

Public Finance in the United States: Revenues



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Bringing Knowledge to Life!

Revenues to Meet Public Service Responsibilities

Different levels of government are assigned various service responsibilities

- Revenues are needed to achieve objectives
- Assignment of revenue sources is, to some degree, coordinated among levels of government
- State and governments have considerable autonomy in revenue decisions

Tax System Design

- **Guidelines for designing a good tax system**
 - **Sufficient to meet public service needs**
 - **Equity**
 - **Economic efficiency (minimize distortions to behavior)**
 - **Collection costs (to collector & to society)**
 - **Simplicity and transparency**

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Efficiency

Evasion (illegal) and Avoidance (legal)

Examples of Avoidance

Work vs. non-work: High tax rates on wage income may induce a preference for non-work activities.

Business operations: Taxes should not (generally) affect business practices.

Shopping and business location: Sales taxes and excises may affect shopping patterns and business location.

Personal financial management: People manage activities and finances to minimize tax burden.

A general rule: Keep the base broad and rate low

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Sources of Revenue

Revenue Source

- Individual Income Tax
- Sales and Excise Taxes
- Property Tax
- Business Taxes
- Charges
- Miscellaneous Revenue
- Federal (or State) Aid

Level of Government

Federal/State
State
Local
Federal/State
Federal/State/Local
Federal/State/Local
State/Local

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State and Local Autonomy

- Considerable Autonomy
 - Variation across the state and local governments in how revenues are collected
 - Differences in economic structures
 - Differences in citizen preferences
 - Differences in inter-jurisdictional competition

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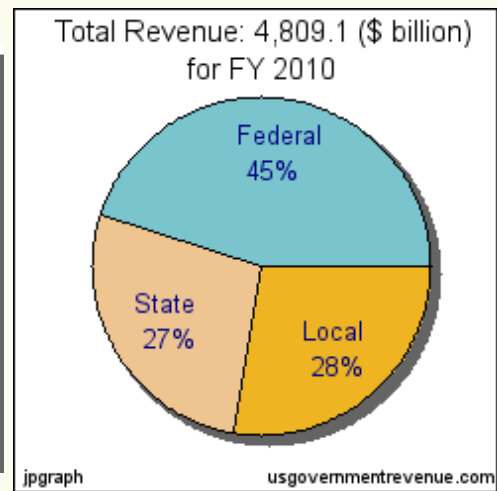
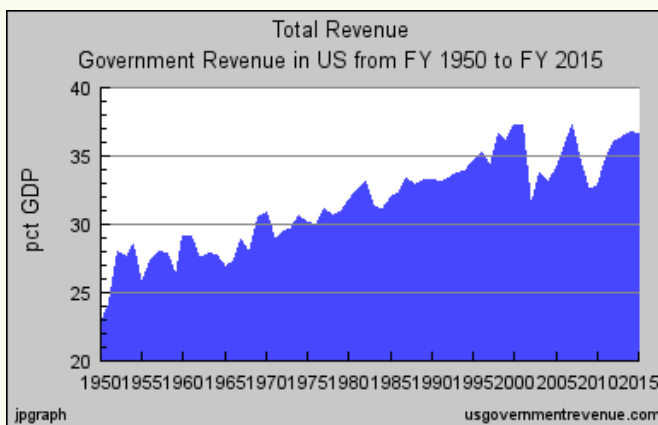
State and Local Autonomy

– Differences in tax reliance as well as tax base and rate definitions

- 5 of 50 states do not collect a general sales tax
 - Food and various services are often exempt from the sales tax
 - Sales tax rates vary substantially across the states
- 7 of 50 states do not have a broad-based income tax
 - States often link their income tax base to federal tax base
 - Rates and tax brackets vary from state to state

