Unveiling Texas-STAMP

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State

Tax

Analysis

Modeling

Program

Simulates Effects of Changes
in Tax Policy including:

- ✓ **Employment**

- ✓ **Wage Rates**

- ✓ **Investment**

- ✓ **Tax Revenue**

- ✓ **Personal Income**

- ✓ **Migration**

Overview of STAMP

- STAMP is specified in terms of supply and demand for each factor of production and each commodity included in the model.

- STAMP is a CGE (computable general equilibrium) model -- a computerized method of accounting for the economic effects of tax policy changes.

- Tax policy changes are shown to affect economic activity through their effects on the prices of outputs and on the factors of production.

What is a Computable General Equilibrium (CGE) tax model ?

• A formal description of the economic relationships among producers, households and government in a particular state and the rest of the world.

• General: takes all the important markets and flows into account.

• Equilibrium: demand equals supply in every market.

• Computable: generates numeric solutions to concrete policy and tax changes, with the help of a computer.

STAMP's Basic Principles

FIRMS

DEMAND Capital and Labor

SUPPLY Goods and Services

MAXIMIZE Profits

HOUSEHOLDS

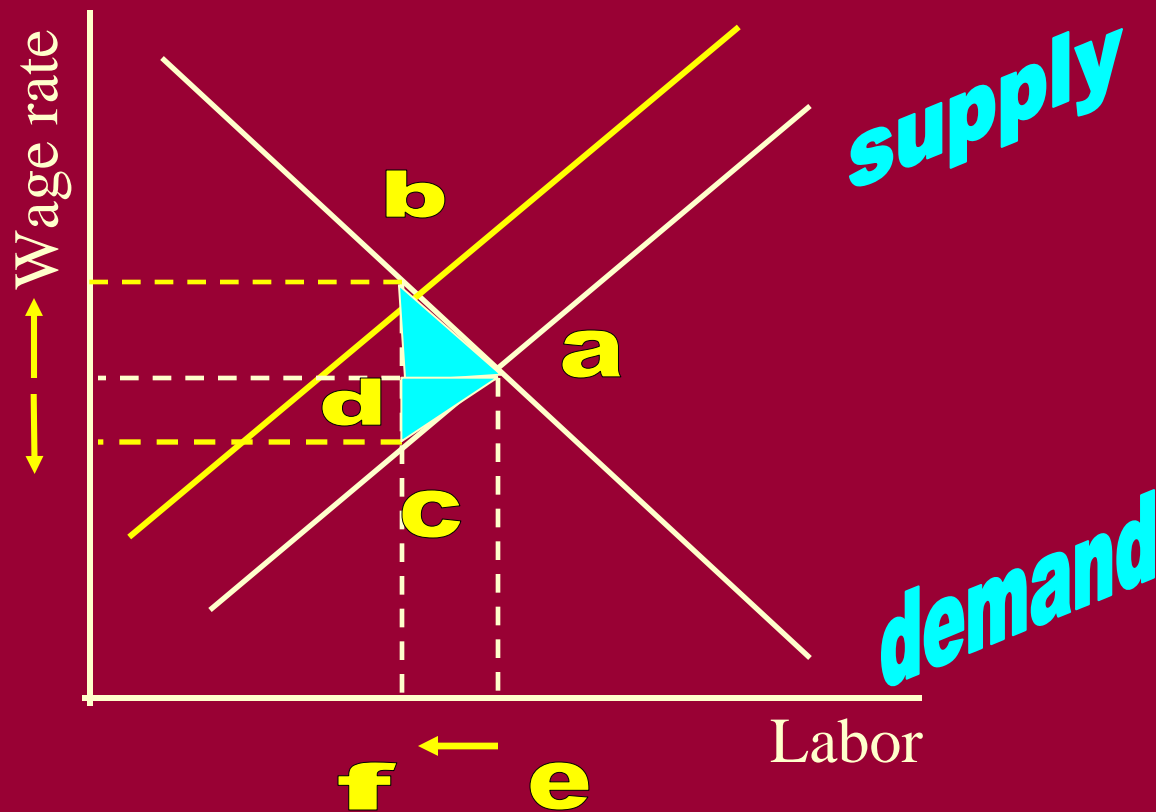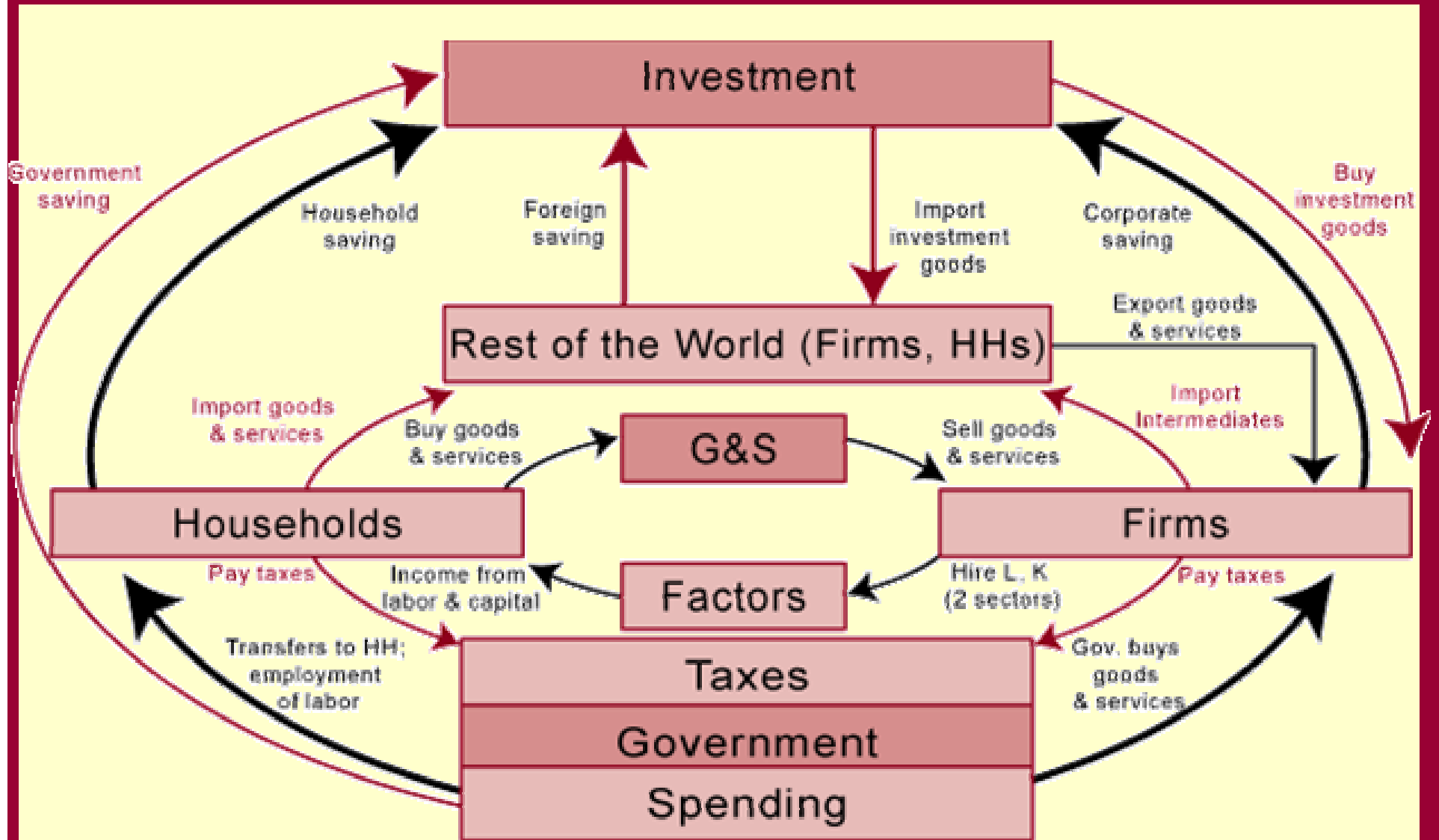**DEMAND** Goods and Services

