



October 18, 2016

# Examining State Tax Commissions

## 2006—2016

*Richard C. Auxier*  
*Urban Institute/Tax Policy Center*

*Photo credit: AP Photo/Patrick Semansky*

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# Urban's State and Local Finance Initiative

<http://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative>

URBAN INSTITUTE PUBLICATIONS

## **How State Tax Commissions Approach Economic Development**

**State Tax Commissions: 2006—2016**



# D.C. Tax Revision Commission



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On Dec. 18, 2013, the D.C. Tax Revision Commission unanimously approved a set of recommendations designed to improve the District's tax system and help its residents and businesses prosper. The Commission's recommendations are a roadmap to a more fair, competitive, and efficient tax system.

The Commission released its final report in May 2014.

## [Download the Commission's Final Report](#)

For more information please see the "Final Report" section of our website.

The District of Columbia Tax Revision Commission was authorized by the D.C. Council on Sept. 14, 2011 through an amendment to D.C. Code Section 47-460. The Commission is an independent body consisting of 11 members appointed by the Mayor and the Chairman of the D.C. Council.

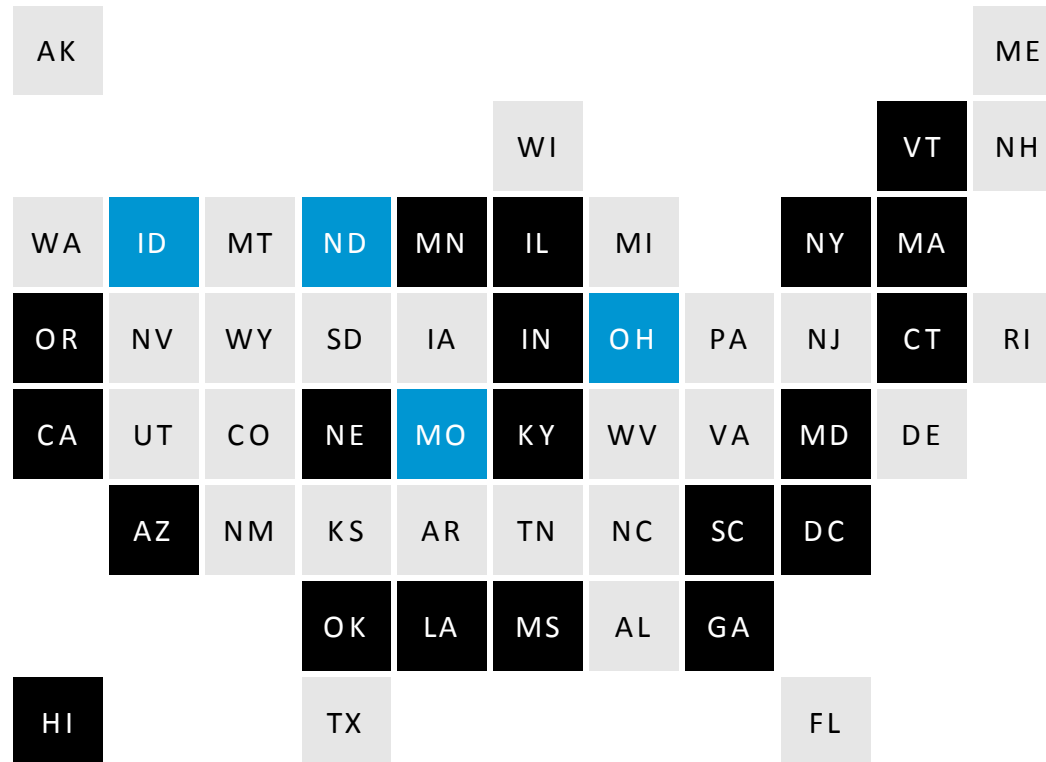
The Commission was established with the purpose of preparing comprehensive recommendations to the Council and the Mayor which (1) provide for fairness in apportionment of taxes; (2) broaden the tax base; (3) make the District's tax policy more competitive with surrounding jurisdictions; (4) encourage business growth and job creation; and (5) modernize, simplify, and increase transparency in the District's tax code.



