



**Tax Policy Center**  
Urban Institute and Brookings Institution

## **THE TAX POLICY**

### **BRIEFING BOOK**

*A Citizens' Guide for the  
2008 Election and Beyond*

# **STATE AND LOCAL TAX POLICY**

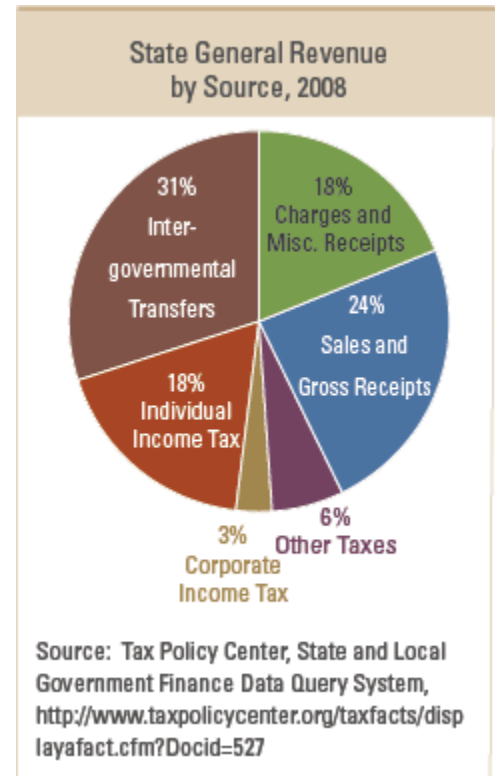
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## State and Local Tax Policy: What are the sources of revenue for state governments?

States collected general revenues totaling over \$1.5 trillion in 2008. 28% of that revenue came as transfers from the federal government and, to a much smaller degree, from local governments. The remainder came from state taxes, fees, and miscellaneous receipts.

- States received \$446 billion in intergovernmental transfers in 2008, which accounted for 29 percent of their general revenues.
- Sales and gross receipts taxes were the largest source of states' own tax revenues in 2008, totaling about \$360 billion or just under one-fourth of general revenues.
- Individual and corporate income taxes accounted for about one-fifth of state general revenues in 2008. The individual share totaled a little under \$280 billion and the corporate share a little over under \$50 billion.
- Other taxes, charges, fees, and miscellaneous receipts totaled just over \$380 billion in 2008, about one-fourth of general revenues.



### See Also

The Numbers: What is the breakdown of tax revenues among federal, state, and local governments?

State and Local Tax Policy: What are the sources of revenue for local governments?

### Data Sources

U.S. Census Bureau, "State, and Local Government Finances"

State General Revenue, by Source, 2005, Tax Policy Center Tax Facts

Author: Robertson Williams

Last Updated: December 23, 2010

### Further Reading

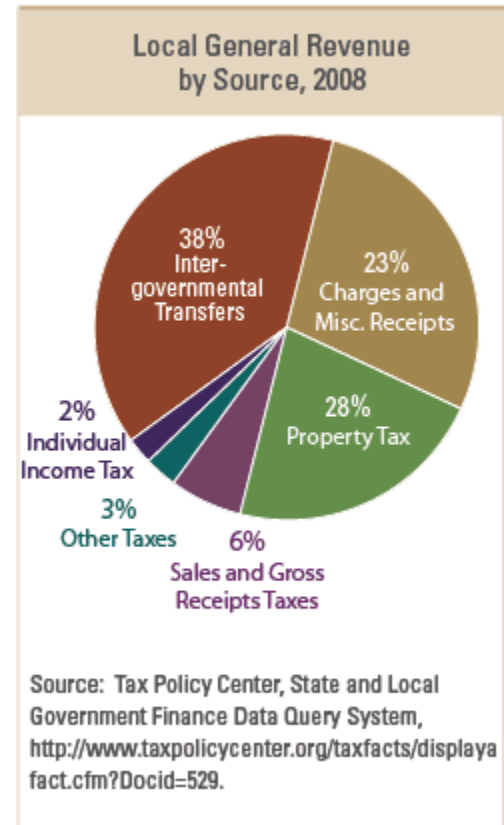
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## State and Local Tax Policy: What are the sources of revenue for local governments?

Local governments collected general revenues totaling \$1.4 trillion in 2008. Nearly 40 percent of that revenue came as transfers from the federal and state governments. The remainder came from local taxes, fees, and miscellaneous receipts.

- Local governments received about \$525 billion in intergovernmental transfers in 2008, which accounted for 37 percent of their general revenues.
- Property taxes constituted the largest source of local governments' own revenue in 2008, totaling nearly \$400 billion, or 28 percent of general revenues.
- Charges and miscellaneous receipts accounted for 23 percent of local government revenues in 2008, about \$330 billion.
- Sales and gross receipts taxes, individual income taxes, and other revenues made up the remaining 12 percent of local general revenues, yielding a little over \$150 billion in 2008.



### See Also

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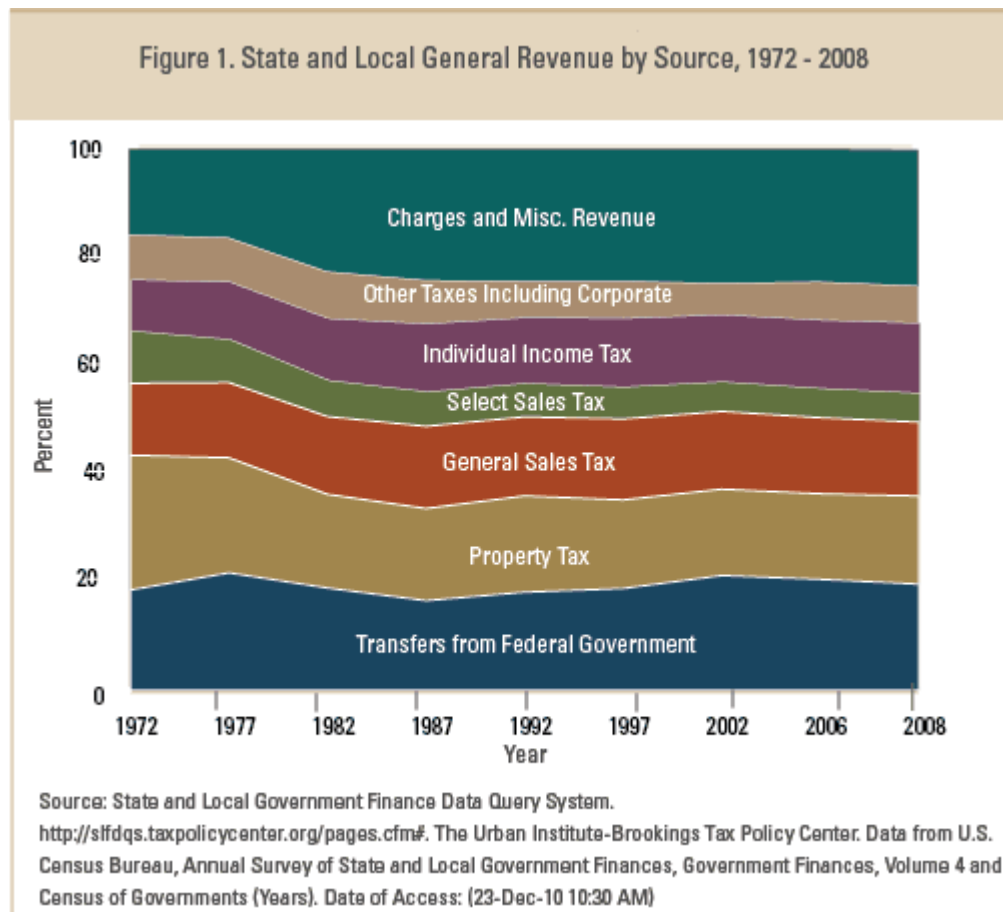
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## State and Local Tax Policy: How have the sources of revenue for state and local governments changed over time?

