



Federation of Tax Administrators \* 444 North Capitol St., NW., Washington, D.C. 20001

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**2000 Annual FTA Revenue Estimation and Tax Research Conference**  
***Summary of Proceedings***

**To State Tax Administrators:**

**SUMMARY**

The 55th Annual FTA Revenue Estimating and Tax Research Conference was held September 24-27, 2000, in Waterville Valley, New Hampshire. Presiding over the conference was Reese Womack of the Oklahoma Tax Commission and Chair of the FTA Research Section. This bulletin summarizes the proceedings and [lists the various papers](#) available from FTA.

The 55th Annual FTA Revenue Estimating and Tax Research Conference was held September 24-27, 2000, in Waterville Valley, New Hampshire. Presiding over the conference was Reese Womack of the Oklahoma Tax Commission and Chair of the FTA Research Section. Welcoming the participants was the Conference Host, Stanley Arnold, Commissioner of the New Hampshire Department of Revenue Administration.

The program included presentations by the major forecasting firms and industry representatives on their economic forecasts for the next 18 months. In addition, presentations on federal legislative activity that may impact state revenues and trends in state and local activities were given. The entire day Tuesday was dedicated to various concurrent sessions covering issues of interest to state economists such as e-commerce and the impact on state revenues, tax reform modeling, data base development, new approaches for state tax incentives, the implications of financial markets on personal income taxes, gambling and lottery revenues and estimating issues for corporate taxes.

On Wednesday morning, the participants heard several presentations on topics of broad interest to state economists. These presentations included an update on the Streamline Sales Tax Project, current products of the IRS Statistics of Income Division, operations research in Washington, and an update on the Committee On State Taxation's (COST) Telecommunications Study.

**Economic Forecasts**

The conference began with several presentations by the major forecasting companies discussing the overall macro, regional, and international economic outlooks. Cynthia Latta, Standard and Poor's DRI, gave a presentation on the overall macro economic forecast. She described the U.S. economic outlook as a "pause

*that refreshes.*" The current economic expansion has reached a record length—9 years—with unemployment and inflation near 30-year lows. The unemployment rate is declining, particularly among less educated workers. As a result, real wages are exhibiting strong rates of growth. However, consumer spending is moderating.

Ms. Latta noted how DRI recently made some changes to their forecast model to incorporate the revised national income account data. They also improved how productivity is incorporated into the model. The old model had done a poor job of forecasting the recent acceleration in productivity. As a result, the new model incorporates a measure for multi-factor productivity reflecting the recently strong growth in productivity. This new model predicts a real GDP growth rate of 5.0 percent for 2000, falling to 3.2 percent in 2001, before rising again.

The regional outlook was given by Steven Cochrane, an economist with Regional Financial Associates/Economy.Com. He noted how the trend towards convergence among the states has continued when using employment data. Indeed, the data shows that the variation in state job growth has remained narrow during the 90s. However, the trend toward convergence has reversed for income data, with the variation for state personal income data beginning to widen. Mr. Cochrane attributes this differential income growth to differences in productivity growth between the regions/states.

Cochrane noted how the fastest rates of productivity growth can be found on the coasts—in the northeastern and western states. This has led to an increase in capital gains realization, as employees in these regions are cashing in stock options. In addition, western states are benefiting from the high level of investment by venture capitalists. Still, the RFA economist noted how the rising costs of doing business is becoming a concern, particularly in the West and Midwest. His final analysis puts the total employment growth rate at 1.3 percent for 2000 through 2003, with states in the Rocky Mountains and the Southeast expected to see growth rates above average.

Andrew Hodge, with The WEFA Group, presented the international outlook—titled his presentation as *"The Foreign Outlook: New Economy Hopes, Old Economy Problems."* Mr. Hodge noted how the U.S. economy is still growing strong, despite rising interest rates. Oil and commodity prices are rising, but this is expected to largely affect Europe and Asia. Still, Asia is growing rapidly with Japan even reporting some growth. Only Latin America has serious problems, with the exception of Mexico which is benefiting from the recent rise in oil prices.

While Hodge expects the U.S. economy to slow, the growth rate will still outpace other countries. The WEFA forecast shows a GDP growth rate of 5.2 percent for 2000, falling to 3.7 percent next year. Canada is expected to see strong growth—3.3 percent in 2001, while growth in Mexico is accelerating to 4.4 percent in 2001. The rate of growth in Western Europe is gaining strength to a 3.1 percent rate in 2001, while Asia is seeing a strong recovery with growth forecasted to be 6.5 percent. However, Western Europe and Asia are most vulnerable to possible oil price shocks. Mr. Hodge concluded his discussion by noting some risks, such as a collapse in the global equity market, oil price spike, or a relapse in the Asian crisis. However, these risks are now more likely to lead to weaker growth rather than a global recession.

