

## THE TAXONOMIST

**States Blow Off Bush**

By Robert S. McIntyre

**W**hile politicians in Washington, D.C. have been falling over themselves lately to provide huge new tax breaks to corporations and the wealthy, the story in the states is quite different, and quite heartening.

Take, for starters, the states' response to the big corporate tax cut that Congress passed this March at President Bush's insistence. By law or custom, almost all states—with the notable exception of California—follow federal rules in their corporate income tax codes. As a result, the central provision of Bush's so-called stimulus bill, a vast increase in corporate depreciation write-offs, threatened to drain state coffers by upwards of \$12 billion over the next three years.

Less than a week after Congress passed its corporate giveaway bill, however, the GOP-dominated Virginia legislature passed a measure that “decoupled” the Commonwealth's tax code from the federal depreciation changes. Six other states, along with the District of Columbia, quickly followed suit. In Mississippi, the Republican tax commissioner simply ruled that the new federal depreciation allowances were not consistent with the state's requirement that write-offs be “reasonable.”

In fact, counting states that must take positive action to conform and haven't done so, 16 states plus Washington, D.C., are now decoupled, and another ten states are on the verge of doing so. That means that about two-thirds of the potential state revenue losses have probably been averted—even ignoring long-decoupled California. There's also a reasonable chance for decoupling in another ten states, with about a quarter of the potential losses.

That leaves only eight states, with only 9 percent of the potential losses, that have definitively either acted to conform or allowed themselves to conform automatically. Most of the revenue losses in this category will be in just two states, Florida and Colorado. (In Colorado, the state's odd constitution requires that any law raising taxes requires approval by public referendum, and in this case, weirdly treats failure to stop a \$194 million corporate tax cut as a “tax increase.”)

Are most state politicians really less craven, less beholden to corporate lobbyists, than their federal counterparts? That's not a particularly plausible theory. What's actually driving the states is more basic. The states are broke, and unlike the federal government, they're required to balance their budgets.

Spurred on by the Center on Budget and Policy Priorities, fair-tax activists and public employee unions in the states pointed out to their governors and legislators that following the federal lead on corporate tax concessions would require slashing state programs. That, they noted, would not only be unpopular, but would also be anti-stimulative—and the net effect would almost certainly hurt state economies.

Even in Florida, clearly the most notable exception to the decoupling trend so far, the political debate centered on exactly these issues. Legislators were presented with considerable

evidence, including a widely-cited analysis by the state Senate's chief economist, that adopting the federal depreciation tax break would have a negative impact on Florida's economy. Nevertheless, the GOP-dominated Florida legislature buckled under to pressure from the President's brother, Gov. Jeb Bush, and in early May voted to conform. In a graphic illustration of why most other states did the opposite, Florida was forced cut the state's education budget to cover most of the \$426 million cost of the corporate tax break.

Depreciation write-offs aren't the only area where many or most states are rejecting the supply-side theology that now prevails in our nation's capital. The three states that used to compute their personal income taxes as a percentage of the federal income tax—North Dakota, Rhode Island and Vermont—have all restructured their tax codes to avoid the revenue losses that George Bush's 2001 income tax cuts would otherwise have imposed on them.

**F**inally, there's the estate tax issue. Most state estate taxes are simply a share of the federal tax—and heretofore have imposed no added cost on estates. Conventional wisdom held that the phase-out of the federal estate tax enacted last year would be the death knell for state estate taxes, too. Surprisingly, however, six states have already rewritten their inheritance taxes so that they won't be automatically repealed, and five other states are seriously considering following suit. In addition, seven states that don't automatically conform to the federal estate tax phase-out have thus far refused to do so.

State actions to reject federally imposed tax cuts are not unprecedented. Back in the early eighties, Ronald Reagan's huge increase in corporate depreciation write-offs threatened to slash state revenues by tens of billions of dollars. But a campaign by Citizens for Tax Justice (CTJ) helped persuade most states, including Florida, to reject Reagan's corporate giveaways, and thus avert at least three-quarters of the potential state revenues losses.

The arguments back then were the same as they are today. “Ronald Reagan can disguise his tax giveaways to big business by running up hundred billion dollar deficits,” noted a CTJ press release at the time. “The states don't have that luxury. Every dollar in new corporate giveaways at the state level must be matched by another dollar in higher taxes on other taxpayers or in reduced state services.”

So the lesson here is a simple one. Given a clear choice between public programs and tax cuts, especially regressive ones, politicians and voters will more often than not choose programs. That's why fervid tax cutters—from George Bush on down—so assiduously deny that such a trade-off exists.

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