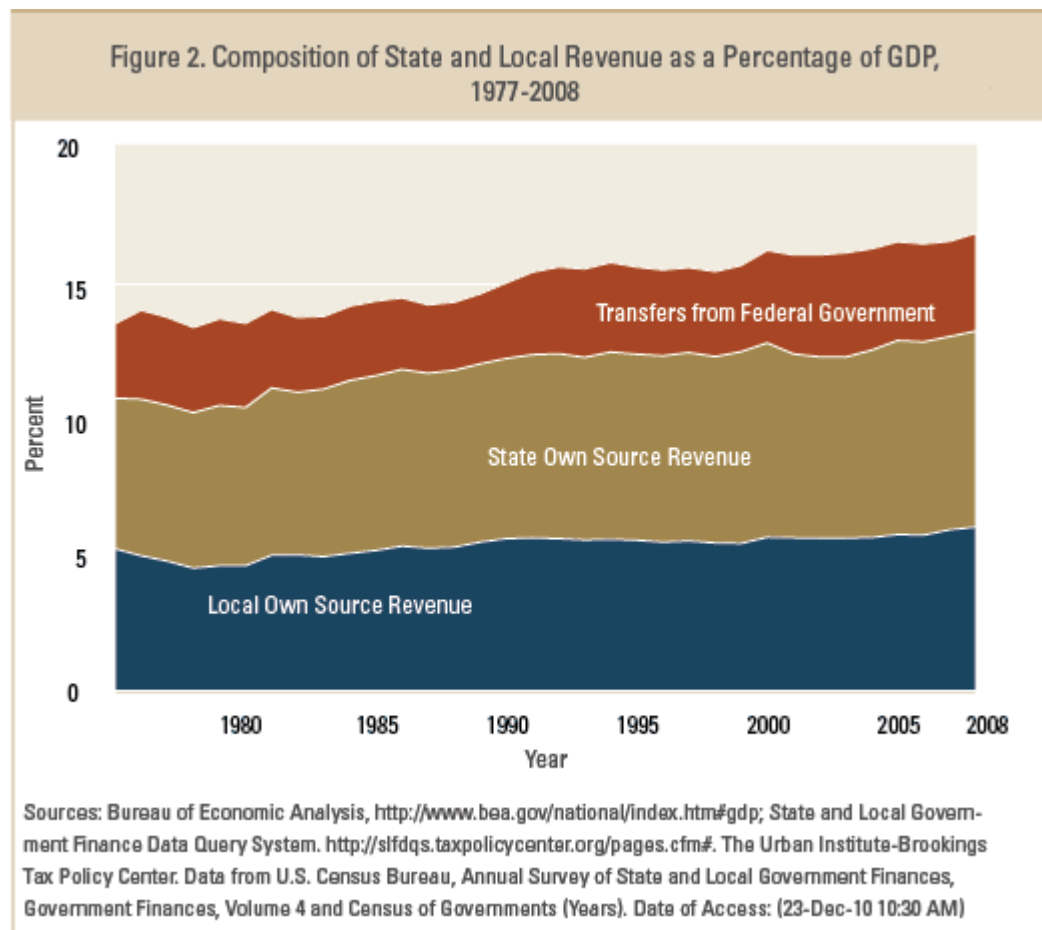
State and local governments collected general revenues totaling \$2.4 trillion in 2008. A fifth of this, or \$481 billion, came as transfers from the federal government, with the remainder coming from state and local taxes, charges, and miscellaneous revenues. Although revenue collections have been relatively stable as a share of GDP over the past 30 years, their composition has changed: relatively less now comes from property taxes and relatively more is from charges and miscellaneous revenues (see figure 1).



- At \$614 billion, charges and miscellaneous revenues were the largest source of state and local governments' own-source revenue in 2008. Collections in 2008 made up 25 percent of total revenue, a 9 percentage point increase since 1972 and the highest share over the intervening period.
- State and local governments' reliance on the property tax has declined over the past 30 years. Property tax revenues decreased as a share of general revenues from 26 percent of general revenue in 1972 to just 17 percent in 2008, with virtually all of the decrease occurring in the 1970s and early 1980s. This decline was largely offset by the growth of charges and miscellaneous revenues.

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- Together, general and selective sales taxes provided the largest share of state and local tax revenue in 2008, totaling \$449 billion, although their share of general revenue declined from 22 percent in 1972 to 18 percent in 2008. Selective sales tax revenue accounted for nearly this entire decline, falling from 10 percent in 1972 to 6 percent in 2008, while general sales tax varied between 12 and 14 percent. Most of the decline in selective sales tax collections was due to decreasing tobacco and motor fuel tax revenue.
- Personal income taxes increased from 9 percent of all revenues in 1972 to a peak of 14 percent in 2001 at the end of the 1990s boom before falling back to 11 percent in 2003. Collections in 2008 totaled \$305 billion, or 13 percent of general revenue.
- Total state and local revenues increased slightly as a share of GDP over the past 30 years, growing from a low of 13.4 percent in 1979 to a high of 16.3 percent in 2001. Revenues remained at approximately this level through 2007 and increased slightly in 2008 to 16.9% of GDP.
- State and local revenues and intergovernmental transfers have grown at different rates (see figure 2). State own-source revenue measured as a share of GDP increased 30 percent between 1972 and 2008 from 5.7 percent of GDP to 7.4 percent. Local own-source revenue grew at about the same rate, from a low of 4.6 percent of GDP in 1979 to a high of 6.1 percent in 2008. Transfers from the federal government varied between 2.3 percent of GDP in 1989 and 3.6 percent of GDP in 2004: it stood at 3.4% in 2008.



**See Also**

The Numbers: What is the breakdown of tax revenues among federal, state, and local governments?

State and Local Tax Policy: What are the sources of revenue for state governments?

State and Local Tax Policy: What are the sources of revenue for local governments?

**Data Sources**

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Authors: Kim Rueben and Carol Rosenberg  
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## State and Local Tax Policy: How do state and local income taxes work?