Gillian Spooner, KPMG Peat Marwick, gave a presentation on Federal legislation of interest to state tax administrators. With the Congressional Budget Office projecting a total budget surplus of \$4.561 trillion (2001 - 2010), Ms. Spooner pointed out several tax bills that are still currently viable. They include pension reform, foreign sales corporations (FSC), community renewal/new markets, and a Taxpayer Bill of Rights bill. She also listed several casualties and orphans of this year's legislative season, including estate tax relief and marriage penalty relief (both vetoed), a healthcare bill, education savings accounts, internet taxation, and repeal of the telephone excise tax.

Next, Spooner turned to the legislative outlook for next year. It is difficult to predict how the different legislative issues will play out in 2001, as there will be many new players. While we will definitely have a new president and chairman of the Ways and Means Committee, there may also be a new chairman in the Senate Finance Committee. Ms. Spooner concluded her presentation by reviewing the issues in the presidential candidates' tax plans.

Elizabeth Davis, from the Nelson A. Rockefeller Institute of Government, gave a presentation on recent trends in state revenues. She pointed out how the latest data on state revenue growth is the strongest in ten years, with collections for the April-June quarter growing by 11.4 percent over 1999. Even after adjusting for legislated tax changes, almost every state saw strong growth, with 28 states reporting a growth rate above 8 percent. Meanwhile, only 10 states had revenue growth below 5 percent. Ms. Davis noted how the personal income tax reported the fastest rate of growth, increasing by 18.8 percent in the April-June quarter. Sales taxes grew by 7.3 percent, while corporate income tax collections increased only 4.2 percent.

In reaction to this strong revenue growth, Davis noted how many states have enacted tax cuts. The 2000 legislative session was the seventh straight year of net tax cuts, with 14 states enacting significant tax reductions totalling \$5.8 billion. Yet, more than half—\$3.4 billion—were from rebates and temporary tax cuts. Still, states may not be in the best situation to handle a recession. The 1998 year-ending balances averaged 9.2 percent of spending. Davis pointed out how this is the same level of reserves held by states in 1980, when they needed to raise taxes by 27 percent to survive the recession in the early 80s.

The Luncheon speaker was Robert Tannenwald with the Federal Reserve Bank of Boston. Mr. Tannenwald discussed his recent experiences working with a tax reform commission in New Hampshire. Facing a school finance crisis and potential deficits in the future, the governor and legislature set up a commission to analyze different options and make recommendations for reforming the tax structure in the state. The commission consists of political, business and academic leaders in the state and draws on economists from the Boston Federal Reserve for technical assistance.

Without any analytical tools available, Mr. Tannenwald described how his staff is currently building a computable general equilibrium (CGE) model to help them understand the implications of the different policy options. However, he wants the members of the commission to better understand the limitations and the results of the model. Thus, Tannenwald is educating the members on how the model would work and even requiring that they choose the parameters and assumptions for the model. Tannenwald notes that the process is just beginning, but he hopes this will help the commission members to provide better advice to state policymakers.

### **Wednesday Morning**

On Wednesday morning, participants heard presentations of general interest to state tax analysts. Matthew Tomalis, Research Attorney with the Federation of Tax Administrators, gave a presentation on the Streamlined Sales Tax Project (SSTP). Growing out of the National Tax Association Project and the Advisory Commission on Electronic Commerce, the SSTP recognizes that electronic commerce and remote sellers will need a simplified sales tax system to enable collection. The project mission is "*to develop measures to design, test, and implement a system that radically simplifies sales and use taxes.*" Tomalis noted that the project currently has 27 participating states, and another 12 states are participating in the project as observers.

Mr. Tomalis described how the project is directed by a steering committee of seven states—Michigan, Missouri, North Carolina, South Dakota, Tennessee, Wisconsin and Wyoming. This committee has developed four working groups to examine the issues in greater detail. The groups include technology, tax base uniformity and exemption, tax rates, and sourcing and other simplification. Tomalis noted how these groups have already begun to develop options and are currently developing a draft model legislation. All activity of the project has been open to the public with numerous public meetings. Additional information is available

on the project Web site at <<http://www.streamlinedsalestax.org>>

David Jordan, with the IRS Statistics of Income Division (SOI), discussed some of the recent activities and products available to state tax analysts. The SOI Division has many customers, including Treasury Department Office of Tax Analysis, the Joint Committee on Taxation, and many other government and private researchers. To better serve these customers, SOI has been expanding the methods used to deliver statistics. In addition to the standard publications, the Division has begun adding more information to its Web site <[http://www.irs.gov/product/tax\\_stats/](http://www.irs.gov/product/tax_stats/)>. Indeed, Jordan noted that a greater level of detail for some IRS statistical data can be found on the Web site rather than in its printed publications.

