



State and Federal Public Finance

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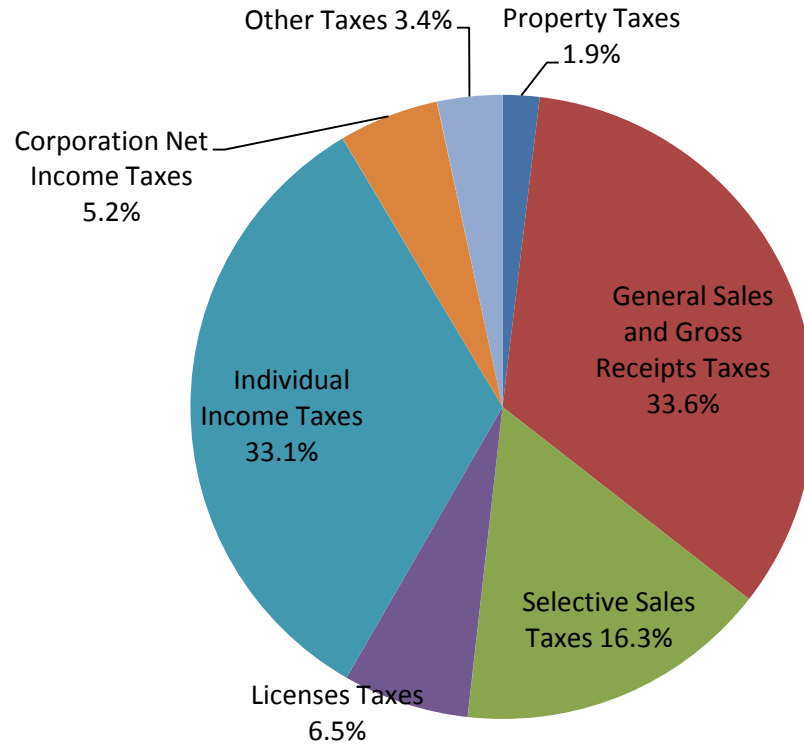


Overview

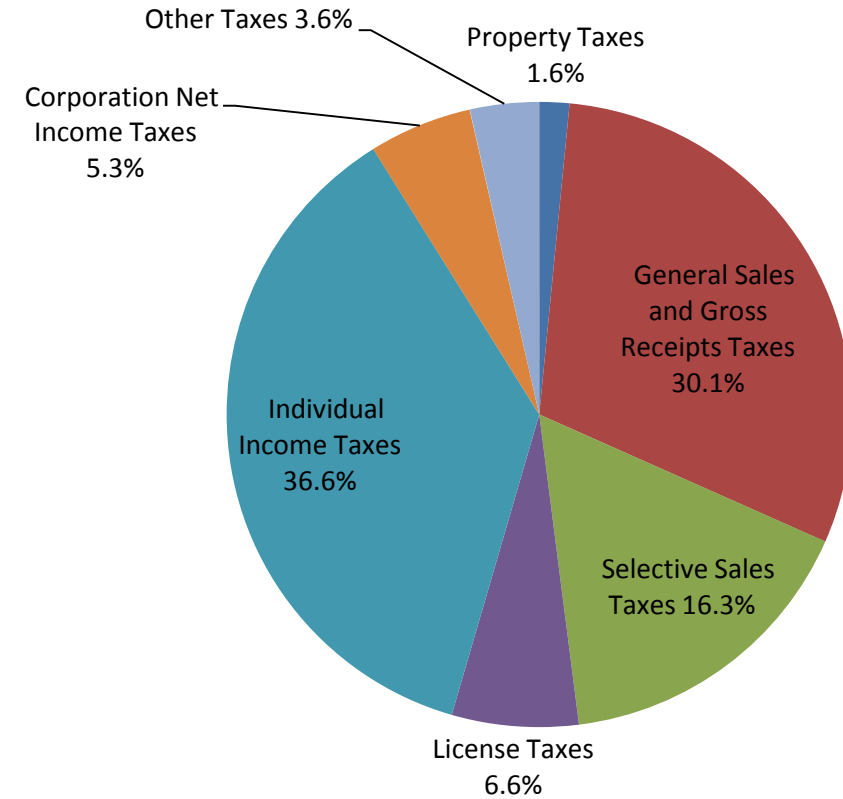
- Brief frame of reference: Federal and State tax and expenditure composition
- Trends we see in taxes and expenditures
- “Problem areas”
- What are policy makers discussing in terms of reform options?

