



November 17, 2018

## **Allocating State and Local Taxes to U.S. Households**

National Tax Association's 111th Annual Conference on Taxation  
New Orleans, LA

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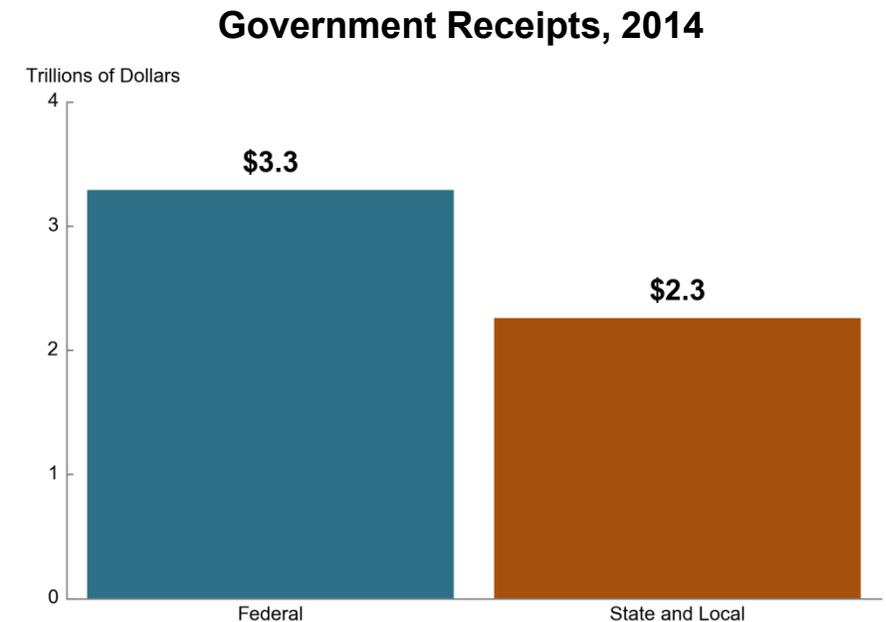
**Why is CBO interested in allocating  
state and local taxes to U.S.  
households?**

## Two Reasons

First, CBO seeks to allocate state and local taxes to households for the sake of balance and completeness, because the agency already allocates *spending* for some jointly administered state and federal programs to households, namely:

- Medicaid
- Unemployment insurance

Second, CBO seeks to allocate state and local taxes because they are sizable and can significantly affect the distribution of income after transfers and taxes.

