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A Review of State Tax Reform Efforts

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ANDREW YOUNG SCHOOL
OF POLICY STUDIES

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I. Introduction

This report examines a number of state tax reform efforts over the past decade. Although almost every state in the country has seen numerous proposals for tax reform, this report focuses on the work of 19 tax commissions, special committees or task forces that have been convened to comprehensively review a state's tax code and recommend changes.[1] This report also includes Maine's recent tax reform, which emerged from years of legislative battles over the state's tax system (bringing the total to 20).

It is worth noting that in response to the recent economic downturn states have made a number of selected tax code changes to raise revenues. A few have also recently cut taxes. For a summary of these more selective tax changes made in the past two years please see Henchman (2009) and Henchman & Stephenson (2010). To the extent that these changes were part of a systemic reform, as happened in Maine and Ohio, they are reviewed below.

The following analysis provides an overview of the reforms and reviews key themes. The Appendix includes more detailed synopses of the different reforms based on the documents produced by the commission, committee, or task force. The arguments for and against the recommendations are not included in this report; however, where relevant the rationale for a recommendation is noted. The status of the adoption of the recommendations is discussed when such information was readily available.

[1] Due to time constraints, only those states that had materials readily available on-line or through academic resources were reviewed for this analysis. This allowed a fairly complete review; however, states such as Colorado, Mississippi, early Rhode Island and Maine efforts at reform were not reviewed because the materials were not easily available. Also, although state and local finances are closely intertwined, this report focuses on *state* aspects of tax reform and therefore more on income, sales, and business tax reform proposals. Reform proposals that focused on changes in school finance are not included the analysis.

A SUMMARY OF THE PROPOSED REFORMS

Arizona (2003)	The Citizens Finance Review Committee's major tax recommendations included elimination of income tax credits, expansion of the "transaction privilege tax" (similar to a sales tax) to selected personal services and more extensive review of exemptions as well as lowering the tax rate, elimination of most corporate income tax credits, and a significant reform of local property tax practices that created disparities between residential and commercial property.
California (2009)	The major tax recommendation of the Commission on the 21st Century Economy was to move the state away from reliance on sales and personal income taxes and to transition towards a value added tax, referred to as the Business Net Receipts Tax. The proposal ultimately envisioned a 29 percent reduction in most taxpayers' income tax payments and elimination of the state portion of the sales and use tax.
Florida (2002)	The State Tax Reform Task Force concluded that the state's tax system was adequate for supporting the needs of the state as well as sufficiently stable. Their greater concern was that Florida's governmental spending had grown faster than the economy. Recommendations included a number of fiscal reforms, such as tax expenditure limitations and ways to improve tax compliance.
Florida (2008)	This study was conducted by the Tax and Budget Reform Commission which is convened every 10 years to assess state and local taxes and other fiscal practices. Major tax proposals included reducing the school property tax by half and replacing it with a state revenue source. Options included repeal of sales tax exemptions, increasing the sales tax rate, or cutting the budget. The Commission recommended limitations on legislation creating new sales tax exemptions and further review of existing exemptions. Also, the Commission proposed a local option sales tax to support community colleges as well as a series of smaller reforms to property tax assessment practices, such as exemptions for land conservation and exemptions for improvements associated with renewable energy.
Hawaii (2001-2003)	The state Tax Review Commission convenes every 5 years to study the state tax system. Major tax changes proposed included phasing in a higher standard deduction, higher personal exemptions, wider marginal tax brackets for the income tax and indexing tax brackets to inflation; also limiting the "general excise tax (GET)" (similar to a very broad sales tax) credits and deductions against other taxes and including non-profit organizations as entities that should pay the GET. Finally, they proposed a system of more thorough review of various business tax incentives, particularly credits against the corporate income tax.

