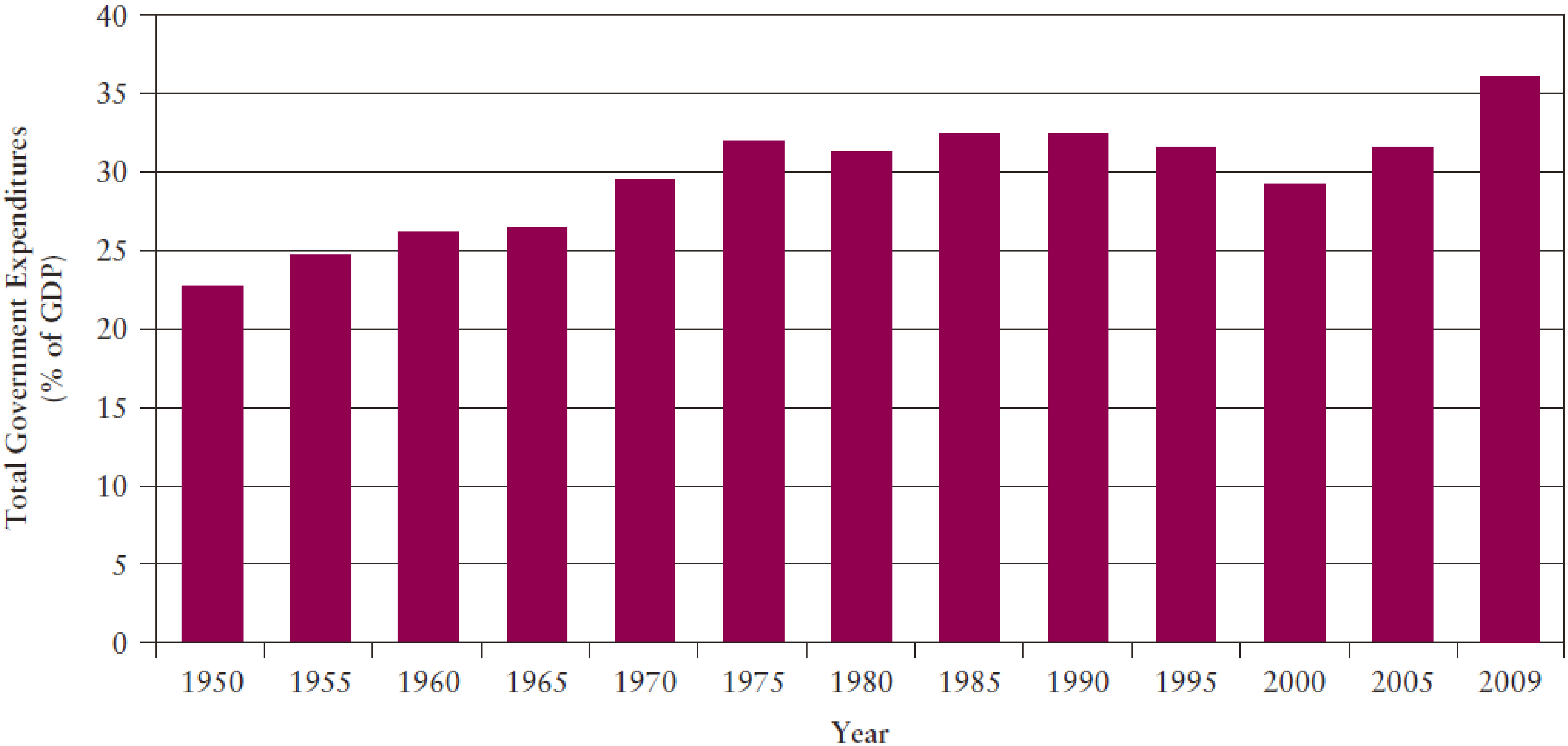
POLITICS OF TAXATION

GOVERNMENT FINANCES

- Federal government spends $3.7 trillion annually (25% GDP)
- State & local governments spend $1.6 trillion (11% GDP)

