

THE STATE AND DISTRICT IMPACT OF THE CLINTON TAX INCREASE

(Updating *Background Update* No. 208, "The States and Districts Hit Hardest by the 1993 Tax Increase," November 24, 1993.)

With April 15 just around the corner, many taxpayers are acutely aware that the tax burden in America is at an all-time high. This is due in part to President Clinton and Congress, who imposed on the American economy last year the largest tax increase in world history. While no region of the country was spared, the tax hike will have a particularly severe impact on certain states and congressional districts. The state of California, for instance, will lose more than \$37 billion over the next five years as a result of the new taxes included in last year's legislation. On a per capita basis, Connecticut is the hardest hit. The \$5.8 billion impact of the Clinton tax hike on Connecticut equals \$1,711 for every man, woman, and child in the state. Amazingly, all four U.S. Senators representing these two states voted for the tax bill.

The impact on congressional districts is even more pronounced. As detailed in the Appendix, 39 congressional districts will lose more than \$1 billion apiece over the next five years thanks to last year's record tax hike. One district in New York City will have more than \$3.4 billion taken out of its economy. A district in southern California comes in second, losing nearly \$2.8 billion. Surprisingly, the Members of Congress from these two districts voted in favor of the tax increase. Indeed, of the 39 Members representing districts that will lose more than \$1 billion, fourteen voted in favor of the tax increase.

As the tables that follow indicate, no state or district will benefit from the higher taxes. These figures notwithstanding, the White House still maintains that taxpayers come out ahead because higher taxes will stimulate economic growth, lower interest rates, encourage job creation, and reduce the budget deficit. Unfortunately, it appears that none of these goals will be met. Instead, by continuing the high-tax policies of the Bush White House, the current Administration is largely responsible for the economy's continued sub-par performance. Consider:

- ✓ **Economic growth**, which historically has increased at an annual average of more than five percent the three years following a recession, has been averaging barely half the levels normally achieved at this stage of a business cycle.

TEN HARDEST-HIT STATES	
Revenues Loss Per Capita	
STATE	Amount of Money Taken from State Economy Per Capita
Connecticut	\$1,710.62
New Jersey	\$1,429.09
New York	\$1,257.89
Massachusetts	\$1,183.89
California	\$1,166.11
Florida	\$1,154.63
Illinois	\$1,149.31
Maryland	\$1,138.57
Hawaii	\$1,099.21
Nevada	\$1,093.79

Source: U.S. Treasury, U.S. Census, and Congressional Budget Office

- ✓ **Interest rates**, which had been falling continuously since 1989, have reversed their downward trend since the tax bill was adopted.
- ✓ **Job creation**, like economic growth, has been much weaker than normal. Net new job creation is running less than one-third the amounts normally seen three years after a recession ends.
- ✓ **Deficit reduction**, meanwhile, remains nothing more than a promise. The White House claims the deficit will fall to less than \$200 billion next year, but taxpayers may remember that supporters of the 1990 tax increase promised there would be a budget surplus this year if that tax bill were enacted. The bill was approved, but the deficit this year is expected to be well above \$200 billion.

TEN HARDEST-HIT STATES	
Total Revenue Loss	
STATE	Total Revenues Taken from State by 1993 Tax Bill
California	\$37,315,505,015.23
New York	\$22,980,348,545.16
Texas	\$17,320,202,236.19
Florida	\$16,183,262,619.93
Illinois	\$13,541,118,860.36
Pennsylvania	\$11,710,204,629.25
New Jersey	\$11,564,226,325.96
Ohio	\$9,666,090,477.70
Michigan	\$8,496,138,559.49
Massachusetts	\$7,373,252,586.67

Source: U.S. Treasury, U.S. Census and Congressional Budget Office.

Higher Taxes Hurt Everyone. The Administration argues that voters should be happy because only the “rich” are paying the higher taxes. This is grossly inaccurate. Many of the bill’s provisions, such as higher gas taxes and increased taxation of Social Security benefits, are paid directly by lower- and middle-income taxpayers. Moreover, these taxpayers also suffer as a result of the “soak-the-rich” taxes included in the tax bill.