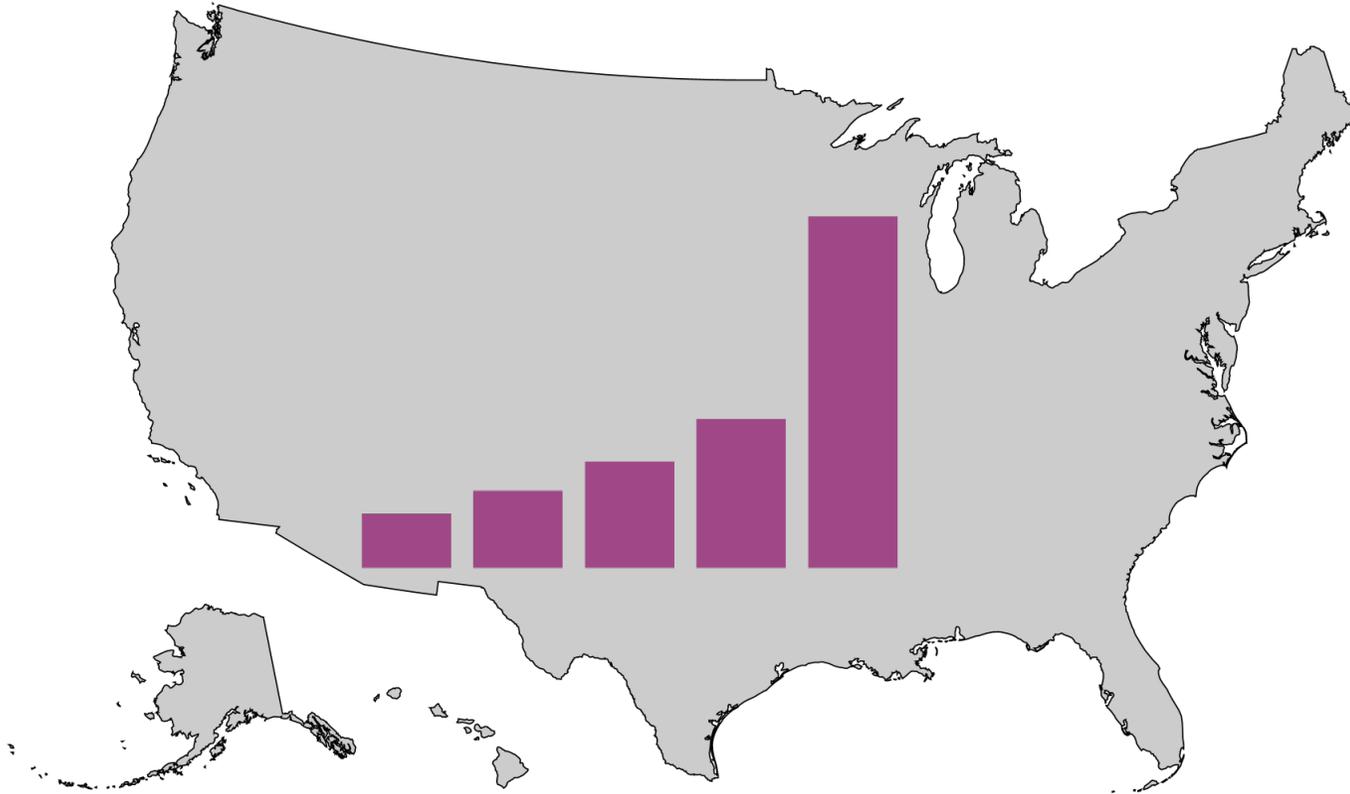


**What components of state and local taxes does CBO intend to allocate to U.S. households?**

# CBO's Goal Is Not to Do State-Level Tax Analyses

