

# **Tax Issues to Consider**

**Tax Reform Task Force Meeting –  
Feb. 28, 2002**

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Research and Policy Analysis  
Senate Staff**

# Guiding Principles of Good Tax Policy

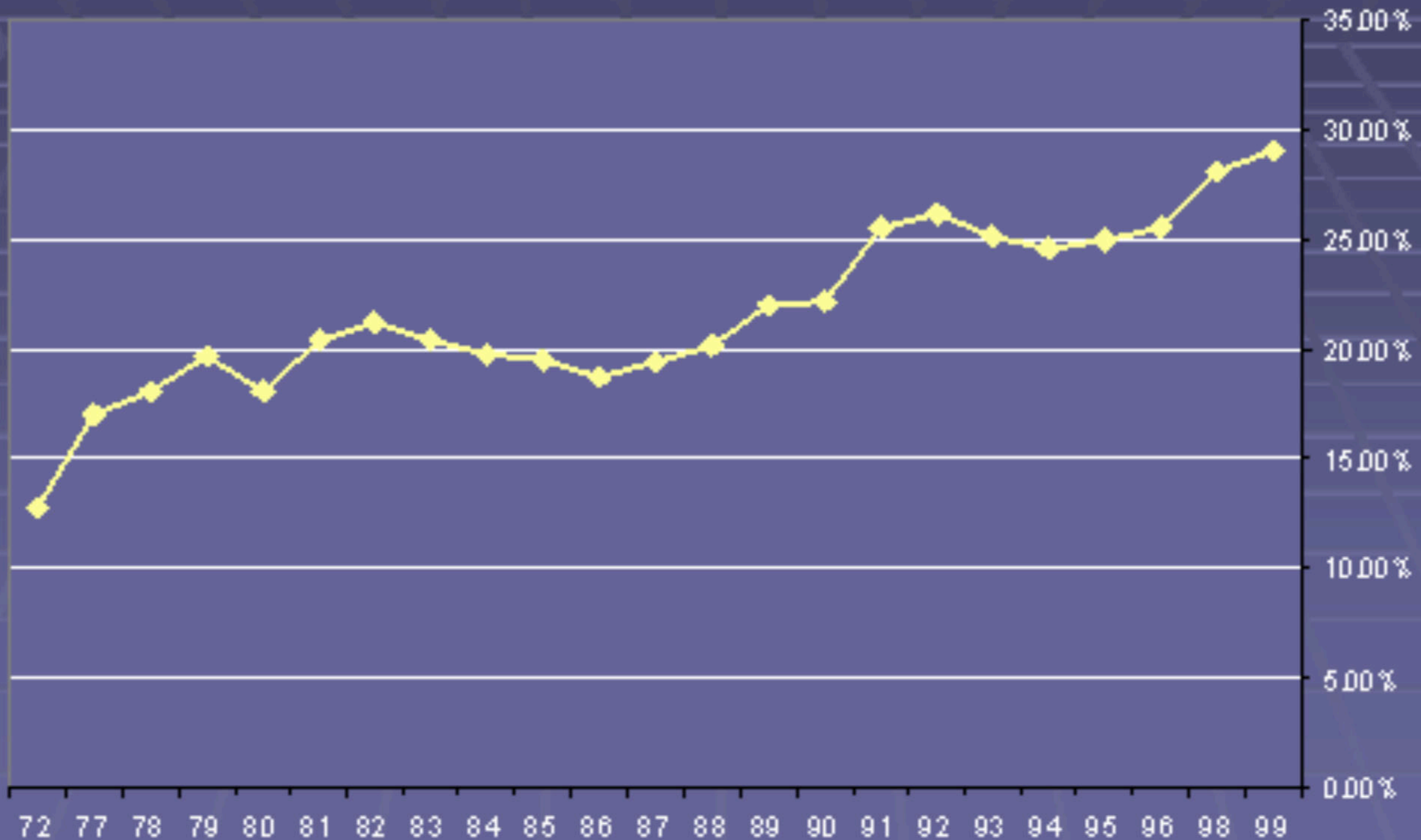
- Equity and Fairness
- Certainty
- Convenience of Payment
- Economy of Collection
- Simplicity

