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# How Much Revenue Will the Corporate Tax Reductions in the House Stimulus Bill and Senator Baucus' Stimulus Package Cost Each State?

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A business tax cut in the stimulus package that passed the House of Representatives October 24 would reduce state revenues by approximately $15 billion over the next three years. A similar, but much smaller, provision proposed by Senator Baucus would reduce state revenues by about $2 billion in the coming year.

These reductions in state revenues would come at a time when a growing number of states are falling into fiscal crisis and, because of balanced budget requirements, are being forced to cut programs and/or raise taxes during the downturn. At least 15 states are already facing negative revenue growth in the current fiscal year, and 28 states have announced plans for program cuts in anticipation of large deficits. If the state revenue losses that would result from either of these proposals compelled states to institute still-larger program cuts or tax increases, as would likely be the case, that would partially offset and thereby weaken the federal stimulus policies.

The revenue losses that would result from each of these proposals at the state level are quite large. New York, for example, could lose as much as $270 million or more in the coming year under Senator Baucus' version; New York would lose $700 million in each of the next three years — for a total of about $2.1 billion — under the House provision. Even in smaller states, the loss in revenue would be significant; a loss of $5 million or $10 million in a small state can pose significant problems, especially if a state already is experiencing fiscal distress.

The House provision in question allows partial expensing of business investments. This provision would allow firms to subtract immediately 30 percent of the cost of new investments in equipment or similar business property when figuring their federal tax liabilities, rather than depreciating the costs of these investments over a number of years as under current law. This provision would be in effect for the next three years. The Joint Committee on Taxation estimates that it would reduce federal revenues by $39 billion in 2002, $36 billion in 2003, and $30 billion in 2004.

Senator Baucus' proposal has a comparable, although smaller, "bonus depreciation" provision to allow firms to subtract 10 percent of the cost of new investments put in place over the next year. Senate Finance Committee staff estimate the cost to be $15 billion in 2002.[1]

Most states use federal rules on expensing and depreciation in the calculation of their own state corporate and other business income taxes. Of the 45 states that have corporate income taxes, 44 — all but California — conform to the federal rules. As a result, 44 states would experience significant corporate revenue losses if either of these provisions becomes part of federal law. A 45th state, Michigan, would also lose some individual income tax revenue. These 45 states would stand to lose an average of approximately $5 billion a year in corporate and individual income tax revenues in each of the three years the House provision would be in effect as a result of their conformity to federal expensing and depreciation rules. The Baucus proposal would cost states about $2 billion in corporate and individual income tax revenues.

Below are state-by-state estimates of the loss in revenue under the House provision and under the provision that Senator Baucus has proposed. The estimates are based on each state's share of total state corporate and individual income tax revenue over the last two years. Note that the House version would be in effect for three years, while Senator Baucus' version would be in effect for one year. Because corporate tax revenue can be quite volatile, varying by 20 percent or more from one year to the next, these estimates should be considered approximate.

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1.The costs of both the House version and Senator Baucus' version would be much lower over ten years than in the short term, because the deductions that corporations would claim now would be offset by lower deductions in future years. This future revenue gain is of no help, however, for states that must balance their budgets now.

## Estimated Loss of State Tax Revenue Due to Stimulus Proposals, By State, in Millions of Dollars

| | House (each year for three years) | Baucus Proposal (one year) | | House (each year for three years) | Baucus Proposal (one year) |
|---|---|---|---|---|---|
| Alabama | $55 | $21 | Montana | $21 | $8 |
| Alaska | 68 | 26 | Nebraska | 33 | 13 |
| Arizona | 106 | 41 | Nevada | not affected | |
| Arkansas | 52 | 20 | New Hampshire | 42 | 16 |
| California | not affected | | New Jersey | 257 | 98 |
| Colorado | 85 | 33 | New Mexico | 39 | 15 |
| Connecticut | 97 | 37 | New York | 700 | 270 |
| Delaware | 30 | 12 | North Carolina | 190 | 73 |
| Florida | 210 | 79 | North Dakota | 15 | 6 |
| Georgia | 170 | 66 | Ohio | 190 | 73 |
| Hawaii | 20 | 8 | Oklahoma | 47 | 18 |
| Idaho | 30 | 12 | Oregon | 100 | 38 |
| Illinois | 350 | 140 | Pennsylvania | 270 | 100 |
| Indiana | 180 | 67 | Rhode Island | 18 | 7 |
| Iowa | 59 | 23 | South Carolina | 56 | 22 |
| Kansas | 55 | 21 | South Dakota | not affected | |
| Kentucky | 72 | 27 | Tennessee | 106 | 41 |
| Louisiana | 56 | 21 | Texas | 330 | 120 |
| Maine | 29 | 11 | Utah | 43 | 16 |
| Maryland | 115 | 44 | Vermont | 11 | 4 |
| Massachusetts | 260 | 100 | Virginia | 130 | 51 |
| Michigan | 58 | 22 | Washington | not affected | |
| Minnesota | 170 | 66 | West Virginia | 35 | 13 |
| Mississippi | 54 | 21 | Wisconsin | 140 | 52 |
| Missouri | 86 | 33 | Wyoming | not affected | |

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