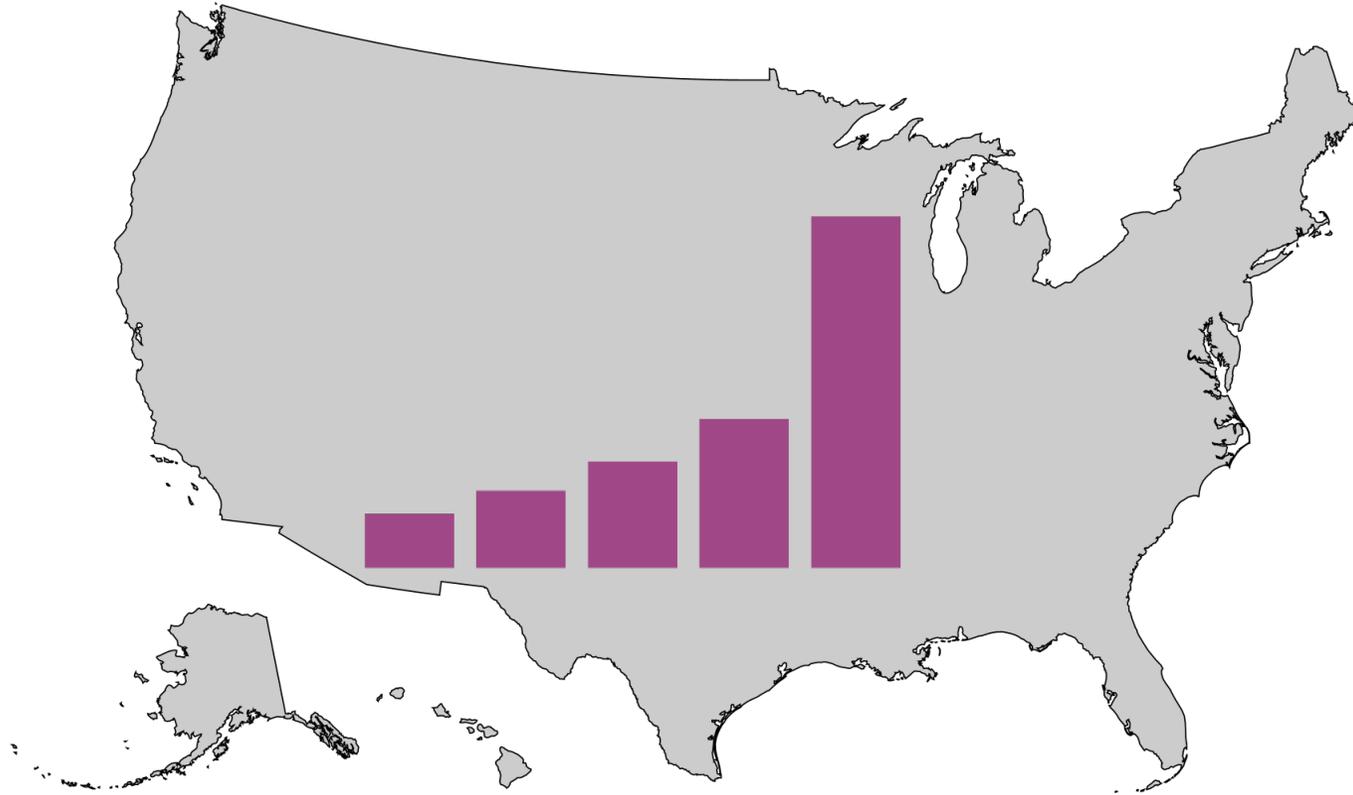


# CBO Currently Presents National Distributions . . .



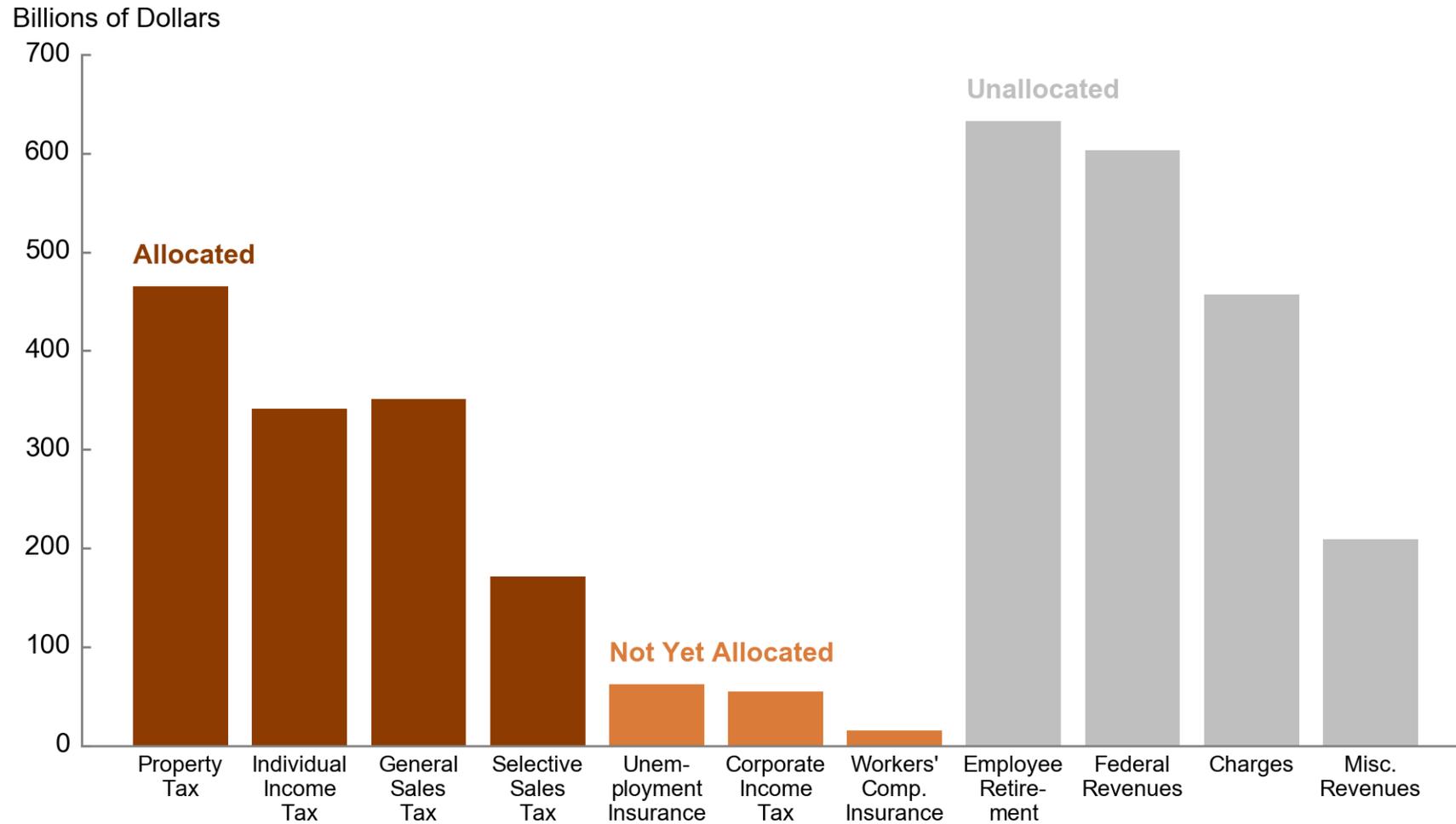
*Income After  
Means-Tested Transfers  
and **Federal Taxes***