And finally, Mr. Jordan discussed some of their more recent data products. They include migration flow data, income tax statistics summarized by zip code, and the IRS Data Book on compliance statistics. Also, with the 1998 income tax statistics, SOI plans to incorporate detailed data using the North American Industrial Classification System (NAICS).

Since state tax research departments are increasingly being asked to use their data skills to help in non-traditional research projects, a presentation on Operations Research (OR) was given by Mary Welsh with the Washington State Department of Revenue. Begun with the Governor's Efficiency Commission in 1988, the Department's Research Division currently spends a quarter of its time doing OR projects completing more than 1,000 quick requests a year. Ms. Welsh noted how Operations Research requires specialized technical and statistical skills. These skills are used to serve the division manager or management team as a client, and result in more efficient operations by using inside experts rather than outside consultants to solve problems.

Welsh finished her talk by describing several key project successes. By studying levels of noncompliance by types of industries and size, the research division was able to help the Department better focus its compliance activities. The division analyzed return information to understand the impact of raising the reporting threshold for excise taxes. Using GIS technology, they helped the Tax Discovery Unit better allocate their resources. Furthermore, by developing in-house survey expertise, the research division is able to provide quick surveys on performance of the different divisions. As a result, the Washington Department of Revenue's quality teams saved \$500,000 and generated \$4.6 million in additional revenues in three years.

Deborah Bierbaum, with AT&T, presented the results of the latest *50-State Study on Telecommunications Taxation* by COST. Member companies completed worksheets calculating the state and local taxes on typical telecommunications (Telco) and general business companies. For local taxes, the study used an average of the tax rates in the largest city and the capitol city. From these spreadsheets, COST was able to calculate the average effective transaction tax rate of 6.07 percent for general businesses. Meanwhile, telecommunications companies paid an average tax rate of 13.8 percent. Telcos filed 61,215 returns per year, compared with 9,271 for general businesses.

Ms. Bierbaum then discussed some recent state legislative actions which improved the tax environment for Telcos. Florida enacted legislation to replace several different taxes with one revenue neutral communications services tax. Kansas, Louisiana, Maine and Mississippi enacted property tax reform. Connecticut, Florida and New York provided for a sales tax exemption for certain Telco equipment. Finally, Bierbaum discussed key provisions that would rationalize communication taxation. It should not apply outdated statutes to new technologies, should not discriminate based on who provides the service, should simplify compliance burdens, and provide the information necessary for taxpayers to properly comply.

Arthur Friedson of the New York State Department of Taxation and Finance and Chair of the Research Roundtable, gave a brief update on activities of the Research Roundtable.

## **Breakout Sessions**

On Tuesday, conference participants were offered several concurrent breakout sessions. The topics included e-commerce and the impact on state revenues, tax reform modeling, data base development, new approaches for state tax incentives, the implications of financial markets on personal income taxes, gambling and lottery revenues, and estimating issues for corporate taxes.

Attached is a complete list of papers available from FTA. If a topic was discussed for which no paper is available, please contact us and we can put you in contact with the presenter. Also, electronic versions of many presentations can be found on the FTA Web site at <http://www.taxadmin.org>.

Sincerely,

Harley T. Duncan  
Executive Director

Attachment: as stated

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## List of Papers

### 2000 FTA Revenue Estimation & Tax Research Conference Waterville Valley, New Hampshire

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The 2000 FTA Revenue Estimating & Tax Research Conference was held in Waterville Valley, New Hampshire, September 24-27, 2000. The Following workshop papers are available from FTA. Electronic copies of some papers are available for download, by clicking on the links ({paper only} indicates that no electronic version of the paper is available). Paper copies of all papers are free for FTA members. Non-members will be charged a nominal copy and shipping charge ( Non-members will be charged 10 cents/page plus postage). To receive copies of any papers, leave a detailed message (including which meeting) on the FTA publications line (202/624-5896) or send email message to [pat.wehland@taxadmin.org](mailto:pat.wehland@taxadmin.org).