Forty-three states and the District of Columbia impose individual income taxes. The definition of taxable income varies by state (for example, New Hampshire and Tennessee tax only income from dividends and interest), but most states generally follow the federal definition, except that taxpayers may not deduct state income taxes paid. In addition, states often apply different rules than the Internal Revenue Service for other types of income and have differing tax rates. Nine states apply a single tax rate to all incomes, while the rest have multiple tax brackets and rates. Top marginal rates for state income tax in 2008 ranged from 3 percent in Illinois to 10.3 percent in California. Individual income taxes account for a relatively small share of state and local revenue: across all states, their contribution to general revenue rose from a low of 9.1 percent in 1972 to a peak of 13.7 percent in 2001 at the end of the 1990s boom, before falling back to 11.3 percent in 2003. Collections in 2005 totaled \$241 billion, or 12 percent of general revenue.

- Fourteen states permit local governments to impose an income tax in addition to the state income tax. Local income taxes are currently imposed in specific localities in eleven of these states, but at significant levels in only three (Maryland, Ohio, and Pennsylvania). In most states, local income tax takes the form of a tax on wages; other states levy local income tax simply as a percentage of the state income tax.
- Most state income taxes are fairly flat, even in those states that apply graduated tax rates. In several states the top tax bracket begins at a very low level of taxable income; Alabama, for example, starts its top rate at \$3,000. In other states the difference between the lowest and the highest tax rates is small: just 2 percentage points in Connecticut and Mississippi, for example.
- In the middle and late 1980s, most states followed the federal government's lead in reducing the number of income tax brackets: nineteen states did so within three years of enactment of the federal Tax Reform Act of 1986. But that trend has reversed more recently. Some states have imposed new brackets for high-income taxpayers, often called "millionaire's taxes." In 2005 California initiated a 1 percent additional tax on income over \$1 million, and New Jersey enacted an additional tax bracket for income over \$500,000. Most recently, Maryland expanded its effectively flat system to include an additional three marginal tax brackets, with the highest beginning at \$500,000, effective in tax year 2008. But some states have gone in the opposite direction: New York added two high-income brackets in 2003, with the top bracket starting at \$500,000, but reverted to a top bracket beginning at \$20,000 in 2007.
- In 2005 fifteen states treated capital gains and losses the same as under federal law, taxing all capital gains and allowing the deduction of up to \$3,000 in net capital losses. New Hampshire fully exempted all capital gains, and Tennessee taxed only capital gains from the sale of mutual fund shares. Massachusetts had its own system for taxing capital gains, applying a 12 percent rate to short-term gains (net of capital losses) and long-term gains from collectibles and pre-1996 installment sales, and a 5.3 percent rate to all other long-term gains. Hawaii had an alternative capital gains tax. The remaining twenty-four states that tax income and the District of Columbia generally followed federal treatment, with the exception of various state-specific exclusions and deductions.
- Income tax is generally imposed by the state in which the income is earned. However, various states have entered into reciprocity agreements with one or more other states that allow income earned in another state to be taxed in the state of residence. For example, Maryland's reciprocity

agreement with the District of Columbia allows Maryland to tax income earned in the District by a Maryland resident. As of 2004, sixteen states had adopted reciprocity agreements; typically these are states with employment centers close to a state border and large flows in both directions.

- State income tax rates appear to have little effect on rates in neighboring states. A 2003 study estimated that a 10 percent increase in personal income tax rates in neighboring states would actually induce a *decrease* of less than 1 percent in the home state's tax rate. The author suggests that the relative immobility of the tax base explains the counterintuitive result: few workers move across state lines simply to reduce the income taxes they pay.

Figure 1. Top Marginal State Individual Income Tax Rates, 2008

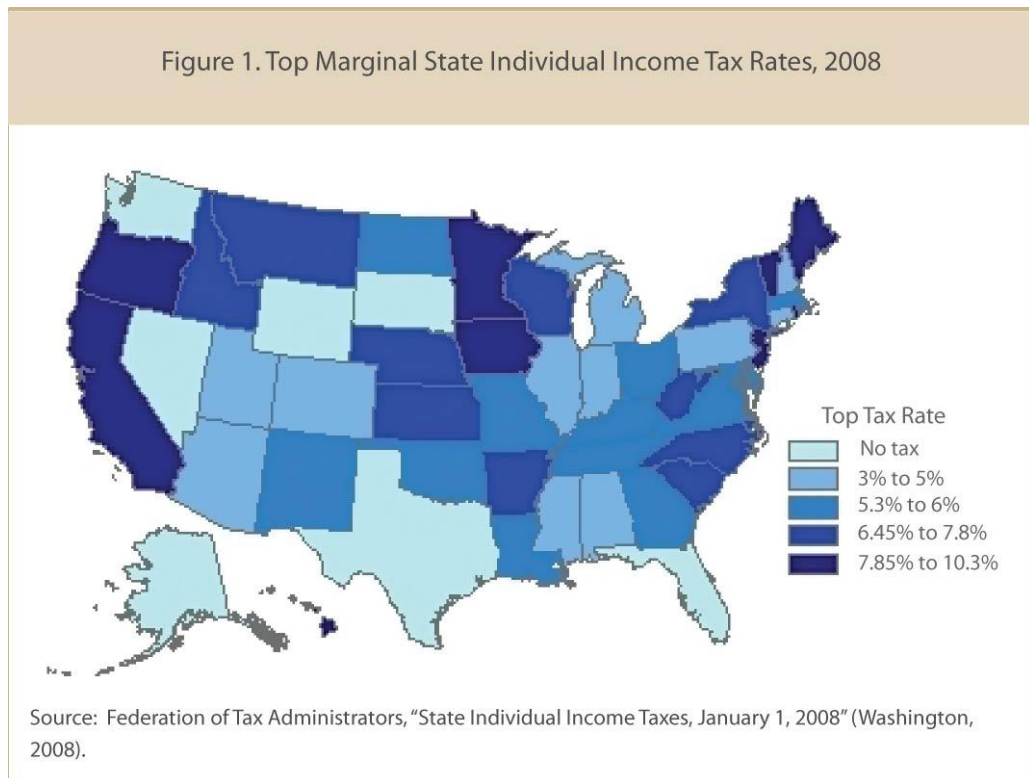
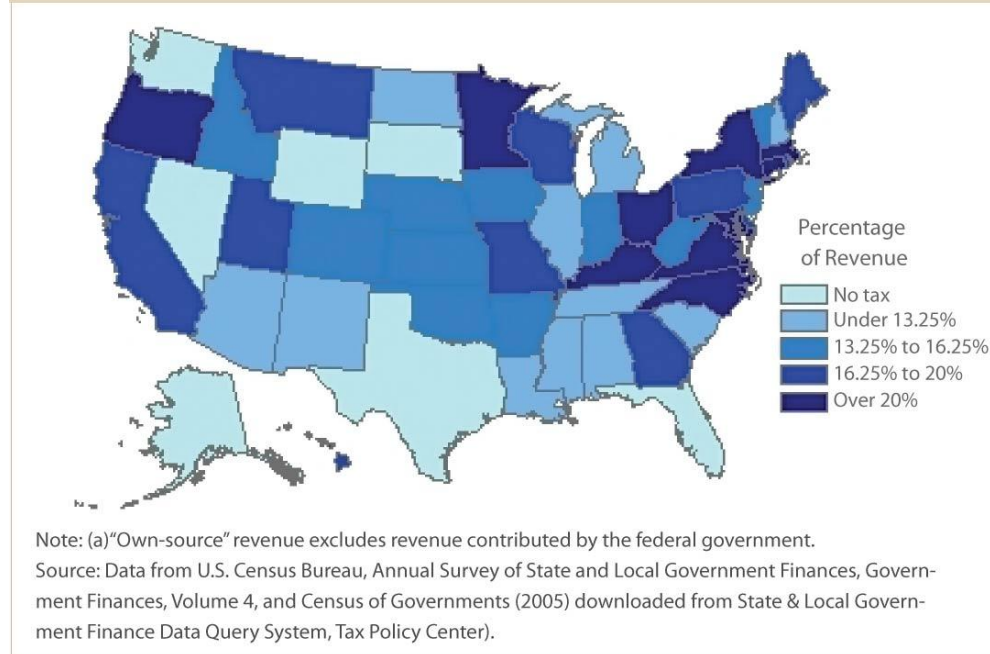


Figure 2: Shares of Individual Income Tax in Total State and Local Own-Source Revenue, 2005<sup>a</sup>



**See Also**

State and Local Tax Policy: What are the sources of revenue for state governments?