John A. Wilson Building by David Gaines

## State Tax Commissions 2006-2016

Published Report
  Currently Meeting
  No Commission

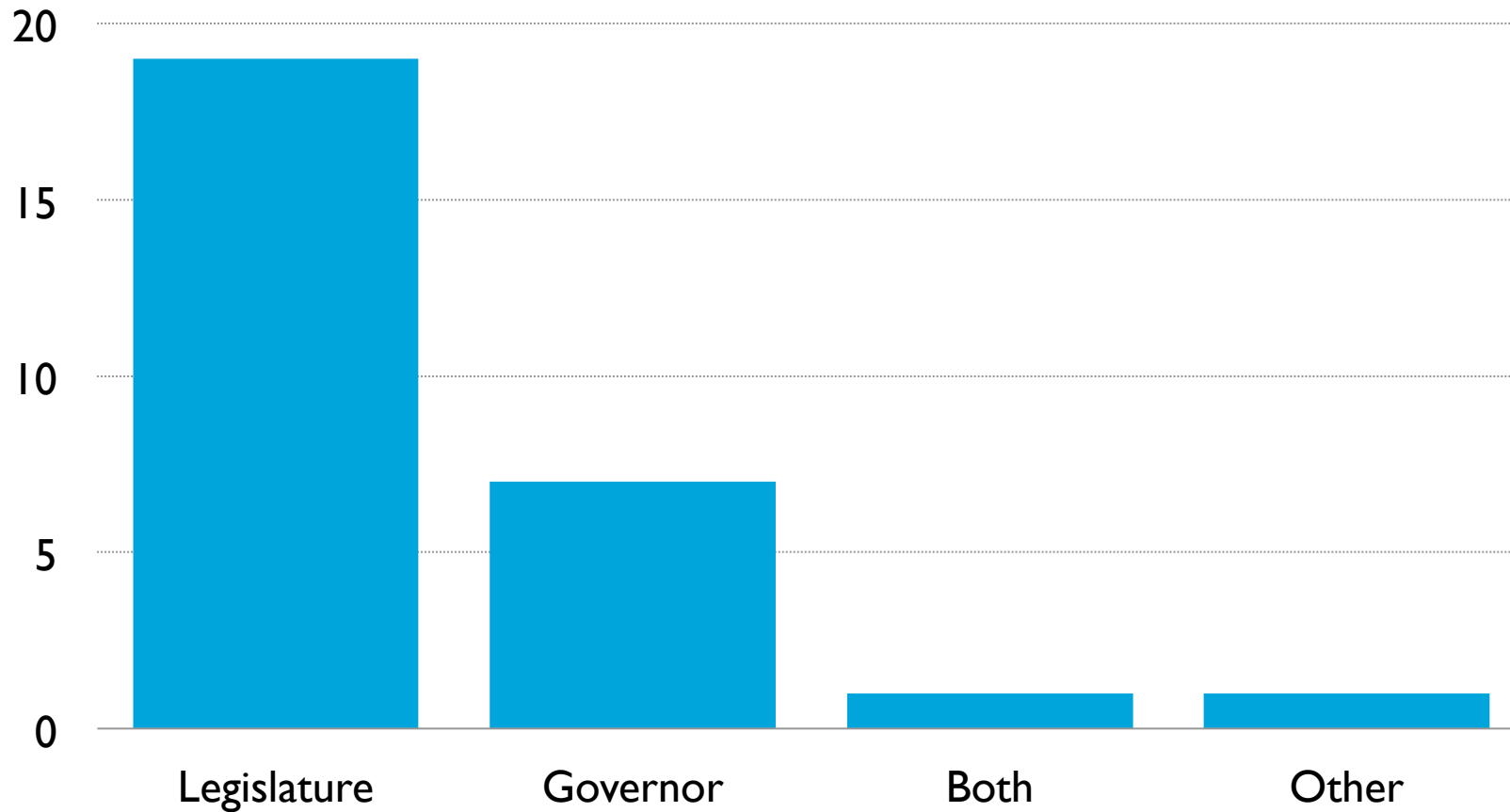


