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# State and Local Tax Administration: A Long View with Some Suggestions

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Federation of Tax Administrators  
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Responsibility for the contents of this paper rests entirely with the authors, and not with their employers.

## 1.0 Introduction and Organization of Presentation

### 1.1 Introduction

#### --Acknowledgements

--FTA and me (my quest for greater uniformity in our federal tax *system*  
1972 General Revenue Sharing's Optional Collection of State Income Taxes  
1975 Congressional Revision and Approval Piggybacking Regulations  
1980'ish Interest by Connecticut, Florida and Tennessee in Piggybacking  
JCT's removal of piggybacking under "deadwood legislation."

--Over the years enjoyed helping states and localities to improve current tax laws  
PA: fixed formula for franchise tax and its final elimination  
WVA: elimination of cascading gross receipts taxes (now returned!)  
WA: demonstration that a franchise tax would be constitutional (!)

#### --Some innovations

Convinced PA to acquire and use SAS  
Convinced WVA of utility of pizza during drafting sessions

Placed students in state government whose careers have flourished'

### 1.2 Organization of Remarks

Eclectic presentation designed/organized to stimulate discussion by remarking on:

2.0 The Economic and Political Setting for the US: Implications for State/Local Sector

3.0 About State and Local Budgets I: Demography and Dependency Rates through 2040

4.0 About State and Local Budgets II: An Expenditure-Revenue Framework

5.0 Some Comments on the Big 3: Income, Sales/Use, and Property Taxation

5.1 Income Taxes: coverage/tax entry point, location, contracting

5.2 Sales/Use: services, cascading, exemption structure

5.3 Property: location of work, the shift to residential, risks of fraudulent sales prices

6.0 Thinking about the Reinvention of the IRS: What will \$7.4B/\$13.8 B result in?

7.0 Some Ideas for FTA to Consider

## **2.0 The Economic and Political Setting for the US: Implications for State/Local Sector**

--If you haven't noticed, the world is getting increasingly mercantilist, and arguments are growing to protect home industries characterized as "strategic" or of "national security importance"; not unlike the usual economic development arguments.

--Congressional reliance on Reconciliation means 10 year tax policy windows. Full employment for K Street, and ongoing uncertainty over federal base and rates which are being driven increasingly for non-budgetary purposes

--US National debt/GDP ratio and rising real interest rates will mean interest costs of national debt, and ongoing deficits are going to lead to some kind of massive correction. Remember the CBO rule of thumb: each 100 basis points costs \$250 billion in further budget outlays.

--Should the states start finally thinking about decoupling from the IRC, or at least not automatically adopting what the wizards on Ways and Means and Senate Finance come up with?

--An increasingly likely world wide 2023/ 2024 recession with a slow, uneven spatial recovery is going to transpire. I doubt Congress or more importantly world capital markets are going to endorse widespread enlarged deficit spending. Notice the revolving door at the UK treasury?

--Meanwhile various federal UI trust funds along with the much larger SS Trust Funds are going to be in real trouble

--I presume you will move from being recipients of "cashflow federalism" to "do it yourself federalism" in the next couple of years

### 3.0 About State and Local Budgets I: Demography and Dependency Rates through 2040

--Here I want to deal with some big picture matters which are easily forgotten given the intensities of trying to balance a budget without tax rate increases, without resorting indirectly to debt financing of operations (which is a no-no but widely accomplished with accounting tricks I routinely teach my students), and without pauses in paying for contractual obligations.

--A couple of reminders. The reason we have taxes is to finance or pay for needed public services

--There are 2 kinds of reasons we tax ourselves. To provide redistributive goods and services through broad based income/sales taxes and to finance goods and services which benefit the users using selective excises or fees.

--Long run demography is usually ignored in the revenue estimation process because forecasts are usually no more than 5 years out, which is beyond at least one political cycle.

--However, it's well known that we are living longer as a result of medical science, modula the pandemic; demographers distinguish between the dependency rate of children and that of the elderly. The former impacts state/local budgets through mandatory school attendance rules in the states. A typical reform debated at the school district, state, and even the federal level is to provide monies for mandatory pre-school kids, and ½ day if not full day kindergarten starting at 3 years old. Arguably, the total years of mandatory attendance are the first driver of school costs.

#### Two Questions:

--What do mandatory school attendance rules look like by state as of 2019?

--What do the %'s of such school children and elderly look like as fractions of the population?

Table 1: Range of States of Mandatory Attendance Rules

	Minimum Age	Maximum Age	Total Years of Mandatory Attendance
Minimum Smallest Age Across States	5	16	10
Maximum Largest Age Across States	8	19	14
Median	6	17	12

<https://www.lawyers.com/legal-info/research/education-law/chart-age-requirements-for-compulsory-education-in-all-50-states.html>

Table 2: Range of States' Dependency Rates as % of Total Population: School Age Children

Across States	kids_1990	kids_2000	kids_2010	kids_2019	kids_2030	kids_2040
Min %	12.8%	13.7%	12.0%	11.9%	11.7%	11.8%
Median	17.1%	17.4%	16.3%	15.0%	15.4%	15.1%
Max %	26.1%	23.1%	21.9%	21.2%	20.9%	20.6%

Sources: <https://www.lawyers.com/legal-info/research/education-law/chart-age-requirements-for-compulsory-education-in-all-50-states.html>, Social Explorer, University of Virginia Weldon Cooper Center for Public Service.

Table 3: Range of States' Dependency Rates as % of Total Population: Age 65+

Across States	elderly_1990	elderly_2000	elderly_2010	elderly_2019	elderly_2030	elderly_2040
Min %	4.0%	5.7%	7.8%	11.5%	10.5%	10.2%
Median	12.7%	12.7%	13.5%	17.0%	19.7%	19.5%
Max %	18.3%	17.7%	17.4%	21.2%	26.5%	26.5%

Sources: <https://www.lawyers.com/legal-info/research/education-law/chart-age-requirements-for-compulsory-education-in-all-50-states.html>, Social Explorer, University of Virginia Weldon Cooper Center for Public Service.

Table 4: Range of States' Total Dependency Rates as % of Total Population: Kids + Seniors

Across States	dep_1990	dep_2000	dep_2010	dep_2019	dep_2030	dep_2040
Min %	20.3%	23.3%	22.3%	26.0%	25.9%	24.9%
Median	29.6%	30.5%	29.8%	32.4%	35.4%	35.3%
Max %	35.2%	34.6%	32.9%	36.3%	41.3%	40.8%

Sources: <https://www.lawyers.com/legal-info/research/education-law/chart-age-requirements-for-compulsory-education-in-all-50-states.html>, Social Explorer, University of Virginia Weldon Cooper Center for Public Service.

