



State Income Tax Deductibility and Federal Tax Savings—

An Update and Full Model Presentation

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Tennessee State Income Tax Model—Data

DATA SOURCES

- IRS Federal income tax data for all Tennesseans
 - Form 1040 including Schedules A, B, C, D, F
- Data from Tennessee State income tax on interest, dividends and capital gain distributions
- U.S. Department of Labor Consumer Expenditure Survey (CES)
- U.S. Postal Service Zip code data

OTHER DETAIL

- 2002 Tax year
- Lack of out-of-state taxpayer data
- Nonfiler issue
- Taxpayer to Household translation
- Address based Federal data



Tennessee State Income Tax Model—Methodology

- Scenario based: model can run any variation of tax policy
 - Graduated vs. flat tax
 - Different components—capital gains, age 65 and over
 - Variable deductions and rates
- Original model adjusted to 2005
 - Now includes federal changes
- Link related taxpayers—parent & dependent, married filing separate
- Match federal taxpayers with TN state income tax (interest, dividends)
- Create household units and link to geography codes (zip code & FIPS)
- Estimate household sales tax liability from CES
 - Updated to 2002 survey data
- Compute results including aggregate descriptive statistics, winners vs. losers, typical example family impact, and geographic breakout



Federal Deductibility Simulator— Scenarios

SCENARIO ONE:

- Flat Income Tax⇒ 4.5% Rate
 - Exemptions= \$15k-SGL, \$30K-MFJ, \$22K-HDH
 - Zero dependent deduction
 - 50% capital gain deduction
- Sales tax⇒ 5.75% State Rate and No tax on grocery food, clothing & non-presc. medicine (Keep normal local option rate)

SCENARIO TWO:

- Graduated Income Tax⇒ 3.5%-6.0% Rates
 - Exemptions= \$18k-SGL, \$36K-MFJ, \$26K-HDH
 - SGL: \$18k-25k=3.5%, \$25k-35k=4.25%, \$35k-50k=5.0%, >\$50k=6.0%
 - \$2,500 dependent deduction
 - 50% capital gain deduction
- Sales tax⇒ No tax on grocery food, clothing & non-presc. medicine (Keep 7.0% State rate and normal local option rate)



Federal Deductibility Simulator— Results (2005FY impact based on 2002TY data)

- Flat Income Tax⇒ 4.5%
 - Estimated Revenue= \$2.9 billion
 - Taxpayer count= 1.6 million
 - Tax amount:
 - Average=\$1,875, Median=\$675
 - Deductibility savings= \$510 million
 - Benefiting taxpayers= 570,000
 - Current itemizers—
 - Tax: Avg.=\$3,250; Median=\$1,975
 - Deduction: Avg.=\$875; Median=\$400
 - Result⇒ 26% effective tax reduction
 - New itemizers= 39,000
 - Maximum of \$200 million additional potential deductions from non-itemizers
- Graduated Income Tax⇒ 3.5-6.0%
 - Estimated Revenue= \$2.7 billion
 - Taxpayer count= 1.3 million
 - Tax amount:
 - Average=\$2,050, Median=\$540
 - Deductibility savings= \$555 million
 - Benefiting taxpayers= 540,000
 - Current itemizers—
 - Tax: Avg.=\$3,475; Median=\$1,675
 - Deduction: Avg.=\$975; Median=\$375
 - Result⇒ 27.5% effective tax reduction
 - New itemizers= 38,000
 - Maximum of \$150 million additional potential deductions from non-itemizers



Federal Deductibility Simulator— Family Impact Examples

FLAT TAX, 4.5%

- SINGLE, NO DEPENDENTS, AGI=\$30,000-\$50,000
 - Range= 20% of all SGL filers; 29% benefiting itemizers
 - Avg. tax total= \$995; Avg. tax itemizers= \$1,060; Avg. itmz-ded.= \$210 (20%)
- MARRIED FILING JOINTLY, NO DEPENDENTS, AGI=\$30,000-\$50,000
 - Range= 25% of all MFJ filers; 19% benefiting itemizers
 - Avg. tax total= \$420; Avg. tax itemizers= \$455; Avg. itmz-ded.= \$65 (14%)
- HEAD OF HOUSEHOLD, 1 DEPENDENT, AGI=\$20,000-\$30,000
 - Range= 25% of all HDH filers; 8% benefiting itemizers
 - Avg. tax total= \$185; Avg. tax itemizers= \$230; Avg. itmz-ded.= \$30 (14%)
- MARRIED FILING JOINTLY, 2 DEPENDENTS, AGI=\$50,000-\$75,000
 - Range= 25% of all MFJ filers; 43% benefiting itemizers
 - Avg. tax total= \$1,365; Avg. tax itemizers= \$1,420; Avg. itmz-ded.= \$205 (14%)