Summary continues next page…

A SUMMARY OF THE PROPOSED REFORMS (CONTINUED)

Hawaii (2005-2007)	The state Tax Review Commission convenes every 5 years to study the state tax system. Major recommendations included investigating the elimination of the income tax, but if not, then following the 2002 recommendations, eliminating the GET exemption for non-profit entities and avoiding exemptions in the GET, such as exemptions for food and health care purchases (equity should be addressed through the income tax). Also, the Commission recommended avoiding using corporate income tax credits as an economic development tool and an overall careful review of the credits.
Maine (2009-2010)	Maine's reform emerged from over a decade of efforts to adjust their tax code and emerged primarily from executive and legislative work rather than a reform Commission. In 2009 the state passed legislation to flatten and lower the income tax rate and expand the sales tax base to selected services. An initiative to repeal this legislation passed in June of 2010.
Minnesota (2009)	Major recommendations of the 21st Century Tax Reform Commission included limitation of the state's corporate income tax while expanding the sales tax to services and increasing the excise tax on cigarettes.
New Mexico (2003)	New Mexico's Blue Ribbon Tax Reform Commission recommended lowering the top corporate income tax rate from 7.6 to 6.4 percent, as well as expanding the low income tax credit, increasing the personal exemption and capping the capital gains income tax deduction. Also, the Commission recommended increasing the gas tax and increasing health care tax deductions from the sales tax. (Only the final interim report.)
New York (Ongoing)	The New York State Senate established a Select Committee on Budget and Tax Reform. Current recommendations to date include indexing the income tax brackets to inflation and creating an income tax circuit breaker credit based on household income and need. Also, the Committee has proposed to broaden the sales tax base to align with New York City which taxes more services and has recommended the elimination of property tax exemptions. The Committee is examining ways to provide tax incentives to businesses to spur job growth.
North Carolina (2003)	The Commission to Modernize State Finances recommended that the state make its income tax more progressive by linking it to the federal tax code and adopting strategies such as an earned income tax credit. The state should also eliminate sales tax exemptions, expand the sales tax base to cover more services and eliminate sales tax caps on selected items. In the corporate tax, the state should eliminate most tax credits, expand the franchise tax to cover all types of business organizations, not just typical corporations, and make a series of other changes to align the tax with federal provisions, such as federal definitions of income. The state should also increase the cigarette tax and examine options around "green taxes and fees."

Summary continues next page…

A SUMMARY OF THE PROPOSED REFORMS (CONTINUED)

North Dakota (2001)	The Tax Study Committee was asked to keep its proposal revenue neutral but to examine modernizing the tax system. The Committee recommendations were fairly general but suggested shifting to use the federal AGI or taxable income as the basis for the income tax and limiting credits and deductions; broadening the sales tax base to capture all economic activities and considering ways to capture remote sales; eliminating the federal tax deduction in the corporate income tax; and reducing the school property tax burden on commercial and agricultural property.
Ohio (2003-2005)	The General Assembly created a Committee to Study State and Local Taxes, the majority of which were members of the General Assembly. A substantial portion of this Committee's recommendations were adopted. Their overall recommendation was to lower the income tax and corporate franchise tax rate and/or eliminate the tangible personal property tax. This revenue would be replaced by broadening the sales tax base to include services and eliminating exemptions. In 2005, the General Assembly passed legislation that cut the state income tax, reduced the sales tax rate, increased the cigarette excise tax, phased out the tangible personal property tax, phased out the corporate franchise tax, eliminated a property tax rollback on commercial and industrial properties, and created a Commercial Activity Tax, a form of gross receipts tax, which was designed to replace the revenue from the cuts in the other taxes.
Oklahoma (2001)	A group of academics were asked to examine the tax code with the following goals: 1) eliminate the income tax; 2) eliminate the sales tax on groceries; 3) eliminate the tax on capital gains; 4) alter the estate tax to make Oklahoma a "pick up" state; and 5) implement tax changes in such a way the state would have sufficient funding for existing programs and services. The group examined various ways to cover the loss of revenues from the income tax and sales tax on groceries through increasing the sales tax and broadening the sales tax base; increasing property taxes; or imposing a gross receipts tax. Ultimately, they recommended against eliminating the income tax since the revenue loss would be difficult to replace without raising the other taxes significantly.
Oregon (2009)	Oregon's Task Force on Comprehensive Revenue Restructuring focused more on process than actual restructuring of the tax code. They were concerned with diversifying local revenues away from the property tax, restructuring property tax growth limitations and increasing state and local revenue sharing. They proposed a series of state tax options rather than recommendations. These included: eliminating or reducing the personal income tax, eliminating or reducing the property tax, and establishing a retail sales tax or broad gross receipts tax. Another option included eliminating the corporate income tax and replacing it with a corporate franchise tax, VAT, or gross receipts tax.

