:</strong></td>
</tr>
<tr>
<td>Not over $1,000</td>
<td>1% of the income over zero</td>
</tr>
<tr>
<td>$1,001 - $3,000</td>
<td>$10 plus 2% of the income over $1,000</td>
</tr>
<tr>
<td>$3,001 - $5,000</td>
<td>$50 plus 3% of the income over $3,000</td>
</tr>
<tr>
<td>$5,001 - $7,000</td>
<td>$110 plus 4% of the income over $5,000</td>
</tr>
<tr>
<td>$7,001 - $10,000</td>
<td>$190 plus 5% of the income over $7,000</td>
</tr>
<tr>
<td>Over $10,000</td>
<td>$340 plus 6% of the income over $10,000</td>
</tr>
</tbody>
</table>

Source: [http://www.tax-brackets.org/georgiataxtable](http://www.tax-brackets.org/georgiataxtable), taxfoundation.org
• Long way between income and taxable income:
  – Deductions and exemptions reduce your taxable income
  – Tax liability/income less than your “tax rate”
  – Example:
    • Wages plus other income = $435,000
    • Taxable income (after exemptions and deductions) = $325,000
    • For MFJ, you are in the fifth tax bracket: tax = $49,919.5 + 0.33*(325,000-223,050) OR tax = $83,563
    • Tax/income = 19.2%
    • Tax/taxable income = 25.7%
Recent changes in phaseouts of deductions/exemptions

- Phaseouts ↓ exemptions / deductions for high-income taxpayers → ↑ Federal Income tax liability

- Itemized deduction phaseout
  - Pease (enacted in 1991) limits itemized deductions on AGI above a certain threshold.
  - Pease was reinstated on January 1, 2013 and American Taxpayer Relief Act of 2012 (ATRA) increased the AGI threshold for Pease.

- Personal exemption phaseout (PEP)
  - Each personal exemption ($3,900 in 2013) is reduced under PEP for AGI above a certain threshold.
  - ATRA reinstated PEP and the reinstated thresholds are higher than those in previous years.

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Pease AGI thresholds 2013</th>
<th>PEP AGI thresholds 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Phaseout Begins</td>
<td>Phaseout Ends</td>
</tr>
<tr>
<td>Single</td>
<td>$250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>Married filing jointly</td>
<td>$300,000</td>
<td>$300,000</td>
</tr>
</tbody>
</table>
What is on the Horizon for Policy?

• Problem areas in tax policy
  – Diminished base for income and sales taxes
  – Competition within the U.S. as well as from “outside”
  – Complexities in tax administration and compliance: AMT among others

• We can’t ignore expenditure pressures:
  – Health Care Reform: very brief reminder
  – Demographics of U.S. population
What are we hearing from D.C.?

• Pressures:
  – Budget deficit and rise of mandatory expenditures
  – Competition
  – Income distribution
  – Complexity of the current system

• Possible solutions?
  – Administration
  – Congress
  – All in-between
What is out there? What does it mean?

• House Ways and Means: “Camp” Plan
  – “Flatten” the tax brackets
  – Simplify by reducing itemized deductions, pushing more toward the standard deduction
  – Eliminate the Alternative Minimum Tax (AMT)

• Administration’s plan
  – Reduce deductions
  – Keep surtax/higher rates for upper income
  – Little change in brackets
• Also out there....
  – “Real tax reform”
    • Remember 1986?
    • Bipartisan discussion—is it possible?
  – Consumption tax discussion
  – Reduction in corporate income tax
  – “Flat tax”
  – “Fair tax”
Conclusions

• What should we expect?
  – Continued pressure from non-discretionary expenditures
  – Debate over income versus consumption tax
  – Reduction in itemized deductions
  – Bi-partisan “equity” discussion

• Any real way to reform?
  – Not looking likely in the near-term, but perhaps with a change in Administration
Thank you
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