Total State Tax Collections by Category

2003 State Government Tax Collection

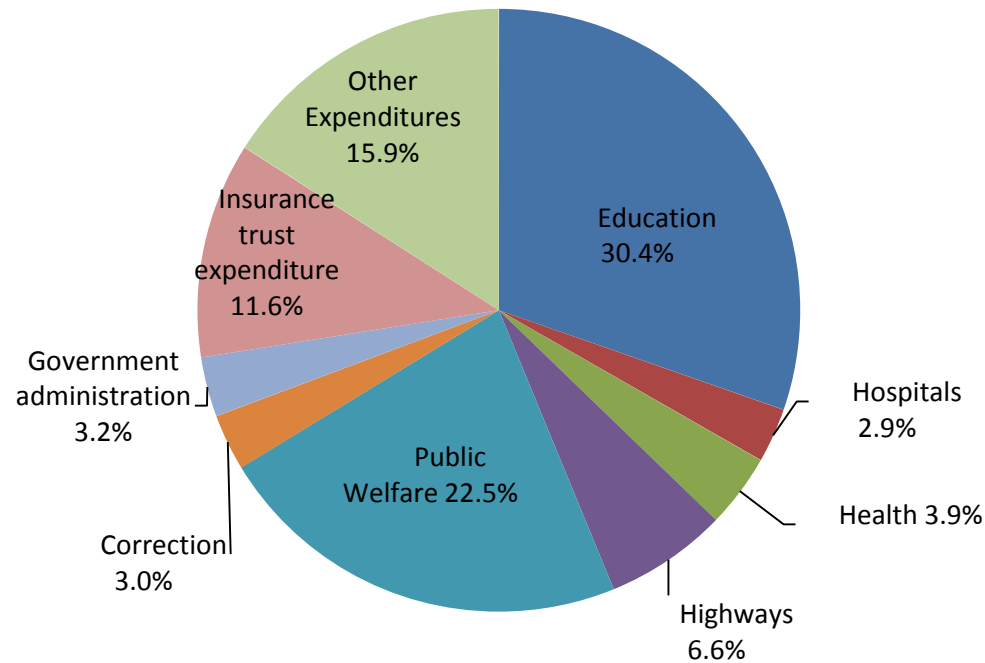


2013 State Government Tax Collection

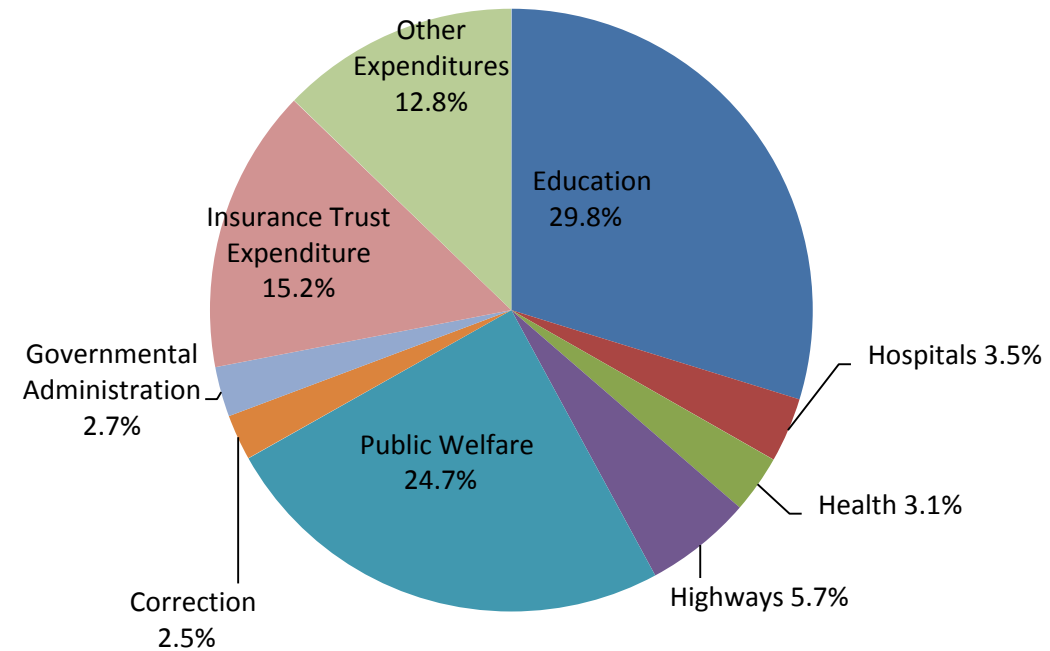


Total State Expenditures by Category

2002 State Expenditures by Category

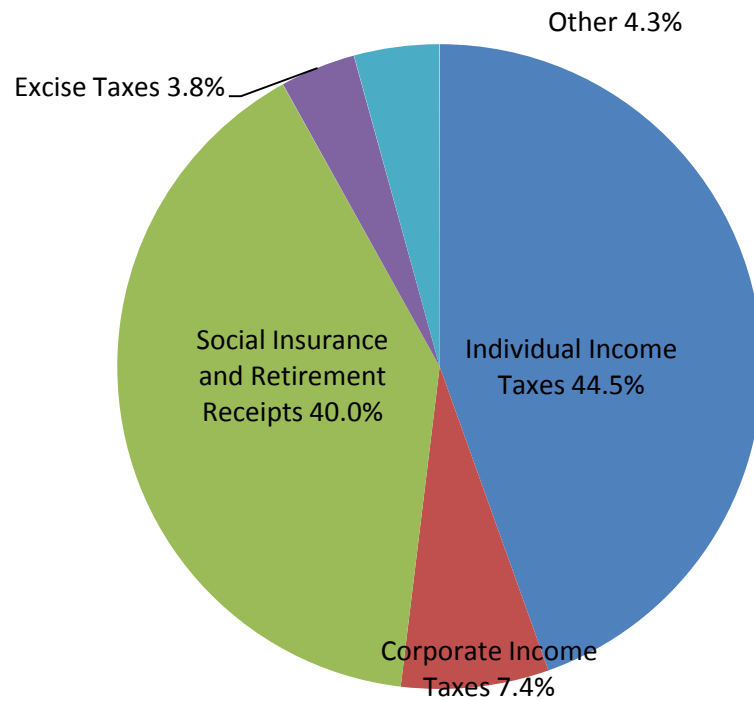


2012 State Expenditures by Category

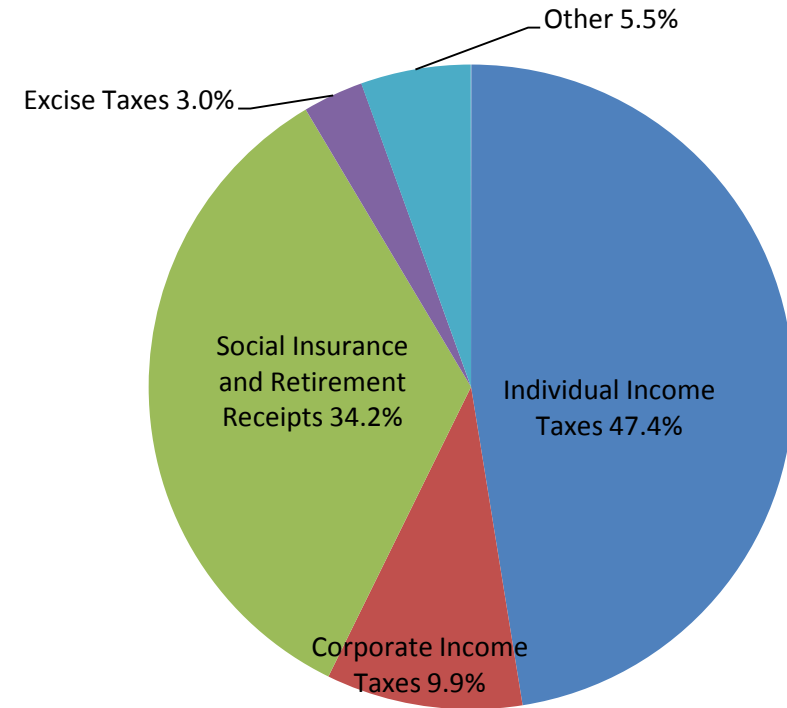


Total Federal Receipts by Category

2003 Federal Receipts by Category

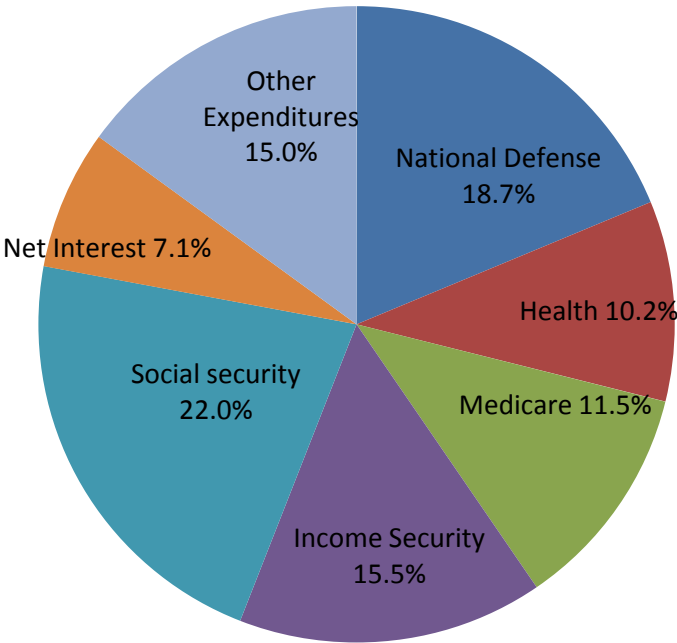


2013 Federal Receipts by Category

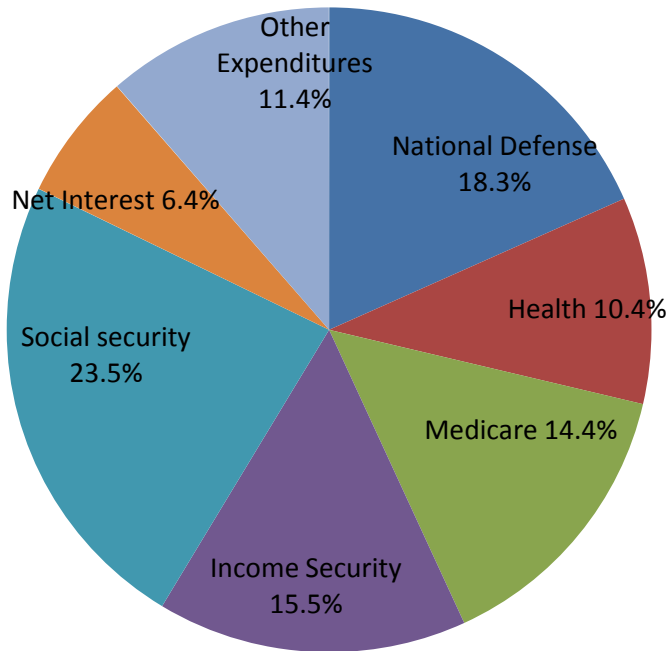


Total Federal Expenditures by Category

2003 Federal Expenditures by Category



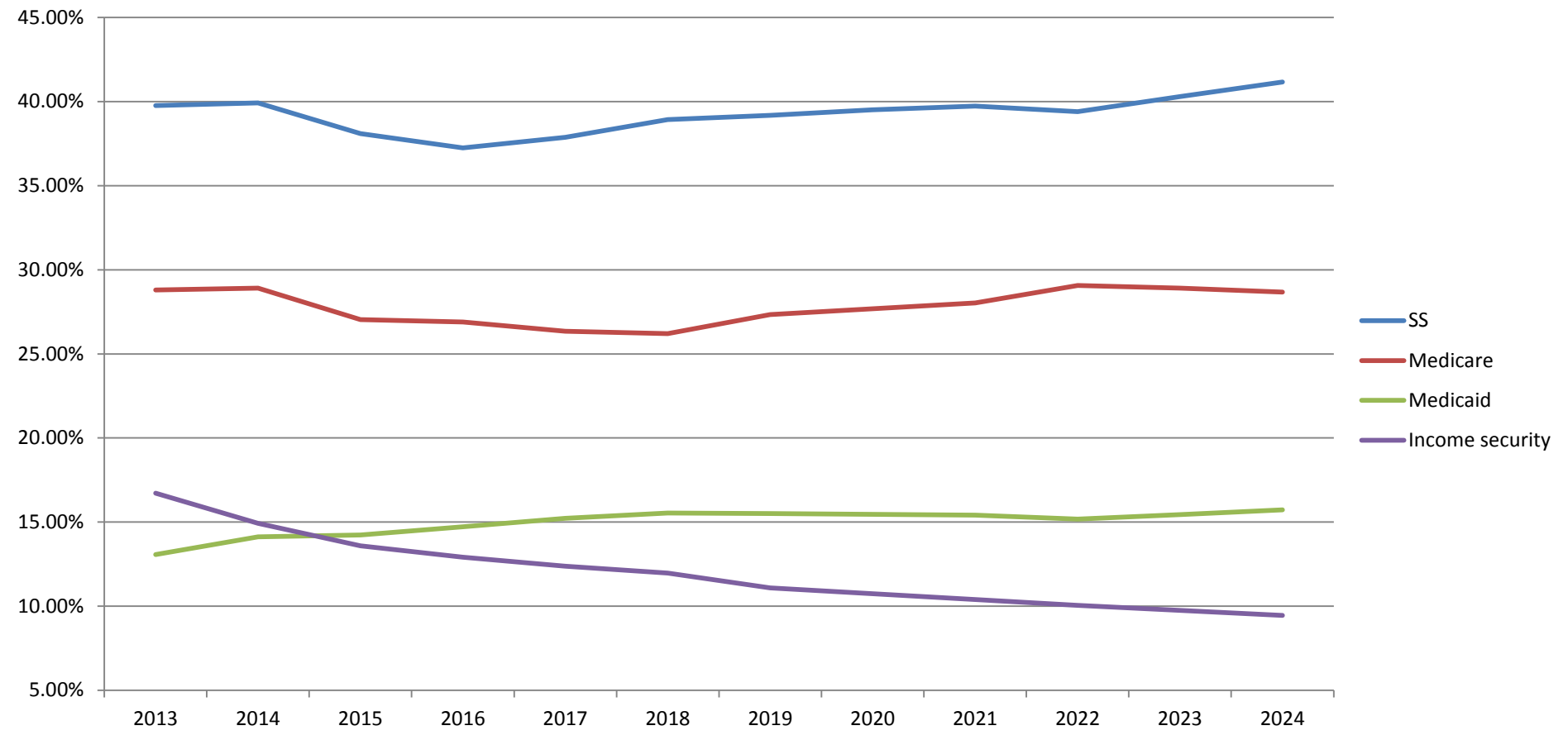
2013 Federal Expenditures by Category





