CENTER ON BUDGET AND POLICY PRIORITIES

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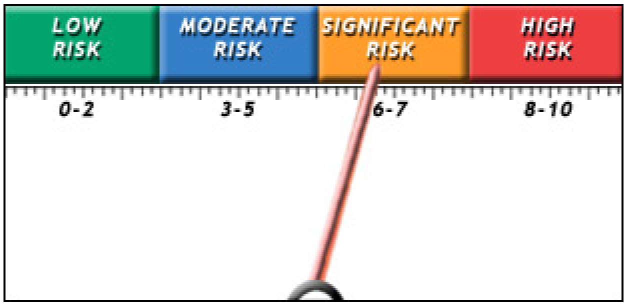
DELAWARE



Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Delaware is rated as having a significant risk of a structural deficit based on its score of six on the risk scale for structural deficits.

- Delaware has significant loopholes in its corporate income tax.
- Delaware provides preferences to seniors in its property tax, regardless of their income level. Also, its income tax preferences for its seniors exceed the US average.
- Delaware faces spending pressures from: the number of students with special needs, the number of high school graduates potentially entering college and a growing elderly population.
- During 1994-2000, Delaware reduced its personal income tax rates. This is problematic since income taxes provide stronger growth over the long term than excise taxes.
- Delaware has a constitutional spending limit which restricts appropriations to 98 percent of estimated revenue and a limit on local property tax revenues. It also has a supermajority requirement for all tax increases.
- Delaware remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated $34.7 million per year.