The White House asserts that higher income tax rates are a way to make wealthy Americans like Donald Trump and Leona Helmsley pay “their fair share.” Playing the “politics of envy” may get good headlines, but it is bad economics. In reality, higher tax rates will impose a very heavy cost on small businesses, savings, and investment. Small businesses—partnerships, sole proprietorships, and subchapter S corporations—are affected because almost all of them file under the individual income tax code. To make matters worse, the higher income tax rates punish precisely those small businesses that become successful, earn some money, and would be in a position, were it not for higher taxes, to re-invest those earnings and create new jobs.

Higher income tax rates on the “rich” also penalize lower- and middle-income taxpayers because of the negative impact on savings and investment. The White House’s class warfare campaign conjures up images of corporate fat cats, but most of the income earned by the wealthy is not big salaries for Fortune 500 executives. Instead, it is dividends, interest, capital gains, and other investment income. By dramatically boosting tax rates, politicians have sharply reduced incentives to save and invest. And as even the most liberal economist will admit, job creation and rising incomes depend on savings and investment. Much like the luxury tax passed in 1990, which was designed to penalize wealthy yacht-buyers but wound up throwing thousands of middle-income boat builders out of work, higher income tax rates designed to punish rich people will backfire.

METHODOLOGY

As illustrated in the Appendix tables, the \$262.5 billion of revenue in last year’s tax bill was divided into four parts: 1) taxes aimed at the rich, such as higher income tax rates, increased Medicare taxes, and the estate tax increase, which are projected to raise \$146.8 billion over the five-year period, 2) higher gas taxes, which are predicted to generate \$32.1 billion over the five-year period, 3) increased taxes on So-

cial Security benefits, which are estimated to raise \$24.6 billion over the five-year period, and 4) \$59 billion of other revenues included in the tax bill.

The four separate numbers for each congressional district and state were produced as following:

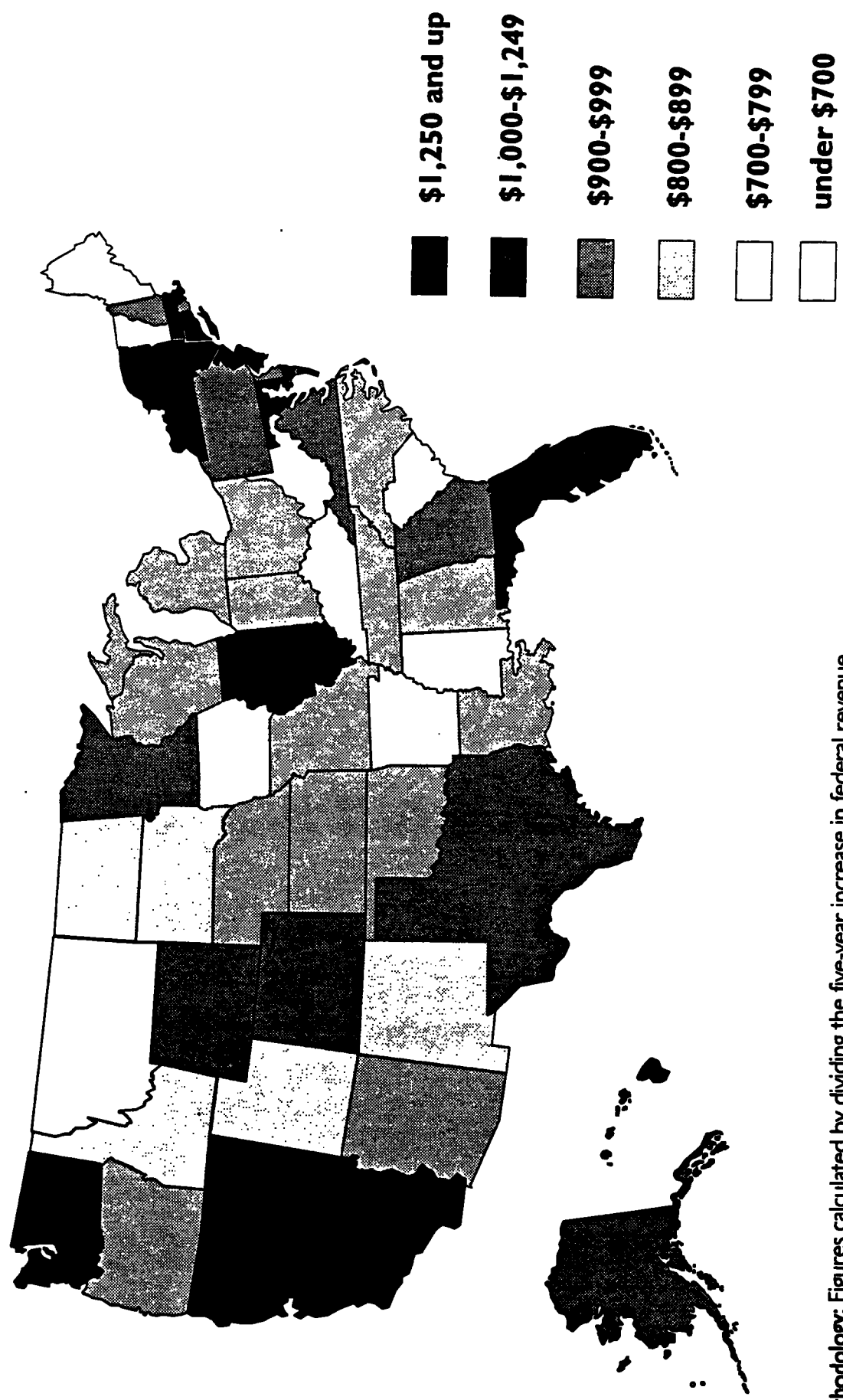
- 1) **The increased tax burden on the "rich"** for each congressional district was calculated by taking the number of households in the nation affected by higher income tax rates, 1.4 million, and dividing that number into the \$146.8 billion of projected revenue from taxes aimed at upper-income taxpayers. That figure, representing the average five-year tax increase for each "rich" household, was then multiplied by the number of rich households in each district. That number of affected households in each district was obtained from the Treasury Department using the Freedom of Information Act. The figures for each state, of course, are the sum of the tax burden in each district in the state. For more detailed information, see "The States and Districts Hit Hardest by the 1993 Tax Increase," Heritage Foundation *Background Update* No. 208, November 24, 1993.
- 2) **The gas tax figures** for each state were compiled using Federal Highway Administration data on driving patterns, which allows the \$32.1 billion in expected revenues to be allocated among the states. The congressional district data were developed by simply dividing the state total by the number of congressional districts. This calculation, it should be noted, will overstate the cost for urban districts and understate the impact on rural districts. For more detailed information, see "The Real Story on Gas Taxes," Heritage Foundation *F.Y.I.*, July 21, 1993.
- 3) **The state and congressional district numbers for the increased tax on Social Security benefits** were calculated using Census Bureau data on the number of elderly households in each congressional district with incomes over \$35,000. The state numbers, of course, are simply the total of each congressional district. For more detailed information, see "The Clinton Surtax on the Elderly's Savings," Heritage Foundation *F.Y.I.*, August 18, 1993.
- 4) **The remaining \$59 billion of revenues in the tax bill** is simply distributed evenly among all congressional districts. This calculation doubtlessly overstates the impact on poorer districts and understates the revenue loss for wealthier districts, but given the wide range of revenue sources comprising the \$59 billion—everything from higher corporate income taxes and limits on deductions for business meals to "user fees" and moneys raised by auctioning off portions of the radio spectrum—any attempt to be more specific would create the appearance of jiggling the numbers to generate pre-determined results.