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#### Monday Morning, General Session

*The U.S. Economic Outlook: The Pause That Refreshes*, Cynthia Latta, Standard and Poor's DRI ([Powerpoint Slides](#)) ([Adobe Acrobat](#))

*Regional Economic Outlook*, Steven Cochrane, Economics.Com/Regional Finance Associates ([Powerpoint Slides](#)) ([Adobe Acrobat](#))

*The Foreign Outlook: New Economy Hopes, Old Economy Problems*, Andrew Hodge, WEFA Group ([Powerpoint Slides](#)) ([Adobe Acrobat](#))

*Tax Legislative Update*, Gillian Spooner, KPMG Peat Marwick ([Powerpoint Slides](#)) ([Adobe Acrobat](#))

*Revenue Trends*, Elizabeth Davis, Nelson Rockefeller Institute of Government ([Powerpoint Slides](#)) ([Adobe Acrobat](#))

## Monday Afternoon, Concurrent Sessions

### Outlook for Selected Sectors

*Motor Vehicle Outlook*, Jeffrey Guilfoyle and Mark Haas, Michigan Department of Treasury ([Powerpoint Slides](#)) ([Adobe Acrobat](#))

*The Outlook for Retail Sales: Can Consumers Keep Spending More Than Earn?*, Mark Vitner, First Union Capital Markets Group (Tables Accompanying Remarks and Newsletter)

### New Approaches for State Tax Incentives

*Income Tax Credits in Arizona*, Georganna Meyer, Arizona Department of Revenue ([Adobe Acrobat](#))

*Texas' New Business Tax Credits: Something for Everyone*, Craig Daugherty, Texas Comptroller's Office ([Powerpoint Slides](#)) ([Adobe Acrobat](#))

*State Postsecondary Tuition Tax Incentives: Some Issues & Implications*, David Boughtwood, New York State Department of Taxation and Finance (draft paper) {paper only}

*Evaluation of Washington's Tax Incentives for High Technology*, Don Taylor, Washington State Department of Revenue (charts accompanying presentation) {paper only}

## Tuesday Morning, Concurrent Sessions

### Financial Markets: Implications for the Personal Income Tax

*The Outlook for Capital Gains and IPO's*, Andrew Hodge, WEFA Group ([Powerpoint Slides](#)) ([Adobe Acrobat](#))

### Data Base Modeling

*Taking the Drudgery Out of Documentation*, Patrice Cohen and Hoyce Stewart, New York State Department of Taxation and Finance (Powerpoint Slides) {paper only}

*Warehousing and Data Mining: The Iowa Experience*, Michael Lipsman, Iowa Department of Revenue and Finance (Powerpoint Slides) {paper only}

*Data Mining Pilot Project: A Retrospective Overview*, Stan Woodwell, Washington Department of Revenue ([Powerpoint Slides](#)) ([Adobe Acrobat](#)) and Paper (in [Adobe Acrobat](#))

### Forecasting the Impact of E-Commerce

*The Impact of Electronic Commerce on Pennsylvania Sales and Use Tax*, Brenda Stoner, Pennsylvania Department of Revenue ([Powerpoint Slides](#)) ([Adobe Acrobat](#))

### Tax Policy Modeling

*Modeling Cigarette Consumption*, Joe Fitz, California Board of Equalization ([Powerpoint Slides](#)) ([Adobe Acrobat](#)) and Paper (in [Adobe Acrobat](#))

*Stock Market Wealth, Tax Policy and Personal Saving Behavior*, Prawpan Siwapradit, New York Division of the Budget (Paper) {paper only}

### Estimating Gambling and Lottery Revenue

*Oregon's Lottery Revenue Forecast*, Cora Parker and Tom Potiowsky, State of Oregon (Paper) {paper only}

*Indian Casino Gambling and State Revenue: Some Further Evidence*, Anthony Popp, New Mexico State University (tables accompanying remarks) {paper only}

*What's Ailing State Lotteries*, Bruce Gates, Willamette University (Paper){paper only}

### **Corporate Tax Trends and Estimation Issues**

*The New Economy and the Old Tax system: Can current State Business Taxes Survive?*, Bob Cline, Ernst and Young, LLP. (Powerpoint Slides) (Adobe Acrobat) {paper only}

### **Wednesday Morning, General Session**

*Streamlined Sales Tax Project*, Matt Tomalis, Federation of Tax Administrators ([Powerpoint Presentation](#)) ([Adobe Acrobat](#))

*Statistics of Income Division*, David Jordan, Internal Revenue Service ([Powerpoint Slides](#) and other handouts {paper only}) ([Adobe Acrobat](#))

*COST 50-State Study and Report on Telecommunications Taxation*, Deborah Bierbaum, AT&T ([Powerpoint Slides](#)) ([Adobe Acrobat](#))

*Operations Research*, Mary Welsh, Washington Department of Revenue ([Powerpoint Slides](#)) ([Adobe Acrobat](#))

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