Summary continues next page…

A SUMMARY OF THE PROPOSED REFORMS (CONTINUED)

South Carolina (Ongoing)	South Carolina's Tax Realignment Commission (TRAC) has only issued one set of formal recommendations to date and these relate to the sales tax, although subcommittees have reported out recommendations. TRAC has recommended that the state broaden the sales tax base and lower the rate from six to five percent. Specifically, the Commission has recommended that the state remove exemptions (except for those that are business inputs), expand the base to cover selected services, expand the base to cover prescription drugs, groceries, and water, electricity and natural gas, but tax these at a lower rate and broaden the base to cover "intangibles" such as software downloads and data processing services.
Tennessee (2004)	The Tax Structure Study Commission made a series of recommendations including adding a state income tax with a rate ranging from 3.5 percent to six percent and lowering the sales tax rate from seven percent to six percent as well as lowering the sales tax on groceries from six percent to four percent. Because Tennessee already taxes more services than most states, the Commission did not recommend broadening the base further. Also, the recommendations included reducing the business franchise tax by eliminating the property tax basis for the tax and reducing the rate.
Utah (2007)	The tax commission made a number of recommendations which were substantially modified by the legislature. Portions passed in 2007. The original commission proposal was to adopt a flat tax with no exemptions, credits or deductions. Eventually a version of this reform passed with some limited credits and deductions to assist lower income and middle income taxpayers and retirees. The commission recommended expanding the sales tax base to cover services, but creating an exemption for almost all capitalized business inputs. The Governor and legislature did not adopt this reform but instead lowered the sales tax rate on food. The original proposal also included eliminating the state corporate income tax, which was not adopted.
Washington (2002)	The Washington State Tax Structure Study Committee produced a variety of options rather than a set of recommendations. A majority of the committee recommended the adoption of a flat personal income tax which could be used to reduce the state sales tax and eliminate the state portion of the property tax. The Committee also proposed a value added tax or, as a second best option, a goods and services tax, which would replace the state's Business and Occupation (B&O) Tax and (depending on its structure) the retail sales tax. If no major changes were made, the Committee recommended extending the sales tax to selected consumer services. Finally, the Committee recommended that the legislature regularly review all tax exemptions. In 2010, the state considered a flat five percent income tax on annual income exceeding $200,000 per year (for individuals), with a nine percent rate for income exceeding $500,000 per year (for individuals). This initiative failed at the ballot box.

Summary continues next page…

A SUMMARY OF THE PROPOSED REFORMS (CONTINUED)

Wyoming (2000)	The Tax Reform 2000 Committee proposed adoption of a state individual income tax, but allowing a credit for sales and use and property taxes paid during the same tax year. The Committee also recommended broadening the sales tax base to include more services, reviewing all exemptions, and keeping a one cent tax set to expire in 2002 in place. Finally, the committee recommended creating a state corporate income tax but again allowing a credit for any sales, use and property taxes paid during the same year, creating a real estate transfer tax, and limiting the property tax.

II. Common Themes in Tax Reform Proposals

Although tax reform proposal are heavily shaped by the tax structure of a particular state, there are some similar themes. This commonality likely reflects a certain consensus in the public finance community about key problems with the current state tax structures as well as the central elements of a sound tax structure.

Key themes are as follows:

An Efficient Tax Employs a Small Rate Over a Broad Base: Most tax reform proposals are grounded in the idea that the most efficient tax is one that is small but is imposed over a broad tax base. This type of tax structure is also less responsive to changes in the economy and therefore more stable over time.

- 12 of the 19 tax commissions recommend elimination of special exemptions, credits, or deductions in the income, sales, and corporate income or franchise tax in order to broaden the base.[2]

- 10 of the state tax reform proposals recommend some sort of expansion to selected consumer services, encompassing almost all the states with a "goods and products" based retail sales tax.[3] Two other states, California and Washington recommend abandonment of the retail sales tax altogether for a broad based value added tax or gross receipts tax, in part because it would capture sales on services. The Florida reforms do not address this issue, likely because the Governor and General Assembly attempted to expand their sales tax to services in 1987, but the proposal was rebuffed by the voters.[4] Most of the remaining states, New Mexico, Tennessee, and Hawaii, already tax a wide variety of services.

