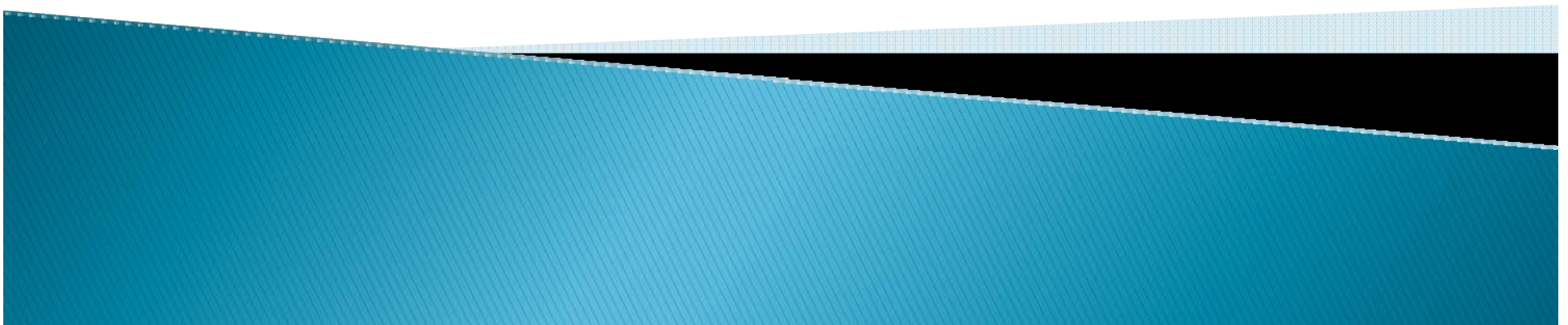


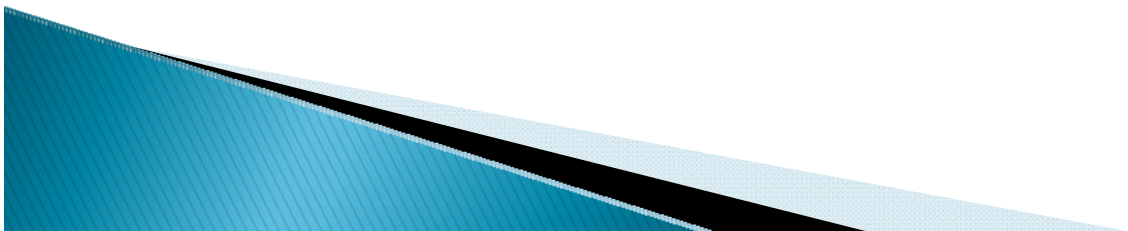
Trends in State Tax Policy

2009 Annual Conference on State Taxation
Business Council of New York State
May 14, 2009



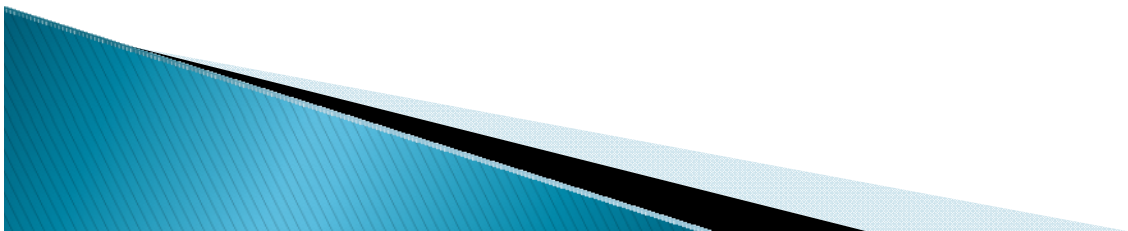
Overview

- ▶ State Budgets & Revenue
- ▶ State Tax Policy Trends
- ▶ Federal Legislation Affecting State Taxes