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Fifty Hardest-Hit Congressional Districts

Rank	Members of Congress: Those italicized and bolded voted in favor of tax hike (all Democrats). Those voting no were Republicans except where noted.	District	Revenue Taken From District by 1993 Tax Bill	District Tax Increase as Percent of National Median
1	<i>Carolyn Maloney</i>	N.Y.-14	\$3,406,890,914	704%
2	<i>Henry Waxman</i>	Cal-29	\$2,796,351,964	578%
3	John Porter	Ill-10	\$2,327,112,425	481%
4	Christopher Shays	Conn-4	\$2,019,596,332	417%
5	E. Clay Shaw	Fla-22	\$1,973,682,531	408%
6	<i>Jerrold Nadler</i>	N.Y.-08	\$1,788,980,829	370%
7	Constance Morella	Md-8	\$1,743,017,112	360%
8	<i>Nita Lowey</i>	N.Y.-18	\$1,729,636,180	357%
9	<i>Anthony Bonfanton</i>	Cal-24	\$1,654,742,301	342%
10	Joseph Knollenberg	Mich-11	\$1,647,640,874	340%
11	Dean Gallo	N.J.-11	\$1,606,028,375	332%
12	<i>Gary Ackerman</i>	N.Y.-05	\$1,604,705,158	332%
13	Marge Roukema	N.J.-05	\$1,540,297,697	318%
14	<i>M. Margolis-Mezvinsky</i>	Pa-13	\$1,530,777,865	316%
15	Dick Zimmer	N.J.-12	\$1,506,012,242	311%
16	Bill Archer	Tex-07	\$1,480,589,287	306%
17	Chris Cox	Cal-47	\$1,469,147,468	304%
18	<i>Anne Eshoo</i>	Cal-14	\$1,466,223,492	303%
19	Peter King	N.Y.-03	\$1,448,248,596	299%
20	Sam Johnson	Tex-03	\$1,429,202,061	295%
21	<i>Jane Harman</i>	Cal-36	\$1,422,188,167	294%
22	Bob Franks	N.J.-07	\$1,304,183,988	269%
23	Hamilton Fish	N.Y.-19	\$1,247,320,200	258%
24	Bill Baker	Cal-10	\$1,217,967,351	252%
25	James Talent	Mo-2	\$1,201,808,869	248%
26	<i>Lynn Woolsey</i>	Cal-06	\$1,171,999,839	242%
27	<i>Harry Johnston</i>	Fla-19	\$1,142,816,619	236%
28	<i>Barney Frank</i>	Mass-04	\$1,142,797,039	236%
29	Carlos Moorhead	Cal-27	\$1,134,970,159	235%
30	Curt Weldon	Pa-07	\$1,100,744,719	227%
31	<i>James Moran</i>	Va-08	\$1,093,066,695	226%
32	David Levy	N.Y.-04	\$1,083,620,818	224%
33	Newt Gingrich	Ga-06	\$1,082,858,010	224%
34	Dick Arney	Tex-26	\$1,071,164,545	221%
35	Harris Fawell	Ill-13	\$1,063,465,615	220%
36	Porter Goss	Fla-14	\$1,042,784,867	215%
37	<i>John Lewis</i>	Ga-05	\$1,024,942,978	212%
38	Gary Franks	Conn-5	\$1,012,658,001	209%
39	Benjamin Gilman	N.Y.-20	\$1,012,563,536	209%
40	John Kyl	Az-4	\$994,434,670	205%
41	Jim Ramstad	Minn-3	\$986,810,506	204%
42	Ileana Ros-Lehtinen	Fla-18	\$981,162,332	203%
43	Randy Cunningham	Cal-51	\$975,812,508	202%
44	<i>Norman Mineta</i>	Cal-15	\$973,691,920	201%
45	Philip Crane	Ill-08	\$973,434,235	201%
46	Herbert Klein (D)	N.J.-08	\$972,023,747	201%
47	<i>Peter Deutch</i>	Fla-20	\$966,897,089	200%
48	<i>Dan Rostenkowski</i>	Ill-05	\$964,694,224	199%
49	<i>Tom Lantos</i>	Cal-12	\$959,911,280	198%
50	<i>Sidney Yates</i>	Ill-09	\$951,432,361	197%

Per Capita Impact of 1993 Clinton Tax Increase



Methodology: Figures calculated by dividing the five-year increase in federal revenue expected from each state by population.
Source: U.S. Treasury, U.S. Census and Congressional Budget Office.

