

## States See Strong Revenues, But Few Propose Big Tax Cuts

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Most states are enjoying improved financial health as tax revenues generally continue to pour in above projected levels, though that may not translate into significant tax cuts for residents.

<b>Tax Facts</b>			
◆ <b>SALES-TAX RATES</b> fell slightly last year but generally have risen in recent decades.			
	STATE AVERAGE RATE	COUNTY AVERAGE RATE	CITY AVERAGE RATE
2005	5.3%	1.7%	1.6%
2000	5.1	1.6	1.6
1995	5.1	1.4	1.6
1990	4.9	1.3	1.5
1985	4.6	1.2	1.3

Note: Averages are based on jurisdictions with a sales tax and have been rounded to one decimal place.  
Source: Vertex Inc. (vertexinc.com)

Two new surveys show solid revenue gains during the first few months of this year. But a separate report yesterday by the National Governors Association and the National Association of State Budget Officers shows many state officials are worried about ballooning spending in such areas as health care, education and public pensions.

Thus, despite election-year pressures, lawmakers generally are "reluctant to make significant tax cuts," says Raymond C. Scheppach, executive director of the National Governors Association. Harley Duncan, executive director of the Federation of Tax Administrators in Washington, agrees that most tax cuts this year are likely to be "fairly modest."

Some states are weighing substantial tax cuts. In Massachusetts, Republican Gov. Mitt Romney has proposed cutting the state's 5.3% personal income-tax rate to 5.15% in fiscal 2007 and 5% in 2008. The proposal is still pending before the legislature,

says spokesman Eric Fehrstrom. If enacted, these changes would cost the state \$132 million in fiscal 2007 and \$488 million in 2008, he says. When fully implemented, it would cost the state about \$700 million, he adds.

Numerous states are planning sales-tax "holidays," which typically involve eliminating sales taxes on specified purchases during certain time periods. More than a dozen states have lined up such holidays later this year, says Mr. Duncan of the Federation of Tax Administrators.

In Florida, Republican Gov. Jeb Bush plans to sign legislation soon that will repeal the state's "intangibles" tax, a levy on stocks and many other types of investments. Repeal will be effective Jan. 1, 2007. Gov. Bush has called it an "insidious" tax on savings and investment. He also has said its elimination will benefit an estimated 300,000 taxpayers.

A report to be released soon by the Nelson A. Rockefeller Institute of Government, the public-policy research arm of the State University of New York, shows state-tax revenues grew nearly 7% during the January-March quarter from the same period a year ago. But even that increase understates reality, the report says, because last year's first quarter was "inflated" by a tax amnesty in California. After adjusting for it, state-tax revenues grew more than 9% in the

January-March quarter, the institute says. Preliminary reports from another state-tax group show strong revenue gains in many states during April.

Revenues exceeded original projections in 37 states during fiscal 2006, the joint report says. Revenues were on target in 10 other states and below target in only two. That represents a major turnaround from 2002, when revenues came in lower than expected in 42 states.

With revenues continuing to grow and the national economy continuing to expand, voter pressure to cut taxes is likely to remain intense. But officials fear the impact of spending pressures.

"Even with strong revenue growth right now, health-care expenditures continue to be a big problem," says Scott D. Pattison, executive director of the National Association of State Budget Officers. Health-care costs, including Medicaid and health benefits for state employees, account for about one-third of state spending, he says. Spending growth in this area "will strain future state budgets and possibly threaten the viability of other state programs."

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