**Source:** Urban Institute.

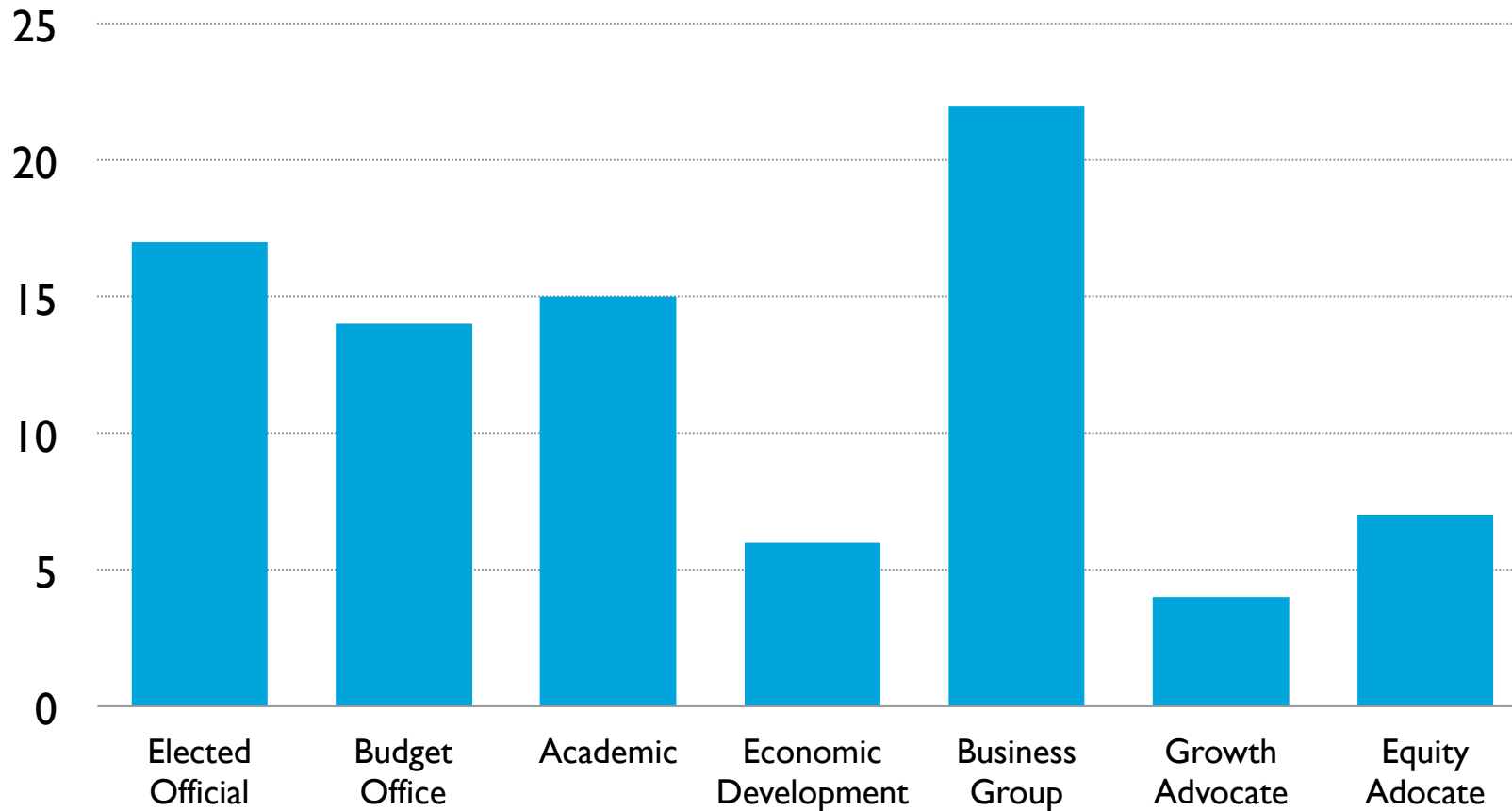
**Note:** Each of the following states has had two tax commissions publish reports since 2006: California, Indiana, New York, and Massachusetts.