Table 5: State by State Mandatory Attendance Ages in 2019

State	Mandatory Attendance Age Range	Attendance Years	State	Mandatory Attendance Age Range	Attendance Years
Alabama	6-17	12	Montana	7-16	10
Alaska	7-16	10	Nebraska	6-18	13
Arizona	6-16	11	Nevada	7-18	12
Arkansas	5-17	13	New Hampshire	6-18	13
California	6-18	13	New Jersey	6-16	11
Colorado	6-17	12	New Mexico	5-18	14
Connecticut	5-18	14	New York	6-16	11
Delaware	5-16	12	North Carolina	7-16	10
Florida	6-16	11	North Dakota	7-16	10
Georgia	6-16	11	Ohio	6-18	13
Hawaii	5-18	14	Oklahoma	5-18	14
Idaho	7-16	10	Oregon	6-18	13
Illinois	6-17	12	Pennsylvania	8-17	10
Indiana	7-18	10	Rhode Island	6-18	13
Iowa	6-16	11	South Carolina	5-17	13
Kansas	7-18	12	South Dakota	6-18	13
Kentucky	6-18*	13	Tennessee	6-18	13
Louisiana	7-18	12	Texas	6-19	14
Maine	7-17	11	Utah	6-18	13
Maryland	5-18	14	Vermont	6-16	11
Massachusetts	6-*	13	Virginia	5-18	14
Michigan	6-18	13	Washington	8-18	11
Minnesota	7-17	11	Washington, D.C.	5-18	14
Mississippi	6-17	12	West Virginia	6-17	12
Missouri	7-17*	11	Wisconsin	6-18	13
			Wyoming	7-16	10

Source: : <https://www.lawyers.com/legal-info/research/education-law/chart-age-requirements-for-compulsory-education-in-all-50-states.html>

Table 6: State by State % of Population of Mandatory Attendance Age: 1990-2040

state	kids_1990	kids_2000	kids_2010	kids_2019	kids_2030	kids_2040
Alabama	17.7%	17.2%	16.1%	15.0%	15.1%	15.1%
Alaska	16.3%	17.6%	14.5%	13.4%	13.9%	14.0%
Arizona	15.9%	16.3%	15.5%	14.2%	14.0%	14.1%
Arkansas	16.5%	15.7%	15.0%	14.3%	14.2%	14.2%
California	18.1%	19.8%	18.4%	16.6%	17.4%	17.6%
Colorado	17.0%	17.3%	16.1%	14.9%	15.4%	15.6%
Connecticut	17.4%	19.5%	18.6%	16.9%	17.2%	17.4%
DC	15.0%	16.3%	13.3%	13.7%	15.4%	14.7%
Delaware	16.1%	16.9%	15.3%	14.2%	14.4%	14.6%
Florida	13.2%	14.3%	13.2%	12.2%	12.3%	12.4%
Georgia	16.1%	16.3%	15.7%	14.9%	14.7%	14.9%
Hawaii	19.4%	19.3%	17.2%	16.2%	16.1%	16.1%
Idaho	17.5%	16.2%	15.1%	14.3%	14.4%	14.4%
Illinois	16.9%	17.6%	16.6%	15.2%	15.5%	15.6%
Indiana	14.6%	14.6%	14.0%	13.2%	13.3%	13.4%
Iowa	16.1%	15.7%	14.6%	14.3%	14.3%	14.3%
Kansas	17.4%	18.2%	16.9%	16.4%	16.2%	16.4%
Kentucky	19.2%	18.1%	17.2%	16.5%	16.1%	16.2%
Louisiana	19.4%	18.9%	16.6%	15.5%	15.9%	15.8%
Maine	15.3%	15.4%	13.3%	11.9%	11.7%	11.8%
Maryland	18.4%	20.2%	18.6%	17.3%	17.7%	17.9%
Massachusetts.	16.1%	17.4%	16.5%	15.1%	15.5%	15.7%
Michigan	19.0%	19.3%	18.0%	16.0%	16.4%	16.7%
Minnesota	15.8%	16.5%	14.8%	14.3%	14.0%	14.1%
Mississippi	19.8%	18.6%	16.9%	16.1%	16.0%	15.9%
Missouri	15.4%	16.1%	14.6%	14.0%	14.0%	14.1%
Montana	15.7%	15.1%	12.5%	12.1%	12.2%	12.2%
Nebraska	19.4%	19.6%	17.9%	17.9%	17.5%	17.6%
Nevada	15.6%	16.7%	16.3%	15.0%	14.5%	14.7%
New Hampshire	17.7%	19.0%	16.8%	14.5%	14.5%	14.8%
New Jersey	13.9%	15.4%	14.6%	13.5%	13.8%	14.0%
New Mexico	22.6%	22.4%	19.7%	18.3%	17.9%	17.9%
New York	14.1%	15.3%	13.8%	12.7%	13.6%	13.6%
North Carolina	13.3%	13.7%	13.3%	12.6%	12.5%	12.7%
North Dakota	15.3%	14.6%	12.0%	12.9%	12.6%	12.5%
Ohio	18.6%	18.8%	17.6%	16.4%	16.5%	16.6%
Oklahoma	21.0%	20.6%	19.3%	19.0%	18.8%	18.8%
Oregon	18.3%	18.4%	16.6%	15.2%	15.8%	15.9%
Pennsylvania	12.8%	13.8%	12.7%	12.0%	12.1%	12.2%
Rhode Island	16.3%	17.9%	16.5%	15.0%	15.5%	15.7%
South Carolina	19.0%	18.5%	16.8%	16.1%	16.1%	16.2%
South Dakota	20.5%	20.3%	17.6%	17.6%	17.2%	17.2%
Tennessee	18.3%	18.2%	17.3%	16.1%	16.3%	16.5%
Texas	21.8%	22.0%	21.2%	20.1%	20.1%	20.3%
Utah	26.1%	23.1%	21.9%	21.2%	20.9%	20.6%
Vermont	15.3%	15.9%	13.1%	11.9%	11.8%	11.9%
Virginia	18.9%	19.4%	18.3%	17.3%	17.3%	17.4%
Washington	15.2%	16.1%	14.6%	13.3%	13.8%	14.0%
West Virginia	17.5%	15.5%	14.2%	13.8%	13.3%	13.3%
Wisconsin	19.0%	19.3%	17.5%	16.3%	16.1%	16.1%
Wyoming	17.1%	15.4%	13.0%	13.2%	12.8%	12.6%

