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**STATE TAX INCREASES ARE NECESSARY TO PRESERVE BASIC SERVICES:
BACKGROUND ON OPTIONS AVAILABLE TO STATES**

Virtually all states face enormous gaps between revenues and expenditures, a problem largely caused by declining revenue. While revenue growth is flat or still falling in many states, spending pressures are growing due to higher unemployment (which raises states' costs for helping families with reduced incomes in areas like health care) and new homeland security and public health concerns.

Initially, states used reserve funds and other one-time measures to balance their budgets in hopes that the crisis would be short-lived. As the crisis has continued, many states have begun cutting spending. But this strategy has its limits. Some 70 percent of state and local government spending pays for schools, health care, and public safety; the rest must pay for parks, roads, licensing, courts, and all other public functions, as well as payments on public debt. Most governors believe there is a point beyond which cuts no longer serve a state's interests. States also must look to raise revenues.

Over the last few months, the State Fiscal Project of the Center on Budget and Policy Priorities has prepared a number of reports on the revenue options available to states. This report briefly describes those papers and provides links to them.

Many Governors Are Proposing Tax Increases And Other Revenue Measures: Increases Are Necessary to Protect Basic Services by **Nicholas Johnson** (6pp.) <http://www.cbpp.org/2-6-03sfp.htm> – This paper, which will be updated periodically, provides an overview of the tax increases being considered by states this year, as well as those already adopted.

Closing Three Common Corporate Income Tax Loopholes Could Raise Additional Revenue for Many States by **Michael Mazerov** (23pp.) <http://www.cbpp.org/4-9-02sfp.htm> – This paper describes how some states have raised revenues by eliminating three common corporate income tax loopholes and lists the states that have not already addressed these loopholes.

Many States Could Avoid an Unnecessary Revenue Loss During the Current Fiscal Crisis by Disallowing Business Operating Loss Carrybacks by **Michael Mazerov** (8pp.) <http://www.cbpp.org/5-20-03sfp.htm> – Twenty states allow businesses to receive refunds of taxes already paid by using current-year business losses to offset profits from prior years. This paper discusses how these states could avert this revenue loss.

Expanding State Sales Taxation Of Services: Options And Issues by **Michael Mazerov** (20 pp.) <http://www.cbpp.org/3-24-03sfp.htm> – Most states could make their sales tax systems fairer, more stable, more economically neutral, and easier to administer by expanding their tax

base to include services. This paper addresses the various issues involved and provides state-by-state estimates of the revenue states could gain.

Using Income Taxes to Address State Budget Shortfalls by Elizabeth C. McNichol

(11pp.) <http://www.cbpp.org/2-11-03sfp.htm> – An income tax surcharge can be one of a state’s least painful revenue-raising options: it can be targeted by income, the federal government bears part of its cost, and it has less effect on economic growth than other revenue-raising options. This paper describes ways to design a surcharge and provides state-by-state estimates of the amount of revenue it could raise.

States Can Retain Their Estate Taxes Even as the Federal Estate Tax Is Phased Out by

Elizabeth C. McNichol, Iris J. Lav and Joseph Llobrera (26pp.) <http://www.cbpp.org/1-31-02sfp.htm> – States can avert the loss of state revenue that results from the phase-out of the federal estate tax by “decoupling” the relevant parts of their tax code from the changes in the federal code. This paper shows how states can decouple and gives state-by-state estimates of the revenue states could save.

Many States Are Decoupling from Federal "Bonus Depreciation" Tax Cut by Nicholas

Johnson (1 p.) <http://www.cbpp.org/5-8-02sfp.htm> – Some 30 states have preserved state revenues that would have been lost as a result of the “bonus depreciation” provision of the 2002 federal stimulus law by decoupling from the federal changes. This paper and the one below discuss how additional states could follow their lead. (Also see: **States Can Avoid Substantial Revenue Loss by Decoupling from New Federal Tax Provision** by **Nicholas Johnson** (9 pp.) <http://www.cbpp.org/3-20-02sfp.htm>)

Cigarette Tax Increases: Cautions and Considerations by Iris J. Lav (18pp.)

<http://www.cbpp.org/7-3-02sfp.pdf> – While there are a number of good reasons for states to raise cigarettes taxes — as many have done to help deal with their fiscal crises — this paper explores some potential problems, including the implications for revenue stability and adequacy over time and the impact on lower-income residents.

A HAND UP: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2003 by Nicholas Johnson, Joseph Llobrera, and Bob Zahradnik

(7pp.) <http://www.cbpp.org/3-3-03sfp.htm> – As more states raise taxes (often sales and excise taxes) to deal with the fiscal crisis, they may increase the tax burden on low-income families. However, it is relatively easy and inexpensive for states to offset these increases by coupling them with low-income tax relief, such as state earned income tax credits. This paper explains how to design a state EITC and gives state-specific information on calculating its potential cost. (Also see: **State Income Tax Burdens on Low-Income Families in 2002** by **Nicholas Johnson, Bob Zahradnik, and Joseph Llobrera** (18pp.) <http://www.cbpp.org/4-11-03sfp.htm>)