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State and Local Tax Policy: How have the sources of revenue for state and local governments changed over time?

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Authors: Kim Rueben and Carol Rosenberg  
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## State and Local Tax Policy: How do state and local sales taxes work?

Forty-five states and the District of Columbia impose a general sales tax, applied with only specified exemptions to sales of all types of goods, and in some states to certain services as well. In 2008 state sales tax rates ranged from 2.9 percent in Colorado to 7 percent in Mississippi, New Jersey, Rhode Island, and Tennessee. Thirty-six states (including one, Alaska, that has no state sales tax) also allow sales tax at the county, municipal, or special district level. In 2008 maximum local sales tax rates ranged from 0.25 percent in Mississippi to 8 percent in Alabama. The highest maximum combined state and local sales tax rate in 2008 was 12 percent in parts of Alabama; the lowest (among states that have a sales tax) was 4.5 percent in Hawaii. General sales taxes have accounted for a roughly constant percentage of state and local general revenue over the past thirty years, varying from 12.1 percent in 1972 to 14.5 percent in 1988. This stability in revenue reflects tax rate increases that have offset the shrinking of the tax base due to changes in economic behavior.

- Only eight states fully tax food sales, and five of those states allow a rebate or an income tax credit to offset the burden on poor households. Seven states tax food at a lower rate than other goods, and the remaining thirty-one states exempt food completely.
- Only Illinois taxes prescription drug sales, and it taxes them at a lower rate than other goods. Other common exemptions include books and clothing.
- Local sales tax is generally imposed on the same goods and services that are taxable at the state level, with a few notable exceptions. Colorado, Georgia, Louisiana, and North Carolina allow local governments to tax certain products—in particular, food—that are exempt from state sales tax.
- As economic activity has shifted from manufacturing to services over the last several decades, some states have incorporated services into their sales tax base, but to greatly differing extents. For example, out of 168 services tracked by a 2005 Federation of Tax Administrators survey, Hawaii taxes 160 while Colorado taxes only 14. Services commonly subject to taxation include event admissions, utilities, and lodging.
- Most states also apply selective sales taxes to particular goods and services separately from the general sales tax. The most common such taxes are on alcoholic beverages, motor fuels, and tobacco products. Revenues from these taxes have been falling despite increases in rates.
- State and local governments may impose taxes only on sales that occur in their jurisdiction, but determining the location of catalog or online sales may be difficult. A retailer with sufficient physical presence in a state to be obligated to charge the state's sales tax is said to have nexus. A state or local government may tax sales by a retailer with nexus in the state or locality, but nexus rules are complicated, and many questions about their application to online transactions remain unresolved.
- Expanding sales taxes to cover remote sales is complicated by the lack of coordination in tax rates and in definitions of goods across states. Nearly all states that levy sales taxes participate in the Streamlined Sales Tax Project, whose goals are to increase uniformity in definitions and rules across states and to simplify tax rates and administration within states.

Figure 1. Maximum Combined State and Local Sales Tax Rates, 2008

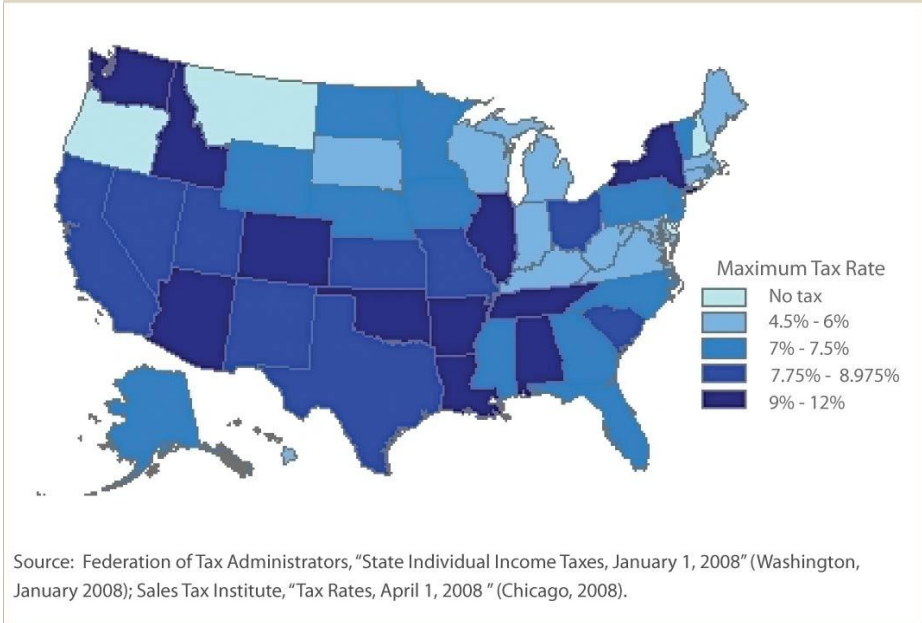
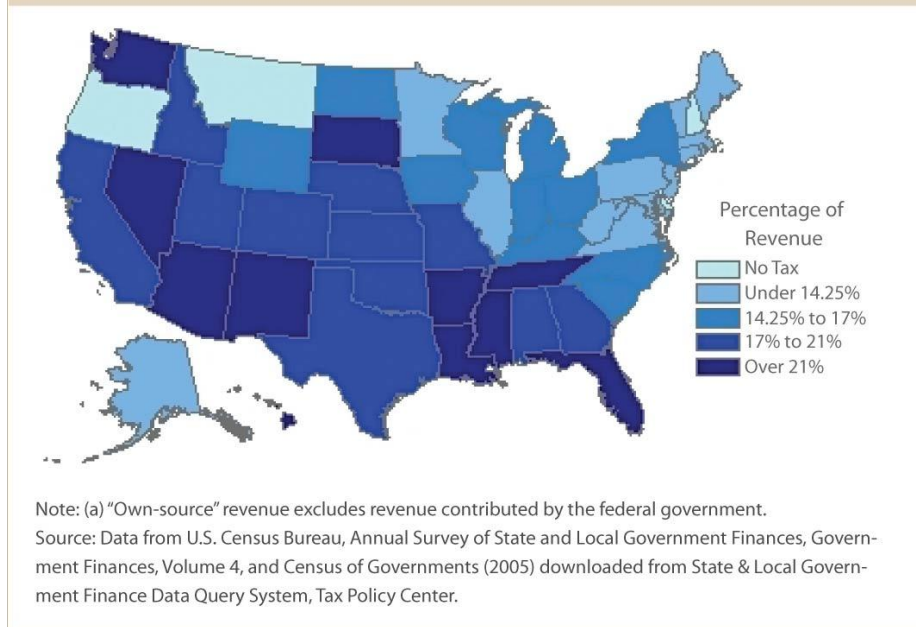