Table 7: State by State Elderly as % of Population 1990-2040 (65+)

state	elderly_1990	elderly_2000	elderly_2010	elderly_2019	elderly_2030	elderly_2040
Alabama	13.0%	13.2%	13.9%	17.4%	20.2%	20.2%
Alaska	4.0%	5.7%	7.8%	12.6%	16.1%	15.2%
Arizona	13.0%	13.0%	13.9%	18.1%	22.7%	22.7%
Arkansas	14.9%	14.0%	14.5%	17.5%	20.3%	20.2%
California	10.5%	10.7%	11.4%	14.8%	16.7%	16.8%
Colorado	10.0%	9.7%	10.9%	14.7%	17.1%	16.5%
Connecticut	13.5%	14.0%	14.3%	17.8%	20.9%	20.8%
DC	12.8%	12.2%	11.5%	12.3%	10.5%	10.2%
Delaware	12.1%	13.0%	14.5%	19.5%	21.8%	21.5%
Florida	18.3%	17.7%	17.4%	21.0%	23.9%	23.7%
Georgia	10.1%	9.6%	10.7%	14.3%	16.7%	16.9%
Hawaii	11.2%	13.3%	14.4%	19.0%	22.1%	22.1%
Idaho	12.0%	11.4%	12.3%	16.4%	19.0%	18.4%
Illinois	12.6%	12.2%	12.5%	16.1%	18.4%	18.4%
Indiana	12.6%	12.4%	13.0%	16.2%	18.6%	18.4%
Iowa	15.4%	14.9%	14.9%	17.6%	20.2%	19.6%
Kansas	13.9%	13.3%	13.1%	16.3%	19.2%	18.6%
Kentucky	12.7%	12.5%	13.3%	16.8%	19.7%	19.7%
Louisiana	11.1%	11.6%	12.4%	16.0%	17.8%	17.5%
Maine	13.4%	14.3%	15.9%	21.2%	26.5%	26.5%
Maryland	10.9%	11.4%	12.3%	15.9%	18.1%	17.7%
Massachusetts	13.5%	13.5%	13.8%	17.0%	19.3%	19.2%
Michigan	12.0%	12.3%	13.7%	17.6%	20.7%	20.5%
Minnesota	12.5%	12.1%	12.9%	16.3%	19.7%	19.3%
Mississippi	12.5%	12.0%	12.8%	16.3%	19.5%	19.7%
Missouri	14.0%	13.6%	14.0%	17.3%	20.4%	19.9%
Montana	13.3%	13.3%	14.9%	19.3%	22.8%	21.2%
Nebraska	14.2%	13.6%	13.6%	16.2%	18.6%	18.0%
Nevada	10.6%	11.0%	11.9%	16.1%	21.1%	21.0%
New Hampshire	11.2%	12.1%	13.6%	18.7%	24.4%	24.5%
New Jersey	13.3%	13.3%	13.5%	16.7%	18.7%	18.7%
New Mexico	10.7%	11.7%	13.2%	18.0%	23.4%	22.9%
New York	13.2%	12.9%	13.5%	17.1%	17.9%	17.7%
North Carolina	12.2%	12.1%	13.0%	16.7%	19.1%	19.2%
North Dakota	14.3%	14.7%	14.5%	15.8%	17.9%	16.9%
Ohio	13.0%	13.3%	14.0%	17.6%	20.2%	20.0%
Oklahoma	13.6%	13.3%	13.5%	16.0%	18.4%	17.8%
Oregon	13.8%	12.8%	13.8%	18.1%	20.3%	19.5%
Pennsylvania	15.4%	15.6%	15.5%	18.8%	21.7%	21.3%
Rhode Island	15.0%	14.7%	14.4%	17.6%	21.0%	21.0%
South Carolina	11.4%	12.1%	13.7%	18.3%	20.1%	20.1%
South Dakota	14.7%	14.3%	14.5%	17.3%	20.2%	19.4%
Tennessee	12.7%	12.4%	13.5%	16.8%	19.3%	19.2%
Texas	10.2%	9.9%	10.4%	13.0%	14.8%	14.9%
Utah	8.7%	8.5%	9.1%	11.5%	13.5%	13.7%
Vermont	11.7%	12.7%	14.7%	20.0%	26.0%	25.6%
Virginia	10.8%	11.2%	12.2%	15.9%	18.5%	18.3%
Washington	11.9%	11.2%	12.4%	16.0%	18.3%	17.7%
West Virginia	15.0%	15.4%	16.1%	20.6%	23.6%	23.5%
Wisconsin	13.3%	13.1%	13.8%	17.4%	21.4%	21.2%
Wyoming	10.4%	11.8%	12.4%	17.1%	21.0%	19.9%

Table 8: State by State Total Dependence Rate as % of Population 1990-2040 (Kids+65+)

state	dep_1990	dep_2000	dep_2010	dep_2019	dep_2030	dep_2040
Alabama	30.7%	30.4%	30.0%	32.4%	35.3%	35.3%
Alaska	20.3%	23.3%	22.3%	26.0%	30.1%	29.1%
Arizona	28.9%	29.3%	29.4%	32.3%	36.7%	36.8%
Arkansas	31.4%	29.7%	29.5%	31.8%	34.5%	34.3%
California	28.6%	30.5%	29.8%	31.4%	34.2%	34.3%
Colorado	27.0%	27.0%	27.0%	29.6%	32.4%	32.0%
Connecticut	30.9%	33.5%	32.9%	34.7%	38.1%	38.2%
DC	27.8%	28.5%	24.8%	26.0%	25.9%	24.9%
Delaware	28.2%	29.9%	29.8%	33.7%	36.2%	36.1%
Florida	31.5%	32.0%	30.6%	33.2%	36.2%	36.2%
Georgia	26.2%	25.9%	26.4%	29.2%	31.4%	31.8%
Hawaii	30.6%	32.6%	31.6%	35.2%	38.2%	38.2%
Idaho	29.5%	27.6%	27.4%	30.7%	33.4%	32.8%
Illinois	29.5%	29.8%	29.1%	31.3%	33.9%	34.0%
Indiana	27.2%	27.0%	27.0%	29.4%	31.9%	31.8%
Iowa	31.5%	30.6%	29.5%	31.9%	34.5%	33.9%
Kansas	31.3%	31.5%	30.0%	32.7%	35.4%	34.9%
Kentucky	31.9%	30.6%	30.5%	33.3%	35.8%	35.9%
Louisiana	30.5%	30.5%	29.0%	31.5%	33.7%	33.3%
Maine	28.7%	29.7%	29.2%	33.1%	38.1%	38.3%
Maryland	29.3%	31.6%	30.9%	33.2%	35.8%	35.6%
Massachusetts	29.6%	30.9%	30.3%	32.1%	34.8%	34.9%
Michigan	31.0%	31.6%	31.7%	33.6%	37.1%	37.2%
Minnesota	28.3%	28.6%	27.7%	30.6%	33.7%	33.4%
Mississippi	32.3%	30.6%	29.7%	32.4%	35.5%	35.6%
Missouri	29.4%	29.7%	28.6%	31.3%	34.4%	34.0%
Montana	29.0%	28.4%	27.4%	31.4%	35.0%	33.4%
Nebraska	33.6%	33.2%	31.5%	34.1%	36.1%	35.6%
Nevada	26.2%	27.7%	28.2%	31.1%	35.6%	35.7%
New Hampshire	28.9%	31.1%	30.4%	33.2%	39.0%	39.3%
New Jersey	27.2%	28.7%	28.1%	30.2%	32.5%	32.7%
New Mexico	33.3%	34.1%	32.9%	36.3%	41.3%	40.8%
New York	27.3%	28.2%	27.3%	29.8%	31.5%	31.3%
North Carolina	25.5%	25.8%	26.3%	29.3%	31.6%	32.0%
North Dakota	29.6%	29.3%	26.5%	28.7%	30.5%	29.4%
Ohio	31.6%	32.1%	31.6%	34.0%	36.7%	36.6%
Oklahoma	34.6%	33.9%	32.8%	35.0%	37.1%	36.6%
Oregon	32.1%	31.2%	30.4%	33.3%	36.1%	35.4%
Pennsylvania	28.2%	29.4%	28.2%	30.8%	33.8%	33.6%
Rhode Island	31.3%	32.6%	30.9%	32.6%	36.6%	36.7%
South Carolina	30.4%	30.6%	30.5%	34.4%	36.2%	36.3%
South Dakota	35.2%	34.6%	32.1%	34.9%	37.4%	36.6%
Tennessee	31.0%	30.6%	30.8%	32.9%	35.6%	35.7%
Texas	32.0%	31.9%	31.6%	33.1%	35.0%	35.2%
Utah	34.8%	31.6%	31.0%	32.7%	34.4%	34.3%
Vermont	27.0%	28.6%	27.8%	31.9%	37.8%	37.5%
Virginia	29.7%	30.6%	30.5%	33.2%	35.7%	35.8%
Washington	27.1%	27.3%	27.0%	29.3%	32.1%	31.7%
West Virginia	32.5%	30.9%	30.3%	34.4%	36.9%	36.8%
Wisconsin	32.3%	32.4%	31.3%	33.7%	37.5%	37.3%
Wyoming	27.5%	27.2%	25.4%	30.3%	33.8%	32.5%