## ... and Plans to Continue



*Income After  
Means-Tested Transfers  
and Taxes*

# State and Local Revenues, by Source, 2014



**How will CBO allocate those  
components of state and local taxes  
to U.S. households?**

# 1. Property Taxes: Three Competing Theories

## Traditional View

<b>Component</b>	<b>Incidence</b>
Land	Landowners
Improvements	Uncertain

## Capital View

<b>Component</b>	<b>Incidence</b>
National average	Capital owners
Local variations	Excise tax effects

## Benefit View

<b>Component</b>	<b>Incidence</b>
User fee for local government services	None

# 1. Property Taxes: CBO's Approach

## Capital View Variant

Divide property into three components:

Component	Incidence	Allocator
Owner-occupied residential property	Taxpayer	<b>Itemizers:</b> SOI <b>Nonitemizers, nonfilers:</b> CPS
Personal property	Taxpayer	Household share of income
Business property	Capital owners	Household share of capital income

Assume local variations cancel out at the national level.

## 2. Individual Income Tax

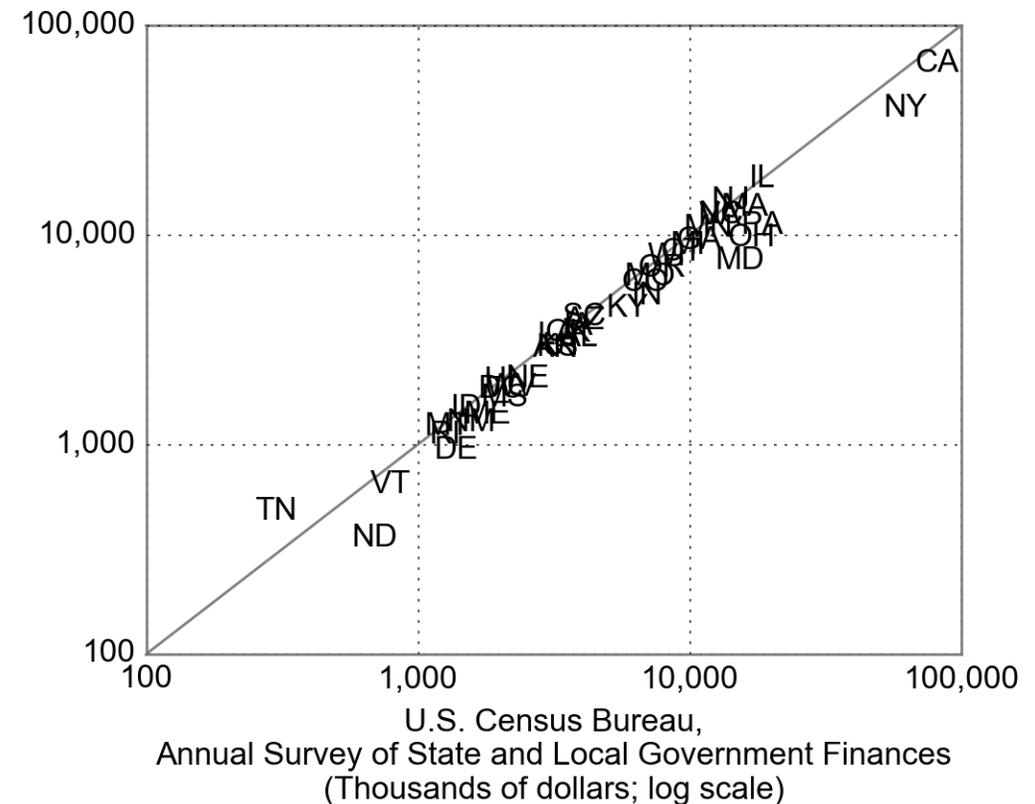
### Fairly Straightforward

**Itemizers:** Use reported state and local income tax deduction from SOI.

**Nonitemizers:** Use estimated state income tax based on Bakija state income tax calculator.

### State Individual Income Tax, by State, 2013

Bakija State Income Tax Calculator, SOI Data  
(Thousands of dollars; log scale)



### 3. Consumption Taxes (General and Selective Sales Taxes): Two Competing Methodologies

#### Sources Method

$$\text{Income} + \text{Transfers} - \text{Taxes} - \text{Savings} = \text{Consumption}$$

Allocate tax on the basis of this measure.