- At least 6 of the tax reforms recommend some sort of flat income tax or flattening of the income tax.[5] In the case of Washington and Wyoming, states without income taxes, the Commissions proposed instituting a new flat income tax. Ohio recommended lowering the top rates noting

[2] Eliminating exemptions is discussed in the following state reforms: AZ, FL (2008), HI (2003), HI (2007), NY, NC, ND, OH, SC, UT, WA, WY. Oklahoma also discusses broadening the base as a necessary part of a scenario to raise sufficient revenues to replace the income tax and the sales tax on food but since this is not a direct recommendation, it is not included here. Minnesota notes that elimination of corporate tax credits would be better tax policy, but is concerned about interstate competition.

[3] State tax reform commissions that discuss broadening the base to sales taxes are: AZ, ME, MN, NY, NC, ND, OH, SC, UT, WY. Oregon does not have a retail sales tax; however, the proposal to adopt a gross receipts tax or VAT would likely encompass services. Oklahoma again discusses the broadening of the base as part of one of its scenarios.

[4] The Florida tax reform effort was repealed after six months. Massachusetts also tried to expand the sales tax to business services in 1990, but this was repealed almost immediately. Both states attempted to tax business services(Citizens Finance Review Commission, 2003a).

[5] Tax reforms that propose a flatter income tax include: CA, ME, OH, UT, WA, WY.

concerns about attracting high wage workers and has adopted legislation to broadly lower and flatten the income tax rate. Maine proposed a 6.5 percent flat rate on incomes up to $250,000 and a 0.35 percent surtax on incomes over this amount.

Although not included in the count, this trend is also evident in Rhode Island's much publicized efforts to reform their income tax. For the past several years, Rhode Island has been phasing in an optional flat rate of 5.5 percent without any credits or deductions.

Interestingly, this trend is contradicted by at least 8 states raising top rates or creating top income tax brackets in response to the recent recession. However, many of these changes sunset after a few years (Henchman, 2009; Henchman & Stephenson, 2010).

Tax Systems Should Consider Vertical Equity: Most tax reform proposals grapple with the problem that tax efficiency and stability criteria conflict with concerns about "vertical equity" or fairness in the tax system. Most reforms make recommendations to enhance vertical equity in their tax system.

- Many state tax reforms recommend broadening the sales tax base but excluding food, medical services, and other "necessities" or taxing them at a lower rate. Although not relevant to all states or all state reforms, Utah, Florida, Ohio, South Carolina, Tennessee, Oklahoma and Washington all directly consider the impact of broadening the base to cover food and depending on their starting point, recommend lower rates for the sales tax on groceries and other health services (TN), reject removing the exemption for food (FL, OH), or call for an exemption (OK, WA, UT). South Carolina proposes to reinstate the sales tax on food but at a lower rate than the regular sales tax.

  By way of contrast, Hawaii and New Mexico explicitly reject removing the sales tax from food. Both states have comprehensive consumption taxes that were established at the outset to include all consumption including services. Both states recommend addressing issues of vertical equity through their income tax system.

- Although many state tax reforms advocate for a flat income tax, they also often recommend exempting or easing the tax burden for lower income taxpayers through increasing the standard deduction, raising the income threshold for income tax liability, or by adding a low income or earned income tax credit. Again, although not germane to all of the proposals, it is part of the reform proposal in 7 cases, including Hawaii's two proposals, Wyoming, Ohio, North Carolina, New York, and Maine.

A Balanced State Tax System Consists of Income Tax, Sales Tax, and Some Form of Business Tax: Tax reform proposals in states that do not have a sales tax or income tax generally recommend that the state add the "missing" tax or establish a more broad based tax such as a gross receipts or value added tax.

- States without an income tax include Florida, Washington, Alaska, Tennessee, Wyoming, New Hampshire, Texas, Nevada, and South Dakota. Of this list, four have tax reforms considered in this report and of these, three recommended adding an income tax.

