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COMPARATIVE STATE TAX SUPPORT OF HIGHER EDUCATION, 1981, IN THE FIVE MOST POPULOUS STATES: CALIFORNIA, NEW YORK, TEXAS, PENNSYLVANIA, AND ILLINOIS

(Continued from GRAPEVINE, pages 1715-20, February, 1981)

The rankings of the five states on four scales appeared in the preceding issue: (A) ratio of all students to total population, (B) state appropriations per capita, 1981, for higher education, (C) appropriations for all higher education per headcount students, and (D) use of state and local tax potential.

How the five states stood among themselves on each of the four scales appears in Table 17:

Table 17.

Scales	CA	NY	TX	IL	PA
A	1	3	4	2	5
B	1	3	2	4	5
C	2	3	1	5	4
D	2	1	5	3	4

The states as arranged from right to left apparently rank in descending order on these four relevant scales.

Each of the five states' composite rankings on the four scales (made by adding that state's standings on each of the four relevant scales) are: California, 6; New York, 10; Texas, 12; Illinois, 14; and Pennsylvania, 18.

These latter standings are not to be confused with the separate rankings of each of the five states among the 50 states, which have been shown in Table 14 (GRAPEVINE, page 1719, February 1981, No. 272), relating to state appropriations, per capita, for higher education in fiscal 1981: California, fourth; Texas, nineteenth; New York, twenty-fifty; Illinois, thirtieth; and Pennsylvania, forty-fifth.

These tentative temporary lineups of the five states have a tendency to place them in relation to each other with some consistency already. In instances where consistency does not appear, often only a cursory knowledge of one or more salient characteristics of the state concerned will provide an initial indication of why in this case consistency does not prevail.

A few examples: Texas appears to be fourth in ratio of students to total population, with recent jump in population to more than 14 million, due in part to influx of Latinos not yet accustomed to higher education. Texas is also fourth in use of state and local tax potential, partly because it has no state income taxes.

Illinois is fifth in state appropriations per headcount student, perhaps partly because 53.5 per cent of its students are enrolled in two-year community colleges which get half or more of their operating support from local sources.

Other Factors

The foregoing four yardsticks suggest others of equal or varying pertinence, and also that it is very difficult to pinpoint the primary reasons underlying the showings. At this preliminary point the rank-order of the five most populous states, based only on the foregoing named scales, is apparently: California, New York, Texas, Illinois, and Pennsylvania.

Consider next another cluster of measures, mostly related to aspects of the five state revenue systems.

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Table 18. Total State Taxes Per Capita

States (1)	Dollars per capita (2)	Rank among five states (3)	Rank among fifty states (4)
CA	685.93	1	6
NY	610.03	2	11
PA	531.65	3	17
IL	513.51	4	19
TX	420.11	5	45
US av.	523.00		

Source: Adapted from Table 153, page 190, Facts and Figures on Government Finance, 20th Biennial Edition, 1979. Washington: Tax Foundation, Inc., pp. 288.

2	1
4	3
6	5
8	7
10	9
12	11
14	13
16	15
18	17
20	19
22	21
24	23
26	25
28	27
30	29
32	31
34	33
36	35
38	37
40	39
42	41
44	43
46	45
48	47
50	49

STATE TAXES PER CAPITA

The fifty states have been the largest single source of financial support for higher education in the U. S. It seems likely that this condition may continue at least for a few years, though there is little doubt that eventually the contribution of the federal government (but not, we hope, its control, regulation or administration) will grow to exceed that of the states.

State tax systems differ in many features; and frequent economic changes require them to be updated from time to

time. A simple but indispensable measure to start with in comparing our five most populous states is the total of state taxes collected per capita, as shown in Table 18 on this page.

Recently and currently, the most dynamic feature in the state tax picture is income taxes, personal and corporate.

Thus, to save space, a profile of these in the five states is skeletonized in Table 19 on the next page (1724). There again, the five states exhibit important differences among themselves.

PERSONAL AND CORPORATE INCOME TAXES IN
FIVE MOST POPULOUS STATES

To provide a detailed analysis of the principal types of state taxes currently levied in each of the five states would go far beyond the limits of time and space available for one issue of GRAPEVINE. Hence this page is confined to a skeletonization of state income taxes.

New York and California have graduated personal income taxes among the highest in the nation, with both the rates and the steps generally a little steeper in New York. In that respect these two states are near the head of the fifty-state parade.

Illinois and Pennsylvania both have flat rate (not graduated) income taxes, at the relatively low rates of 2.5 and 2.2 per cent respectively.

Texas is among four states having no state personal income taxes at all.

State Corporate Income Taxes

New York, Pennsylvania, and California all have corporate income taxes at rates in the vicinity of 10 per cent. In Illinois the tax on corporation incomes is conspicuously lower, at 6.8; Texas has no such tax. Bear in mind that Table 19, in which these features are exhibited, is only an abbreviated sketch.