# Guiding Principles of Good Tax Policy – Cont'd

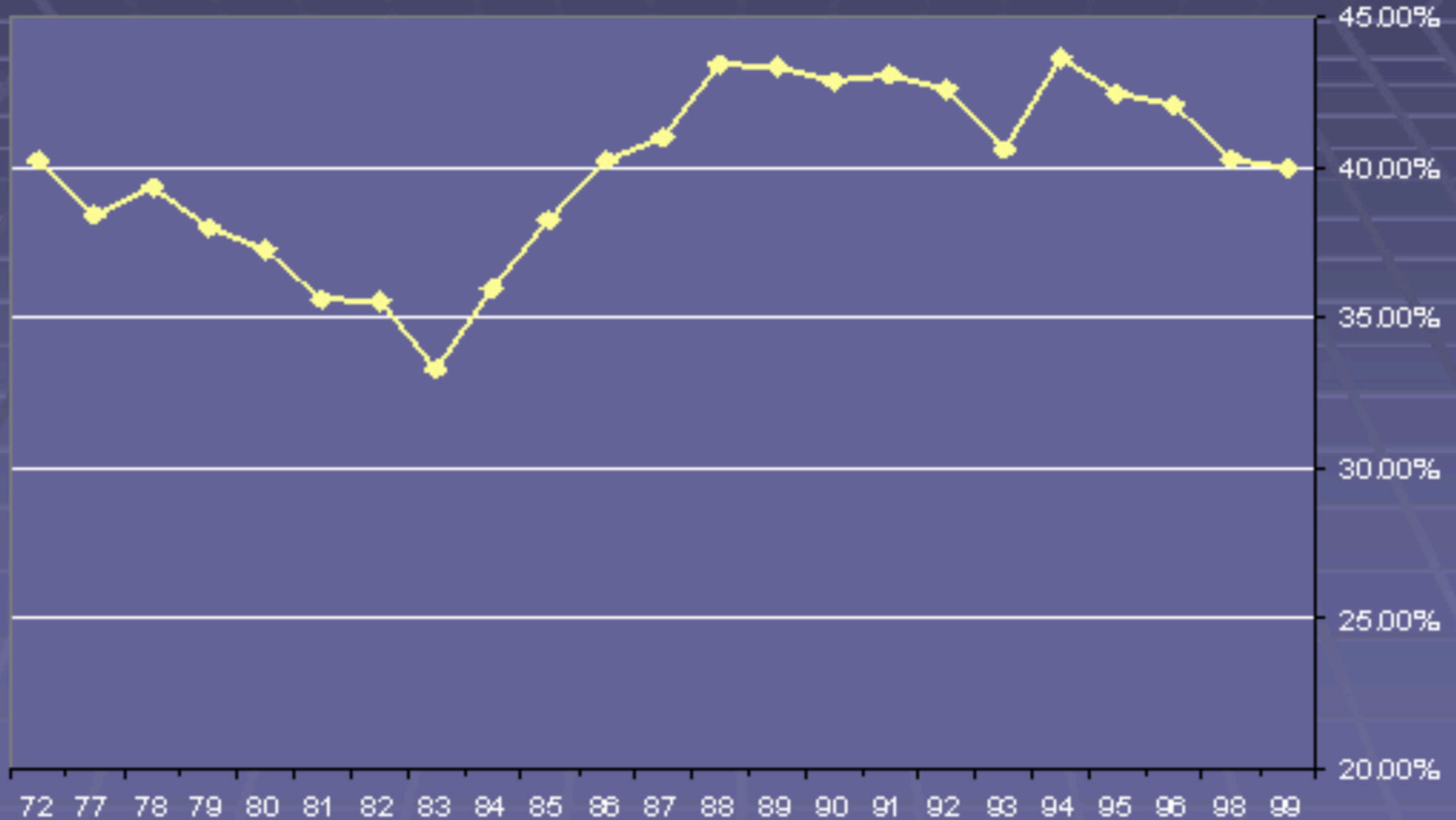
- Neutrality
- Economic Growth and Efficiency
- Transparency and Visibility
- Minimum Tax Gap (compliance)
- Appropriate Government Revenues