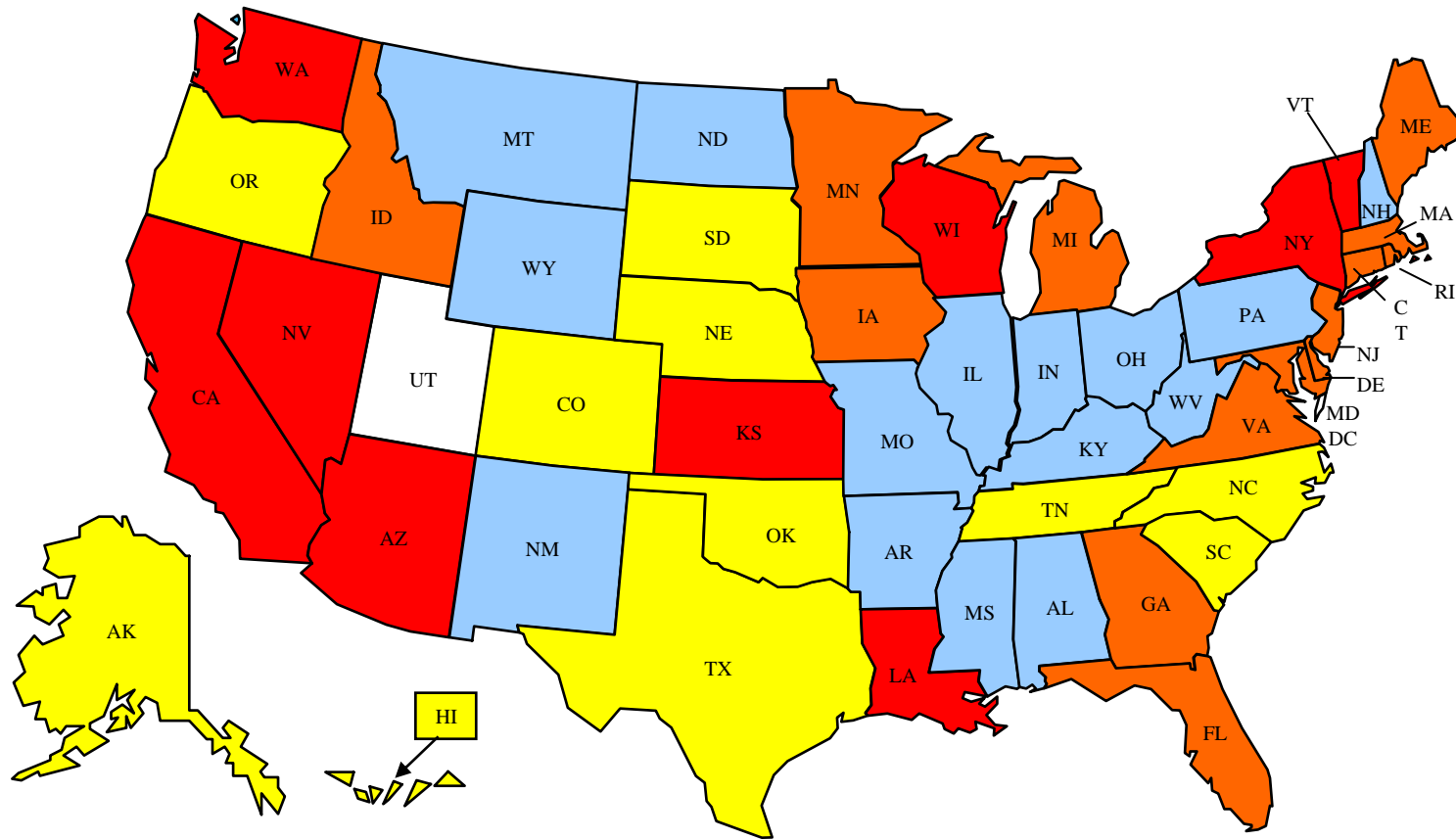


State Budgets

- ▶ Gaps
 - NGA: \$200 billion through FY10
 - CBPP: \$350 billion through 2011
- ▶ Stimulus: \$200+ billion through FY12
 - Reduces pressure for cuts
 - Pushes budget problem to the future
- ▶ Solution: Mix of Cuts & Tax Increases
- ▶ 2 / 3 of GF Spending: Medicaid, Education



