

Tax and Expenditure Limits

How States Restrict Revenues and Spending

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Tax and expenditure limits (TELS) are self-imposed restrictions that state governments create to restrict the amount they can tax or spend. States can impose a fixed dollar cap on revenue or appropriations; limit growth to match increases in population, inflation, personal income; or some combination of the two. States often adopt TELS to constrain government growth, but research is mixed on whether TELS meet their goals. The effectiveness of TELS depends in part on their characteristics and stringency.¹

Characteristics of TELS

States design TELS in different ways and with varying degrees of strictness. State TELS can vary in mechanism and stringency.

- **Adoption: How did the state adopt its cap?**

In general, TELS set in state constitutions are more difficult to change or override than statutory TELS. TELS imposed directly by voters are more restrictive than those imposed by the legislature. Most TELS have been adopted by state legislatures.
- **Mechanism: What is the limit?**

The limit can be imposed through a cap on growth or a restriction on the dollar amount. The most common formula restricts expenditure growth to the pace of personal income growth.

- **Stringency: Can the governor and legislature override the cap?**

Often, a TEL's stringency depends on how easily the governor and legislature can override the cap. Some states, such as Arizona and Florida, require a two-thirds majority vote of the legislature to override a limit. Others, such as Indiana or Tennessee, require only a simple majority vote.

Some states have also adopted limits on local property taxes, such as Proposition 13 in California and Proposition 2 ½ in Massachusetts. Although these provisions do not directly affect state revenues and we exclude them from our count of state TELS, they can affect state budgets indirectly by reducing local funding for services such as K-12 education.

Do Tax and Expenditure Limits Work?

Early studies from the 1990s suggested that TELS have little effect on state taxes or spending. However, many of those studies failed to account for variation in TEL design or stringency, used limited datasets, or did not employ robust methods of quantitative analysis. More recent and methodologically robust research finds that TELS can effectively constrain government growth under certain circumstances.

[Colorado's Taxpayer Bill of Rights restricts state and local revenue growth to the rate of inflation or population growth. Excess revenues must be returned to taxpayers rather than saved or spent on public services.](#)

One rigorous 1996 study, for example, found that TELs requiring a legislative supermajority or popular vote to modify spending lead to a 2 percent reduction in state general fund expenditures. Those savings, however, are offset in part by higher local spending. Research has also found that TEL design matters. A 2010 50-state study on state and local spending between 1972 and 2000 found that TELs adopted through citizen referendum are more effective at constraining government growth than those adopted by legislatures.

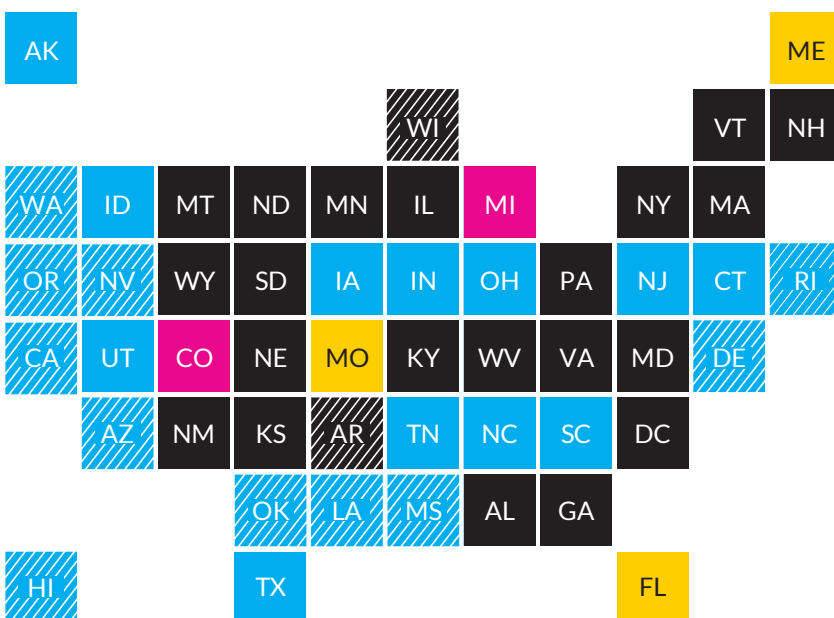
Importantly, lower spending and revenues may not produce desirable fiscal or economic outcomes. TELs have been tied to structural deficits and higher borrowing costs and may not ultimately have a positive impact on economic growth.

Major studies on TELs have found that

- Colorado's Taxpayer Bill of Rights did not boost the state's economic growth;
- tax limits, but not expenditure limits, are associated with higher interest required when states experience deficit shocks, meaning that states must spend more to borrow funds during hard times; and
- states with TELs are more likely to adopt budget stabilization funds, likely as a way to protect revenue from TEL requirements.

State Tax and Expenditure Limits, 2015

None
 Appropriation limit
 Revenue limit
 Appropriation and revenue limit
 Solid fill, simple majority to raise revenues
 Textured fill, supermajority to raise revenues



WHICH STATES LIMIT TAXES OR SPENDING?

As of 2015, 28 states had a TEL. Limits can be placed on revenue, appropriations, or both. Typically, states limit the ability to appropriate or spend funds rather than limit revenue collected. In 2015, 23 states limited only spending, although 11 of those required a supermajority to raise revenues. By contrast, only three limited revenue alone. Two states limited both. Twenty-two states and the District of Columbia had no TEL, but three of those states required a supermajority vote to raise revenues.

When Did TELs Become Popular?

Most TELs emerged during the “tax revolt” of the late 1970s or the economic recession of the early 1990s. Although many of the best-known local property tax limits, such as California’s Proposition 13, were adopted through citizen initiatives, most TELs originated in state legislatures. As of 2015, only nine states had passed state TELs through voter initiatives.

¹ For more information, see Megan Randall and Kim Rueben, *Sustainable Budgeting in the States: Evidence on State Budget Institutions and Practices* (Washington, DC: Urban Institute, 2017).

Source: National Association of State Budget Officers, *Budget Processes in the States* (Washington, DC: National Association of State Budget Officers, 2015). Data on Delaware are from Bert Waisanen, “State Tax and Expenditure Limits” (Washington, DC: National Conference of State Legislatures, 2010).

Note: This figure excludes Illinois’ temporary appropriations limit, which was only in effect from 2012 to 2015.