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

Married Filing Jointly		Single	
Taxable Income Bracket	Tax is:	Taxable Income Bracket	Tax is:
Not over \$17,850	10% of the income over zero	Not over \$8,925	10% of the income over zero
\$17,851 - \$72,500	\$1,785 plus 15% of the income over \$17,850	\$8,926 - \$36,250	\$892.50 plus 15% of the income over \$8,925
\$72,501 - \$146,400	\$9,982.50 plus 25% of the income over \$72,500	\$36,251 - \$87,850	\$4991.25 plus 25% of the income over \$36,250
\$146,401 - \$223,050	\$28,457.50 plus 28% of the income over \$146,400	\$87,851 - \$183,250	\$17,891.25 plus 28% of the income over \$87,850
\$223,051 - \$398,350	\$49,919.50 plus 33% of the income over \$223,050	\$183,251 - \$398,350	\$44,603.25 plus 33% of the income over \$183,250
\$398,351 - \$450,000	\$107,768.50 plus 35% of the income over \$398,350	\$398,351 - \$400,000	\$115,586.25 plus 35% of the income over \$398,350
Over \$450,000	\$125,846 plus 39.6% of the income over \$450,000	Over \$400,000	\$116,163.75 plus 39.6% of the income over \$400,000

Georgia Income Tax Schedules 2013

Married Filing Jointly		Single	
Taxable Income Bracket	Tax is:	Taxable Income Bracket	Tax is:
Not over \$ 1,000	1% of the income over zero	Not over \$ 750	1% of the income over zero
\$1,001 - \$3,000	\$10 plus 2% of the income over \$1,000	\$751 - \$2,250	\$7.50 plus 2% of the income over \$750
\$3,001 - \$5,000	\$50 plus 3% of the income over \$3,000	\$2,251 - \$3,750	\$37.50 plus 3% of the income over \$2,250
\$5,001 - \$7,000	\$110 plus 4% of the income over \$5,000	\$3,751 - \$5,250	\$82.50 plus 4% of the income over \$3,750
\$7,001 - \$10,000	\$190 plus 5% of the income over \$7,000	\$5,251 - \$7,000	\$142.50 plus 5% of the income over \$5,250
Over \$10,000	\$340 plus 6% of the income over \$10,000	Over \$7,000	\$230 plus 6% of the income over \$7,000

- 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.

Filing Status	Pease AGI thresholds 2013	PEP AGI thresholds 2013	
		Phaseout Begins	Phaseout Ends
Single	\$250,000	\$250,000	\$372,500
Married filing jointly	\$300,000	\$300,000	\$422,500

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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