State and Federal Public Finance

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State and Federal Public Finance

Dr. Sally Wallace
Chair, Department of Economics
Director, Fiscal Research Center
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%
- Corporation Net Income Taxes: 5.2%
- Selective Sales Taxes: 16.3%
- Licenses Taxes: 6.5%
- 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%
- Corporation Net Income Taxes: 5.3%
- Selective Sales Taxes: 16.3%
- License Taxes: 6.6%
- 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%
- Correction: 3.0%
- Health: 3.9%
- 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%
- Correction: 2.5%
- Health: 3.1%
- Hospitals: 3.5%

Total Federal Receipts by Category

2003 Federal Receipts by Category

- Individual Income Taxes 44.5%
- Social Insurance and Retirement Receipts 40.0%
- Corporate Income Taxes 7.4%
- Excise Taxes 3.8%
- Other 4.3%

2013 Federal Receipts by Category

- Individual Income Taxes 47.4%
- Social Insurance and Retirement Receipts 34.2%
- 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
Non-discretionary revenues will continue to grow as a share of the budget.
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>Taxable Income Bracket</th>
<th>Tax is:</th>
<th>Taxable Income Bracket</th>
<th>Tax is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $17,850</td>
<td>10% of the income over zero</td>
<td>Not over $8,925</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>
<td>$8,926 - $36,250</td>
<td>$892.50 plus 15% of the income over $8,925</td>
</tr>
<tr>
<td>$72,501 - $146,400</td>
<td>$9,982.50 plus 25% of the income over $72,500</td>
<td>$36,251 - $87,850</td>
<td>$4991.25 plus 25% of the income over $36,250</td>
</tr>
<tr>
<td>$146,401 - $223,050</td>
<td>$28,457.50 plus 28% of the income over $146,400</td>
<td>$87,851 - $183,250</td>
<td>$17,891.25 plus 28% of the income over $87,850</td>
</tr>
<tr>
<td>$223,051 - $398,350</td>
<td>$49,919.50 plus 33% of the income over $223,050</td>
<td>$183,251 - $398,350</td>
<td>$44,603.25 plus 33% of the income over $183,250</td>
</tr>
<tr>
<td>$398,351 - $450,000</td>
<td>$107,768.50 plus 35% of the income over $398,350</td>
<td>$398,351 - $400,000</td>
<td>$115,586.25 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>
<td>Over $400,000</td>
<td>$116,163.75 plus 39.6% of the income over $400,000</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>Taxable Income Bracket</td>
<td>Tax is:</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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