  The tax reform proposal in Washington (2002) recommends adoption of income tax or a more broad based form of value added tax. An income tax proposal was on the ballot in 2010 but failed to pass.

  Tax reform proposals in Wyoming (2000) and Tennessee (2002) recommend adoption of an income tax although neither of these was adopted. In 1999, the Tennessee Governor also tried to institute an income tax.

- States without some form of sales tax include Alaska, Delaware, Montana, New Hampshire and Oregon. The 2009 Oregon tax reform proposal puts the addition of a sales tax front and center, or alternatively a value added or gross receipts type tax.

- The Oklahoma tax reform consists of a proposal to eliminate the income tax. However, the analysis concludes that this would be difficult because the state is very reliant on the income tax and so this change would require significant increases in other taxes to compensate. Also, the 2007 Hawaii reform proposal briefly mentions eliminating the income tax, but this appears to be in reaction to the state income tax's regressive qualities.

- Although not included in this discussion, Nevada has also recently created a tax reform commission purportedly to discuss adding a state corporate income tax or other "broad based business tax" to help shore up its financial situation (Henchman, 2010).

State Tax Structures Need to Be Modernized for the 21st Century Economy: A number of reforms note that state tax structures were largely established around the period of the Great Depression, or in the 1930s. The economy has changed substantially since then. Specifically, services make up a larger portion of consumer and business purchases rather than goods, and goods and services are far more frequently purchased across state borders because of the ease of telecommunications, the internet, and other remote sales offerings. Though less frequently mentioned,

another issue is that people and corporations hold their wealth differently and businesses are more national and international in orientation (Joint Study Commission on Revenue Structure, 1995).

- As noted earlier, 10 of the reform committees considered in this report discuss broadening their retail sales tax base to services.

- Many of the reforms recommend adopting the streamlined sales tax proposals as well as further efforts to attempt to tax internet or remote sales.

- States such as South Carolina explicitly note that their base needs to include "new economy" items such as software downloads.

State Tax Structures Need to Promote Economic Competitiveness: States are almost uniformly concerned about their ability to compete for business with other states, although there is no consensus about what part of a tax structure, if any, might be shaping business decisions.

- In discussing expanding the tax base to services and potential reforms to the existing consumption taxes, many of the studies caution that states should avoid the pyramiding effects of taxing business inputs. Although early efforts to tax services, such as those attempted by Florida in 1987 and Massachusetts, included taxes on business inputs, most of the recent tax reform proposals that address a consumption tax on services are careful to specify that services which are business inputs should not be taxed.[6]

  The Utah reform effort explicitly attempts to create a broad exemption for all business inputs. Concerns about the pyramiding effects of their existing tax structure are key reasons for California and Washington's proposals to implement a value added tax (VAT).

- States also propose various ways to streamline or reduce the burden of taxes on businesses. Ohio proposes to eliminate a series of taxes on business including its corporate income tax, tangible personal property tax, and corporate franchise tax. It replaces these taxes with a form of gross receipts tax.

- Other states have tried to eliminate or significantly reduce their corporate taxes. These include proposals in California and Utah to eliminate the

[6] This is explicitly discussed in AZ, CA, FL (2002), HI (2003), MN, OH, UT, SC, WA. It is implicit in Maine's choices of services to tax, which are items that are predominantly consumer services. It is discussed on Hawaii's 2007 report; however, in this one they conclude that although pyramiding occurs, most of their sales tax is exported and because they have a broad base, they can keep the rate low which to some degree reduces the burden on businesses.

corporate income tax, as well as ones in Arizona, Minnesota, New Mexico, North Dakota, Oregon, Utah and Washington to eliminate or significantly reduce taxes paid specifically by businesses.

III. What Makes a Comprehensive Tax Review Process Successful?

One observation about these comprehensive efforts is that very few of the changes proposed appear to have been adopted. This is also apparent from other research that reviewed tax reform efforts in the 1990s (Tax Review Commission, 2007a; Washington State Tax Structure Study Committee, 2002a, 2002b).