The potential, or "ability" of each of these five states to levy and collect personal income taxes only, is next taken up on the following page, in Table 20, showing that three of them underuse their potential.

Table 19. Individual and Corporate Income Taxes in Five Most Populous States

State	Individual		Corporate
	Rate Range	Income Brackets	Tax Rate
(1)	(2)	(3)	(4)
CA	1.0 to 11.0%	\$2,240 to \$17,430*	9.6% Business corporations 11.6% Financial institutions
IL	2.5%	Flat Rate	6.8%
NY	2.0 to 14.0%	\$1,000 to \$23,000	10.0% Business corporations 12.0% Financial institutions
PA	2.2%	Flat Rate	10.5%
TX	none		none

*For single persons. Married and head-of-household rates are proportionate. California, Illinois, and New York provide for personal exemptions or tax credits. Source: The Book of the States, 1980-81. Lexington, Kentucky: Council of State Governments, 1980, p. 328 and p. 336.

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Table 20. Individual Income Tax Collections and Potentials, 1978.
(In Thousands of Dollars)

States	Personal Income Taxes Collected	Amount Collectible If Levied at Average Rates	Revenue Lost Below Col 3	Revenue Gained Above Col 3
(1)	(2)	(3)	(4)	(5)
CA	4,632,488	4,558,298		74,190
NY	5,897,345	3,548,666		2,348,679
PA	2,159,216	2,184,775	25,559	
IL	1,593,695	2,307,260	713,565	
TX	None	2,317,632	2,317,632	

Source: Quindry, Kenneth E. and Niles Schoening. State and Local Tax Performance, 1978. Atlanta: Southern Regional Education Board, 1980. Page 58

From the viewpoint of state taxation, the individual income tax is currently the second largest single source of revenue, after the general sales tax. Income is the best indicator of individual ability to pay taxes.

Table 20, above, concentrates on individual income tax collections in the five states and compares them with the amounts that would have been collected if the rates had been equal to the average among the fifty states. It is then possible to see which of the five most populous states exceeded its potential, and which fell short, and by how much.

New York's personal income tax collections apparently exceed its potential according to the standard of

average rates by more than \$2 billion. California's collections above potential are only about \$75 million. Illinois and Pennsylvania fall short of their respective potentials by \$700 million and \$25 million. According to the Quindry calculations, Texas loses over \$2 billion annually by not having an individual income tax. This sum is twice what Texas appropriates annually for operating expenses of all higher education.

State revenue systems need to be constantly monitored for possibilities of improvement, for economic changes make them quickly need updating. Not that every state's system should be identical with every other, but that it should be kept abreast of the times to fit its own conditions.

CORRECTION: GRAPEVINE (February 1981), page 1717, last paragraph on the page. The first sentence should read: It is also apparent that Pennsylvania and New York are alike in having smaller proportions of their students enrolled in *public* institutions than do the other three states. (*Italics indicates correction.*)

APPROPRIATIONS FOR HIGHER EDUCATION
AS PERCENTAGE OF STATE TAX REVENUES

In Table 21, below, Columns 5 and 6 place the five states in somewhat different rankings than those in the several preceding tables. The main deviations involve California and Texas. This is partly due to the fact that all the data in Table 21 are for the year 1978, and do not represent changes that occurred during the most recent two years.

Texas is Number One by far here, partly because by 1978 it was in an advanced state of higher education expansion and had already crossed the one billion dollar mark in appropriations for annual operating expenses of higher education, and because its total state revenue continued relatively low (substantially less than that of Illinois or Pennsylvania, half that of New York, one-third that of California), and did not comport with its present place as third most populous state in the nation.

In California, 1978 was the year of the adoption of the Jarvis initiative which cut property taxes by more than half, and forced the operating support of 106 public community colleges to be shifted from about 35 per cent out of state revenues to about 75 per cent from that source.

Fortunately, for the first year or two the additional state funds were available in the form of a state surplus; and the state funds thus appropriated had been accumulated under the former balance of state and local revenues.

As of 1978, California led the other four states by this measure; and Illinois somewhat surprisingly surpassed New York for third place. These are only uncertain indicators, not infallible, of the states' relative esteem and support of higher education.

Table 21. Appropriations for Higher Education, 1978, As Percentage of Total State Tax Revenues, and Total State and Local Tax Revenue, 1978, in Thousands of dollars.

Five States	State Tax Revenue	Total State and Local Tax Revenues	Appropriations for Higher Education	Col 4 As Percent- age of Col 2	Col 4 As Percent- age of Col 3
(1)	(2)	(3)	(4)	(5)	(6)
TX	5,389,980	9,415,980	1,050,400	19.49	11.16
CA	15,017,677	27,365,177	1,961,525	13.06	7.17
IL	5,774,368	10,309,768	740,190	12.82	7.17
NY	10,934,176	23,219,276	1,298,754	11.88	5.59
PA	6,294,970	10,155,170	668,172	10.61	6.58

Source: Quindry, *op. cit.*, page 86.