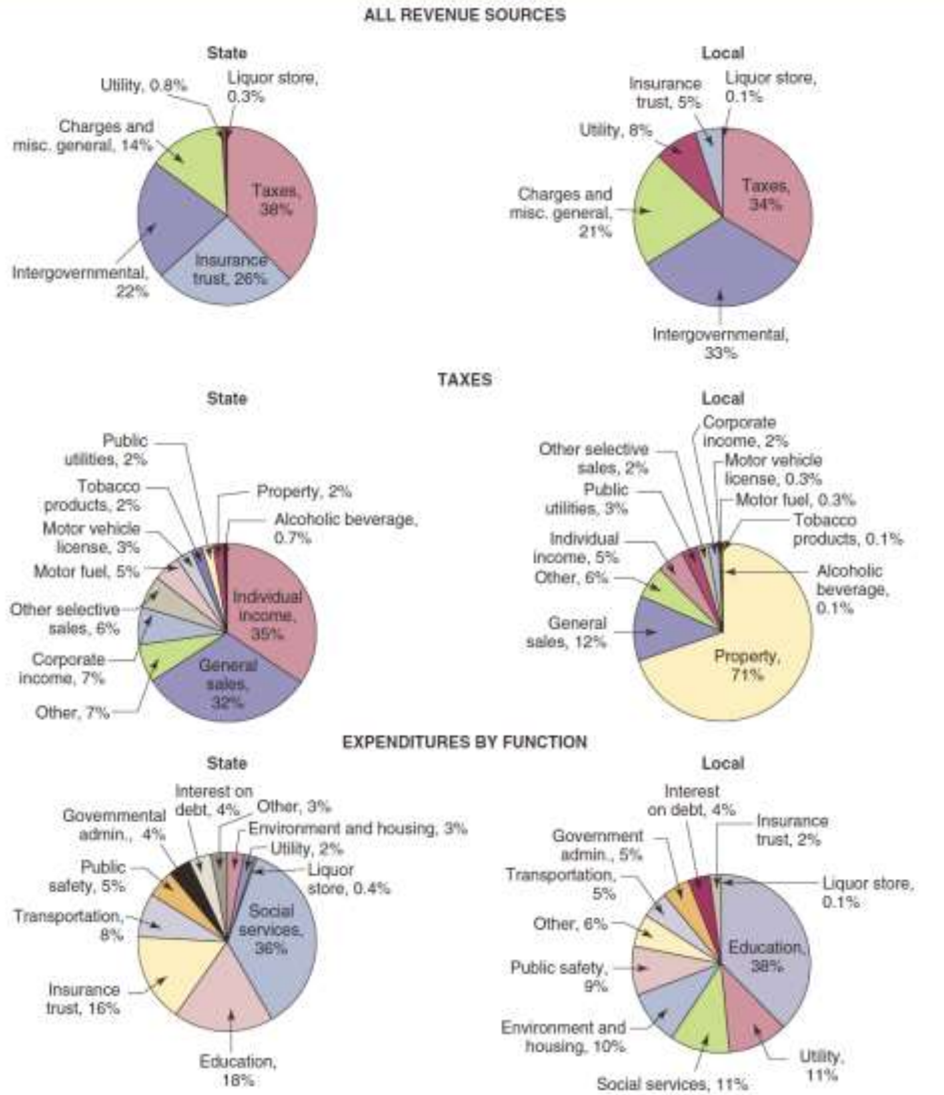
- **Gross domestic product (GDP)**- the sum of all the goods and services produced in the U.S. yearly

FIGURE 14–1 Government Expenditures as a Percentage of GDP



Source: White House, Office of Management and Budget, "Total Government Expenditures as Percentages of GDP: 1948–2009," Table 15–3. Available at http://www.whitehouse.gov/omb/budget/fy2011/assets/hist15z3.xls.

FIGURE 14–2 Revenues and Expenditures: States versus Localities



Charges and misc.: = user fees: Miscellaneous general revenue includes interest earnings, special assessments, sale of property, and other general revenue.
Public utility: water, electric power, gas supply, and transit.
Insurance trust: unemployment compensation, employee retirement, workers' compensation, and other insurance trust revenue.
Note: Data are for 2007.

Source: U.S. Census Bureau, "State and Local Government Finances by Level of Government and by State: 2006–7," Figure 1. Available at http://www2.census.gov/govs/estimate/07slsstab1a.xls.