## 4.0 About State and Local Budgets II: An Expenditure-Revenue Framework

As any long-term observer of state and local finances knows, the current structure of spending and taxes reflects ongoing compromises by appropriations and tax committees of your houses and senates. A question arises about whether or not such current laws make conceptual sense.

One way to think about this systematically is to compare expenditure functions with financing methods. Here's a one wage workbook project to give to your state budget office AND tax/appropriations committees. (I tried this with the PA House Appropriations Committee in Public Testimony---Mixed Results).

Idea is to match spending type with either benefit or ability to pay financing method. Hint: turnpikes should be fee-financed. K-12 should be income/sales tax financed etc. The matrix below reflects the Governments Division of the Census Bureau classifications.

	Financing Method (Y/N and %)			Level of Responsibility (Y/N) And %		
	Fee	Income/Sales	Property	State	Local	Shared
<b>Table 9 Worksheet: Typical Census Classification of Spending Functions</b>						
Education services: Higher education						
Education Services: Elementary & Secondary						
Education Services: Vocational Education						
Libraries						
Safety Net: Public Welfare						
Safety Net: Public Hospitals						
Safety Net: Public Health						
Safety Net: Employment Security (UI,WC)						
Veterans						
Transportation: Highways						
Transportation: Local Roads						
Transportation: Air Transportation						
Transportation: Parking						
Transportation: Ports						
Public Safety: Police						
Public Safety: Fire						
Public Safety: Corrections						
Environment: Natural Resources						
Parks and Recreation						
Public Housing						
Sewer						
Solid Waste Management						
Governmental administration: Financial						
Governmental Administration: Judicial and legal						
Total						

## 5.0 Some Implications for the Big 3: Income, Sales/Use, and Property Taxation

--Some observations from my thinking about how likely issues as the world of work and mercantilism evolve will impact the Big 3. Here I have research questions.

### 5.1 Income Taxes: coverage/tax entry point, location, contracting

#### *Tax Entry Points*

--It's well known that around 50% of federal individual income tax returns filed pay no net income taxes to the US Treasury, and that this % has been increasing. To some extent this reflects the adoption of tax entry points based on national distributions of income which are dominated by larger, high income states and the long term trend in inequality of private, market incomes.

--A question arises whether this is sustainable in a democracy in the long run and what the tax entry point looks like state by state viz a viz *pre-tax post-transfer economic income*, especially over the business cycle. What is of particular interest is the percentile of distribution which the tax entry point constitutes. Given the strong chances of a recession I surmise this may become an important research question which each state revenue department should analyze.

#### *Capturing Residence of Individual Income Tax Households*

--One consequence of the pandemic has been to change the location of work, and there is accumulating evidence that this change will persist. This raises legal questions for both state *and* local nexus for individual payroll and income taxes. While it may be unduly old-fashioned, much can be deduced by returning to first principles and inquiring where taxpayers reside, because this is where public services are enjoyed. In this view, location of residence is what should trigger liability for personal income taxes. The practical implication of this assumption is to require reporting on residence and fashion tax instruments to offset tax liabilities caused by multiple residences in a given tax period. This implies requiring residence information by local municipality and school district.

#### *The Independent Contractor Problem Redux*

--The growth of the gig economy, decentralized nature of work coupled with the likelihood that an older population which has not adequately saved for retirement suggests to me that a greater fraction of market/taxable income will be part-time/informal. Also, it is likely that compensation may be more difficult to detect as a result of innovations of electronic payment systems. On the one hand, electronic transfers should enable easier withholding compliance; however, to the extent that employment relations are become more decentralized, and legal mechanisms to compel withholding/reporting for such things as UI lag, it's imaginable that this problem will grow.

## 5.2 Sales/Use: Sales or Rental, Cascading, Services, Exemption mechanisms

### *Sales or Rental of Personal Property*

--Technology has increasingly enabled consumption of services from tangible property without ownership. An interesting reform of the nature of sales and use taxation would be to apply it to both to the final consumption through acquisition of tangible property as well as for final consumption through the rental of tangible property. This construction of the sales and use tax base could materially simplify its application and readily enable base broadening.

### *Cascading*

--Periodically John Mikesell, myself, and others have estimated the fraction of sales and use taxes paid by the non-retail, non-final consumption sector. Here in Pennsylvania, it looks like about 35% which is no small amount.

--Given strong interest in rebuilding manufacturing self-sufficiency, there's merit in measuring and reporting the extent of this cascading, state by state, and to calculate the economic welfare loss which it generates. Arguably this becomes part of any business climate, hospitality undertaking to lure domestic and international capital to expand. An obvious problem which arises has to do with financing such a revenue loss from cleaning up cascading in sales and use tax mechanisms.

### *About Taxing Services via Excise or Fees*

--The political perils of taxing legal and accounting services, fully reflected in the composition of most state legislatures, are well known. Given the tilt towards final consumption of services compared to the purchases of tangible personal property, aren't there areas for adding to the breadth of sales and use tax bases?

--Technologically, things that used to take place in brick and mortar (movies, concerts, sporting events) facilities are now gravitating to living rooms via streaming. Arguably such activities could be subjected to entertainment or ticket taxation whose collection should be quite easy to accomplish. Sharing proceeds with locales could improve political support.