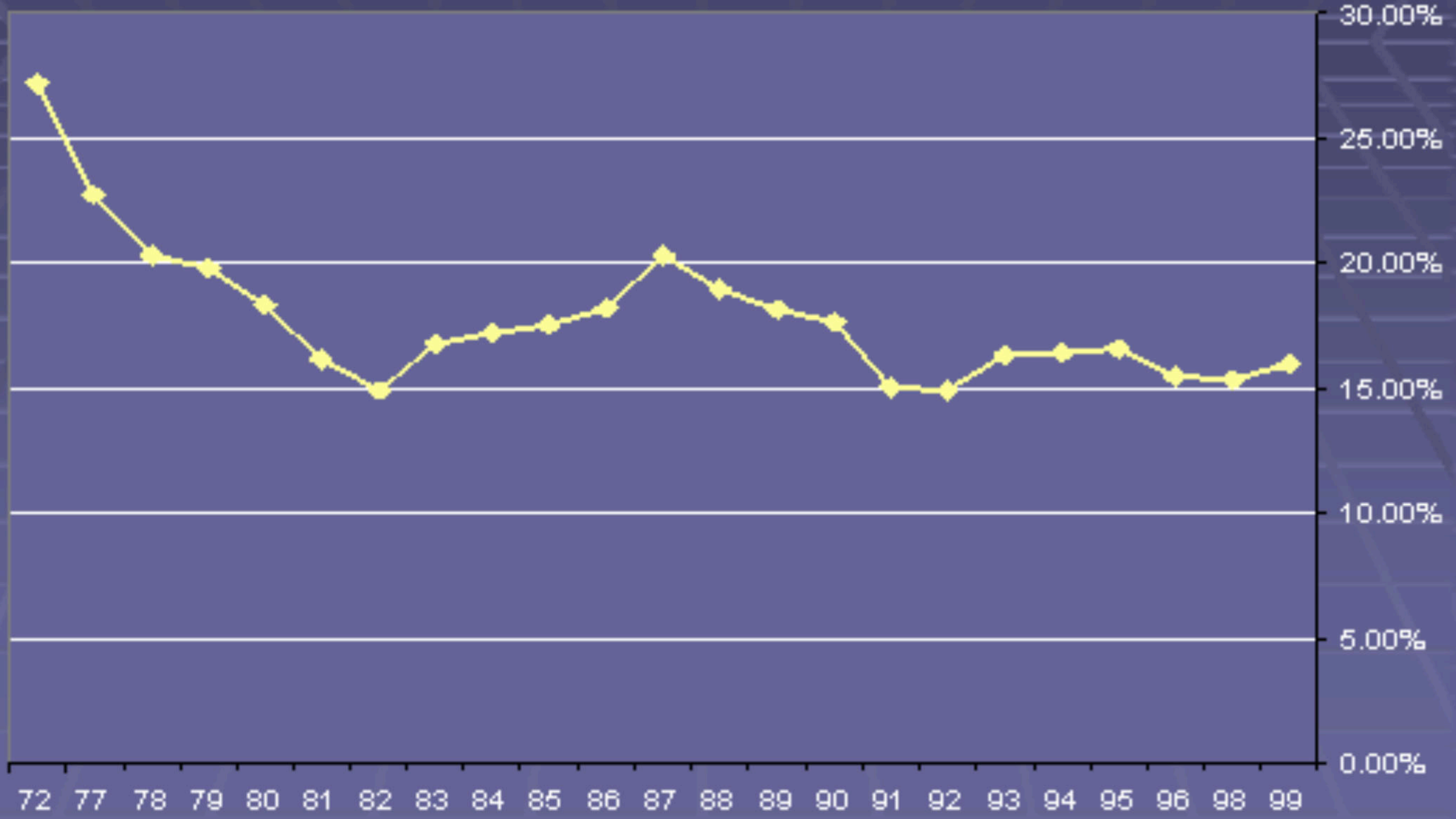
# Income Taxes as a Percent of Total State and Local Taxes 1972-1999



