New and Used Ideas for State Tax Systems

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Agenda

Areas for consideration of new and used ideas

I. Administrability
II. Equity and Fairness
III. Federal Connection
IV. Modernization
V. Revenue Considerations
VI. Accountability and Transparency

Moving forward

MOVING FORWARD?

See articles of 3/7/16 and 5/16/16.
Goals

Help state tax systems reflect ... 

- 21st century ways of living and doing business
- Reflect principles of good tax policy

Moving Forward

Simplify!
I. Administrability

A. SIMPLIFY COMMONLY ENCOUNTERED RULES
Enable taxpayers to have certainty

Example
Nexus checklist to know you definitely have it or don’t.

I want to do my taxes correctly!

Look for federal computational conformity possibilities

Credit then goes to Form 104CR (3 pages)
That feeds into line 35 of Form 104.
Why not?
Use a multiple of the child and dependent care credit computed on federal Form 2441 (2 pages long)?

Line 35. Enter 20% of line 31 of IRS Form 2441 $________

I. Administrability

A. Simplify commonly encountered rules
   - Merge compliance forms where possible
   - Example - Use tax assessment on personal income tax form.
   - Be sure compliance activity meets the need
   - Ask practitioners for ideas
I. Administrability

B. STREAMLINE AND SIMPLIFY VIA TECHNOLOGY

Online interactive tools

Example – UK employment status tool

Tool is an online questionnaire.

https://www.gov.uk/guidance/employment-status-indicator
I. Administrability

D. Avoid new complexities

- Moratorium on new tax breaks
- Make simplification a priority

II. Equity and Fairness

A. Find inequities
B. Determine desired levels of progressivity
C. Do longstanding justifications for special rules make sense today?
   - Examples
     - Sales tax exemption for food
     - Not taxing services
     - Tax breaks that primarily benefit high income or taxpayers who don’t need them
     - Shifting from income taxes to sales tax – makes the system more regressive
Total taxes paid as a percentage of income

<table>
<thead>
<tr>
<th>City</th>
<th>$25,000</th>
<th>$50,000</th>
<th>$75,000</th>
<th>$100,000</th>
<th>$150,000</th>
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<tbody>
<tr>
<td>Anchorage, AK</td>
<td>8.7</td>
<td>4.4</td>
<td>3.8</td>
<td>3.2</td>
<td>2.7</td>
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<tr>
<td>Atlanta, GA</td>
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<td>9.1</td>
<td>9.4</td>
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<td>9.3</td>
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<tr>
<td>Columbus, OH</td>
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<td>9.1</td>
<td>9.6</td>
<td>10.0</td>
<td>9.7</td>
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<tr>
<td>Los Angeles, CA</td>
<td>11.0</td>
<td>10.6</td>
<td>10.1</td>
<td>10.3</td>
<td>10.3</td>
</tr>
<tr>
<td>Milwaukee, WI</td>
<td>9.9</td>
<td>10.8</td>
<td>10.5</td>
<td>10.8</td>
<td>10.0</td>
</tr>
<tr>
<td>New York City, NY</td>
<td>11.8</td>
<td>10.3</td>
<td>10.9</td>
<td>11.7</td>
<td>12.1</td>
</tr>
<tr>
<td>Average</td>
<td>11.0</td>
<td>8.4</td>
<td>8.4</td>
<td>8.9</td>
<td>8.6</td>
</tr>
</tbody>
</table>

III. Federal Connection

Where bound to feds, tell them if it’s not working!
- Example – high filing threshold for 1099-K

Watch what Congress is working on that state might use to its advantage
- Examples – repatriation holiday, BEPS activities, corporate integration, VMT tax

Let Congress know concerns about tax reform
- Example – House Republican Tax Reform Blueprint (6/24/16) – suggests moving to consumption tax
  - What is the possible impact on tax-exempt bonds?
  - Fringe benefits offered to gov’t employees?
  - Example – Relevance of loss of low-income housing credit? How can feds still help states?
IV. Modernization

A. Find and Address Out-of-Date Tax Rules

- Changes in personal consumption
- Helping seniors
- Energy incentive conflicts
- Roads and transit
- New economy
- Freelancing

Outdated tax breaks!

Cool! No gas taxes!

This publication is designed to assist individuals who might describe themselves as contractors, freelancers, “gig” workers or self-employed entrepreneurs. If you receive Form 1099-MISC or 1099-K, this publication includes information you need to be sure you are a tax compliant business operator. It explains how Kansas taxes apply to your activities. It explains income taxes, employment taxes, sales taxes and local taxes.

Use this guide as a supplement to information about Form K-40, Individual Income Taxes.

Also needed for other new economy activities:
- Residential rentals (such as via Airbnb).
- Using virtual currency.
- E-commerce (such as selling via eBay).
- Marijuana operations.
IV. Modernization

B. Use Modern Technology

- See what private sector does.
- But unlike private sector, need to help those not connected to the Internet.

Can you use it for tax payments and refunds?

How does Department of Revenue website compare to that of
- Google
- Apple
- Uber
- Bank reaching out to millennials

How easy is it to find the key things users are looking for?
What are your users looking for?
IV. Modernization

C. Have a Futurist Focus

- Gather taxpayer knowledge and ideas
- IT and digital initiatives
- Promote futurist activities and thinking
- Perform regular literature reviews to find new ideas

Take a look and continue to track …

- Tech as solution to ease regulatory compliance.
- Uses of the Blockchain
- White House Fintech conference June 2016
  - https://www.whitehouse.gov/blog/2016/06/10/future-finance-now
- “nearly half of CEOs expect their companies to be transformed into a significantly different entity within the next 3 years.”
- Millennial perspectives and expectations
  - Example - http://www.millennialdisruptionindex.com/
- “KC is a smart city”
V. Revenue Considerations

A. Have Useful Data Readily Available
   - Dashboard data approach
   - Require assessment of revenue estimates

B. Find Revenue Lost by Tax Gaps and Unnecessary Tax Expenditures
   - Measure tax gap and use that info
   - Make it simple and mandatory to pay use tax
   - Generate revenue through regular review and modification to tax expenditures
How much spending is in the tax system?