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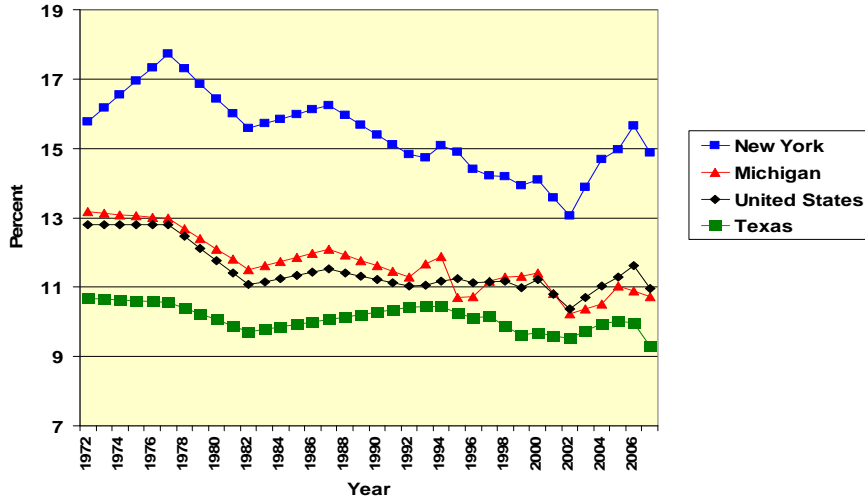
Federal State and Local Revenues



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State and Local Tax Effort

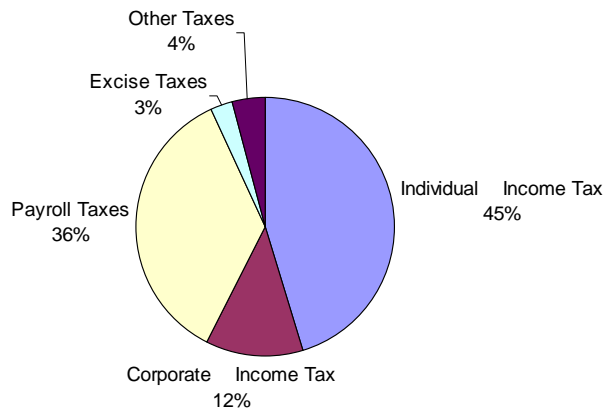
State and Local Taxes as Percent of Personal Income, 1972-2007



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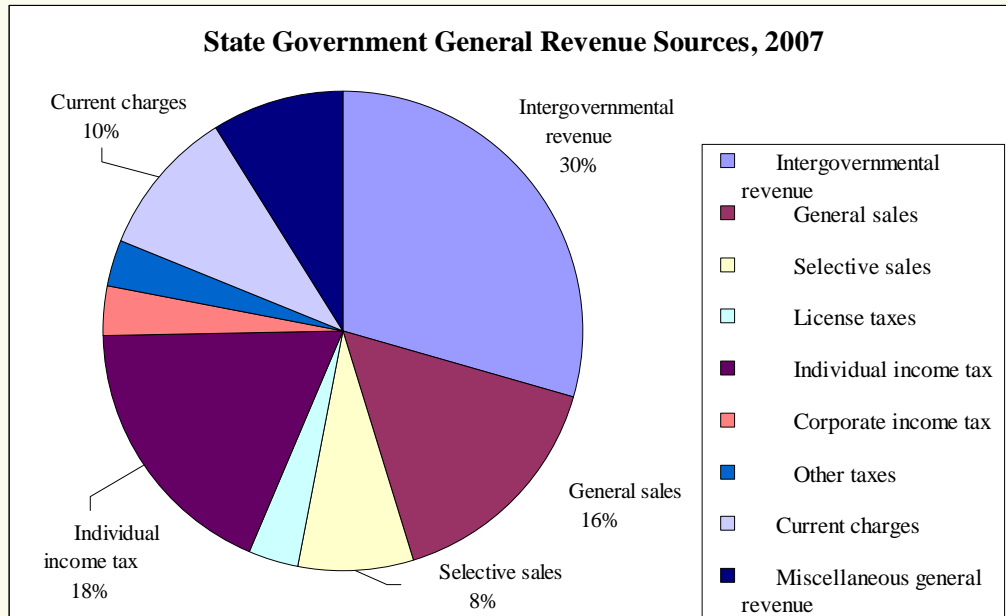
Federal Revenues