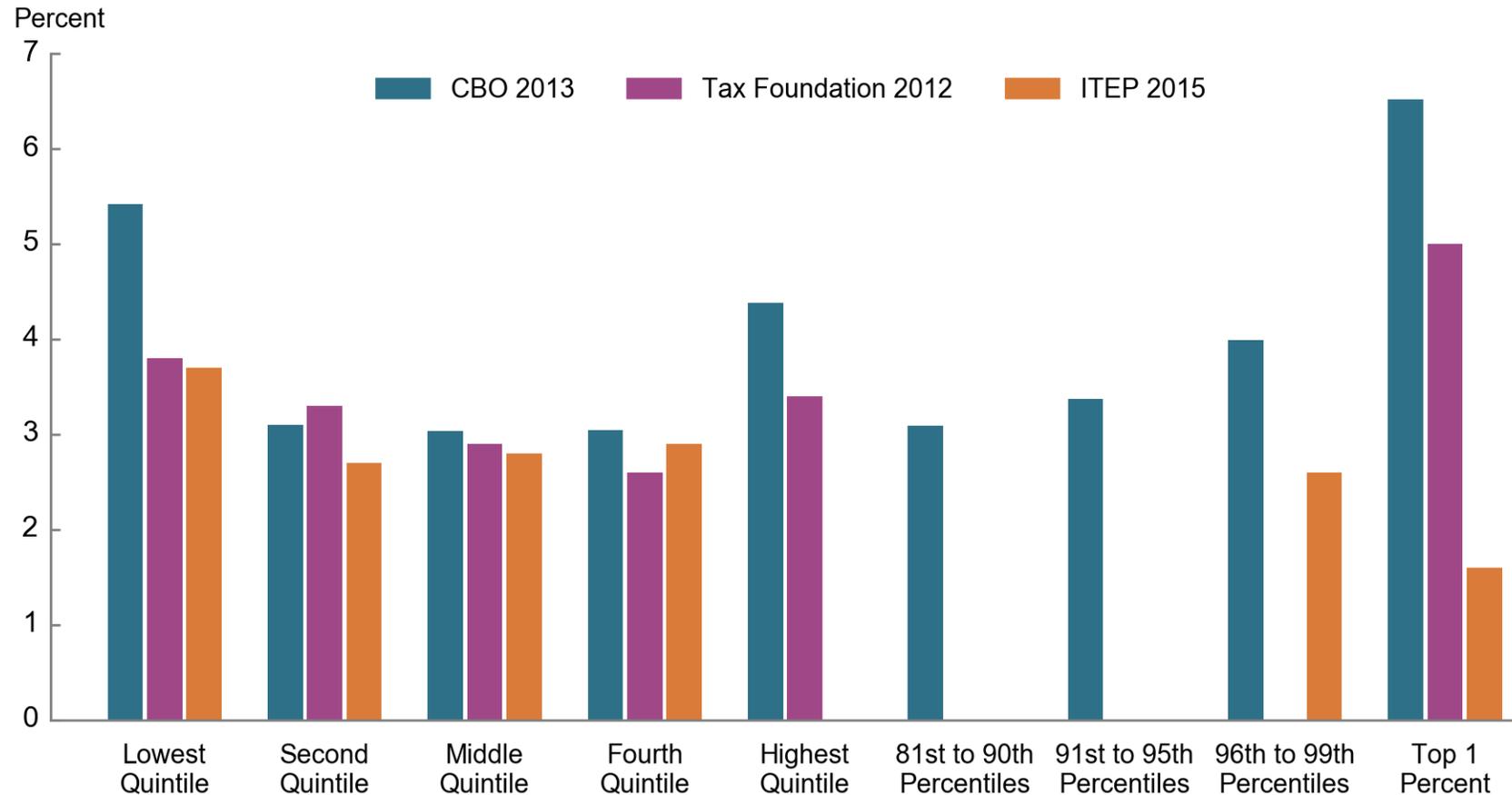
#### Uses Method

$$\text{Income} + \text{Transfers} - \text{Taxes} - \text{Savings} = \text{Consumption}$$

