state tax notes

State Tax Policy at a Low Point, Brunori Says

By: John Buhl — December 3rd, 2012

State tax policy is arguably as bad as it's ever been in the history of the United States, said David Brunori, executive vice president of Tax Analysts, at a November 29 event in Washington hosted by the Cato Institute.

The problem is highlighted by the continuing use of corporate income taxes at the state level, even though they generate a relatively small amount of revenue and cost a substantial amount in planning and administration, Brunori said.

"We should stop pretending it matters, because it doesn't," he said.

Brunori added that state lawmakers worsened the situation by using more targeted business tax breaks.

"Tax incentives are the devil's work," Brunori said.

Chris Edwards, Cato's director of tax policy studies, added that Illinois in January 2011 increased its corporate income tax rate but has regularly offered tax incentives for specific industries. (For prior coverage of the tax increase, see State Tax Notes, Jan. 17, 2011, p. 147, Doc 2011-876, or 2011 STT 10-8.)

Later that year, Illinois Gov. Pat Quinn (D) approved tax incentives to prevent Sears Holdings Corp. and CME Group Inc. from leaving the state. (For prior coverage, see State Tax Notes, Jan. 2, 2012, p. 11, Doc 2011-26581, or 2011 STT 243-10.)

"That sort of policy makes absolutely no sense," Edwards said.

Edwards also said that states are relying on the corporate income tax because it is relatively hidden from voters.

Joseph Henchman, vice president of legal and state projects for the Tax Foundation, said that some states have made progress in improving their tax structure. Michigan overhauled its cumbersome business tax system in May 2011, and Rhode Island greatly reduced its personal income tax rates and broadened the tax base in 2010, Henchman said. (For prior coverage of Michigan's tax reform, see State Tax Notes, May 30, 2011, p. 615, Doc 2011- 11295, or 2011 STT 102-20. For prior coverage of Rhode Island's income tax changes, see State Tax Notes, June 14, 2010, p. 839, Doc 2010-12762, or 2010 STT 111-26.)

However, other states, such as Maryland and California, have raised taxes multiple times in recent years and still have structural budget problems, Henchman said. With the economy likely to grow at a rate between 1 and 3 percent per year for the foreseeable future, states can no longer expect to sustain spending increases of 5 percent or more annually, he said.

“There needs to be a complete rethinking of how states fund themselves,” Henchman said. ✰