Figure 2. General Sales Tax Share of Total State and Local Own-Source Revenue, 2005<sup>a</sup>



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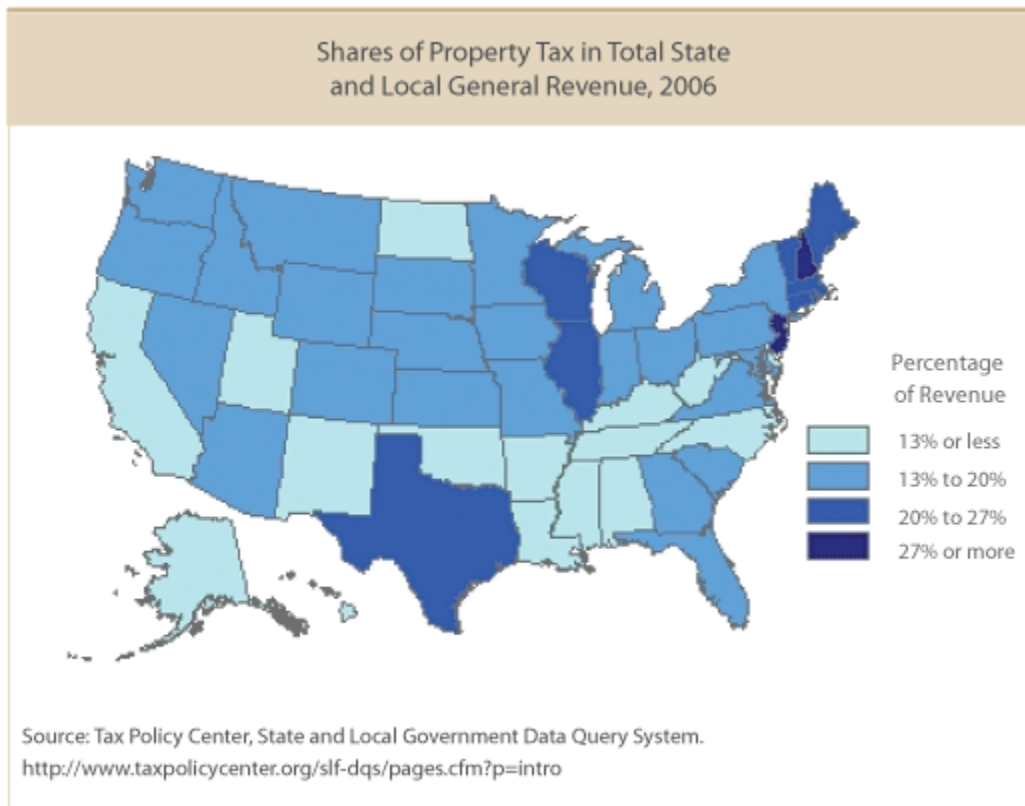
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## State and Local Tax Policy: How do property taxes work?

Jurisdictions in all 50 states and the District of Columbia impose property taxes, which provide local and some state jurisdictions with a stable and reliable source of revenue. Most property tax revenue comes from levies on real property (land and improvements to land) but states often tax personal property (such as noncommercial motor vehicles) as well. The tax equals a percentage (the tax rate) of the assessed value of the property and may be levied in some form at every level of government— state, county, municipal, township, school district, and special district. In 2006, states and localities collected \$359 billion, nearly 97 percent at the local level.



- The property tax gives state and local governments a stable and reliable source of revenue. Its base is immobile and, as real property values rise over time, revenue grows with no rate change. Tax jurisdictions could keep revenues constant by lowering rates but they tend to do so only with a lag.
- The property tax is very unpopular among taxpayers. It is highly visible, different assessments for similar properties give a sense of unfairness, and the tax may unduly burden fixed-income property owners.
- The share of total revenue provided by property taxes varies widely from state to state, ranging in 2006 from just 6 percent of general revenue in New Mexico up to 34 percent in New Hampshire.
- The importance of property taxes differs greatly across levels of government.

- In total, local governments – counties, cities, townships, school districts, and special districts – get 28 percent of their general revenue and 72 percent of their tax revenue from property taxes, a total of \$347 billion in 2006.
- Independent school districts rely most heavily on the property tax for own-source general revenue, receiving 79 percent from this source. They also receive intergovernmental aid, usually from the state.
- Counties raise 39 percent of own-source general revenue from the property tax, while property tax revenues make up 34 percent of own-source general revenue for cities and townships.
- States get only a small fraction of their tax revenue from property taxes, less than 2 percent in 2006. However, states that lack a sales tax or an income tax (or both) typically rely more heavily on property tax revenue: the levy's share of total tax revenue exceeds 8 percent in Vermont, New Hampshire, Wyoming, Washington, Montana, Michigan, and Arkansas. Some states, including Michigan, Vermont, and New Hampshire, have recently enacted state property taxes as part of school finance reform.
- Reliance on the property tax has declined over the past 30 years, as state and local collections have dropped from 26 percent of general revenue in 1972 to just 16 percent in 2001. Virtually all of the drop occurred in the 1970s and early 1980s with some increases in reliance on the property tax in the last five years. State and local governments raised 16.4 percent of their general revenue from property taxes in 2006. The revenue share remained relatively constant at the state level, varying between 1.3 percent and 0.9 percent. Local collections, however, fell from 39.5 percent of general local revenues in 1972 to 26.5 percent in 2001. Local reliance has increased slightly since 2001; property tax made up 27.9 percent of general revenue in 2006.
- In recent decades, many states have imposed limits on property tax rates, property tax revenue, or increases in assessed property values, reducing reliance on the property tax as a source of revenue. California, for example, limits the tax rate to 1 percent and annual assessment increases to 2 percent until a property is sold.
- Many states have provisions that reduce property tax burden.
  - Homestead exemptions in 28 states and the District of Columbia reduce the fraction of the assessed property value subject to tax.
  - Seventeen states and the District of Columbia use circuit breaker credits to limit the share of income claimed by property taxes.
  - Property tax deferrals allow elderly and disabled homeowners to defer payment until the sale of the property or the death of the taxpayer; 22 states and the District of Columbia allow such deferrals but they are not widely used.