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# Commission was proposed by ...



# Members of state tax commissions



Chairs: current/former officeholder or business leader

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# Commission missions—big to small

Kentucky: Review entire tax code

California: Tax code for the 21st century

Georgia: Shift from taxing income to taxing consumption

Illinois: Reduce reliance on property taxes

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# Competitive instincts

**Georgia:** “Ultimately, the results of these recommendations are to ensure Georgia as a pro-growth, job-friendly state in line with the 21st century economy.”

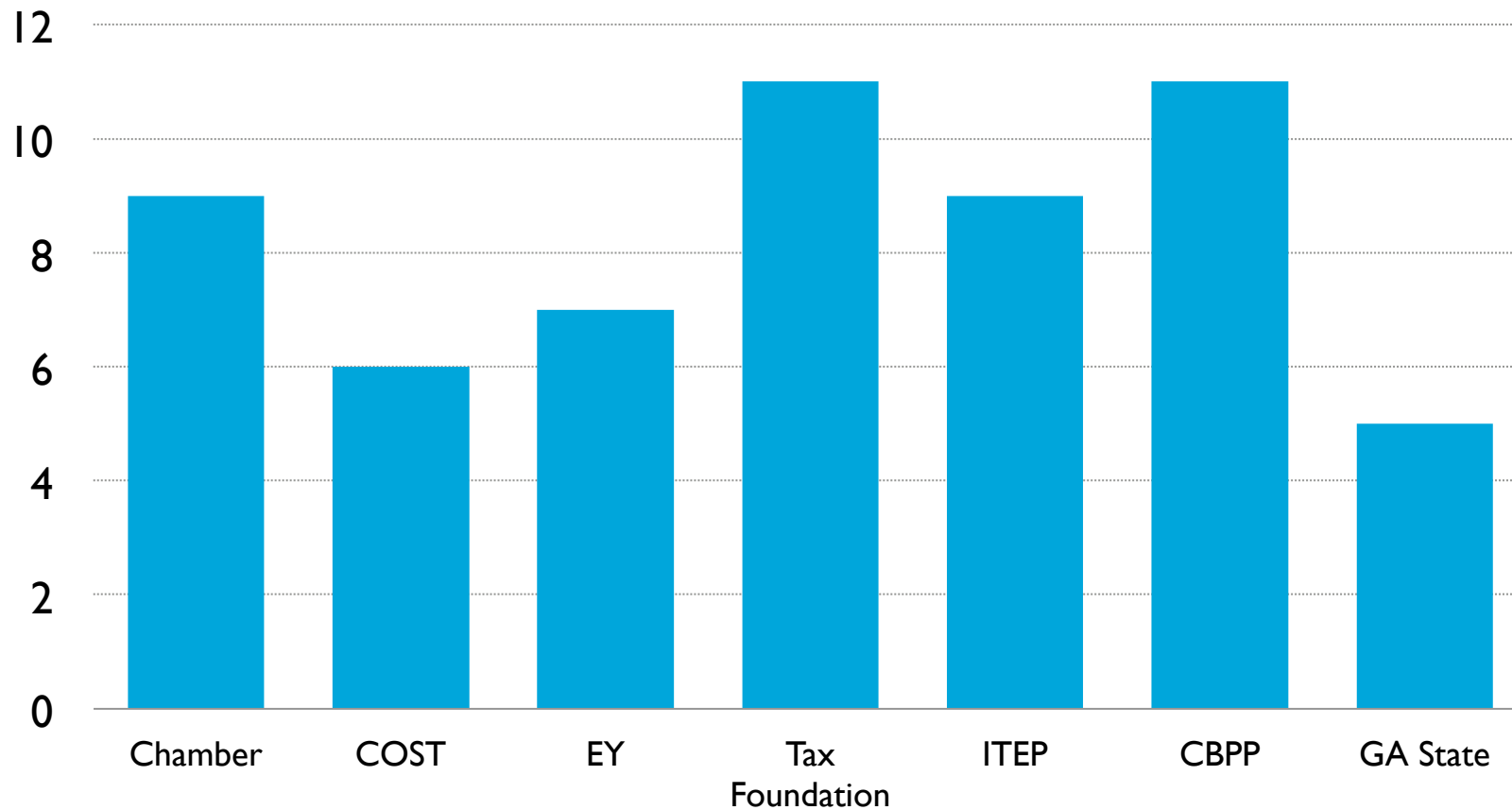
**Kentucky:** “Any changes to the tax system should ensure that Kentucky continues to attract jobs and investment to the state, while keeping and protecting the jobs and business we already have.”

