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# STATE TAX COMMISSIONS AND TAX REFORM PROPOSALS

## *A Review of Comprehensive State Tax Reforms*

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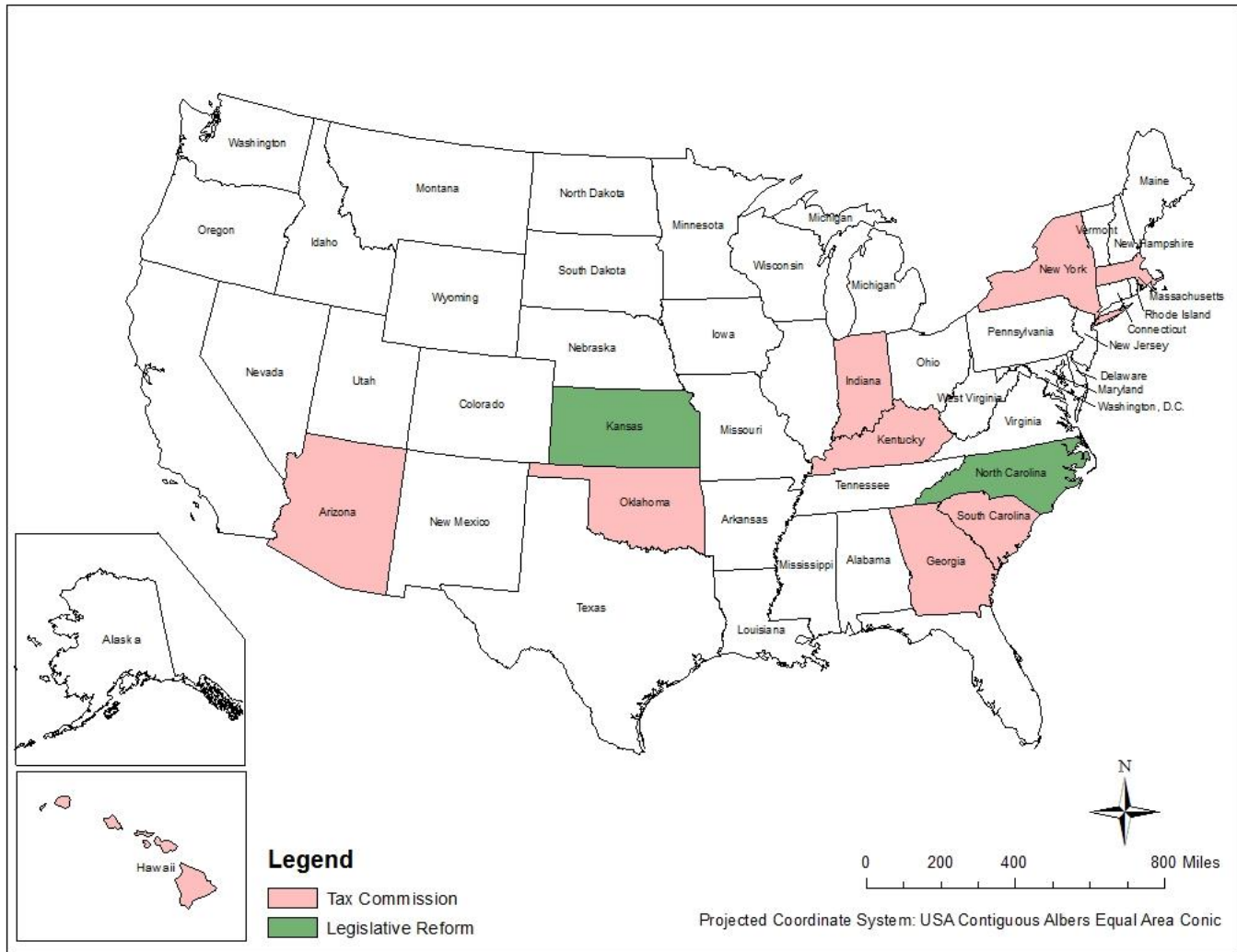
*Association for Public Budgeting and Financial Management, 2015 Annual Conference, Washington D.C.  
October 3, 2015*