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**Data Sources**

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Authors: Kim Rueben and Carol Rosenberg  
Last Updated October 9, 2008

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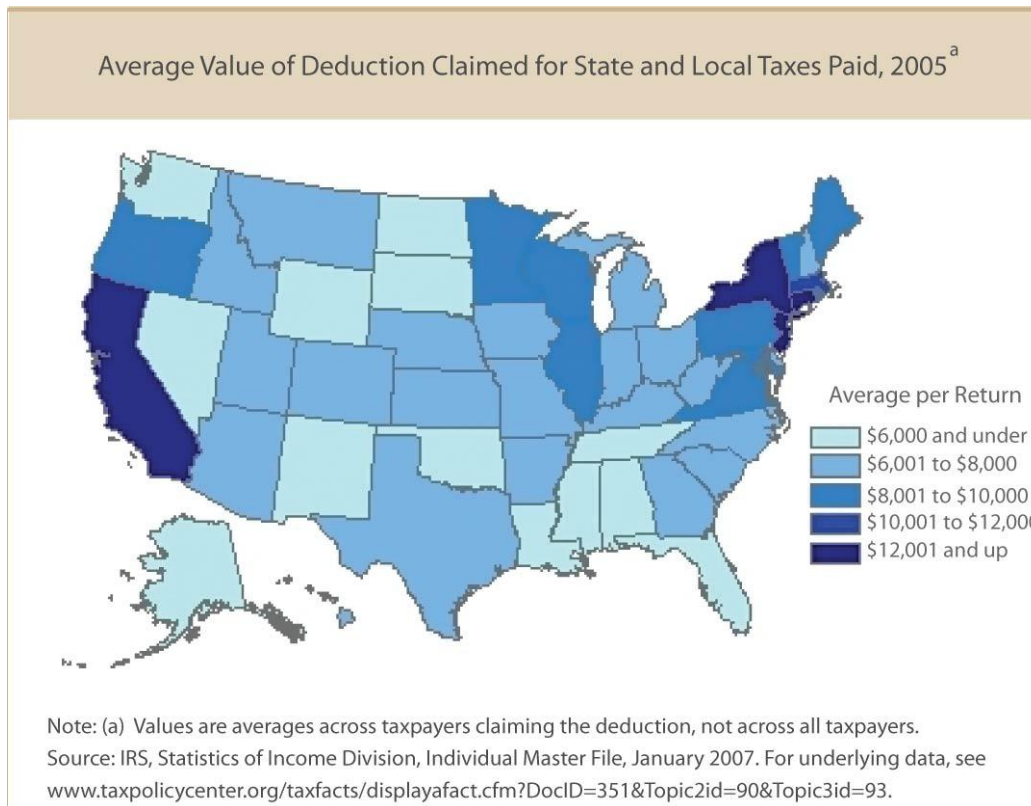
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\_\_\_\_\_, *State Tax Policy: A Political Perspective*, 2nd ed. (Washington: Urban Institute Press, 2005).

## State and Local Tax Policy: How does the deduction for state and local taxes work?

Taxpayers who itemize deductions may subtract general state and local taxes in calculating their federal taxable income. They may deduct either income or sales taxes they have paid (that choice expires, however, after 2007) as well as property and certain other taxes. Virtually all of the 48 million households who itemized in 2005 claimed a deduction for state and local taxes paid; these deductions totaled \$420 billion. The state and local tax deduction cost an estimated \$50.7 billion in tax expenditures in fiscal 2007, compared with \$73.7 billion for the home mortgage interest deduction and \$41.9 billion for the individual charitable contributions deduction.

- State and local taxes have been deductible since the inception of the federal income tax in 1913, when all taxes (including federal, state, and local taxes not directly tied to a benefit) were deductible against federal income. By 1964 deductible taxes had been limited to state and local taxes on real and personal property, income, general sales, and motor fuel sales. The deduction for taxes on motor fuel was eliminated in 1978. The Tax Reform Act of 1986 eliminated the deduction for general sales tax; this deduction was partially and temporarily reinstated in 2004.
- From 2004 to 2007, itemizers could elect to deduct state and local sales taxes in lieu of deducting state and local income taxes. About 73 percent of itemizers deducted income taxes in 2005, while 23 percent—mostly in states without a general state income tax—chose to deduct sales taxes. About 86 percent of itemizers deducted real estate taxes.
- Although taxpayers in all states claim the deduction, the benefits are concentrated in relatively few states: those with a disproportionate share of high-income households and relatively high state and local taxes. In 2005, taxpayers in California and New York together made up 20 percent of those claiming the deduction and accounted for 30 percent of its value. Itemizers in New York, New Jersey, Connecticut, and California (listed in descending order of the average deduction) claimed on average over \$12,000 per household (see figure), well above the national average deduction of \$8,764 per household.
- The alternative minimum tax (AMT) scales back or eliminates the benefit from deducting state and local taxes for some taxpayers. The deduction is the largest single AMT preference item (a deduction allowed under the regular income tax but not under the AMT): it accounted for more than 60 percent of the dollar value of all preferences in 2005. Virtually all AMT taxpayers lost at least some of the deduction that year.



- Critics of the deduction argue that state and local taxes simply reflect payments for services provided by state and local governments and, as such, should be treated no differently from other forms of consumption. Moreover, the deduction most benefits the affluent: the 11 percent of taxpayers with incomes exceeding \$100,000 claimed nearly 60 percent of the value of deductions in 2005.
- Proponents of the deduction counter that the portion of an individual's income claimed by a state or local government is not really part of the individual's disposable income and that taxing it is double taxation. The deduction also may encourage higher-income taxpayers to support state programs that primarily benefit lower- and middle-income households.
- Eliminating the deduction would increase federal tax receipts by about \$40 billion in 2008 and about \$750 billion between 2008 and 2017 (less if Congress extends the 2001-06 income tax rate cuts beyond their scheduled 2011 expiration). Elimination could be coupled with repeal of the AMT; the revenue gain from the former could help offset the fall in revenue from the latter. Eliminating both would cut revenue by \$2 billion in 2008 but would increase revenue by \$340 billion over ten years.
- Because many fewer taxpayers pay the AMT than benefit from the deduction of state and local taxes, repealing both provisions would cause many more households to pay more taxes than to pay less: taxes in 2007 would have increased for 22 percent of households and fallen for only 11 percent, and the average federal income tax bill would have risen nearly \$100. Most taxpayers with income between \$200,000 and \$500,000 would have gained, because most of them pay AMT: nearly three-fifths of them would have paid less tax. Losers would outnumber winners in all other income categories.

- The deduction indirectly subsidizes state and local governments. Evidence on how they would respond to its elimination is limited. Estimates based on 1995 data of the effect on the tax price—the net cost to taxpayers of financing an additional dollar of state and local spending—suggest that eliminating the deduction would lead to an average increase of 8.5 percent, varying across states from less than 1 percent in Wyoming to 10 percent in Maryland. After the Tax Reform Act of 1986 eliminated the deductibility of state and local sales tax, however, the amount of state and local tax revenue coming from the sales tax changed little. Limited evidence also suggests that eliminating the deduction would induce some high-income households to move from higher-tax areas to lower-tax areas.

### See Also

Alternative Minimum Tax: What is the AMT?

Alternative Minimum Tax: Who pays the AMT?

Income Tax Issues: How do the standard deduction and itemized deductions compare?

Tax Expenditures: What are the largest tax expenditures?