SUPPLY Capital and Labor

MAXIMIZE Utility

Impose Personal Income Tax

supply decreases

How STAMP Works

STAMPs Are in Use in These States

Alabama	Georgia	Massachusetts	New Mexico	Pennsylvania
Arizona	Illinois	Michigan	New York	Texas
California	Kansas	Minnesota	Ohio	Virginia
Florida	Maryland	New Jersey	Oklahoma	Washington
Wisconsin				

Imposing an Income Tax

• Employees see work as less attractive. Labor supply shrinks and pre-tax wage rate rises.

• Labor becomes relatively more expensive, so employers cut payrolls.

• Per-capita real disposable income falls due to the increased cost of living from the income tax.

Increasing the Sales Tax

• Cost of goods increases, demand decreases.

• Employment and investment decrease and production decreases to meet decrease in demand.

• Per-capita real disposable income falls.

Cutting the Property Tax

- Cost of capital falls as tax rate on commercial property falls.

- Investment rises.

- Employment falls owing to substitution of capital for labor.

Raise Motor Fuels Tax

- Cost of motor fuels increases, demand decreases.

- Employment and investment in affected sectors decrease and production decreases to meet decrease in demand.

- Per-capita real disposable income falls, due to the increase in the cost of living.

Four Revenue-Neutral Simulations

- Impose state income tax, reduce state sales tax rate.

- Reduce state sales tax rate, expand state sales tax base.

- Reduce property tax rate, expand state sales tax base, reduce local sales tax rate.

- Reduce property tax, increase motor fuels tax.

Conclusion

- An income tax would create job losses.

- Raising the sales tax rate or broadening the sales tax base would create job losses.

- Cutting the property tax would create investment gains but (modest) job losses.

- A combination of sales or motor fuels tax hikes and a property tax cut would be revenue – and economically – neutral.

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