# Sales Taxes as a Percent of Total State and Local Taxes 1972 - 1999



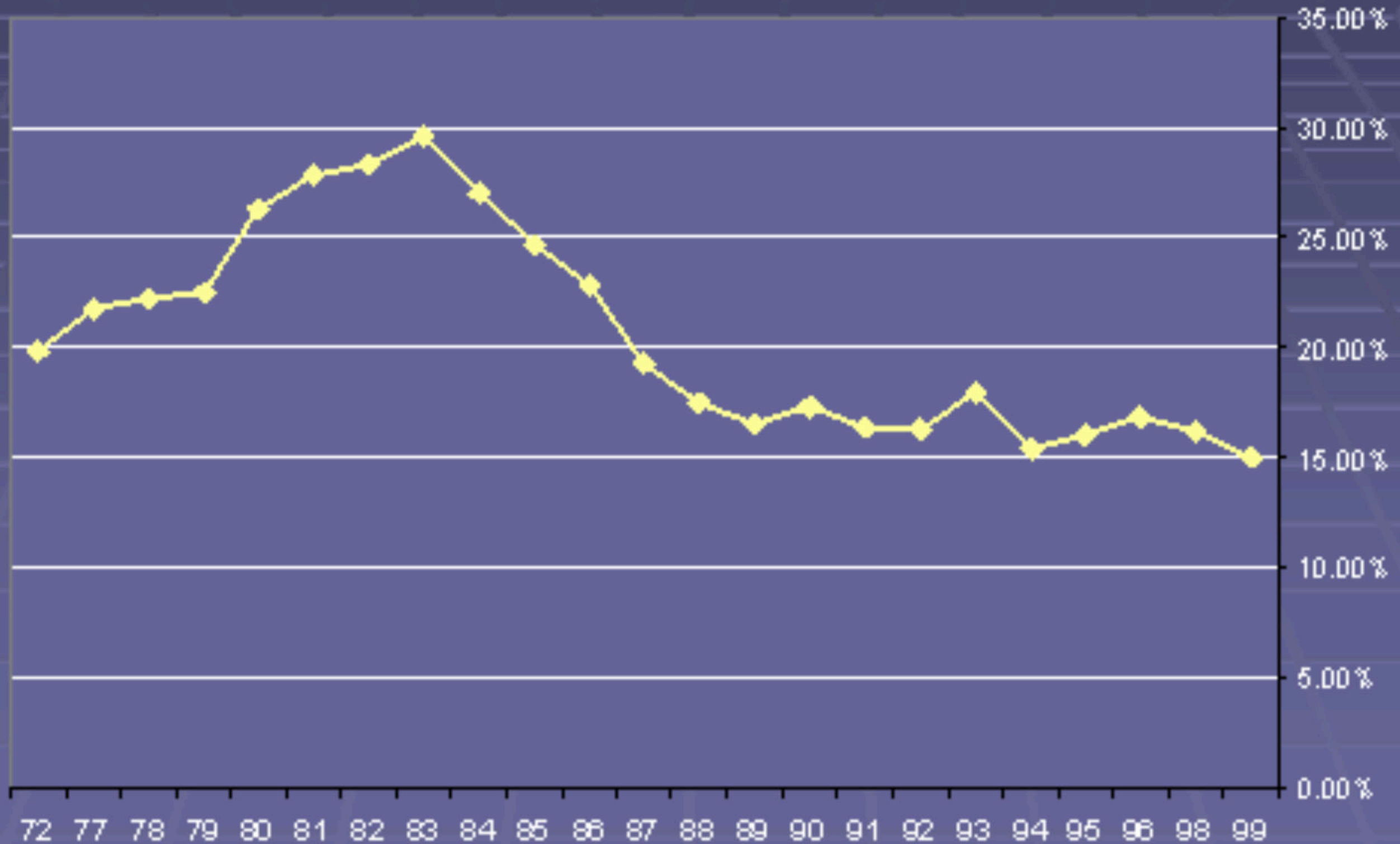
# Property Taxes as a Percent of Total State and Local Taxes 1972-1999