Projected Budget Gaps: FY10

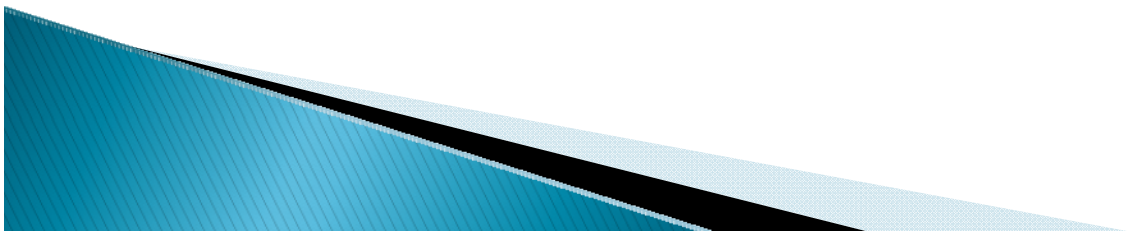


- Key:**
- More than 15% of the state's general fund
 - 10% to 15% of the state's general fund
 - Less than 10% of the state's general fund
 - Not applicable

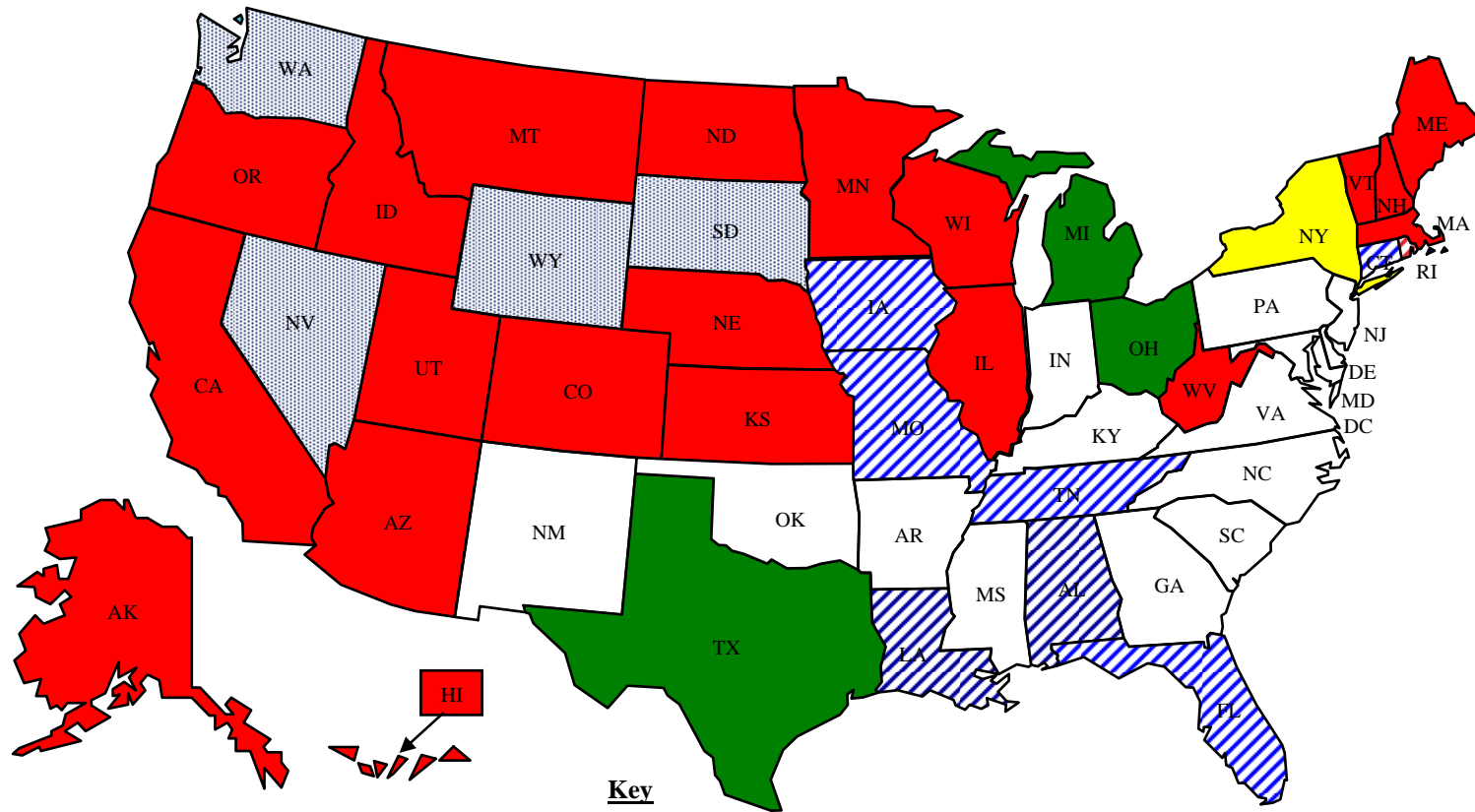
Source: National Conference of State Legislatures
 "Update On State Budget Gaps: FY 2009
 & FY 2010," Jan. 30 2009