Federal Deductibility Simulator— Family Impact Examples

GRADUATED TAX, 3.5%-6.0%

- SINGLE, NO DEPENDENTS, AGI=\$30,000-\$50,000
 - Range= 20% of all SGL filers; 29% benefiting itemizers
 - Avg. tax total= \$785; Avg. tax itemizers= \$855; Avg. itmz-ded.= \$170 (20%)
- MARRIED FILING JOINTLY, NO DEPENDENTS, AGI=\$30,000-\$50,000
 - Range= 25% of all MFJ filers; 20% benefiting itemizers
 - Avg. tax total= \$220; Avg. tax itemizers= \$235; Avg. itmz-ded.= \$35 (14%)
- HEAD OF HOUSEHOLD, 1 DEPENDENT, AGI=\$20,000-\$30,000
 - Range= 25% of all HDH filers; 14% benefiting itemizers
 - Avg. tax total= \$120; Avg. tax itemizers= \$140; Avg. itmz-ded.= \$20 (14%)
- MARRIED FILING JOINTLY, 2 DEPENDENTS, AGI=\$50,000-\$75,000
 - Range= 25% of all MFJ filers; 42% benefiting itemizers
 - Avg. tax total= \$725; Avg. tax itemizers= \$785; Avg. itmz-ded.= \$115 (14%)



State Income Tax Model— Distribution of Winners & Losers by County

FLAT TAX, 4.5%

- Model output provides distributions by County and Zip code
 - Including dollar amounts, taxpayer counts, and percentages
- Winners represents taxpayer households with a lower overall tax liability
- Total: Winners=54% (1.1 million) / Losers=46% (0.9 million)
- 86 counties are winners (i.e., greater than 50% hshlds. paying lower tax)
 - Represents 70% of total population with winners=40% & losers=30%

TOP 10 TENNESSEE COUNTIES BY POPULATION				
COUNTY	WINNER	LOSER	Grand Total	%_Winner
BLOUNT	19,981	18,486	38,467	52%
DAVIDSON	99,880	107,182	207,062	48%
HAMILTON	56,605	54,609	111,214	51%
KNOX	67,318	69,817	137,135	49%
MONTGOMERY	25,047	18,645	43,692	57%
RUTHERFORD	29,754	37,542	67,296	44%
SHELBY	166,552	143,514	310,066	54%
SULLIVAN	30,714	23,619	54,333	57%
SUMNER	22,048	25,131	47,179	47%
WILLIAMSON	14,356	34,632	48,988	29%



State Income Tax Model— Distribution of Winners & Losers by County

FLAT TAX, 4.5% \Rightarrow Top and Bottom 10 Counties

TOP 10 WINNING COUNTIES				
COUNTY	WINNER	LOSER	Grand Total	%_Winner
CLAIBORNE	7,038	2,846	9,884	71%
CLAY	1,938	604	2,542	76%
FENTRESS	4,009	1,166	5,175	77%
GRUNDY	3,193	1,229	4,422	72%
HANCOCK	1,287	367	1,654	78%
JACKSON	2,616	979	3,595	73%
JOHNSON	3,826	1,400	5,226	73%
PICKETT	1,218	427	1,645	74%
SCOTT	4,697	1,554	6,251	75%
WAYNE	3,376	1,345	4,721	72%
BOTTOM 10 WINNING COUNTIES				
COUNTY	WINNER	LOSER	Grand Total	%_Winner
CHEATHAM	5,925	6,599	12,524	47%
DAVIDSON	99,880	107,182	207,062	48%
HAMILTON	56,605	54,609	111,214	51%
KNOX	67,318	69,817	137,135	49%
MAURY	12,197	12,994	25,191	48%
ROBERTSON	10,116	10,212	20,328	50%
RUTHERFORD	29,754	37,542	67,296	44%
SUMNER	22,048	25,131	47,179	47%
WILLIAMSON	14,356	34,632	48,988	29%
WILSON	14,022	19,203	33,225	42%



State Income Tax Model— Distribution of Winners & Losers by County

GRADUATED TAX, 3.5%-6.0%

- Total: Winners=60% (1.2 million) / Losers=40% (0.8 million)
- 93 counties are winners (i.e., greater than 50% hshlds. paying lower tax)
 - Represents 95% of total population with winners=60% & losers=35%

