State Taxes: What Might the Future Be

David L. Sjoquist
Public Finance and the New Economy
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State Taxes as a Percentage of Personal Income, 1980-2016
Share of Total Taxes

- Personal Income Tax
- Corp Income Tax
- Sales Tax
- Motor Fuel

Personal Income Tax

- Revenue Trends
- Structural Changes
- Impetus for Change
State Income Tax Revenue
as a % of Personal Income


1.55%
1.0%
1.2%
1.4%
1.6%
1.8%
2.0%
2.2%
2.4%

2.32%
2.17%
• Structural Changes
  - Rates and Brackets
  - Retirement Income
  - Pass Through Income
  - Tax Credits
  - EITC
• Impetus for Change
  - **Tax Cuts and Jobs Act**, aka
    - “An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018”
  - **Drive for Consumption Tax**
  - **Income Inequality**
  - **New Economy**
Sales and Use Tax

- Revenue Trends
- Structural Changes
- Impetus for Change
• **Structural Changes**
  
  o **Rate Changes**
  
  o **Base Changes**
## Distribution of Sales Tax Rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.0% - 2.9%</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>3.0% - 3.9%</td>
<td>17</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4.0% - 4.9%</td>
<td>18</td>
<td>15</td>
<td>12</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>5.0% - 5.9%</td>
<td>7</td>
<td>15</td>
<td>17</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>6.0% - 6.9%</td>
<td>2</td>
<td>11</td>
<td>13</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>7.0% - 7.9%</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>8.0% - 8.9%</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>3.95%</strong></td>
<td><strong>4.88%</strong></td>
<td><strong>5.17%</strong></td>
<td><strong>5.63%</strong></td>
<td><strong>5.67%</strong></td>
</tr>
</tbody>
</table>
Sales Tax Revenue as a % of Income:
Alabama

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>2.04%</td>
</tr>
<tr>
<td>1985</td>
<td>1.33%</td>
</tr>
<tr>
<td>1995</td>
<td>0.5%</td>
</tr>
<tr>
<td>2005</td>
<td>0.0%</td>
</tr>
<tr>
<td>2015</td>
<td>1.0%</td>
</tr>
</tbody>
</table>
• Impetus for Change
  o Growth of Services
  o Remote Sales
  o New Economy
Corporate Income Tax

- Revenue Trends
- Structural Changes
- Impetus for Change
State Corporate Income Tax
as a % of Personal Income


0.7%
0.6%
0.5%
0.4%
0.3%
0.2%
0.1%
0.0%

0.59%
0.31%
• **Structural Changes**
  
  o **Rate Changes**
  
  o **Other Changes**
<table>
<thead>
<tr>
<th>State</th>
<th>2012</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>6.968%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Idaho</td>
<td>7.6%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Indiana</td>
<td>8.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>8.5%</td>
<td>8.2%</td>
</tr>
<tr>
<td>New Mexico</td>
<td>7.6%</td>
<td>6.2%</td>
</tr>
<tr>
<td>New York</td>
<td>7.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>North Carolina</td>
<td>6.9%</td>
<td>3.0%</td>
</tr>
<tr>
<td>North Dakota</td>
<td>5.2%</td>
<td>4.31%</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>9.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>West Virginia</td>
<td>7.75%</td>
<td>6.5%</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>9.975%</td>
<td>8.25%</td>
</tr>
</tbody>
</table>
• **Impetus for Change**
  - Competition for Jobs – Geographic Mobility of Capital
  - Calls for its Elimination
  - New Economy
“On corporate tax, ignoring that: capital is mobile, that our tax system is built on the old world of bricks and mortar, that tax systems dovetail together poorly, all of this is a kind of willful blindness.”

Jolyon Maugham
Motor Fuel Tax

• Revenue Trends
• Rate Changes
• Impetus for Change
State Motor Fuel Tax
as a % of Personal Income

0.55%

0.27%
• Impetus for Change
  o Change in Federal Role
  o Fuel Efficiency
• Other Possible Changes
  
  o Telecommunication Taxes
  
  o Carbon Tax
Thank You!