## 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





## REFORM EFFORTS

<b>State</b>	<b>Tax Reform Effort</b>
Arizona	<i>Transaction Privilege Tax Simplification Taskforce (2012); Taskforce for Income Tax Reform (2013)</i>
Washington D.C.	<i>D.C. Tax Revision Commission (2014)</i>
Georgia	<i>The Special Council on Tax Reform and Fairness for Georgians (2011)</i>
Hawaii	<i>2010-2013 Tax Review Commission (2012)</i>
Indiana	<i>Tax Competitiveness and Simplification Conference (2014)</i>
Kansas	<i>House Bill 2117 (2012); House Bill 2059 (2013)</i>
Kentucky	<i>Blue Ribbon Commission on Tax Reform (2012)</i>
Massachusetts	<i>Tax Fairness Commission (2014); Tax Expenditure Commission (2012)</i>
New York	<i>New York State Tax Reform and Fairness Commission (2013)</i>
North Carolina	<i>House Bill 998 (2013)</i>
Oklahoma	<i>Taskforce on Comprehensive Tax Reform (2011)</i>
South Carolina	<i>South Carolina Taxation Realignment Commission (2010)</i>



# 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

5 Billionaire-Owned Energy Stocks With

JUN 10, 2015 @ 05:09 PM 2,517 VIEWS

## North Carolina Lawmakers Build Upon Historic Tax Reform

The screenshot shows the top navigation bar of the US News & World Report website. The main header is blue with the 'US News & World Report' logo and the word 'NEWS' in large white letters. Below the header is a dark grey navigation menu with tabs for 'News', 'Opinion', 'National Issues', 'Special Reports', 'Cartoons', 'Photos', and 'The Report'. Underneath the menu, there are links for 'Debate Club', 'TJS Politics Blog', 'World Report', 'Economic Intelligence', and 'Knowledge Bank'.

## 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.*

**3** comments

### Massachusetts Tax Fairness Commission to recommend lowering state income taxes for the poor, increasing them on the wealthy

By Shira Schoenberg | [sschoenberg@repub.com](mailto:sschoenberg@repub.com)  
Follow on Twitter  
on February 25, 2014 at 6:28 PM, updated February 26, 2014 at 7:44 AM

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## First Read - DMV

YOUR FIRST STOP FOR POLITICS IN D.C., MARYLAND AND VIRGINIA

### DC Council Approves Budget Slashing Middle Income Taxes

Budget includes personal services sales tax

By Tom Sherwood

# 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)*

**BUSINESS** JULY 30, 2014

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

### HIGHLIGHTS

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.



By Linly Lin - [llin@charlotteobserver.com](mailto:llin@charlotteobserver.com)



For the first time in 12 years, back-to-school shoppers in North Carolina won't be getting a sales tax holiday.



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.*

NEWS BUSINESS POLITICS: HOME

## Oklahoma governor signs bills to give tax incentives greater scrutiny

Oklahoma Gov. Mary Fallin signs bills to give tax incentives greater scrutiny

by Rick Green Published: April 28, 2015

Business tax incentives will come under greater scrutiny and future ones will need to include measurable goals under legislation signed Monday by Gov. Mary Fallin.

Fallin dedicated Senate Bill 806 and House Bill 2182 to Rep. David Dank, R-Oklahoma City, an outspoken advocate for tax credit reform who died earlier this month.

“These are the tools Oklahoma has needed to sort out effective incentives from ineffective ones so our state can continue to support economic growth in a fiscally responsible manner,” Fallin said.



## 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...*

AJC.com

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## Tax reform effort dies as House adjourns

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April Hunt and Chris Joyner  
The Atlanta Journal-Constitution



# THANK YOU

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