**Maryland:** “Maryland has not nearly reached its potential in growing business and creating jobs.”

**South Carolina:** “[E]nsure that our State remains an optimum competitor in its efforts to attract business and individuals to locate, live, work, and invest in South Carolina.”



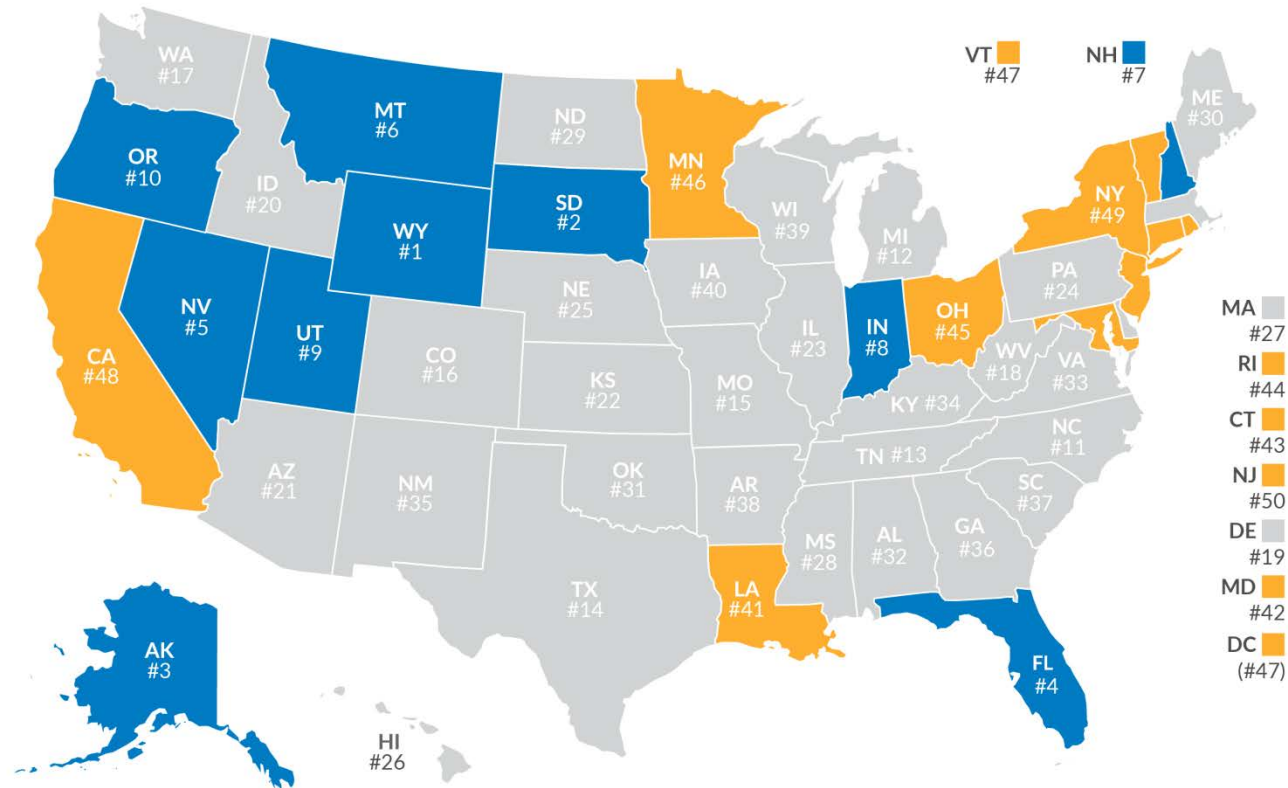
# Who testifies?