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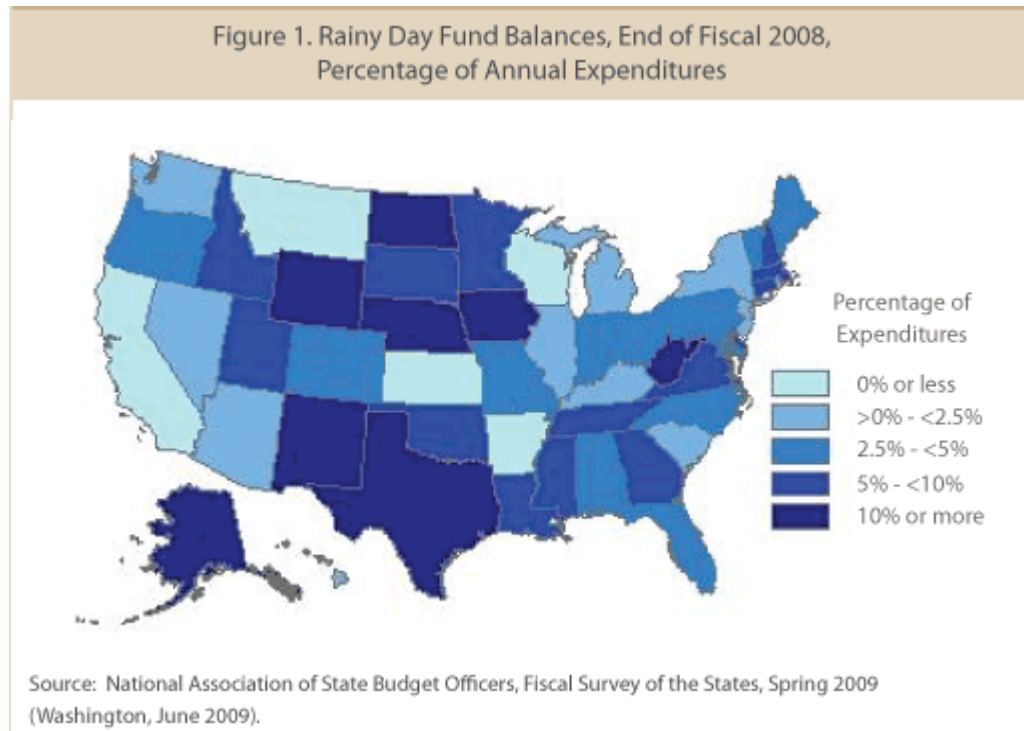
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## State and Local Tax Policy: What are rainy day funds and how do they work?

Budget stabilization or “rainy day” funds allow states to set aside excess revenue for use in times of unexpected revenue shortfall or budget deficit. In fiscal 2008, forty-seven states and the District of Columbia maintained rainy day funds. Only Arkansas, Kansas, and Montana lacked such funds. At the end of fiscal 2008, state rainy day funds (excluding that of the District of Columbia) totaled \$35.0 billion, or 5.1 percent of the combined general fund expenditures. In addition, during times of economic expansion, when actual revenues exceed projected revenues, states accumulate reserves in their general fund balances, which can then act as de facto rainy day funds in later years.

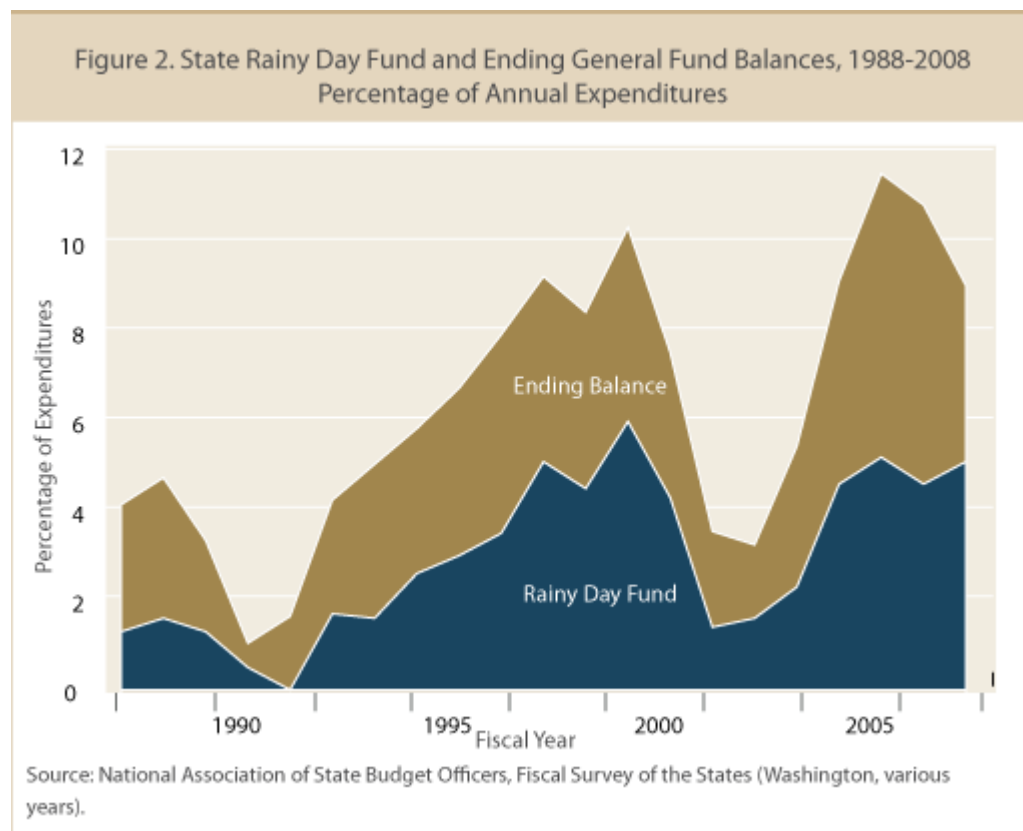
- Rainy day fund balances in 2008 varied significantly across states, from zero in California and Wisconsin and less than 1 percent of annual expenditures in Michigan and Wisconsin to 17 percent in Nebraska and nearly 150 percent in Alaska (figure 1). Twenty-two states had rainy day fund balances greater than 5 percent of annual expenditures, and funds in eight states exceeded 10 percent.



- States typically transfer resources to rainy day funds through line-item budget appropriations or by designating portions of budget surpluses. Some states make deposits from specific revenue sources, such as mineral revenues in Alaska and Louisiana and oil and natural gas revenues in Texas. Forty of the states with rainy day funds cap their funds at levels that range from 2 to 15 percent of revenues or expenditures.
- States most often use their rainy day funds in times of budget deficit—every state except Vermont has some sort of requirement to balance its budget each year. Some states allow withdrawals for any purpose deemed appropriate by the governor or the state legislature, whereas others allow withdrawals only if the deficit is due to a revenue shortfall, and others only if it is caused by unexpected expenditures. Still others permit fund withdrawals to address a natural disaster or other declared emergency. Colorado’s Taxpayer Bill of Rights (TABOR) mandates an emergency

fund (instead of a rainy day fund) that does not allow withdrawals in response to economic conditions, revenue shortfalls, or government salary increases; the fund may only offset shortfalls caused by natural disasters. Sixteen states require a supermajority vote of the legislature in order to transfer money out of the rainy day fund.

