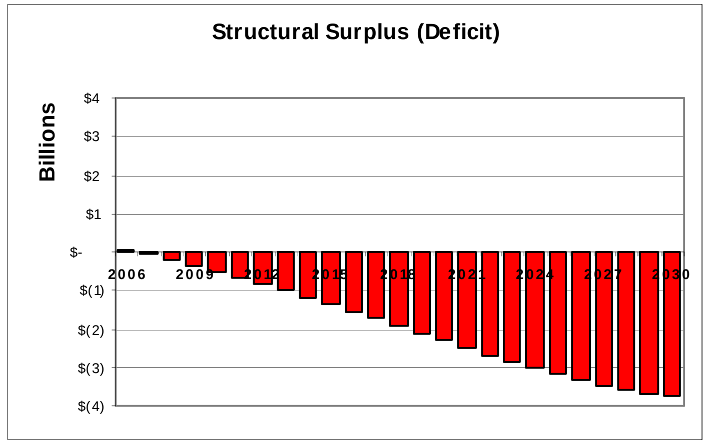
Sample Tax Calculator Scenarios

One use of the calculator is to model scenarios under which the state can assume responsibility for Medicaid and still meet its long term fiscal obligations. With no changes to the tax system, the state's assuming responsibility for Medicaid would result in large and growing structural deficits. Three dramatically different scenarios are presented to show the range of options that the calculator can model.

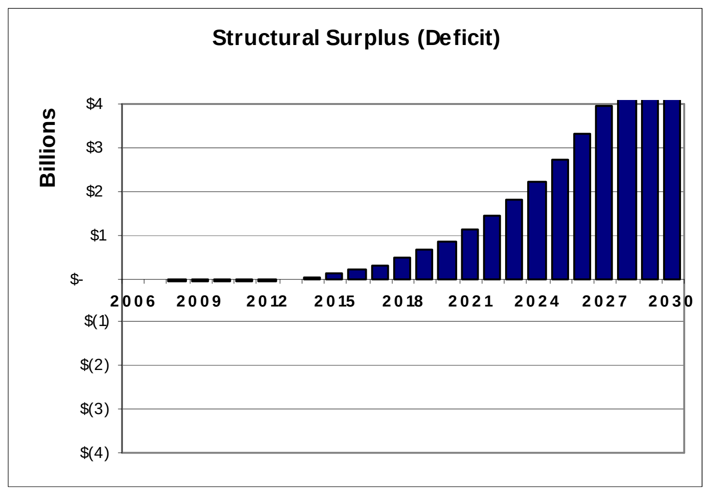
Scenario One

Scenario one attempts to achieve the broadest base and lowest tax rates with no concern for progressivity. The personal income tax rate is a flat 4.0%. The base is federal adjusted gross income (AGI) and there are no deductions or exemptions. There are no business taxes. The statewide sales tax is 2% and all goods and services are included in the base. The local sales tax rate is 1%. While this scenario is revenue-neutral in year one, it results in large deficits in later years.



Scenario Two

Scenario two retains a progressive individual income tax but rates are lowered by one percentage point for the bottom three tax brackets. As in scenario one, the individual income tax base is AGI. The personal exemption is raised by $2,000 for the lowest bracket and $1,000 for the second lowest. Combined reporting is introduced for the corporate income tax. The state sales tax base is expanded to all goods and services and the rate lowered to 1.25%. The local rate is lowered to .75%. The result is a balanced budget for the next ten years and then sharply increasing surpluses.



Scenario Three

Scenario three is somewhere between scenario one and two. As in the first two scenarios, AGI is used as the income tax base. In scenario three, all tax brackets are lowered to a flat 5% but the personal exemption amount is increased for lower income taxpayers and decreased for upper income taxpayers. The franchise tax is eliminated, the corporate income tax rate is reduced to 5%, combined reporting is added and special corporate exemptions and credits are eliminated. The sales tax base is expanded to all goods and services at a state rate of 2% and a local rate of 1%. The result is small surpluses over the next ten years followed by increasing surpluses.