

Federal Issues Affecting the States

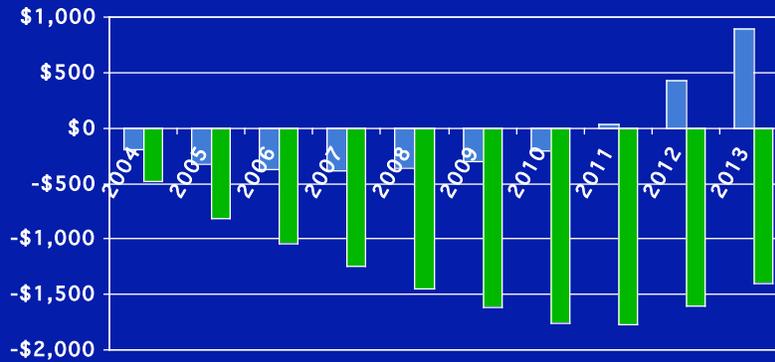
**FTA Revenue Estimation & Tax
Research Conference
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Purpose

- **Federal fiscal situation**
- **Tax issues affecting the states**
- **Status and future of federal and state tax relationships**

Federal Fiscal Position

Cumulative Surplus/Deficit -- 2004-2013 -- \$ Billions



Source: Congressional Budget Office

Federal Fiscal Forecasts

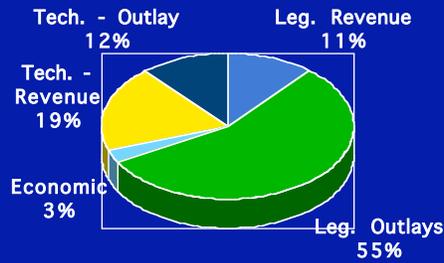
Annual Deficit/Surplus -- Jan. 2001 - Aug. 2003 Forecasts



Source: Congressional Budget Office

Components of Change

Sources of Increased Deficit between January and August Forecasts



Source: Congressional Budget Office

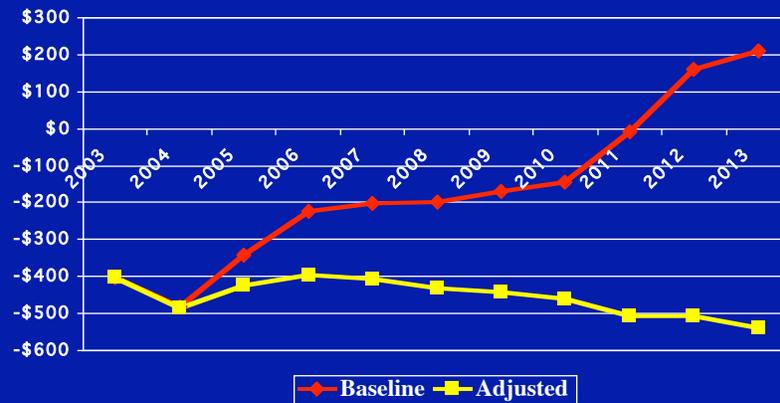
Other Business To Attend To

Extend Expiring Tax Prov.	-\$1,564
Reform AMT	-\$400
Prescription Drug Benefit	-\$400
Inc. Approps by nominal GDP	-\$1,392
Inc. Approps by 7.7%	-\$2,832
Inc. Sel. Approps by inflation	\$818
Freeze Approps at 2003	\$1,223

Source: CBO

Deficit with Adjustments

Baseline + Expiring Tax + AMT Reform + Real Spending



Source: Tax Policy Center

Summary Position

- Continuing deficit situation; worsened by expected legislation action
- Substantial sensitivity to expenditure restraint
- No consensus on need for or approach to reduction
- No consensus on macroeconomic impact
- Situation does not seem to constrain consideration of further tax changes
 - Small Senate exception

Internet Tax Freedom Act

- Passed House
 - Permanent extension
 - Repeal grandfather
 - Telecom amendment
- Senate
 - Commerce, then Finance
 - Working narrowing of tax types, telecom issues, bundled content issues

Other Direct Issues [Cont.]

- Streamlined/Remote Sales
 - Imminent introduction
 - Issues
 - De minimis standard (measurement)
 - Vendor compensation
 - Federal court jurisdiction
 - Simplification standards
- BAT Nexus restrictions
 - Physical presence
 - Carve-outs
 - Linkage

Federal Policy Issues

- Charitable giving incentives
 - Non-itemizer deduction
 - IRA withdrawals (70 1/2)
- Energy Bill
 - Mainly credits, depletion allowances
 - Ethanol changes

Federal Issues [Cont.]

- FSC/ETI Replacement
 - Domestic manufacturers
 - International reforms
- EGTRRA/JGTRRA extensions and accelerations
- Health savings accounts
- Retirement allowances
- Refund offset

Federal-State Relationship

- Weak to non-existent
- Little recognition, understanding or caring
- No institutions/infrastructure
- Propensity to Preempt
- Choices for states
 - Decoupling
 - Complexity
 - Compliance