*A look through CCH's Sales and Use Tax Reporter suggests many potential tax bases:*

- Non-prescription medical devices and non-prescription medical services?
- Consumer financial services?
- Veterinary services? Only Hawaii, New Mexico, and South Dakota tax them (!).
- Vending machine sales?
- Cable TV?
- Travel Agents?

Etc.

### 5.3 Property: Location of work and the shift to residential; Equalization Travails

#### *The Relative Shift to Residential*

--As already noted, opinion polls, health concerns due to the pandemic, and so called labor shortages suggest that there is a marked preference to increasingly work from home. This has implications for the administration of the real property tax. There is anecdotal evidence that downtown office space has languished in value compared to owner-occupied housing, and that this shift in work location has caused a boom in residential dwelling prices compared to office space in most urban areas.

--Sooner than later this is going to cause in most states, which require cyclical property re-assessment, a *relative* shift in tax burden *from* commercial to residential property. In turn, since residential owners outnumber commercial property owners, this will cause political issues about the burden of property taxes, and, given an aging society, greater political support for property tax circuit breakers. States with highly classified assessment/property tax rate systems may find themselves under pressure to provide more favorable tax treatment of such mixed uses of residential property. Whether to allow this offset through state income tax systems, or through reimbursements to local governments are interesting problems to work through. The data requirements ---authenticating on income tax returns claims of real property ownership and real estate tax payments -- are tricky and can be improved by requiring SSN and parcel-ids for property tax purposes.

#### *State Property Equalization amidst Fraudulent Local Sales Price Reporting*

--Local reliance on real property taxes by school districts coupled with state aid to local school districts based on some sort of property tax effort has required equalization of observed property tax bases by state agencies. At issue is whether or not the level of assessments is locally determined. The rapid absolute and relative escalation in residential values complicates equalization calculations, although with a time lag of several years.

--In states where measurement of sales prices for state purposes are a first responsibility of local assessors, especially when both assessment levels and cyclical reassessment are at local discretion, real incentives evolve to misclassify and misreport property sales prices to the state equalization agency. A first order question entails what the liability consequence of both sending fraudulent data to a state agency for the purpose of causing a state agency to make erroneous calculations which can affect both state school aid amounts and state valuations of assets under inheritance and estate taxes.

--In Pennsylvania, such malfeasance is a third degree felony punishable by 5 years in jail. Here in Allegheny County's Court of Common Pleas, and in our state Commonwealth Court, litigation is pending on this issue, and worthy of keeping an eye on.

**6.0 About the Reinvention of the IRS: What will \$7.64B/ year for 10 years against a base of \$13.8B (+55%) result in?**

--As you all know, the IRS has been appropriated budget increases (in addition to existing monies as of August, 2022) for 10 years under HR5376 of August 17, 2022.

--Note that HR5376 penalizes IRS for failing to provide Congress a written plan on how to spend these new monies; the penalty is \$100,000/day after 6 months of the effective date of the bill (!)

--Here are the appropriations facts, then a look at the IRS personnel situation as of March, 2022.

Table 10: IRS Appropriations under HR5376 by Function

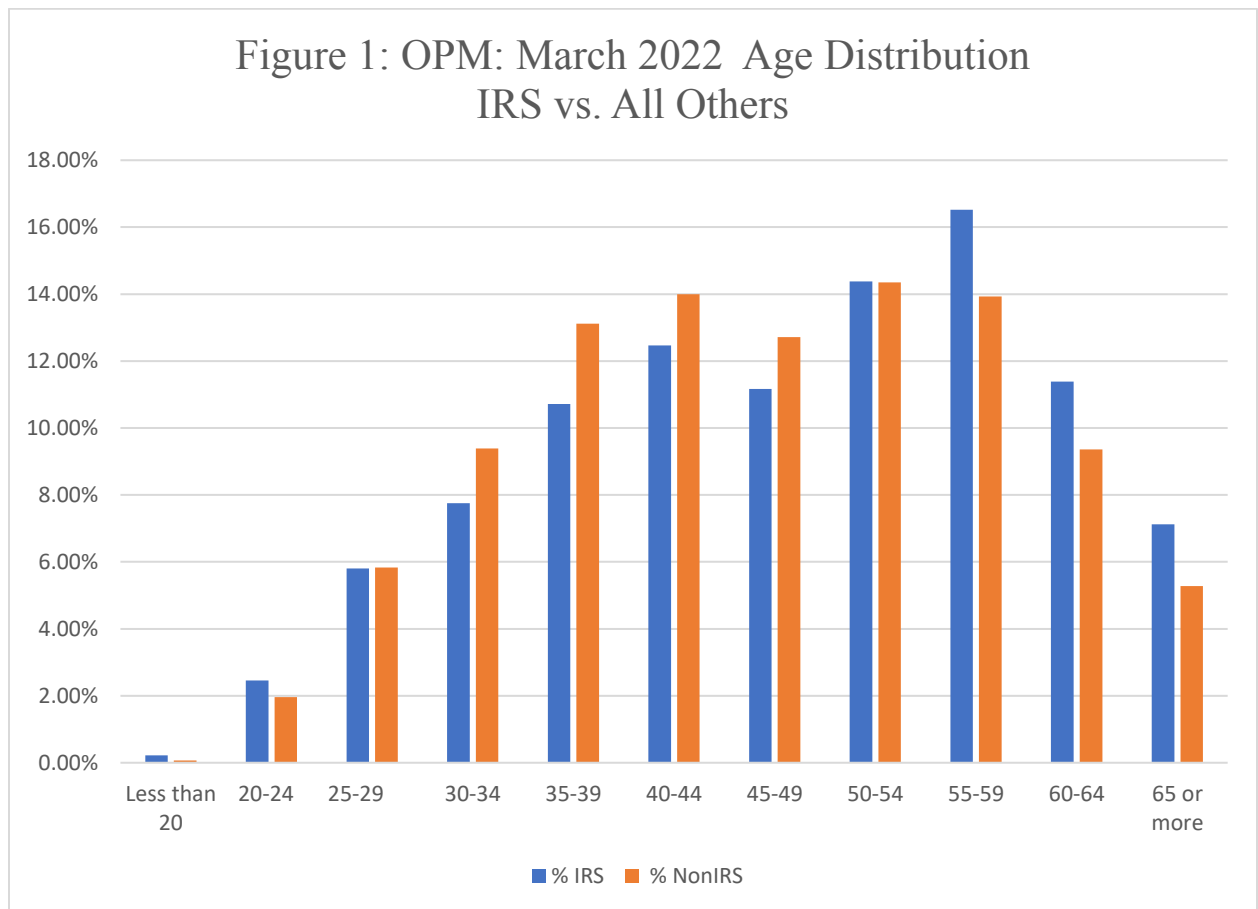
Appropriations Function	10 Year Amount (Billions)	Appropriations Ends	Annual (\$ Billions)	Actual Budget 2022 (\$ Billions)	% Change
Taxpayer Services	3.1815	9/30/2031	0.31815	3.164	10.1%
Enforcement	45.6374	9/30/2031	4.56374	5.196	87.8%
Operations Support	25.3264	9/30/2031	2.53264	4.816	52.6%
Business Systems	4.7507	9/30/2031	0.47507	0.31	153.2%
Efile Plan	0.015	9/30/2023	N/A	N/A	N/A
Treasury IG	0.403	9/30/2031	0.0403	0.176	22.9%
Office of Tax Policy	0.104534	9/30/2031	0.0104534	0.081	12.9%
US Tax Court	0.153	9/30/2031	0.0153	0.055	27.8%
Treasury Offices	0.05	9/30/2031	0.005		
Total	76.44003		7.6425034		

Source: Section 10301 HR5376, August, 2022.