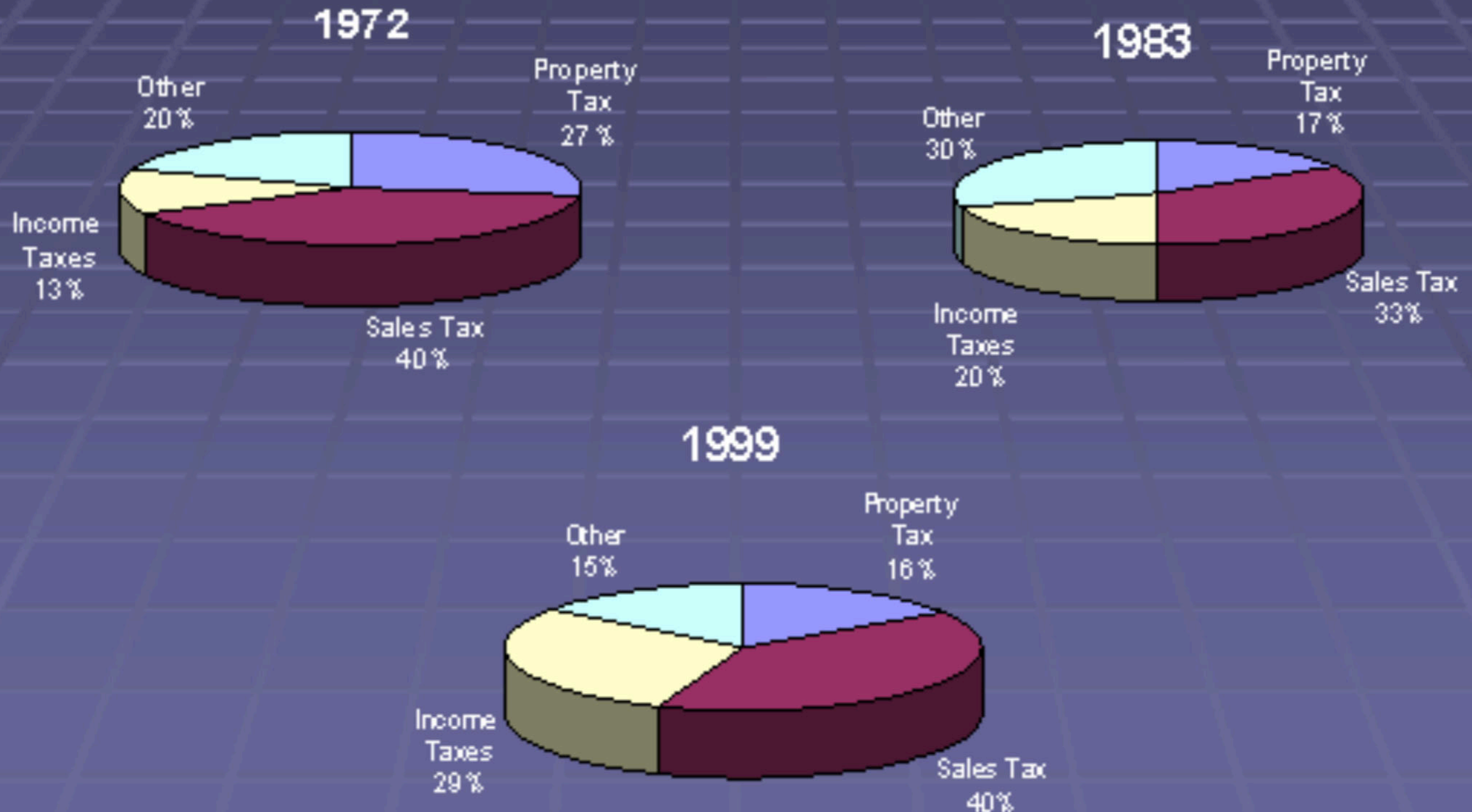
Source: U.S. Census Bureau



# Other Taxes as a Percent of Total State and Local Taxes 1972-1999

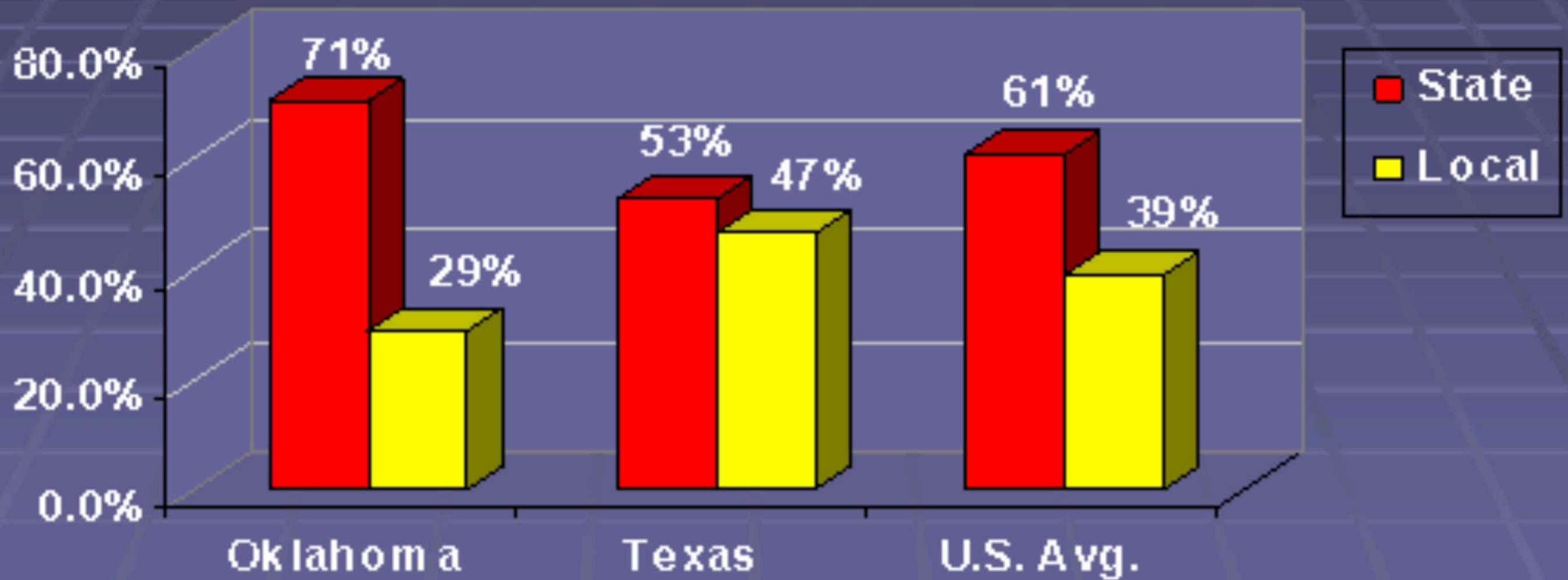