State budget and finance offices testified at every commission\*

# Rankings!

## 2017 State Business Tax Climate Index

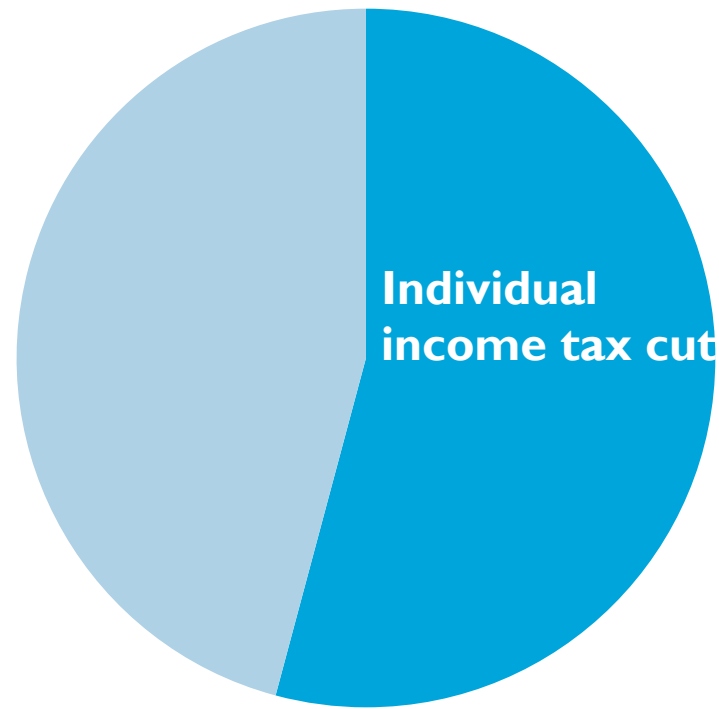
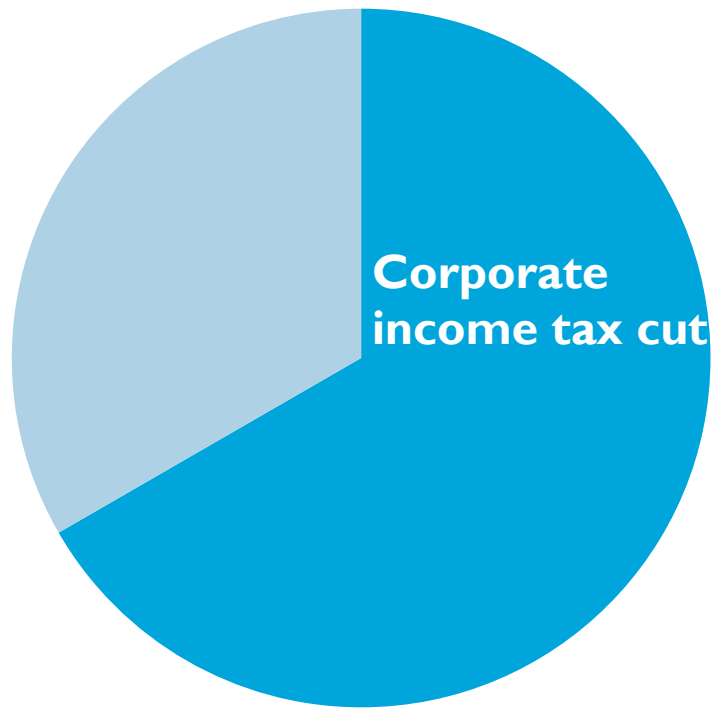


Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states. The report shows tax systems as of July 1, 2016 (the beginning of Fiscal Year 2017).  
Source: Tax Foundation.