TOP 10 TENNESSEE COUNTIES BY POPULATION				
COUNTY	WINNER	LOSER	Grand Total	%_Winner
BLOUNT	22,151	16,316	38,467	58%
DAVIDSON	109,117	97,945	207,062	53%
HAMILTON	62,145	49,069	111,214	56%
KNOX	73,970	63,165	137,135	54%
MONTGOMERY	27,810	15,882	43,692	64%
RUTHERFORD	33,981	33,315	67,296	50%
SHELBY	180,526	129,540	310,066	58%
SULLIVAN	33,635	20,698	54,333	62%
SUMNER	24,779	22,400	47,179	53%
WILLIAMSON	16,163	32,825	48,988	33%



State Income Tax Model— Distribution of Winners & Losers by County

GRADUATED TAX, 3.5%-6.0% \Rightarrow Top and Bottom 10 Counties

TOP 10 WINNING COUNTIES				
COUNTY	WINNER	LOSER	Grand Total	%_Winner
CLAIBORNE	7,571	2,313	9,884	77%
CLAY	2,072	470	2,542	82%
FENTRESS	4,254	921	5,175	82%
GRUNDY	3,445	977	4,422	78%
HANCOCK	1,356	298	1,654	82%
JACKSON	2,782	813	3,595	77%
JOHNSON	4,081	1,145	5,226	78%
PICKETT	1,292	353	1,645	79%
SCOTT	5,011	1,240	6,251	80%
WAYNE	3,666	1,055	4,721	78%
BOTTOM 10 WINNING COUNTIES				
COUNTY	WINNER	LOSER	Grand Total	%_Winner
CHEATHAM	6,782	5,742	12,524	54%
DAVIDSON	109,117	97,945	207,062	53%
HAMILTON	62,145	49,069	111,214	56%
KNOX	73,970	63,165	137,135	54%
LOUDON	8,506	6,693	15,199	56%
MAURY	13,618	11,573	25,191	54%
RUTHERFORD	33,981	33,315	67,296	50%
SUMNER	24,779	22,400	47,179	53%
WILLIAMSON	16,163	32,825	48,988	33%
WILSON	15,953	17,272	33,225	48%



State Income Tax Model— Family Impact Examples

FLAT TAX, 4.5%

- SINGLE, NO DEPENDENTS, AGI=\$30,000-\$50,000
 - Range= 20% of all SGL filers; Avg. income tax= \$995
 - Avg. total tax burden before= \$2,650; Avg. after= \$2,780; Difference= +\$130 (5%)
- MARRIED FILING JOINTLY, NO DEPENDENTS, AGI=\$30,000-\$50,000
 - Range= 25% of all MFJ filers; Avg. income tax= \$420
 - Avg. total tax burden before= \$2,220; Avg. after= \$1,870; Difference= -\$350 (25%)
- HEAD OF HOUSEHOLD, 1 DEPENDENT, AGI=\$20,000-\$30,000
 - Range= 25% of all HDH filers; Avg. income tax= \$185
 - Avg. total tax burden before= \$1,690; Avg. after= \$1,240; Difference= -\$450 (15%)
- MARRIED FILING JOINTLY, 2 DEPENDENTS, AGI=\$50,000-\$75,000
 - Range= 25% of all MFJ filers; Avg. income tax= \$1,365
 - Avg. total tax burden before= \$2,860; Avg. after= \$3,120; Difference= +\$260 (10%)



State Income Tax Model— Family Impact Examples

GRADUATED TAX, 3.5%-6.0%

- SINGLE, NO DEPENDENTS, AGI=\$30,000-\$50,000
 - Range= 20% of all SGL filers; Avg. income tax= \$785
 - Avg. total tax burden before= \$2,650; Avg. after= \$2,860; Difference= +\$210 (10%)
- MARRIED FILING JOINTLY, NO DEPENDENTS, AGI=\$30,000-\$50,000
 - Range= 25% of all MFJ filers; Avg. income tax= \$220
 - Avg. total tax burden before= \$2,290; Avg. after= \$1,970; Difference= -\$320 (15%)
- HEAD OF HOUSEHOLD, 1 DEPENDENT, AGI=\$20,000-\$30,000
 - Range= 25% of all HDH filers; Avg. income tax= \$120
 - Avg. total tax burden before= \$1,700; Avg. after= \$1,350; Difference= -\$350 (20%)
- MARRIED FILING JOINTLY, 2 DEPENDENTS, AGI=\$50,000-\$75,000
 - Range= 25% of all MFJ filers; Avg. income tax= \$725
 - Avg. total tax burden before= \$2,860; Avg. after= \$2,810; Difference= -\$50 (5%)