Sources of Federal Tax Revenue, Fiscal Year 2008



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State Government Revenues



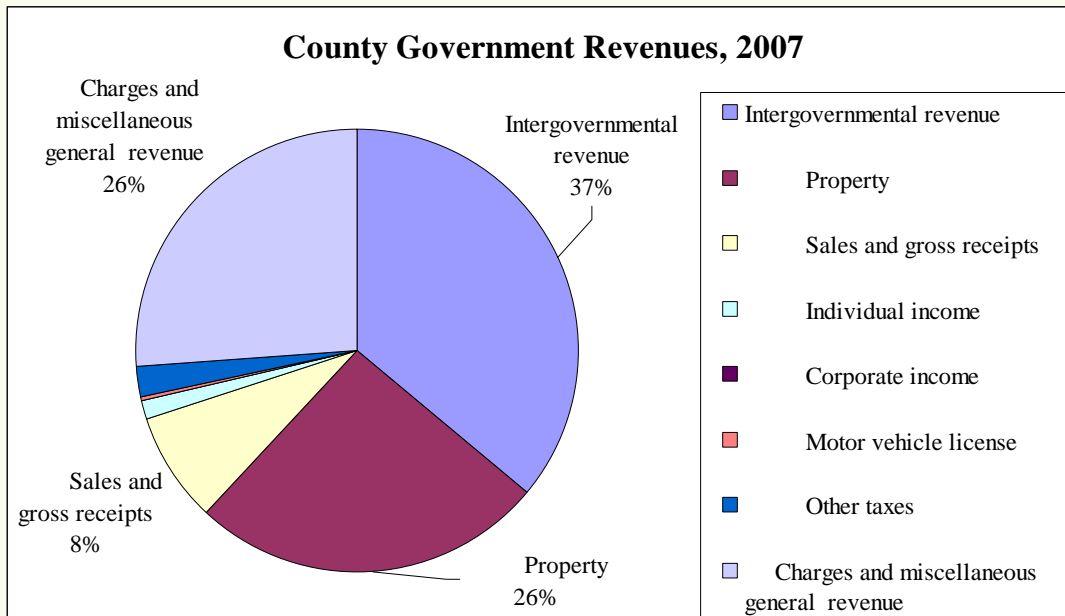
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Local Government Revenues

- **Not All Local Governments Are the Same**
- **Numerous Types and Purposes of Local Government**
 - **Counties**
 - **Municipalities**
 - **Townships (not all states)**
 - **Special Districts**
 - **School Districts**