There are some factors that may contribute to the success of a tax reform proposal. For obvious reasons, reform efforts that reduce taxes rather than raise or shift the tax burden appear are more likely to succeed. This is evident in reviews of a series of Washington state and Hawaii tax reform efforts (Tax Review Commission, 2007a; Washington State Tax Structure Study Committee, 2002a).

When broadening the base of an income tax, a tactic that appears to work is to allow residents to choose between the current system with its exemptions and deductions and current rate or the new system with a flat rate and no (or fewer) exemptions and deductions. This strategy was successfully used in Utah and Rhode Island.

Elected officials also may be more willing to adopt systemic reform in the face of a fiscal crisis. For instance Connecticut adopted an income tax during the economic downturn of the early 1990s.

Finally, reform efforts appear to benefit if elected officials sit on the committee or task force developing the proposal or are otherwise integrally involved. Key examples of reform efforts that have had relative success in the political process include Ohio, Maine, and Utah, whose end proposals were largely crafted by elected officials. Members of the Utah Tax Reform Commission directly observed that engagement of elected officials was important in implementing the recommendations of the Commission (Walker, et al., 2008).

IV. Case Studies

The following case studies represent synopses of various reports from tax commissions and task forces across the country. The case studies are meant to give policy-makers considering tax reform a quick overview of proposals from other states. These summaries often draw directly on the source materials and are not meant to represent an original piece of research or writing. All source materials are cited at the end of each section and can be referenced for further information.

Arizona

Commission

In 2003, Gov. Janet Napolitano appointed a 21-member Citizens Finance Review Committee to review Arizona's tax structure.

Outcome

The final report included 36 recommendations encompassing changes to the tax structure as well as recommended changes to state fiscal procedures, such as beefing up the state rainy day fund and improving the capacity for tax analysis. Most of the major reforms were not adopted (Editorial Board, 2010).

Recommendations

<u>Income Tax</u>

The Commission rejected a flat tax rate for the personal income tax and proposed to:

- Eliminate all tax credits, except for the following: clean elections credit; family tax credit; increased excise taxes paid (Prop. 301 offset) credit (a credit that offsets a sales tax increase for education in Arizona); property tax credit for low-income seniors; private school tuition tax credit; extracurricular activity public school tax credit. The last two tax credits should be reviewed for effectiveness;

- Align the adjusted gross income with the federal income tax returns as much as possible, but not adopt the alternative minimum tax;

- Look for ways to improve the collection of income tax from non-residents through some mechanism of withholding non-resident income. Twenty-eight other states already apply some withholding on non-resident income. This could take the form of withholding on non-wage income, withholding on distribution income from partnerships, limited liability companies or corporations, or withholding based on non-resident real estate transactions in the state.

“Transaction Privilege Tax (TPT)” (Sales Tax)

The Commission recommended expanding the “transaction privilege tax” base and lowering the rate. Specifically to broaden the base, the state should:

- Review over 200 tax exemptions to the TPT eliminating those that neither meet generally accepted reasons for tax exemptions nor provide clear evidence of efficacy. Each transaction privilege tax exemption should include a sunset provision;[7]

- Expand the TPT to consumer or "personal" services and then lower the tax rate to make the reform revenue neutral. Recommended services to include are:

  1) Those consumed by the ultimate end user (avoids business-to-business service transactions);

  2) The type of services that consumers are not likely to try to obtain in lower tax districts to avoid taxation; and

  3) Those that have an obvious site of the transaction (examples include dry cleaning, personal grooming services, automobile tune ups).[8]

Corporate Taxes

The Commission rejected most explicit changes to the corporate net income tax. Other recommendations included:

- Eliminate all but the following corporate income tax credits: research and development; enterprise zones; defense restructuring; school site donation; technology training;

- The state should not reinstate the “throwback rule” in the corporate income tax apportionment calculation. The throwback rule requires that the corporation’s sales to customers in states where it has no nexus, and

[7] List and review here: http://www.azcfrc.az.gov/documents/Observations.pdf.
[8] List is given here: http://www.azcfrc.az.gov/documents/applying%20tpt%20to%20services.pdf.

therefore is not taxed, be included in the calculation of apportionment formula.