TYPES OF TAXES

On Purchases:

- Sales Tax
- Excise Tax

On What you Earn:

- Income Tax
  - Progressive vs. Flat
- Social Security and Medicare Tax

On Stuff you Own:

- Property Tax
- Estate Tax

Tariffs

Corporate Taxes

User Charges

Lottery and Gambling Revenue

TABLE 14–1 Income Taxation in the States

States without an Individual Income Tax

Alaska	South Dakota	Wyoming
Florida	Texas	
Nevada	Washington	

State Individual Income Tax Rates (rate ranges in parentheses)

Alabama (2.0–5.0)	Louisiana (2.0–6.0)	North Dakota (2.1–5.54)
Arizona (2.59–4.54)	Maine (2.0–8.5)	Ohio (0.587–5.925)
Arkansas (1.0–7.0)	Maryland (2.0–6.25)	Oklahoma (0.5–5.5)
California (1.0–10.3)	Massachusetts (5.3)	Oregon (5.0–9.0)
Colorado (4.63)	Michigan (4.35)	Pennsylvania (3.07)
Connecticut (3.0–5.0)	Minnesota (5.35–7.85)	Rhode Island[b]
Delaware (2.2–5.95)	Mississippi (3.0–5.0)	South Carolina (0–7.0)
Georgia (1.0–6.0)	Missouri (1.5–6.0)	Tennessee[a]
Hawaii (1.4–8.25)	Montana (1.0–6.9)	Utah (5.0)
Idaho (1.6–7.8)	Nebraska (2.56–6.84)	Vermont (3.6–9.5)
Illinois (3.0)	New Hampshire[a]	Virginia (2.0–5.75)
Indiana (3.4)	New Jersey (1.4–8.97)	West Virginia (3.0–6.5)
Iowa (0.36–8.98)	New Mexico (1.7–4.9)	Wisconsin (4.6–6.75)
Kansas (3.5–6.45)	New York (4.0–6.85)	
Kentucky (2.0–6.0)	North Carolina (6.0–7.75)	

Note: Data are for 2009.

[a] State income tax is limited to dividends and interest only.

[b] Federal tax liability.

Source: Book of the States, 2009, Vol. 41, pp. 389–393.

EXPLAINING STATE TAX SYSTEMS

- Progressive taxes
- Regressive taxes
- Proportional taxes
- Flat taxes

REVOLTING AGAINST TAXES

- Well-known tax revolts:
  - Boston Tea Party in 1773, Shays' Rebellion in 1786, the Whiskey Rebellion in 1794, and Proposition 13 in the state of California in 1978.
- Popular opposition to rising taxes is common, particularly as income levels rise.

CUTBACK MANAGEMENT

- How to cut back when necessary
- Across the board, hiring freeze, seniority retention, layoffs
- One large cut or several rounds
- Share the pain or target the cuts
- Promote efficiency or equity
- Privatization

STATE AND LOCAL DEBT

- Balanced budget requirements
- Bonds
- Federal tax reform & municipal finance

ROADS TO FINANCIAL DISASTER

did YOU know?

Three Sure Roads to Financial Disaster

Bad financial decisions can lead to catastrophic results—not just in one's personal life, but in the public sector as well. Government finance experts have identified three of the most dangerous financial practices as:

- *Balancing the budget by repeatedly using one-time sources of revenue*—relying on last year's reserves or rainy day fund or the proceeds from sale of an asset, like a parcel of property or a building. It is particularly a bad practice if the one-time monies are used to fund ongoing top-priority items in the operating budget (e.g., police officers and firefighters).
- *Deferring current costs to the future*—postponing expenditures for maintenance and replacement of capital assets, or deferring pension liabilities. Delaying maintenance or repair of buildings and structures can result in considerably higher costs in the future either in the form of higher replacement costs or totally new construction.
- *Ignoring long-range or lifecycle costs of a liability*—deciding to build or purchase a capital asset without calculating the full lifecycle costs of owning, operating, and maintaining that asset. It would be the equivalent of budgeting only for the cost of a car and not budgeting for insurance, gas, maintenance, and licensing.

Delaying repairs and maintenance can cause major financial meltdowns as well as deaths. Using one-time revenues for ongoing services can lead to cutbacks and layoffs in tough times.

Source: Craig Clifford, chief financial officer of the City of Scottsdale, Arizona, in "The Road to Fiscal Sustainability," *Government Finance Review* (August 2005): 37.