

Tax credits constitute a form of general purpose, unrestricted assistance to State and local taxpayers which leaves them entirely free to make the decisions on how to use the resources that are thereby made available to them. The State and local taxpayers are allowed to offset part or all of their payments of specified State taxes in computing their Federal income tax liability. This is equivalent to receiving a full rebate from the Federal Government of all or part of the State and local tax paid. When a State or locality imposes or increases its taxes the taxpayer will get part or all of the money back when he makes out his Federal income tax form. The State and locality will still be making the decisions on their own tax system and on the spending of the money; reimbursement is a matter between the taxpayer and the Federal Government.

Tax credits are not new. Proposals to credit some or all State-local taxes have been made by many authors in this country for a period of more than 40 years. No one in his forties or fifties can accept credit for credits unless he was a child genius. The Advisory Commission on Intergovernmental Relations and the Committee for Economic Development recently suggested partial tax credit for State income taxes paid. I believe that it would be preferable to make all State and local taxes and not only income taxes eligible up to a certain percentage or at least to have a "bloc tax credit" consisting of property, sales, and income taxes. This leaves the State and local governments more degrees of freedom in selecting the taxes which they will impose.

Existing examples of State-Federal credits are the Federal estate tax credit and the credits against payroll taxes under the unemployment compensation system. The Federal estate tax credit unfortunately has not actually accomplished uniformity of death taxation and it is an open question how much it has contributed to that end. Certainly death taxes in the various States present a mosaic of types—inheritance or estate of both; exemptions—that is, insurance exemption—and rates. Despite the credit and the resulting costless nature of this portion of the tax to the States, one State (Nevada) levies no death tax at all. Prospective decedents—our gloomy way of referring to all living persons—are undoubtedly grateful for the credit in all the other States.

Tax credits should not be confused with tax deductions. State and local taxes are generally deductible in computing Federal income tax liability. The deductibility feature tends to reduce the burden of State and local taxes to some extent. For instance, if the relevant Federal tax rate is 50 percent, a State tax of \$100 costs the taxpayer only \$50—in his capacity as a State taxpayer, that is. This looks fine but it has a serious defect. If there is a Federal tax cut, the actual burden of State and local taxes appears to increase. For instance, if the Federal rate is reduced from 50 to 25 percent, a State tax of \$100 rises in net burden from \$50 to \$75. The taxpayer gains in making out his Federal return, on balance, but the burden of State taxation appears heavier on him.

Tax credits do not have this defect. A \$10 tax credit is \$10 in the taxpayer's pocket even if Federal rates change.

Thank you.

Representative GRIFFITHS. Thank you very much, Mr. Somers. I must say that from the arguments I have heard so far, if we ever