STATE TAX COMMISSIONS AND TAX REFORM PROPOSALS

A Review of Comprehensive State Tax Reforms

Rahul Pathak, Carolyn Bourdeaux, Sally Wallace, Sarah Larson

Association for Public Budgeting and Financial Management, 2015 Annual Conference, Washington D.C.

October 3, 2015
BACKGROUND OF THE STUDY

- The objective is to identify the key trends and themes in tax reform debates and give policymakers an overview of proposals and potential lessons from other states.

- Bourdeaux (2011) reviewed the comprehensive tax reform proposals of 2000s from nineteen states.

- In this study, we review the tax reform efforts since 2010 in eleven states and Washington D.C.

- We focus only on comprehensive tax reform proposals.
TAX REFORM CASE STUDIES

Legend
- Tax Commission
- Legislative Reform

Projected Coordinate System: USA Contiguous Albers Equal Area Conic
## REFORM EFFORTS

<table>
<thead>
<tr>
<th>State</th>
<th>Tax Reform Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>Transaction Privilege Tax Simplification Taskforce (2012); Taskforce for Income Tax Reform (2013)</td>
</tr>
<tr>
<td>Georgia</td>
<td>The Special Council on Tax Reform and Fairness for Georgians (2011)</td>
</tr>
<tr>
<td>Indiana</td>
<td>Tax Competitiveness and Simplification Conference (2014)</td>
</tr>
<tr>
<td>Kansas</td>
<td>House Bill 2117 (2012); House Bill 2059 (2013)</td>
</tr>
<tr>
<td>Kentucky</td>
<td>Blue Ribbon Commission on Tax Reform (2012)</td>
</tr>
<tr>
<td>New York</td>
<td>New York State Tax Reform and Fairness Commission (2013)</td>
</tr>
<tr>
<td>North Carolina</td>
<td>House Bill 998 (2013)</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>Taskforce on Comprehensive Tax Reform (2011)</td>
</tr>
<tr>
<td>South Carolina</td>
<td>South Carolina Taxation Realignment Commission (2010)</td>
</tr>
</tbody>
</table>
STUDY OVERVIEW

Case-Studies:
- Proposal Summaries
- Legislative Outcomes

Common themes:
- Income taxes
- Consumption taxes
- Corporate and business related taxes
- Other taxes

Key takeaways:
- Reform proposals
- Reform process
- Implementation
ORIGIN OF THE REFORM EFFORTS

**Political Efforts**
- Indiana (Governor)
- New York (Governor)
- Massachusetts (Legislature)
- South Carolina (Legislature)
- Oklahoma (Governor, Legislature)
- Arizona (Governor, Legislature)
- Georgia (Legislature)
- Washington D.C. (Council)

**Legislative Exercise**
- North Carolina
- Kansas

**Periodic Reviews**
- Hawaii
- Kentucky
COMMON THEMES: INCOME TAX

Income → Consumption

- Reduction in the number of tax brackets, and tax rates.
- Reducing the reliance on income tax (or eliminating it).
  - North Carolina adopted flat tax rate.
  - Kansas collapsed the three rate brackets into two.
  - Georgia, Oklahoma, D.C. proposed reduction in the top tax rate.

Forbes / State & Urban
JUN 10, 2015 @ 05:00 PM 2,517 VIEWS

North Carolina Lawmakers Build Upon Historic Tax Reform

US News

Ready to Ditch the Income Tax
More states are looking at eliminating their income tax entirely.
COMMON THEMES: INCOME TAX

Elimination of different exemptions and tax credits.

- Georgia council recommended elimination of all itemized deductions, standard deductions and personal exemptions.
- The legislation in Kansas repealed several credits (for example: childcare expense tax credits).
- NC repealed several deductions (for example: retirement income, severance wages, 529-plan contributions).

Thousands of Kan. families lose child day care tax credit

BY: Alicia Myers
POSTED: 5:23 PM, Jan 1, 2013
UPDATED: 5:08 PM, Jan 2, 2013

LOCAL MARCH 7, 2015

Impact of NC income tax overhaul hits taxpayers

HIGHLIGHTS
The most sweeping overhaul of North Carolina tax law in a generation went into effect in January 2014.
COMMON THEMES: INCOME TAX

Fairness vs. Efficiency

- Reform in NC and KS was largely undertaken with efficiency considerations.

- Tax Fairness was one of the important mandates of the commissions in MA, NY and DC.

- Massachusetts recommended establishing a graduate income tax.

- Modification in Earned Income Tax Credit in MA, DC, KY.
COMMON THEMES: CONSUMPTION TAXES

Increasing importance of consumption taxes

- **KY, NY, SC, D.C.** proposed broadening the sales and use tax base. AZ and NC introduced legislations.

- **Including new goods and services.** Growing importance of e-commerce and online sales.

- **Georgia and South Carolina** recommended eliminating various exemptions (for example: Groceries)

NC sales tax holiday gone, but SC has one this weekend

By Ludy Liu - llin@charlotteobserver.com

For the first time in 12 years, back-to-school shoppers in North Carolina won't get a sales tax holiday. But South Carolina holds its sales tax holiday this weekend.

The tax-free event, traditionally the first weekend in August, was discontinued as part of a
CORPORATE AND BUSINESS TAXES

A general focus on decreasing reliance on corporate income taxes.

- MA, GA, OK, NC discussed or enacted a reduction in CIT.

Simplification, more transparency and better regulatory environment.

- NY, IN, NC have taken several steps towards simplification.
- Combined reporting requirements for preventing tax avoidance (SC, OK).
- Avoid compounding.

Increasing demand for rigorous evaluation of tax incentives and credits.

- Job credits, R&D, Investment credits, Films.
- SC, HI, NY, GA, OK.
COMMON THEMES: OTHER

Improving the administration of property taxes focusing on:

- Simplification of assessments.
- Better intergovernmental coordination.
- Online transactions

Rate reduction subject to revenue triggers.

- Examples: NC & KS enacted rate reduction subject to revenue triggers.

Improving and simplifying tax administration.

- Technological upgrades
- Better forecasts
- Standardizing administrative procedures
- Improving audit and enforcement.
KEY TAKEAWAYS: REFORM PROPOSALS

A General Shift:
- From income and business taxes to consumption based taxes
- Rate Cuts; Eliminating of exemption, deductions, credits

Efficiency vs. Equity Debate:
- Lower the tax rate, broaden the base
- Enhancing vertical equity

Institutional Changes and Simplification:
- More transparency and better regulation
- Simplifying the tax administration
KEY TAKEAWAYS: REFORM PROCESS

- The Great Recession was not the key theme in these review exercises.
- The tax reform commissions largely comprised of public finance professionals.
- The reform proposals have similar policy themes that reflect the general consensus of the public finance community.
  - Creating a balanced state tax system
  - Employing a small tax rate over a broad base
  - Considering vertical equity
  - Promoting economic competitiveness
  - Simplifying tax administration
KEY TAKEAWAYS: IMPLEMENTATION

- The tax reform efforts were successfully implemented only in some states.
- The proposals of institutionalized review commissions are often implemented.
- Reform efforts aimed at reducing the taxes seem to be more successful (KS, NC, DC).
- Perhaps, in the long run…
THANK YOU

Rahul Pathak

Web: http://cslf.gsu.edu/publications/

Email: rpathak3@gsu.edu