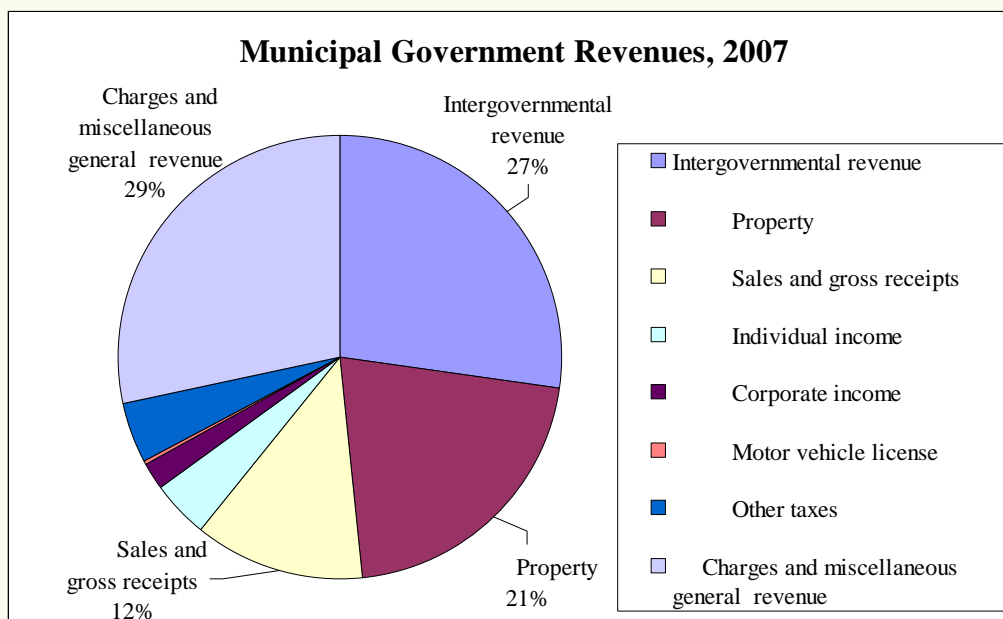
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Local Government Revenues: Counties



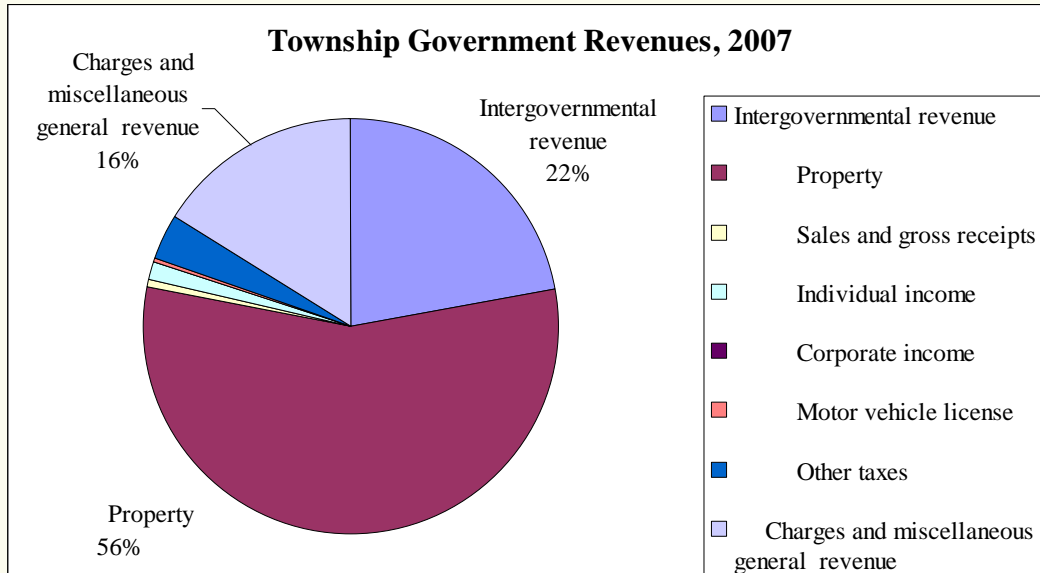
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Local Government Revenues: Municipalities