Federal gov’t – tax expenditures exceed $1 trillion which is about same as total discretionary spending.

Oregon legislature reported in 2009:

“The state of Oregon currently spends more on tax expenditures, over $30 billion per biennium, than it spends on education, healthcare and public safety combined.”


V. Revenue Considerations

C. Avoid Budget Problems

❖ Avoid earmarking new taxes

❖ Avoid moving too fast on tax cuts and use budget stabilization funds

❖ Prepare for marijuana revenue
VI. Accountability & Transparency

A. Offer informative taxpayer receipts

http://www.thetaxadviser.com/newsletters/2016/apr/transparency-for-individual-taxes.html
VI. Accountability & Transparency

B. Include and publicize tax expenditures in the budget report

C. Be sure tax incentives include accountability measures
   ◦ Specific goals, approvals, monitoring, clawbacks, sunsets, public disclosure, assessment, etc.

How to analyze tax expenditures

   ◦ See summary table included with these materials; see full report for details
"a tax expenditure is created when a tax is imposed but some group, business or individual is relieved from paying the tax or a portion of the tax. Pursuant to NRS 360.137 “tax expenditure” means any law of this State that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes, including, without limitation, tax abatements, tax credits, tax deductions, tax deferrals, tax exemptions, tax exclusions, tax subtractions and preferential tax rates.”

7 Categories Identified:

1) Abatement
2) Subtraction
3) Credit
4) Deduction
5) Exclusion
6) Exemption
7) Preferential rate

NRS 360.137 Duty of Executive Director to submit tax expenditure report; contents; requests for information.

1. On or before November 10 of each even-numbered year, the Executive Director shall submit a tax expenditure report to the Governor and the Director of the Legislative Counsel Bureau for transmittal to the Legislature and the appropriate interim committee or committees of the Legislature.

2. The report required by subsection 1 must provide, for each tax expenditure:
   (a) A description of the tax expenditure;
   (b) The year in which the tax expenditure was enacted;
   (c) The purpose for which the tax expenditure was enacted;
   (d) A summary of any amendments to the tax expenditure since it was enacted;
   (e) To the extent that pertinent information is available, estimates of:
      (1) The fiscal impact to this State and local governments of the tax expenditure during each fiscal year of the biennium in which the report is prepared;
      (2) The number of taxpayers receiving benefit from the tax expenditure; and
      (3) The revenue that would result from repeal of the tax expenditure; and
   (f) A statement of:
      (1) Any pertinent information which is not available to prepare the estimates required by paragraph (e); and
      (2) The reasons for the unavailability of that information.
Nevada – estimated “cost” of 243 tax expenditures

<table>
<thead>
<tr>
<th>Fiscal year 2014</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure Category</td>
<td>Number in Category Who Benefit from Expenditure</td>
<td>Expenditure Amount</td>
</tr>
<tr>
<td>Abatement</td>
<td>951,593</td>
<td>$197,661,644.87</td>
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<td>Subtraction</td>
<td>71,581</td>
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<tr>
<td>Credit</td>
<td>237</td>
<td>$36,522,038.33</td>
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<tr>
<td>Deduction</td>
<td>120,296</td>
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<tr>
<td>Exclusion</td>
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<td>Exemption</td>
<td>384,815</td>
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<td>Preferential Tax Rate</td>
<td>67</td>
<td>$6,165,676.41</td>
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<tr>
<td>Total Expenditure amount for 2014</td>
<td></td>
<td>$1,509,689,596.71</td>
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</table>

Needs context within overall budget and tax collections.

Example of Nevada detail

<table>
<thead>
<tr>
<th>Tax Type: Sales and Use Tax</th>
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</thead>
<tbody>
<tr>
<td>Expenditure Name: Textbooks sold within Nevada System of Higher Education-University of Nevada Las Vegas.</td>
</tr>
<tr>
<td>Category: Exemption</td>
</tr>
<tr>
<td>Agency: Department of Taxation</td>
</tr>
<tr>
<td>Description: The gross receipts from the sale of textbooks sold within the University of Nevada System are exempted from the taxes imposed by this chapter.</td>
</tr>
<tr>
<td>Year Enacted: 1991</td>
</tr>
<tr>
<td>Sunset Date: None</td>
</tr>
<tr>
<td>Purpose: Legislative Intent not defined in Statute.</td>
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<tr>
<td>Who Benefits: Students and facility members within the Nevada System of Higher Education.</td>
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<tr>
<td>NRS: 372.287</td>
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<table>
<thead>
<tr>
<th>Fiscal Year 2013 Expenditures</th>
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<tbody>
<tr>
<td>Beneficiary Category</td>
<td># Receiving Benefit</td>
<td>Expenditure Amount</td>
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<tr>
<td>Other</td>
<td>27848</td>
<td>$543,415.84</td>
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<td>Fiscal Year Total:</td>
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<tr>
<th>Fiscal Year 2014 Expenditures</th>
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<td>Beneficiary Category</td>
<td># Receiving Benefit</td>
<td>Expenditure Amount</td>
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<tr>
<td>Other</td>
<td>28515</td>
<td>$521,656.10</td>
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<td>Fiscal Year Total:</td>
<td>28515</td>
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Other areas?