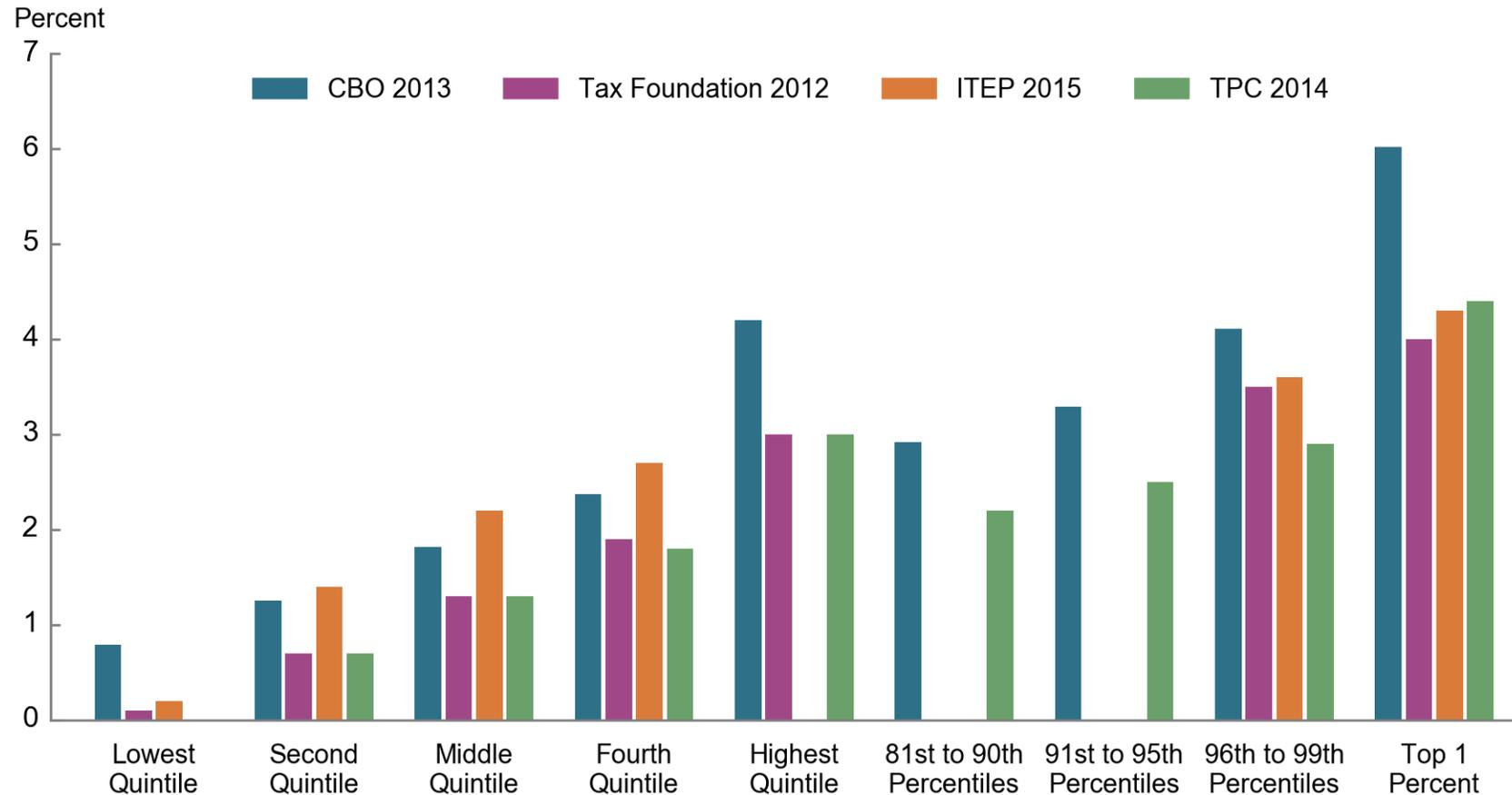
Allocate tax on the basis of this measure.

**What are some (very) preliminary results?**

# Average State and Local Property Tax Rates, by Income Group and Research Organization



# Average State and Local Individual Income Tax Rates, by Income Group and Research Organization



# Average State and Local Consumption Tax Rates, by Income Group and Research Organization