- 10 Best Business Tax Climates
- 10 Worst Business Tax Climates

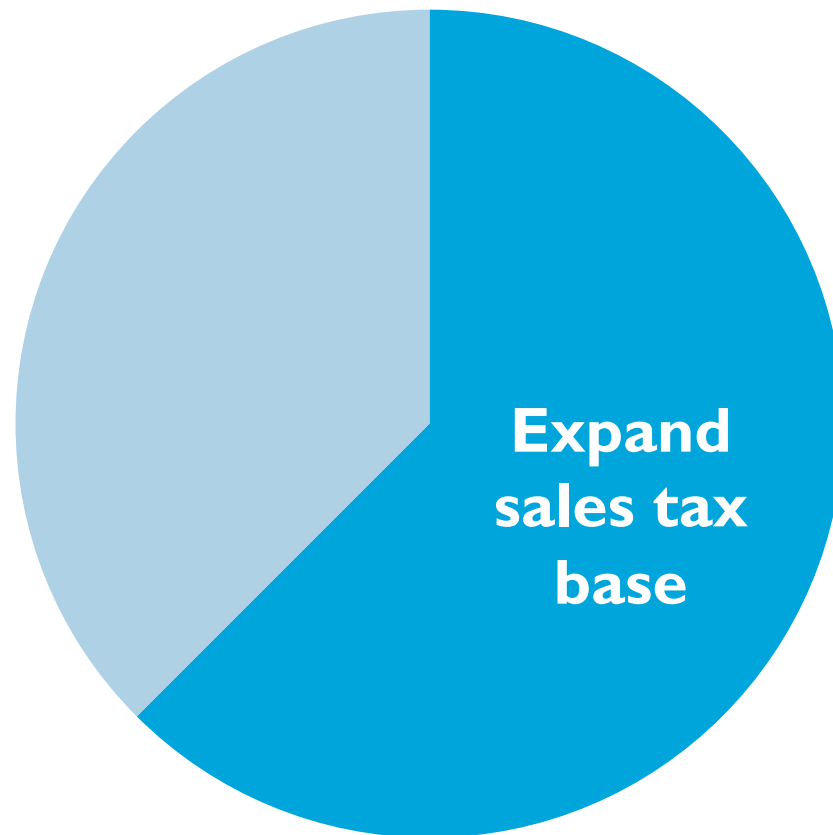
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# What do commissions recommend?



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# What do commissions recommend?



\*Includes both making more goods and more services taxable

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# Other popular recommendations

Increase the state's EITC

Expand (or create) the state's property tax circuit breaker

Combined reporting

Single-sales factor

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# Agree to disagree over tax incentives

Tax incentives pitted tax experts vs. business interests

## **Georgia**

“It would be preferable to lower the tax rate for all firms rather than allow tax credits for selective firms.”

## **Minnesota**

Tax incentives “are not consistent with good tax policy” but ... the state cannot “unilaterally disarm without making the state fundamentally uncompetitive.”

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# What do commissions recommend?

## Complete overhauls

California, Georgia, Kentucky, Louisiana

→ Tax swap: income tax cuts for consumption tax hikes

## Tweaks

Arizona, Hawaii, Maryland, Nebraska

→ Index income tax brackets; increase standard deduction; exempt pass-through income; raise homestead deduction

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# Do commission reports turn into law?

## Substantial Changes

DC

Massachusetts (2007)

## Smaller Reforms

Arizona

Nebraska

New York (both)

Massachusetts (2014)

## No Action\*

California

Georgia

Kentucky

Louisiana

Minnesota

\*All proposed major overhauls  
of tax system

*But there are other measures of success!*



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How can we improve state tax commissions?