THE STATE IMPACT OF THE 1993 TAX BILL

State	Total Revenues Taken From State By 1993 Tax Bill	State Soak-the-Rich Tax Increase	State Social Security Tax Increase	State Gas Tax Increase	Other Revenues in Tax Bill From State
Alabama	\$3,344,740,760.90	\$1,514,375,203.57	\$261,960,330.24	\$621,157,520.66	\$947,247,706.42
Alaska	\$532,085,049.50	\$295,244,996.09	\$30,002,838.57	\$71,516,113.92	\$135,321,100.92
Arizona	\$3,351,877,233.95	\$1,650,101,958.96	\$380,675,441.22	\$509,173,228.26	\$811,926,605.50
Arkansas	\$1,743,879,905.21	\$690,162,690.53	\$144,294,748.80	\$368,138,062.21	\$541,284,403.67
California	\$37,315,505,015.23	\$22,929,646,613.07	\$3,604,570,689.88	\$3,744,590,464.57	\$7,036,697,247.71
Colorado	\$3,393,184,032.25	\$1,869,465,742.00	\$256,325,047.51	\$455,466,637.24	\$811,926,605.50
Connecticut	\$5,822,946,937.46	\$4,077,986,351.71	\$533,571,410.80	\$399,462,569.45	\$811,926,605.50
Delaware	\$705,733,441.49	\$398,376,368.52	\$74,356,155.48	\$97,679,816.57	\$135,321,100.92
Florida	\$16,183,262,619.93	\$9,204,894,223.07	\$2,073,537,532.14	\$1,792,445,543.63	\$3,112,385,321.10
Georgia	\$6,300,760,184.23	\$3,323,366,553.40	\$443,131,646.97	\$1,045,729,873.76	\$1,488,532,110.09
Hawaii	\$1,310,257,297.66	\$709,657,035.32	\$212,765,208.39	\$117,192,852.12	\$270,642,201.83
Idaho	\$808,794,225.75	\$330,565,394.98	\$60,896,696.29	\$146,689,932.64	\$270,642,201.83
Illinois	\$13,541,118,860.36	\$8,302,285,097.65	\$1,221,684,048.45	\$1,310,727,695.91	\$2,706,422,018.35
Indiana	\$4,765,684,210.96	\$2,237,342,893.67	\$397,520,232.89	\$777,610,075.22	\$1,353,211,009.17
Iowa	\$2,229,164,386.38	\$922,417,895.12	\$219,551,721.66	\$410,589,265.01	\$676,605,504.59
Kansas	\$2,270,447,521.37	\$1,157,293,307.35	\$214,874,302.16	\$356,995,508.20	\$541,284,403.67
Kentucky	\$2,884,595,449.90	\$1,309,160,541.76	\$216,307,624.41	\$547,200,678.23	\$811,926,605.50
Louisiana	\$3,386,497,368.09	\$1,642,555,760.98	\$258,054,556.29	\$538,639,344.40	\$947,247,706.42
Maine	\$925,290,170.41	\$394,812,886.14	\$81,753,566.77	\$178,081,515.66	\$270,642,201.83
Maryland	\$5,705,386,751.91	\$3,370,739,907.41	\$639,593,016.77	\$612,485,020.39	\$1,082,568,807.34
Massachusetts	\$7,373,252,586.67	\$4,558,742,048.21	\$773,451,456.62	\$687,848,072.67	\$1,353,211,009.17
Michigan	\$8,496,138,559.49	\$4,308,355,006.80	\$740,350,502.85	\$1,282,295,435.16	\$2,165,137,614.68
Minnesota	\$4,404,942,744.20	\$2,406,398,690.16	\$300,617,724.04	\$615,357,522.66	\$1,082,568,807.34
Mississippi	\$1,827,214,918.43	\$637,444,112.96	\$135,998,339.10	\$377,166,961.78	\$676,605,504.59
