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Despite Budget Shortfalls, Some Governors Call for Tax Cuts.

About half of the states are facing budget shortfalls this fiscal year, but many governors are still pushing to cut taxes in their proposed 2018 budgets.

The proposals vary in scope but generally fall within two categories: comprehensive and targeted.

Nebraska Gov. Pete Ricketts' proposal is of the comprehensive variety and may be the most aggressive call for tax cuts so far. He is asking for property and personal income tax cuts to be phased in beginning in 2019 — even as the state faces a \$900 million budget gap. Property taxes would be reduced via a new valuation formula and income tax breaks would kick in incrementally and only in years when state revenue grows by more than 3.5 percent.

On the whole, most of the comprehensive proposals are part of ongoing efforts.

"Many of these ideas are either follow-ons to things they've already done," said John Hicks, the National Association of Budget Officer's executive director. "Or they are things they hoped to do and haven't been able to yet."

For instance, Maine Gov. Paul LePage is again proposing to expand the state's sales tax on services as a way to pay for income tax cuts. In the latest version, LePage has extended his sales tax proposal to include streaming services like Netflix and rental platforms like Airbnb.

South Carolina Gov. Nikki Haley, who, if approved, will be vacating her office to take over as the United Nations ambassador for the Trump administration, is pushing for a pared-down version of a previous income and corporate tax cut proposal.

In Alaska, which faces a \$3 billion budget shortfall, Gov. Bill Walker has toned down his previous efforts to overhaul the state's finances. He still wants to reduce citizens' annual bonus checks from the Alaska Permanent Fund and divert some of the fund's investment earnings into the state budget each year. But he has backed off previous proposals for a new state income tax, instead leaving a \$900 million budget gap in his proposal for the legislature to fill.

Meanwhile, some governors are taking a more targeted approach.

Indiana Gov. Eric Holcomb wants to exempt veterans' pensions from the income tax; Arkansas Gov. Asa Hutchinson would cut taxes for low-income workers; and New York Gov. Andrew Cuomo wants to preserve planned tax cuts for the middle class.

Cuomo is renewing his proposal for a millionaire's tax hike, which would help pay for that state's \$3.5 billion budget deficit. In Montana, which is also facing a shortfall, Gov. Steve Bullock has proposed a tax hike on his state's wealthiest residents. And Washington Gov. Jay Inslee is proposing a new tax on capital gains to help pay for the state's court-mandated education funding increases.

Outside of raising income taxes, some states are looking to excise or sin taxes to fill needs or budget deficits.

Governors in California, Indiana and Tennessee have floated raising the gas tax to fund transportation projects. In recent years, roughly 20 other states have approved gas tax hikes to raise sorely needed money for infrastructure and overdue maintenance. Governors in Colorado and Nevada have pitched raising marijuana taxes, while Kansas Gov. Sam Brownback is proposing an alcohol and cigarette tax hike.

In both Colorado and Kansas, the tax increases would help cover projected budget deficits. That can be a dangerous habit, said Meg Wiehe of the progressive-leaning Institute on Taxation and Economic Policy, because such tax increases tend to discourage consumption.

“Politically speaking they’re low-hanging fruit,” she said. “The problem in relying on this is it is a very unsustainable increase. When you increase taxes on cigarettes, smoking declines. If the motivation is for public health, then that’s a different story. But if you’re looking to address a short, medium or long-term budget hole ... it’s a bad proposition.”

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