[https://www.whitehouse.gov/wp-content/uploads/2022/03/tre\\_fy2023.pdf](https://www.whitehouse.gov/wp-content/uploads/2022/03/tre_fy2023.pdf)

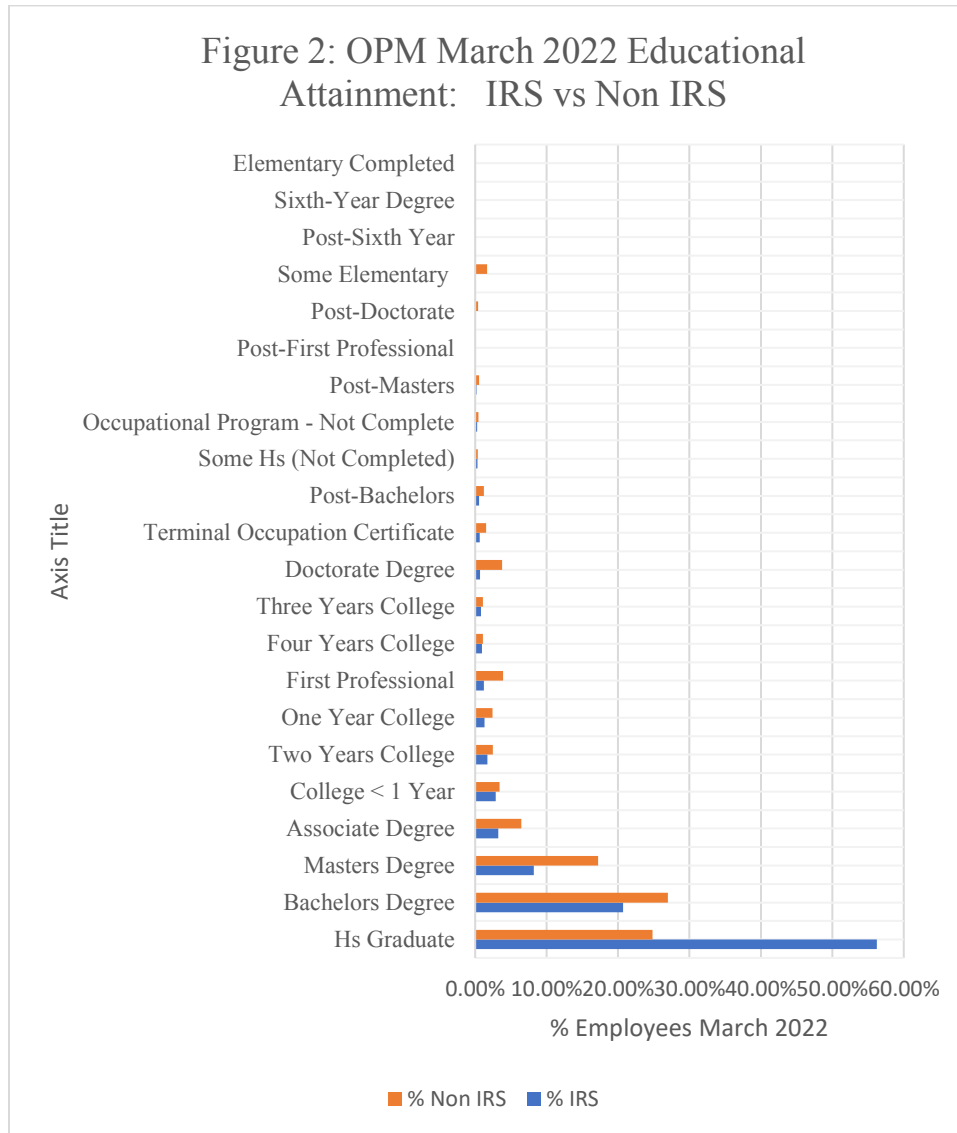
--In what follows, I would like to show you what manipulation of the OPM personnel data base allows one to see across various employment dimensions and ending with some IRS retirement scenarios. I think such comparisons of IRS to the rest of the federal workforce below help one think about longer run personnel issues, and would be useful to do in your own state.

--First, note that the IRS workforce is older than the non-IRS workforce and that for ages 55 and above this is quite noticeable.



