STATE TAX COMMISSIONS AND TAX REFORM PROPOSALS

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STATE TAX COMMISSIONS AND TAX REFORM PROPOSALS

A Review of Comprehensive State Tax Reforms

Rahul Pathak, Carolyn Bourdeaux, Sally Wallace, Sarah Larson

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October 3, 2015
BACKGROUND OF THE STUDY

- The objective is to identify the key trends and themes in tax reform debates and give policymakers an overview of proposals and potential lessons from other states.

- Bourdeaux (2011) reviewed the comprehensive tax reform proposals of 2000s from nineteen states.

- In this study, we review the tax reform efforts since 2010 in eleven states and Washington D.C.

- We focus only on comprehensive tax reform proposals.
## REFORM EFFORTS

<table>
<thead>
<tr>
<th>State</th>
<th>Tax Reform Effort</th>
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</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>Transaction Privilege Tax Simplification Taskforce (2012); Taskforce for Income Tax Reform (2013)</td>
</tr>
<tr>
<td>Georgia</td>
<td>The Special Council on Tax Reform and Fairness for Georgians (2011)</td>
</tr>
<tr>
<td>Indiana</td>
<td>Tax Competitiveness and Simplification Conference (2014)</td>
</tr>
<tr>
<td>Kansas</td>
<td>House Bill 2117 (2012); House Bill 2059 (2013)</td>
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<tr>
<td>Kentucky</td>
<td>Blue Ribbon Commission on Tax Reform (2012)</td>
</tr>
<tr>
<td>New York</td>
<td>New York State Tax Reform and Fairness Commission (2013)</td>
</tr>
<tr>
<td>North Carolina</td>
<td>House Bill 998 (2013)</td>
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<tr>
<td>Oklahoma</td>
<td>Taskforce on Comprehensive Tax Reform (2011)</td>
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<tr>
<td>South Carolina</td>
<td>South Carolina Taxation Realignment Commission (2010)</td>
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</tbody>
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STUDY OVERVIEW

Case-Studies:

- Proposal Summaries
- Legislative Outcomes

Common themes:

- Income taxes
- Consumption taxes
- Corporate and business related taxes
- Other taxes

Key takeaways:

- Reform proposals
- Reform process
- Implementation
## ORIGIN OF THE REFORM EFFORTS

<table>
<thead>
<tr>
<th>Political Efforts</th>
<th>Legislative Exercise</th>
<th>Periodic Reviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indiana (Governor)</td>
<td>North Carolina</td>
<td>Hawaii</td>
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<tr>
<td>New York (Governor)</td>
<td>Kansas</td>
<td>Kentucky</td>
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<tr>
<td>Massachusetts (Legislature)</td>
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<tr>
<td>South Carolina (Legislature)</td>
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<td>Oklahoma (Governor, Legislature)</td>
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<td>Georgia (Legislature)</td>
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<td>Washington D.C. (Council)</td>
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</tbody>
</table>
COMMON THEMES: INCOME TAX

Income → Consumption

- Reduction in the number of tax brackets, and tax rates.
- Reducing the reliance on income tax (or eliminating it).
  - North Carolina adopted flat tax rate.
  - Kansas collapsed the three rate brackets into two.
  - Georgia, Oklahoma, D.C. proposed reduction in the top tax rate.

Forbes / State & Urban

North Carolina Lawmakers Build Upon Historic Tax Reform

Ready to Ditch the Income Tax

More states are looking at eliminating their income tax entirely.
COMMON THEMES: INCOME TAX

Elimination of different exemptions and tax credits.

- Georgia council recommended elimination of all itemized deductions, standard deductions and personal exemptions.

- The legislation in Kansas repealed several credits (for example: childcare expense tax credits).

- NC repealed several deductions (for example: retirement income, severance wages, 529-plan contributions).

Thousands of Kan. families lose child day care tax credit

BY: Alicia Myers
POSTED: 5:23 PM, Jan 1, 2013
UPDATED: 5:08 PM, Jan 2, 2013

Impact of NC income tax overhaul hits taxpayers

HIGHLIGHTS
The most sweeping overhaul of North Carolina tax law in a generation went into effect in January 2014.
COMMON THEMES: INCOME TAX

Fairness vs. Efficiency

- Reform in NC and KS was largely undertaken with efficiency considerations.

- Tax Fairness was one of the important mandates of the commissions in MA, NY and DC.

- Massachusetts recommended establishing a graduate income tax.

- Modification in Earned Income Tax Credit in MA, DC, KY.
COMMON THEMES: CONSUMPTION TAXES

Increasing importance of consumption taxes

- KY, NY, SC, D.C. proposed broadening the sales and use tax base. AZ and NC introduced legislations.

- Including new goods and services. Growing importance of e-commerce and online sales.

- Georgia and South Carolina recommended eliminating various exemptions (for example: Groceries)

NC sales tax holiday gone, but SC has one this weekend

By Emily Lin - lin@charlotteobserver.com

For the first time in 12 years, back-to-school shoppers in North Carolina won’t get a sales tax holiday. But South Carolina holds its sales tax holiday this weekend.

The tax-free event, traditionally the first weekend in August, was discontinued as part of a
CORPORATE AND BUSINESS TAXES

A general focus on decreasing reliance on corporate income taxes.

- MA, GA, OK, NC discussed or enacted a reduction in CIT.

Simplification, more transparency and better regulatory environment.

- NY, IN, NC have taken several steps towards simplification.
- Combined reporting requirements for preventing tax avoidance (SC, OK).
- Avoid compounding.

Increasing demand for rigorous evaluation of tax incentives and credits.

- Job credits, R&D, Investment credits, Films.
- SC, HI, NY, GA, OK.
COMMON THEMES: OTHER

Improving the administration of property taxes focusing on:

- Simplification of assessments.
- Better intergovernmental coordination.
- Online transactions

Rate reduction subject to revenue triggers.

- Examples: NC & KS enacted rate reduction subject to revenue triggers.

Improving and simplifying tax administration.

- Technological upgrades
- Better forecasts
- Standardizing administrative procedures
- Improving audit and enforcement.
KEY TAKEAWAYS: REFORM PROPOSALS

A General Shift:

- From income and business taxes to consumption based taxes
- Rate Cuts; Eliminating of exemption, deductions, credits

Efficiency vs. Equity Debate:

- Lower the tax rate, broaden the base
- Enhancing vertical equity

Institutional Changes and Simplification:

- More transparency and better regulation
- Simplifying the tax administration
KEY TAKEAWAYS: REFORM PROCESS

- The Great Recession was not the key theme in these review exercises.
- The tax reform commissions largely comprised of public finance professionals.
- The reform proposals have similar policy themes that reflect the general consensus of the public finance community.
  - Creating a balanced state tax system
  - Employing a small tax rate over a broad base
  - Considering vertical equity
  - Promoting economic competitiveness
  - Simplifying tax administration
KEY TAKEAWAYS: IMPLEMENTATION

- The tax reform efforts were successfully implemented only in some states.
- The proposals of institutionalized review commissions are often implemented.
- Reform efforts aimed at reducing the taxes seem to be more successful (KS, NC, DC).
- Perhaps, in the long run…
THANK YOU

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