- An economic downturn can cause significant fiscal stress for states, because given no changes in policy, revenues will decline as expenditure needs increase to meet greater demands for programs such as unemployment insurance and Medicaid. Savings in a rainy day fund may help states weather a fiscal downturn with fewer expenditure cuts. Analysis of state spending during the 2001 recession suggests that state savings in rainy day funds or end-of-year general fund balances at the start of the recession allowed states (in the aggregate) to maintain relatively constant spending even as revenues declined.
- Rainy day fund savings peaked at the start of the 2001 recession, totaling 6.0 percent of aggregate state expenditures at the end of fiscal 2000, before declining to 1.4 percent of expenditures in 2002 (figure 2). Thereafter fund balances climbed to 5.2 percent of expenditures in 2006. Fund balances totaled 5.1 percent of expenditures at the end of fiscal 2008.



### See Also

State and Local Tax Policy: What are the sources of revenue for state governments?

### Data Sources

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### Further Reading

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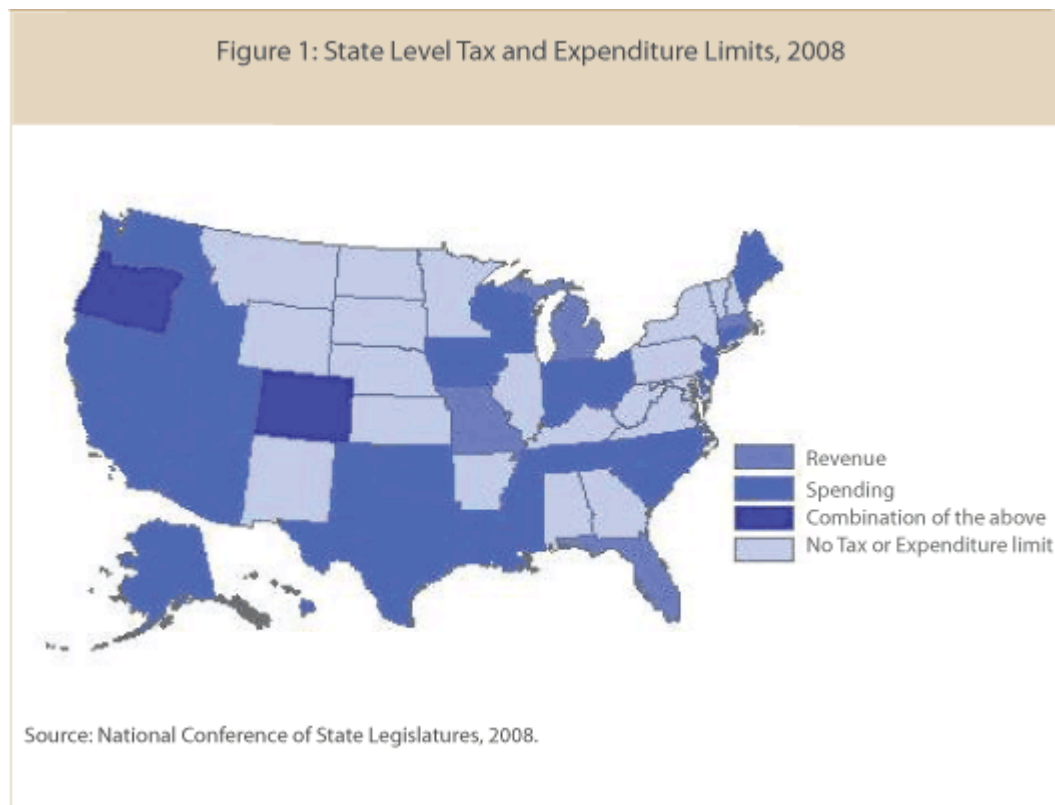
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## State and Local Tax Policy: What are tax and expenditure limits?

Tax and expenditure limits (TEs) restrict the level or growth of government revenues or spending to a fixed numerical target or to increases in an index such as population, inflation, personal income, or some combination of these measures. As of 2008, thirty states had at least one TEL. Twenty-three states imposed state spending limits, four had state revenues limits, and three had both. Another way states limit growth in revenues is through requiring legislative supermajority or voter approval requirements for passage of new taxes. Sixteen states had such requirements in place in 2008 (Waisanen, 2008). In addition, forty-six states limited property taxes or other revenues or expenditures of local governments (Mullins and Wallin, 2004). Several local governments also operated under their own locally imposed TELs (Brooks et al., 2007).



- Most TELs emerged during the “tax revolt” of the late 1970s or the economic recession of the early 1990s. Although many of the best known local property tax limits such as California’s Proposition 13 and Massachusetts’s Proposition 2<sup>1</sup>/<sub>2</sub> were adopted through citizen initiatives, most state TELs come from state legislatures. As of 2008, legislatures had enacted 14 TELs and referred ten more to popular vote. Eight TELs were passed as voter initiatives and two emerged from constitutional conventions.
- More stringent TELs require that surplus revenues go back to taxpayers as rebates or into rainy day funds. Some TELs prohibit states from evading the limit through unfunded mandates or transfers of program responsibility to local governments.
- Colorado enacted a Taxpayer Bill of Rights (TABOR) in 1992 that is arguably the nation’s most restrictive TEL. TABOR applies to all taxing districts in Colorado and requires that voters approve all tax rate increases, new taxes, and increases in property tax assessments. The law also

explicitly prohibits particular types of taxes. Finally, and arguably most importantly, TABOR limits general revenues to the previous year's revenues adjusted for population growth and inflation. All excess revenues must go back to Coloradans through tax reductions or cash rebates. Only voters can override these provisions or any other spending or revenue limits. Colorado voters agreed in November, 2005, to suspend their revenue cap for five years, resetting the level of the limit based on current limits (McGuire and Rueben, 2006).

- Related to TELs are legislative supermajority and voter approval requirements for new taxes. Sixteen states had such requirements in 2008. Thresholds for a legislative supermajority ranged from three-fifths to three-fourths. Supermajority or voter-approval requirements may pertain to all taxes or only to specific revenue sources such as corporate or sales taxes.
- TELs can also interact with other constraints. Knight (2000) found that states with both TELs and supermajority requirements to raise taxes had lower expenditures than states with just one or the other constraint. Poterba and Rueben (1999) found that TELs affect the costs of state borrowing in two ways: spending limits lower the costs while revenue limits increase them.
- Evidence on whether TELs limit state and local spending is mixed (Gordon, 2008). Rueben (1996) found that specific details of the laws matter. She also found that TELs requiring a legislative supermajority or popular vote to modify spending led to a 2 percent reduction in state general fund expenditures, but that those savings were offset in part by higher local spending.
- Recent volatility in state and local government finances has renewed interest in TELs with many states proposing limits modeled on Colorado's TABOR or other limits on property taxes or public spending. As of mid-2009, no other states had enacted measures like TABOR.

**See Also**

State and Local Tax Policy: What are the sources of revenue for state governments?

State and Local Tax Policy: What are the sources of revenue for local governments?

State and Local Tax Policy: What are rainy day funds and how do they work?

**Data Sources**

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