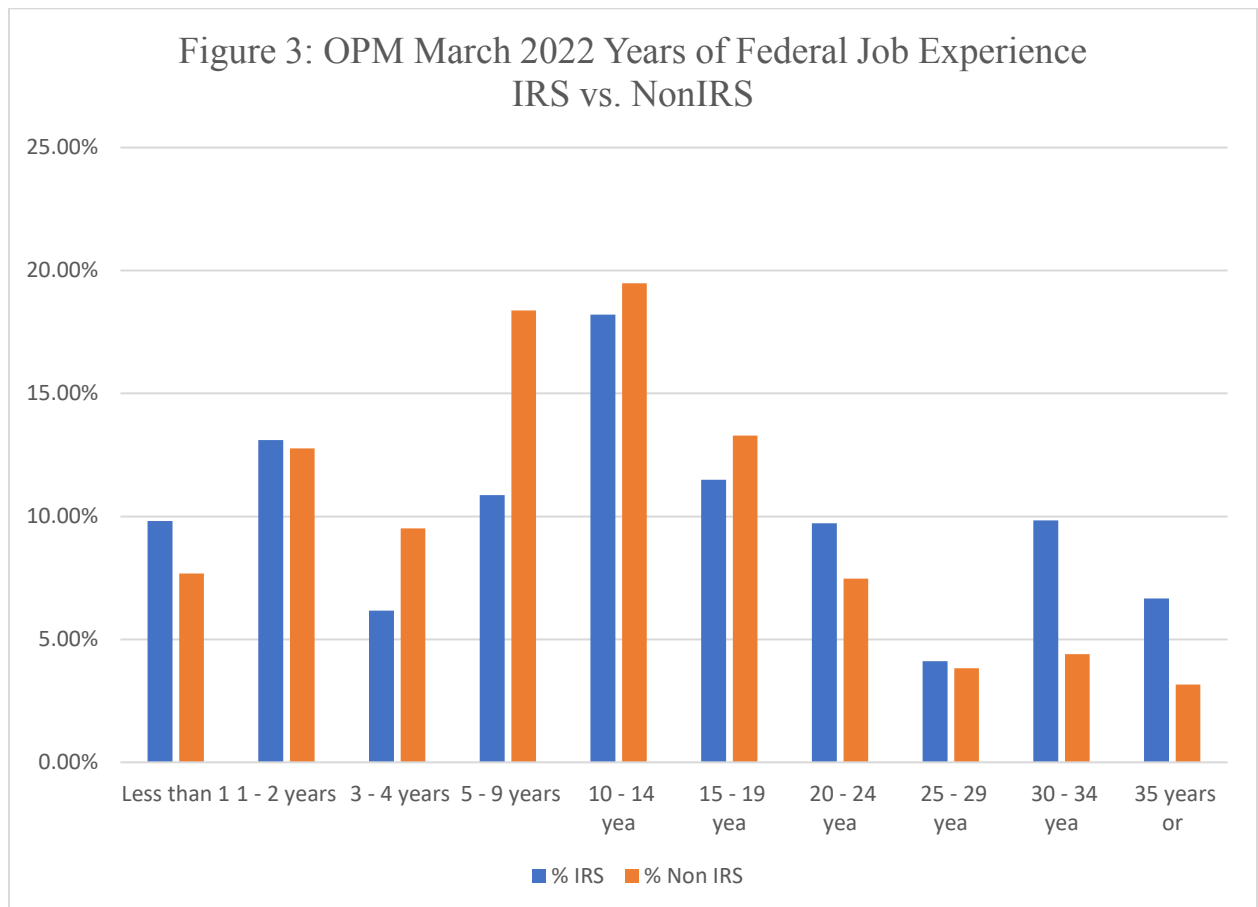
Source: authors' tabulations of OPM Data Cubes database for March, 2022

--Second, note that the IRS work force depends far more heavily on high school graduates to accomplish its mission:



Source: authors' tabulations of OPM Data Cubes database for March, 2022

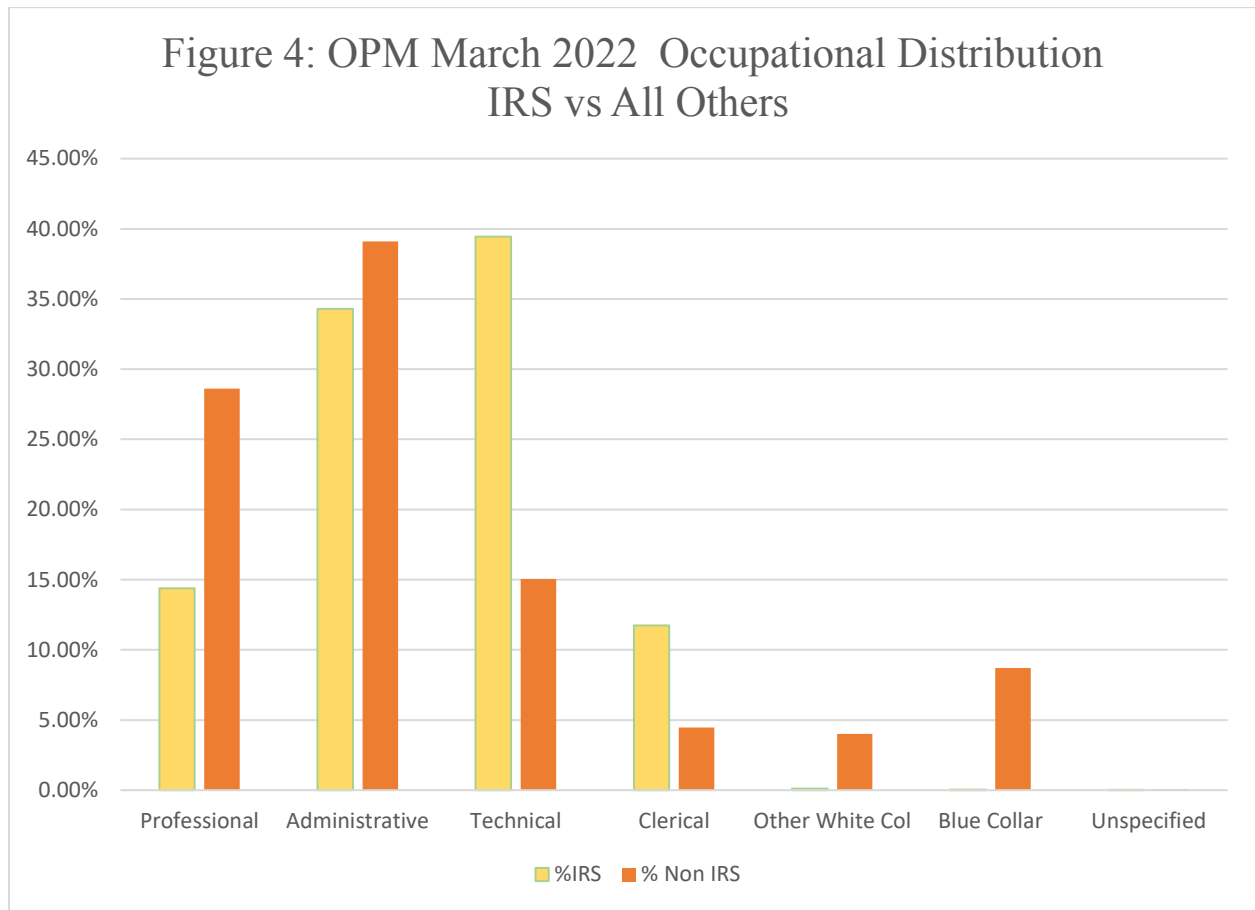
--Third, while IRS has been doing some recruiting [look at less than 1 year of job experience], IRS employees have twice the share of 30 years and above experience when compared to their non-IRS counterparts.