# 1972, 1983, and 1999 Tax Revenue Distribution by Source





# Percentage of tax collections by level of government



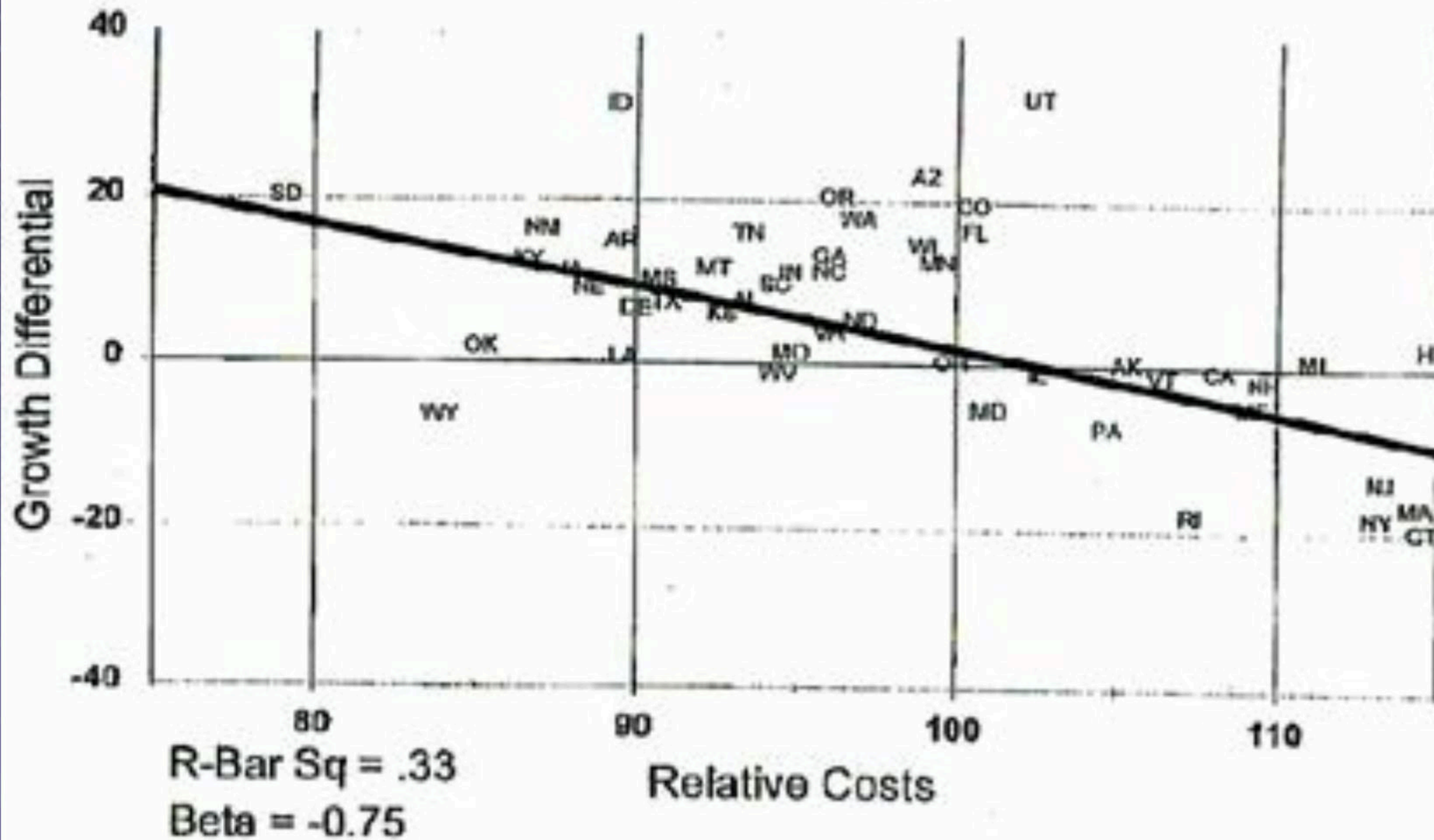
# Number of Services Taxed – Oklahoma and Border States