Missouri	\$4,681,675,656.25	\$2,246,985,257.76	\$408,570,097.18	\$808,230,393.05	\$1,217,889,908.26
Montana	\$541,779,082.18	\$219,678,207.95	\$56,101,253.22	\$130,678,520.10	\$135,321,100.92
Nebraska	\$1,362,647,099.26	\$609,041,062.22	\$122,665,886.09	\$224,976,848.20	\$405,963,302.75
Nevada	\$1,478,807,305.23	\$903,971,633.39	\$109,176,156.81	\$195,017,314.20	\$270,642,201.83
New Hampshire	\$1,084,094,889.21	\$564,916,765.68	\$95,699,185.67	\$152,836,736.02	\$270,642,201.83
New Jersey	\$11,564,226,325.96	\$7,569,675,043.46	\$1,202,641,034.44	\$1,032,735,936.13	\$1,759,174,311.93
New Mexico	\$1,197,932,843.26	\$433,487,150.81	\$114,229,267.86	\$244,253,121.83	\$405,963,302.75
New York	\$22,980,348,545.16	\$15,570,531,455.00	\$2,396,818,864.26	\$818,044,097.46	\$4,194,954,128.44
North Carolina	\$5,690,989,277.63	\$2,631,946,163.20	\$468,960,819.54	\$966,229,083.88	\$1,623,853,211.01
North Dakota	\$470,474,674.17	\$188,235,716.36	\$43,095,480.26	\$103,822,376.65	\$135,321,100.92
Ohio	\$9,666,090,477.70	\$4,843,925,446.99	\$861,317,933.47	\$1,389,746,179.81	\$2,571,100,917.43
Oklahoma	\$2,683,894,840.60	\$1,138,008,579.17	\$238,964,642.00	\$494,995,013.93	\$811,926,605.50
Oregon	\$2,612,315,788.58	\$1,294,382,570.71	\$238,599,022.89	\$402,728,690.40	\$676,605,504.59
Pennsylvania	\$11,710,204,629.25	\$6,320,779,277.26	\$1,177,791,598.77	\$1,369,890,633.95	\$2,841,743,119.27
Rhode Island	\$1,014,980,941.06	\$518,801,111.34	\$115,715,821.70	\$109,821,806.18	\$270,642,201.83
South Carolina	\$2,737,106,815.62	\$1,140,733,595.11	\$245,458,320.77	\$538,988,294.24	\$811,926,605.50
South Dakota	\$520,276,845.50	\$225,861,897.97	\$42,709,202.58	\$116,384,644.04	\$135,321,100.92
Tennessee	\$4,436,002,114.16	\$2,145,321,201.60	\$328,279,496.50	\$744,511,507.81	\$1,217,889,908.26
Texas	\$17,320,202,236.19	\$9,444,381,200.72	\$1,313,132,521.66	\$2,503,055,486.28	\$4,059,633,027.52
Utah	\$1,352,052,514.16	\$619,102,659.53	\$100,360,478.32	\$226,626,073.57	\$405,963,302.75
Vermont	\$452,950,487.08	\$195,467,489.42	\$36,559,376.14	\$85,602,520.61	\$135,321,100.92
Virginia	\$6,334,120,164.29	\$3,321,270,387.30	\$641,486,879.60	\$882,830,787.30	\$1,488,532,110.09
Washington	\$5,252,589,383.26	\$2,881,285,121.56	\$465,917,604.59	\$687,496,748.85	\$1,217,889,908.26
West Virginia	\$1,068,444,709.07	\$465,558,492.23	\$106,043,018.71	\$90,879,895.37	\$405,963,302.75
Wisconsin	\$4,364,301,994.89	\$2,163,767,463.34	\$358,716,879.76	\$623,927,743.54	\$1,217,889,908.26
Wyoming	\$432,990,183.95	\$178,593,352.27	\$28,201,524.47	\$90,874,206.30	\$135,321,100.92