Revenue “Enhancements”






- ▶ Use Reserves: “Gone” by end of FY09 (NASBO)
- ▶ Generate One-Time Revenues
 - More amnesties (OK, CT, PA)
 - Lease assets such as toll roads, lotteries, etc.
- ▶ Authorize More Gaming
- ▶ Excise taxes – Tobacco, Alcohol, Snacks, etc.
- ▶ Broad-Based Tax Increases in States with Very Large Gaps



Combined Reporting: April 2009

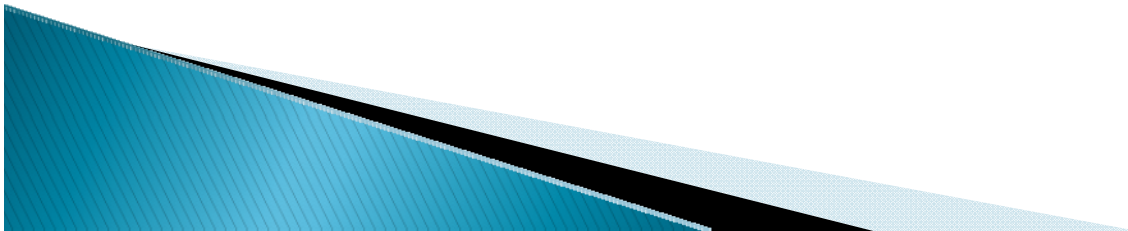


Key

-  No corporate income tax
-  Mandatory unitary combined reporting
-  Combined reporting – not on a unitary basis – “substantial intercorporate transactions”
-  Provide for combined filing, but taxes are in the form of gross receipts or other hybrid taxes
-  Pending combined reporting legislation in 2009

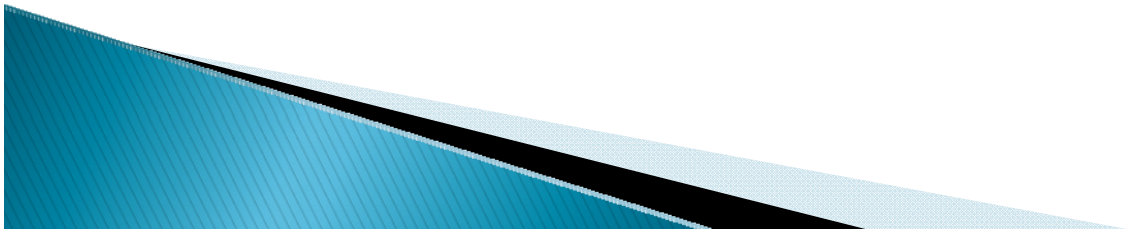
Business Tax “Reform”

- ▶ Alternative Base Taxes (e.g., MI, OH, TX)
- ▶ Motivation for “Reform”
- ▶ Concerns
 - Gross receipts base is broad, but isn’t rational
 - Pyramiding of tax on business inputs
 - Lack of transparency
 - Low rates & broad bases don’t always remain so
- ▶ Outlook