Property Tax

The Commission recommended some substantial changes to the way the property tax is structured, including opening up the option of a state property tax and eliminating several policies that create disparity in business versus residential property taxes. Currently, under state law homeowners do not have to pay more than one percent of the value of their home in property taxes. Also, the state property tax assessment ratio system taxes businesses at a rate that is 2.5 times that of residential property. When voters approve local sales tax bond initiatives, they can be assured that much of the burden will be borne by businesses. The Commission found that the property tax on commercial and industrial properties in Arizona was the third highest in the nation.

Reforms include:

- Apply a uniform assessment ratio (for business and residential properties) on all future voter approved property tax funded bond initiatives and eliminate the one-percent constitutional cap on the residential property tax;
- Reduce the commercial and industrial property tax assessment ratio from 25 percent to 20 percent;
- Reduce the business personal property tax (locally assessed);
- Review the Government Property Lease Excise Tax Program that allows government to purchase land and lease it to a private provider to avoid the property tax (and then collect an excise tax to cover local government costs);
- Phase out the homeowners rebate, which reduces every residential homeowner’s primary property tax bill by 35 percent (up to a dollar limit of $500); and
- Reinstate the state property tax option applied on a uniform assessment ratio. Until 1996, the state had a state level property tax.

Other Recommendations

- Shift all unit based fees and taxes to percentage based fees and taxes;

- Hire a consultant to examine the fairness and extent of miscellaneous taxes and fees imposed by the state for services;
- Use school district, county or state property taxes to finance new school construction instead of financing out of the state's general fund revenues;
- Remove the constitutional requirement that raising tax rates requires two-thirds affirmative vote, reverting to a simple majority requirement;
- Decrease revenue loss by increasing spending on revenue enforcement until cost-benefit equilibrium is reached, and by implementing a system that makes tax avoidance more difficult.
- Continue to impose the estate tax on the amount that is equal to the state tax credit provided for in the federal tax code even though that credit is scheduled to be phased out. The state should not "decouple" from the federal tax;
- Increase the revenue shortfall reserve to 15 percent; and
- Phase tax changes in or out over time rather than immediately.

Source: Citizens Finance Review Commission (2003b).

California

Commission

Governor Schwarzenegger created the Commission on the 21st Century Economy by executive order to review the state tax system and fiscal practices. The board has 14 members appointed by the Governor, Speaker and the Senate President Pro Tem.

Results

The Commission made a series of recommendations in the fall of 2009. Their overall proposal was to move the state away from sales and personal income tax reliance and towards a value added tax (called the "Business Net Receipts Tax"). This was unanimously endorsed by the Commission.

Several other proposals were endorsed by some of the members of the Commission (see the "Other" section) but were not unanimous. The Commission

also made a variety of recommendations related to fiscal practices in the state, such as maintenance of a revenue shortfall reserve and the merger of agencies. The recommendations have not been adopted.

Recommendations

Overall the proposal would eliminate the state portion of the sales and use tax, eliminate the corporate income and corporate net receipts tax, and substantially reduce the personal income tax. In its place, the state would establish a Business Net Receipts Tax.

Income Tax

The state would lower the income tax for taxpayers by an average of 29 percent through the following changes:

- Lower the tax rate to 2.75 percent for taxable income up to $56,000 for joint filers ($28,000 single filers) and 6.50 percent for taxable incomes above that amount. This change would reduce the number of tax brackets from six to two;

- Eliminate tax credits (except for the other states' tax credit);

- Limit the number of deductions to a standard deduction of $45,000 for joint filers ($22,500 single filers) and limit itemized deductions to only mortgage interest payments, property tax payments, and charitable contributions.

These changes would be phased in over three years, with rates reduced and then restructured.

Sales and Use Tax

The state would eliminate the state general fund portion of the sales and use tax (localities would continue to be able to collect this), which is currently at five percent, excluding the current temporary one percent increase. The state portion of the sales tax would be phased out over five years by one percent each year.

The state would retain the state portion of the sales tax on gas and diesel fuels which are used exclusively for improvements to transportation.

Business Net Receipts Tax

The Commission's initial estimates indicated that a four percent tax rate would be required to be revenue neutral. A business's "net receipts" would be calculated by starting with a business's gross receipts and then subtracting the cost of all purchases. The tax would be phased in over five years.

