

# Creating an Equitable and Sustainable Fiscal System



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# A Choice of Two Fiscal Paths



## **“Sustainable and Equitable” Path**

- Fund priority public needs—education, infrastructure and human services—using revenues raised on a stable, adequate and equitable basis.

## **“Incentives” Path**

- Continuously cut taxes for large corporations and wealthy to “incentivize private investment” as a priority over funding education, infrastructure and human services.

# Lessons of History: Success



- “Sustainable and Equitable” Path Prevailed Until Late 1970’s
  - State and local governments raised revenues from the 1920s through 1970s sufficient to make the U.S. a leader in education and infrastructure—and a world power in the process.
  - From 1945-1979, U.S. attained strong growth in output and employment, a growing middle class with increasing real wages, and expanding opportunities for upward mobility.
- The “Sustainable and Equitable” Path Was a Success

# Lessons of History: Failure



- “Incentives” Path Has Prevailed Since Late ’70s
  - U.S. rankings in educational attainment and infrastructure quality have declined internationally in the last four decades. State and local investments have not been sufficient to keep pace with world standards.
  - Economic growth rates are lower since the late 70s, employment has lagged, real wages have stagnated, inequality is rising and the middle class is under pressure.
- “Incentives” Path Is a Failure Compared to the “Sustainable and Equitable” Path

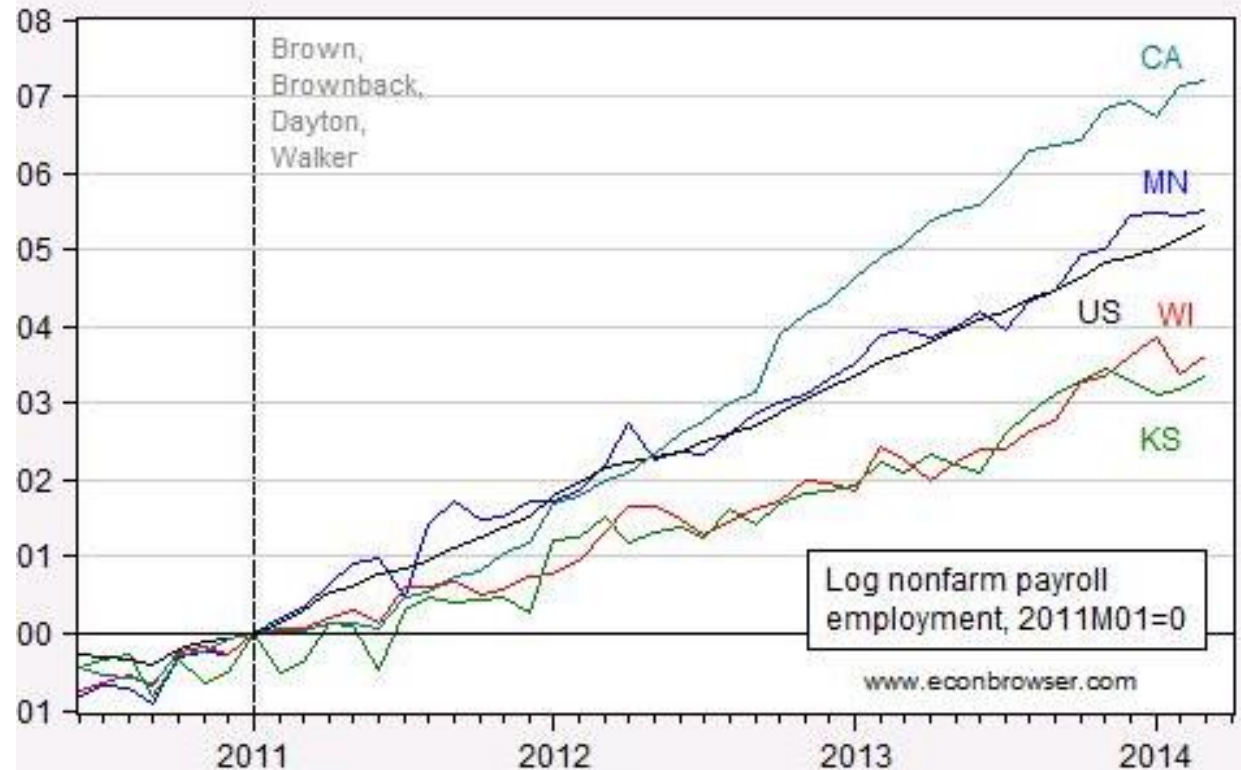
# Current Record Reinforces Lessons of History



- Following the Great Recession, four states made clear policy choices between the two paths:
  - Minnesota and California chose the “sustainable and equitable” path.
  - Kansas and Wisconsin chose the “incentives” path.
- What are the results in terms of job growth?

Recent California and Minnesota job growth exceeded national trends while Wisconsin and Kansas lagged behind.

Source: Menzie Chinn, Professor of Economics and Public Affairs, University of Wisconsin, Madison.  
Econbrowser.com, April 21, 2014.



**Current Record Reinforces  
Lessons of History**



## Record for Corporate Tax Rate Cuts

Michael Mazerov  
of CBPP surveyed  
studies of state  
corporate taxes  
and economic  
growth.

Source: Michael Mazerov,  
“Cutting State Corporate  
Income Taxes Is Unlikely to  
Create Many Jobs,” Center  
for Budget and Policy  
Priorities, September 14,  
2010.

- Key long-term conclusions—  
preponderance of economic studies  
indicate:
  - Corporate tax cuts do not pay for  
themselves.
  - Would create little or no added  
incentive for corporate investment in  
the long run.
  - Could adversely affect long-term  
growth by leading to cuts in public  
services.
  - Are not rooted in real-world economic  
success stories.



## Key Strategy

Tax equality is the linchpin of sustainability.

- If every taxpayer pays a fair share, revenues will be more stable and adequate for funding priority public needs—and businesses will compete on a level playing field. Hence, consider:
  - Restoring equity to business income and property taxes, and
  - Empowering citizens to help achieve tax fairness.





# Homework

Develop key data on inequities in tax bases.

***Focus:***

***Who Pays and  
Who Doesn't?***

- **Corporate Profits Tax**
  - Study the distribution of effective tax rates among corporations on a global accounting basis.
  - Estimate revenues if all profitable (non-loss) corporations paid at the 75% level of the distribution of effective rates.
- **Business Property Taxes**
  - Study distribution of values in relation to external data on market value.
  - Estimate distribution of all property taxes and potential changes in financing education and infrastructure if valuations are adjusted to market.

# Restoring Equity to Corporate Income Taxes



- **International Income Shifting Problems**

- Costs states in the tens of billions of dollars annually in revenue that should be collected.
- Creates a wildly unequal playing field among businesses.
- Unfairly shifts the costs of public services benefitting corporations to other taxpayers.

- **Income Shifting Solutions**

- Return to worldwide unitary combined reporting, or
- Adopt tax haven combined reporting.
- Adequately fund tax compliance activities.

# Achieving Equity in Property Taxation




- Residential property comprises more than 75% of New Hampshire property tax base.
  - Is business property undervalued as compared to residential property?
- Review valuation methodologies and equalization procedures for commercial, industrial and utility property.

# Empowering Citizens for Tax Equity



- Disclose key tax information for publicly-traded corporations so the public can evaluate and meaningfully participate in state corporate tax policy discussions.
- Adopt a whistleblower law that rewards taxpayers for reporting information that produces corporate tax assessments.



## **Final Thought**

History teaches that equitable taxes financing vital public services contribute to a growing economy where opportunity is widely shared and to a strong society with a healthy sense of community and common purpose.