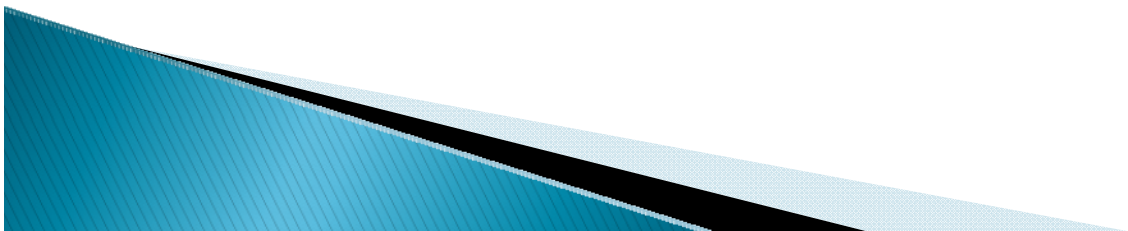
Sales and Use Tax

- ▶ Nexus
 - Affiliate
 - “Internet”: proposed in CA, CT, HI, IL, MN, NC
- ▶ Base Expansion
 - Personal Services – CA, NY
 - “All services” – CA, CT, FL, GA, MD, WA
- ▶ Digital Goods: CA, MA, NY, NC, WA
- ▶ Vendor Compensation



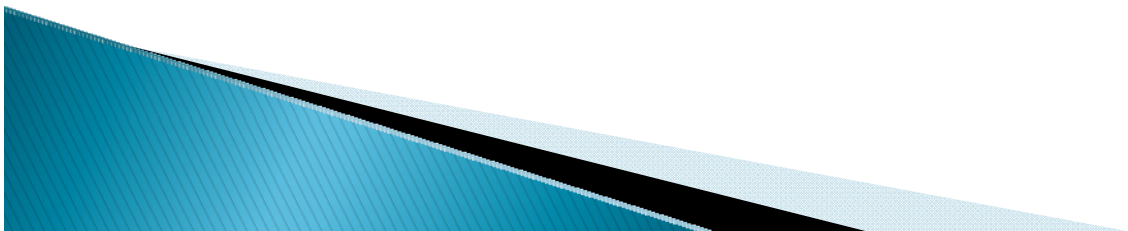
Other Issues

- ▶ Amnesties (AL, AZ, LA, MD, NJ, NM, VT, VA)
- ▶ Tax Commissions (AR, CA, MD, MN, RI, SC)
- ▶ Property Tax
 - Split roll (CA)
 - Mill rate increases (everywhere)



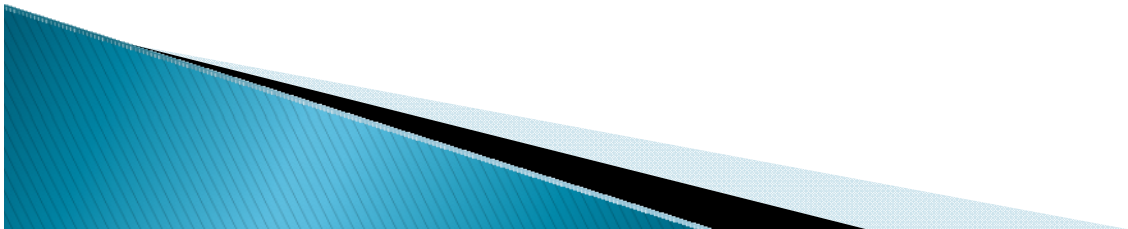
Federal Legislation

- ▶ Mobile Workforce State Income Tax Fairness and Simplification Act (nonresident PIT liability & withholding)
- ▶ Main Street Fairness Act (Streamlined Sales Tax / collection authority)
- ▶ Business Activity Tax Simplification Act (nexus)