Source: authors' tabulations of OPM Data Cubes database for March, 2022

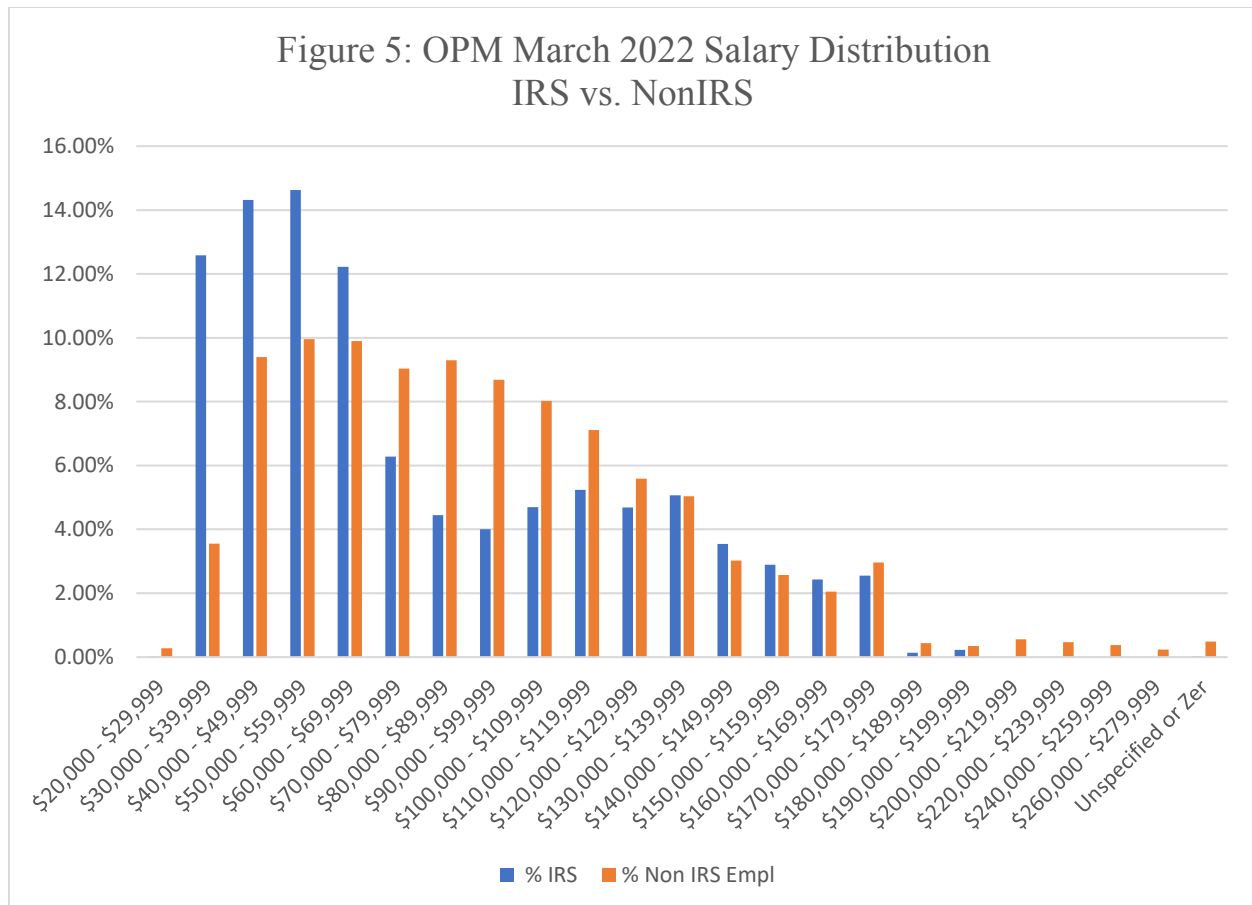


--Fourth, IRS employees are concentrated in technical occupations far more than their non-IRS counterparts



Source: authors' tabulations of OPM Data Cubes database for March, 2022

--Fifth, IRS employees are concentrated in much lower paying salary ranges than their non-IRS counterparts



Source: authors' tabulations of OPM Data Cubes database for March, 2022

Sixth: 3 Retirement simulations to characterize the IRS personnel/hiring problem by detailed OPM occupation:

Case 1: everybody 65 and older retires--- 5,216 leave IRS

Case 2: everybody 60 and older retires---13,591 leave IRS

Case 3: everybody 55 and older retires---25,683leave IRS

Table 11: IRS Hiring Simulations due to Retirements Give Age Distributions as of March, 2022

OPM Detailed Occupation	CASE 1: 65+	CASE 2: 60+	CASE 3: 55+	Case 1: 65+ %	CASE 2: 60+ %	CASE 3: 55+ %	Totals, March 2022
0962-CONTACT REPRESENTATIVE	998	2,619	4,728	5.2%	13.6%	24.5%	19,291
0592-TAX EXAMINING	1,091	2,521	4,349	9.3%	21.4%	37.0%	11,766
0512-INTERNAL REVENUE AGENT	668	1,787	3,444	7.5%	20.1%	38.8%	8,880
2210-INFORMATION TECHNOLOGY MANAGEMENT	491	1,458	2,909	7.9%	23.5%	46.9%	6,201
0303-MISCELLANEOUS CLERK AND ASSISTANT	673	1,304	1,918	12.9%	25.0%	36.7%	5,224
0501-FINANCIAL ADMINISTRATION AND PROGRAM	263	855	1,849	6.2%	20.0%	43.4%	4,265
0343-MANAGEMENT AND PROGRAM ANALYSIS	223	684	1,661	5.6%	17.3%	42.0%	3,953
1169-INTERNAL REVENUE OFFICER	129	448	986	4.2%	14.7%	32.2%	3,058
1811-CRIMINAL INVESTIGATION	-	-	66	0.0%	0.0%	3.3%	2,030
0503-FINANCIAL CLERICAL AND ASSISTANCE	176	432	763	9.6%	23.5%	41.5%	1,840
0905-GENERAL ATTORNEY	122	296	472	7.2%	17.5%	27.9%	1,690
0201-HUMAN RESOURCES MANAGEMENT	58	199	432	4.5%	15.6%	33.8%	1,279
0340-PROGRAM MAN AGEMENT	56	237	593	5.1%	21.5%	53.9%	1,100
0526-TAX SPECIAL IST	66	208	389	6.6%	20.8%	38.8%	1,002
0301-MISCELLANEOUS ADMINSTRATION AND PROGRAM	45	152	352	4.6%	15.7%	36.3%	971
0930-HEARINGS AND APPEALS	68	194	410	7.1%	20.3%	42.8%	958
0344-MANAGEMENT AND PROGRAM CLERICAL ASSISTANCE	89	197	362	11.0%	24.3%	44.6%	811
Replacement Totals	5,216	13,591	25,683	7.0%	18.3%	34.6%	74,319

Source: authors' manipulation of March, 2022 OPM Data Cubes data for IRS;

Note: According to OPM, total IRS employment in March, 2022 was 81,836.

## **7.0 Some Ideas for FTA to Consider**

--Establish web based, open source forum for state and local tax administration news and research reports; consider including international participation

--Encourage international participation of provincial/regional tax agencies in various FTA forums

--Nourish systematically relationships with federal statistical agencies to improve state by state tax administration:

---increase sample size for consumer expenditure data: BLS/Federal Reserve Board

---reinstitute periodic sales-ratio studies of real property: Census Bureau/Govts Division  
(and/or have US Department of Education do it with Core/Logic Data base)

---encourage IRS/SOI to expand substantially sample size of public use files to improve state by state revenue estimating capability;

---encourage IRS/SOI to expand the number and types of business tax return tables that will improve state by state revenue estimating capability.