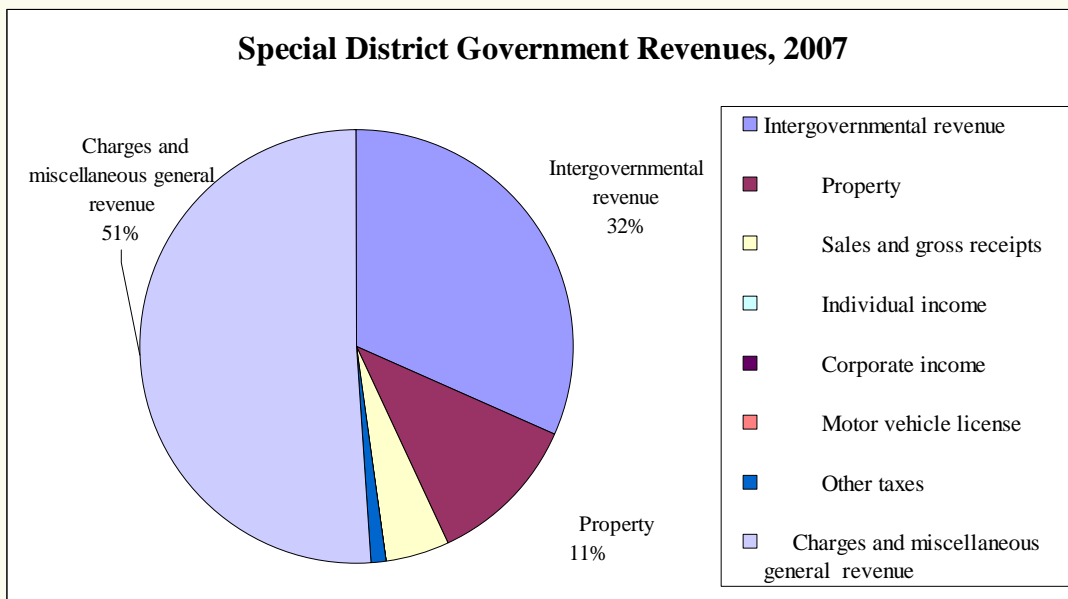
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Local Government Revenues: Townships



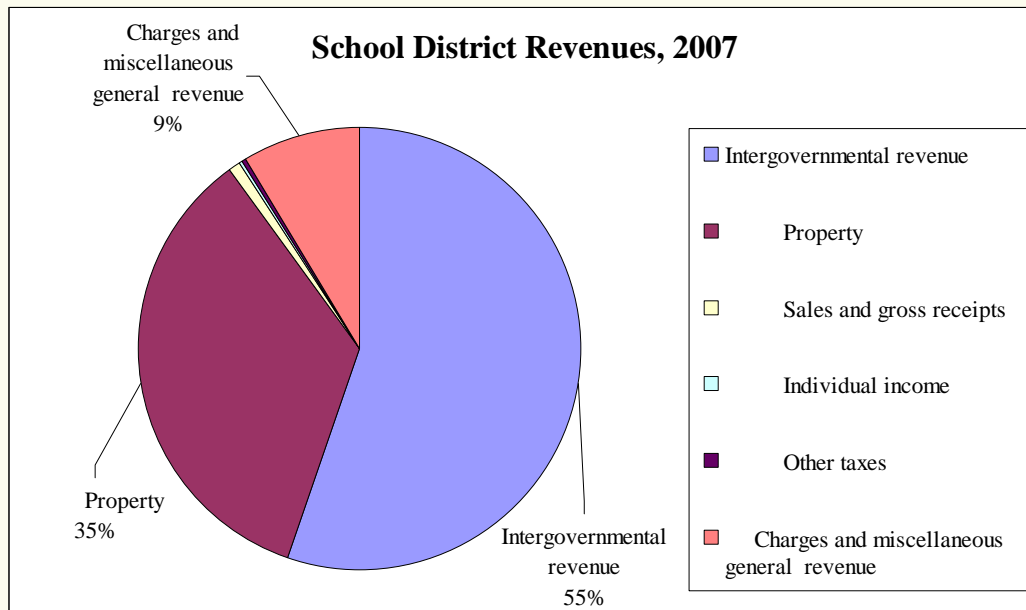
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Local Government Revenues: Special Districts



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Local Government Revenues: School Districts



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Final Thoughts

- **Trained/skilled government leaders is essential, including the local level**
- **Local autonomy has both costs and benefits**
- **Assignment of public service responsibilities...goes hand in hand with...**
- **Options for generating revenues**
- **Expenditure and revenue patterns persist over time, but change can and does occur**

DISCUSSION

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