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The Governors' Encouraging Embrace of Sensible Tax Policies.

More of them are calling for the lower rates and prudent spending that fuel economic vitality.

As is usually the case, the State of the State addresses delivered this year by 47 governors responded to a number of trends and outlined a range of policy priorities. And as always, fiscal policies were mostly front and center. Refreshingly, more governors called for broad-based tax relief than tax increases, recognizing the reality that economic policy directly impacts quality of life and opportunity.

Proposals aren't policy, of course. But they signal the directions in which governors want to take their states. Some of the governors' proposals have been enacted in one form or another, some haven't, and others are still being debated. But for many states the most pressing tax issue is one stemming from last year's federal tax reforms.

As a result of the first federal tax reform in more than 30 years, many states are looking forward to higher tax revenues and surpluses. The net federal income tax cut centered on applying lowered tax rates to a broader tax base. Because many states in some way link their definition of taxable income to the federal definition, failure to lower state income tax rates would result in an increase in the state burden.

Republicans predominated among governors outlining plans to give this unexpected tax revenue back to taxpayers. Leading the way was South Carolina's Henry McMaster, who proposed nearly $2.2 billion in cumulative tax relief over the next five years by lowering each of the state's five income-tax brackets by 1 percentage point per year. Iowa Gov. Kim Reynolds called for "a tax reform package that significantly reduces rates" and "provides real tax relief for middle-class families, farmers, and small businesses." And West Virginia Gov. Jim Justice boldly departed from his past tax-hike proposals, proposing to lowering taxes on manufacturing machinery, inventory and equipment.

Georgia, Idaho and Missouri have already approved substantive tax-relief packages this year, but perhaps the most important pro-taxpayer proposal was Florida Gov. Rick Scott's plea for a constitutional amendment to require a two-thirds legislative supermajority to raise taxes. He said he hopes to "force leaders to contemplate living within their means rather than taking the easy way out and just sticking it to the public by raising taxes on families and job creators." Such an amendment would safeguard Florida's pro-growth reforms of the past seven years.

Not all governors expressed a desire to lower taxes or protect taxpayers. Alaska Gov. Bill Walker, an independent, earned the dubious distinction of being the only governor to propose a tax hike on personal income of any variety. The state repealed its personal income tax in 1980. To circumvent this, Walker called for "broad-based direct participation by individuals" in the form of an economically damaging payroll tax. Oklahoma Gov. Mary Fallin, a Republican, continued her push for a variety of tax hikes on cigarettes, fuel and energy production, and the legislature ultimately enacted approximately $450 million in tax hikes. Meanwhile, Louisiana's Democratic governor, John Bel Edwards, demanded that lawmakers renew a slew of expiring tax hikes worth nearly $700 million.

Two other Democratic governors championed significant tax-hike proposals. Pennsylvania's Tom Wolf once again embraced a severance tax on oil and natural gas, to be imposed on top of both an existing impact fee and the state's high corporate income tax. Meanwhile, Washington Gov. Jay Inslee once again called for enactment of a carbon tax that would generate an estimated $1.5 billion in revenue in just the first two years — an additional tax burden of more than $800 for a family of four.

Unfortunately, many governors continued to advocate for tax favoritism and subsidies in the name of economic development. These special deals for a select few companies result in higher tax rates overall along with economic distortions. New Mexico Gov. Susana Martinez, a Republican, applauded local-government deal closing funds, paid for with gross receipts taxes, that she claimed have "helped create thousands of jobs." Georgia's Republican governor, Nathan Deal, touted hundreds of special favors doled out by the state's Department of Economic Development to the tune of more than $6.3 billion. But the reality is that lowering business taxes across the board sparks far more sustainable growth than funding a few politically favored enterprises with taxpayer capital.

A stronger appetite for prudent fiscal policy evidenced itself in the arena of public pensions. A combination of underfunding and overpromising threatens to bust state budgets and is already pushing tax rates up. Several governors were eager to follow the recent reforms enacted in Arizona, Michigan and Pennsylvania.

In South Carolina, for example, Gov. McMaster called on lawmakers to close the state's defined-benefit pension system to new hires and move to a sustainable defined-contribution plan. Reform is certainly needed: According to the latest edition of the American Legislative Exchange Council's annual "Unaccountable and Unaffordable" public pension plan report, South Carolina's pensions are the nation's ninth worst funded. In Kentucky, Republican Gov. Matt Bevin acknowledged that the state has historically failed to pay the full annual required contribution for its public pension plans, leaving it the second worst funded. He promised, "This year they will be funded in their entirety for the first time in the history of the Commonwealth of Kentucky." Months later, the governor signed a pension-reform package into law.

That kind of fiscal discipline is as important than ever. Generally, states with responsible spending habits, lower tax rates and fewer regulations outperform others in economic growth. It's encouraging to see so many governors endorsing market-oriented tax and fiscal policies. With the midterm elections fast approaching, a window still exists to translate bold ideas into law.

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JUNE 14, 2018