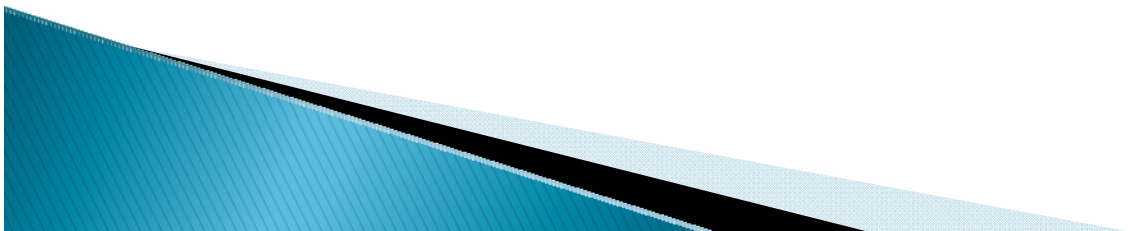
Mobile Workforce

- ▶ Problems Facing Taxpayers
 - Inconsistent standards for filing / withholding
 - Impracticality of complying
- ▶ H.R. 2110 – Rep. Hank Johnson Bill
 - Covers employees
 - Liability and withholding
 - 30 day de minimis threshold
 - All days taxable once threshold reached



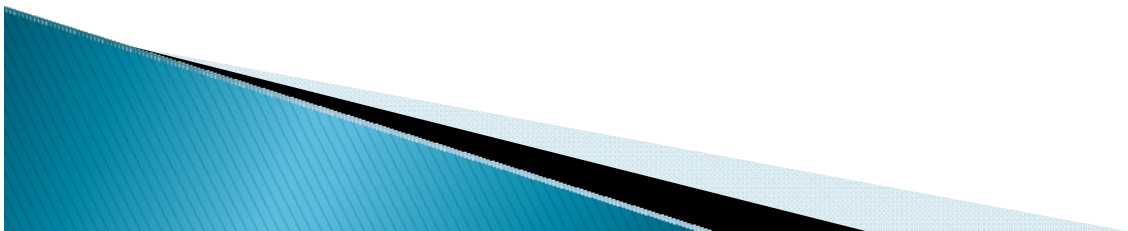
Streamlined Sales Tax

- ▶ Require remote sellers to collect if:
 - SST Agreement is operational
 - Member of the Agreement
 - If Agreement meets standards in legislation
 - If seller is above “Small Business Exception”
- ▶ Issues
 - SST Board to set “Small Seller Exception”
 - Vendor Compensation
 - Telecom/Cable simplification



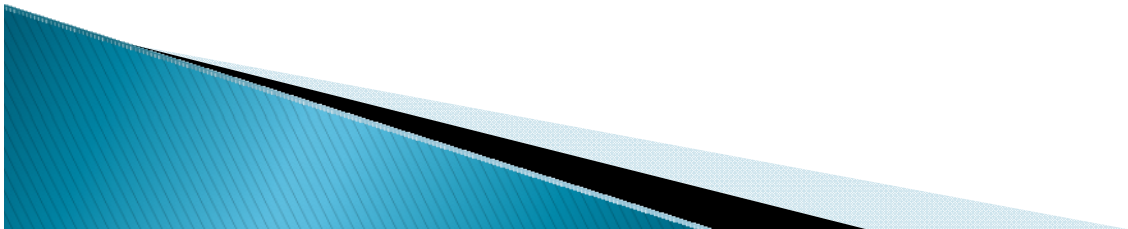
Business Activity Tax Nexus

- ▶ Physical Presence Standard
 - 15 days of person or property
 - “Limited or transient” activity
- ▶ Modernize P.L. 86–272
 - All business activity taxes
 - Solicitation of services, intangibles; furnishing information, covering events; purchasing items; independent/dependent contractor exclusion



Conclusion

- ▶ Budgets in Worst Shape Since Early 1980s
- ▶ Stimulus Helps, but “Normal” Long Way Off
- ▶ “One-Time” Measures Exhausted Soon
- ▶ Cuts & Marginal Tax Hikes May Not Be Enough
- ▶ Broad-Based Reforms: Tough in a Crisis
 - However, commissions are likely to increase; and
 - Crazy ideas can be enacted
- ▶ Movement on Federal Issues Possible



Questions?

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