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**U.S. Average =  
53.5**



## State Job Growth and Relative Business Costs (1986-1996)





# Regional Financial Associates (RFA) Cost of Doing Business Study - Analysis

- 33% of the variation in state job growth is related to relative business costs (Zandi -RFA)
- Of that 33%, labor costs make up 75%, energy costs 15% and the final 10% is represented by the state tax burden.

# Considerations when looking at tax rankings

- There are 27 states within 1 percentage point of one another in the ranking of tax burden as a percent of personal income.
- 38 states are only separated by only 2 percentage points in the same measure.
- Must look at state and local tax revenue combined in order to get an accurate comparison of how states compare.



# Who bears the burden of State and Local Taxes?

- Texas ranks 48th in the nation in the share of state and local taxes paid by households, while Oklahoma ranks 10th .
- Those rankings virtually reverse for the share borne by businesses (Oklahoma-44th; Texas 3rd)

Source: The Institute on Taxation and Economic Policy,  
The Business Share of State and Local Taxes



# States with No Income Tax – Current Budget Situation

- **Florida** – Because of its reliance on the sales tax and its dependence on tourism dollars, Florida is reeling in the wake of the 9/11 terrorist attacks. Florida has already had two special sessions to close a \$1.2 billion FY02 budget gap. There is a proposal there to roll back the sales tax rate and impose the tax on services.
- **Nevada** – Las Vegas tourism has also been hit hard by the events of 9/11. Gaming and sales taxes were down 4.2% through November. Unless revenues turn around there will be a budget gap to close in FY03.
- **South Dakota** – FY02 revenues were down over \$17 million, primarily from a decrease in sales tax revenues. A shortfall is expected in FY03 but the amount is unknown at this time.
- **Washington** – Washington is experiencing a \$1.25 billion budget gap and has used cuts and tapped Rainy Day Funds to balance its 2002 Budget. That gap is expected to be \$500 million to \$1 billion in FY03.
- **Wyoming** – There is no budget gap in Wyoming.
- **Tennessee\*** - Governor Don Sundquist (R) has proposed a comprehensive tax plan that would extend the sales tax to all currently exempt products and services, including advertising. This plan would also target high income Tennesseans by expanding the 6% corporate income tax to sole proprietorships and partnerships. Last year his proposal to implement a state income tax was killed in the legislature. The state needs \$705 million in new revenue in FY03 to maintain current funding levels.
- **New Hampshire\*** - While there is currently no budget gap, the governor has cut 1% across the board to be on the safe side.
- **Alaska** – There is a \$1 billion shortfall expected in FY02 and a shortfall of \$1.25 billion in FY03. A bipartisan group of House members is proposing an income tax, cruise ship tax, and raising alcohol taxes.
- **Texas** – Texas is not currently in session, but in the last session a bill (HB3293) was introduced to implement a state income tax. Texas is not experiencing a budget shortfall but there is a potential for problems in areas such as Medicaid and CHIP.

\*Tennessee and New Hampshire income tax is limited to interest and dividend income only.