**Be specific ...**

What do you want to add to the sales tax base?

What tax expenditures do you want to eliminate?

What is the revenue score for each proposal?

Winners and losers?

*Critically: Why?*



A-HEd

# Washington Plan to Tax Yoga Leads to Political Posturing

Fans Inflexible When It Comes to Health Levy; 'Up-Dog, Breathe In'



Yoga participants and fitness enthusiasts gathered at Freedom Plaza in Washington, D.C., to protest a proposed local tax on exercise classes. LANCE ROSENFELD FOR THE WALL STREET JOURNAL

By MICHELLE HACKMAN  
June 23, 2014 10:34 p.m. ET

46 COMMENTS

WASHINGTON—Music thumped through Freedom Plaza one recent Monday as more than 100 spandex-clad figures held warrior poses under the unforgiving noontime sun.

"How do you get energy, energy that's moving through... left foot forward, step all the weight

### Recommended Videos

1. Opinion Journal: Clinton's Shrink-the-Economy Plan
2. The Best iPhone 7, Android and Laptop Adapters
3. Opinion Journal: 'Friends of Bill' Favors
4. Opinion Journal: Donald Trump, Party of One
5. Opinion Journal: The Unconstitutional Regulator

### Most Popular Articles

1. Donald Trump's New Attack Strategy Aims to Curb Clinton Vote
2. Trump Declares Himself Freed From Republican Party 'Shackles'
3. Emails Show Clinton Campaign Response to Fallout



## FOUR-YEAR REVENUE ESTIMATE: FY 2015 – FY 2018

	Revenue Impact (in millions)			
	FY 2015	FY 2016	FY 2017	FY 2018
<b>RECOMMENDATIONS</b>				
<b>Sales Tax</b>				
1 Expand the sales tax to eight new services (construction services, barbers and beauticians, health clubs and tanning studios, water consumption at home, bowling alleys and billiard parlors, storage of household goods/mini storage, carpet and upholstery cleaning, and car washes)	\$28.2	\$29.3	\$30.4	\$31.5
2 Add use tax line to personal income tax return for mail order or online purchases	1.0	\$1.0	\$1.1	\$1.1
3 Unify taxation of tobacco products (tax all tobacco products at approximately 80%)	7.0	6.9	6.8	6.6
4 Increase the general sales tax rate from 5.75% to 6%	20.5	21.3	22.1	23.0
<b>Individual Income Tax</b>				
5 Create a middle-class tax bracket, increase the standard deduction/personal exemptions, expand the EITC for childless workers, and other reforms	(116.9)	(110.9)	(116.7)	(119.9)
<b>Estate Tax</b>				
6 Raise threshold to \$5.25 million (federal level) from \$1 million	(13.9)	(13.9)	(13.9)	(13.9)
<b>Business Taxes</b>				
7 Reduce Business Franchise Tax/Unincorporated Business Franchise Tax rate from 9.975% to 8.25%	(57.0)	(59.9)	(62.6)	(65.4)
8 Exempt passive investment vehicles from Unincorporated Business Franchise Tax	(4.4)	(4.4)	(4.4)	(4.4)
9 Apportion national business pre-tax income using single weighted sales formula	20.0	21.0	22.0	22.9
10 Levy a local services fee on all non-government employers at \$25/employee per quarter	45.0	45.5	45.9	46.2
Total Revenue Increase (all black numbers)	121.7	125.0	128.3	131.4
Total Tax Relief (all red numbers)	(192.2)	(189.1)	(197.6)	(203.6)
Total Net Package	(70.5)	(64.1)	(69.3)	(72.2)
Current Funding for Commission Recommendations (\$18 million per year)	36.0	18.0	18.0	18.0
Need for Future General Fund Revenue	(34.5)	(46.1)	(51.3)	(54.2)

\*Includes FY 2014 and FY 2015 funding of \$18 million per year