Corporate Taxes

The Commission recommended that the state should eliminate the 8.84 percent corporation tax and the $800 minimum franchise tax.

Other Recommendations

- To ensure that everyone contributes to the state general fund, all residents and businesses would be required to pay a minimum tax of one percent of their adjusted gross income or $100 whichever is smaller.
- The Commission recommended that the state permit additional offshore oil leases and use royalty revenues for a limited set of purposes, such as building the state's Rainy Day Reserve Fund, paying off debt, lowering taxes, or one-time infrastructure spending.
- The Commission had a variety of other recommendations including new rules around the state's rainy day fund, consolidating departments, and establishing an Independent Tax Forum.

Source: Commission on the 21st Century Economy (2009).

Florida (2002)

Commission

In 2002, legislation created the State Tax Reform Task Force which was directed to examine the tax structure and make recommendations to the Governor and the legislature on how the state's tax structure could be improved to ensure a stable revenue base.

Results

Overall their conclusion was that the state's tax system was adequate for supporting the needs of the state as well as sufficiently stable. Their greater concern was that Florida government spending had grown faster than the economy already. Recommendations included a number of fiscal reforms including tax expenditure limitations and ways to improve tax compliance. They did make some modest suggestions for changes in taxes, primarily to reduce or eliminate selected taxes that had been established in the early 1990s in response to that recession.

Recommendations

- Reduce the sales tax on commercial electricity and communications services from seven percent to six percent to re-align the rate with the one imposed on most other goods and services in the state.

- Complete repeal of the tax on "intangible" property (such as stocks, bonds, notes, and obligations to pay money). In 1991, the state imposed a tax of $1 per every $1,000 taxable assets. The state has been taking incremental steps towards phasing out this tax.

- Complete repeal of the alcoholic beverage surcharge. In 1990, the state imposed an alcoholic beverage surcharge of 10 cents for each ounce of liquor or four ounces of wine, 6 cents on each 12 ounces of cider and 4 cents on each 12 ounces of beer. Since then the legislature has been taking incremental steps towards reducing this tax.

- Repeal the one percent assessment on net revenues for hospital outpatient services. The state currently charges a one percent assessment on all state licensed hospitals as well as clinical laboratories, ambulatory surgical centers, diagnostic imaging centers and freestanding radiation therapy centers.

- Reduction of the documentary stamp tax on unsecured notes, capping the documentary stamp tax at $2,450. The state charges a documentary stamp tax of 35 cents per $100 on promissory notes, nonnegotiable notes, written obligations to pay money and assignments of salaries, wages and other compensation if executed delivered, sold transferred or assigned in the state. As a result, most of the agreements are done outside the state.

Source: State Tax Reform Task Force (2002).

Florida (2007-2008)

Commission

This study was conducted by the Tax and Budget Reform Commission which is authorized to meet every decade. The Commission consists of 25 voting members appointed by the Governor and General Assembly.

Results

The Commission proposed a series of reforms, the most significant of which involved reducing school district property taxes and replacing the lost revenues with increased state support. These measures were not put on the ballot; however, other more minor property tax exemptions were put on the ballot and passed. The initiative to allow local governments to raise the sales tax to support community colleges did not pass.

Recommendations

<u>Sales Tax</u>

The Commission proposed to limit local school district property taxes and replace them with state levied taxes. Options include:

- Repeal some of the state's current sales tax exemptions that do not advance or serve a public purpose. However, the proposed amendment specifically forbids repeal of current exemptions for "food; prescription drugs; health services; charitable organizations; religious organizations; residential rent, electricity, and heating fuel; sales of tangible personal property purchased for resale or imported, produced, or manufactured in this state for export; sales of real property; and sales of intangible personal property";

- Increase the state sales and use tax by one percent (i.e., from six percent to seven percent) over the existing rate in effect on January 6, 2009;

- Reduce funding for other state budget items or use "revenue increases resulting from economic growth attributable to lower property taxes";

- Use other established or created revenues.

The Commission proposed to require that all laws granting new sales tax exemptions considered by the legislature would be limited to "a single subject of a single exemption" and would require a legislative finding that any new exemption would support or advance a public purpose in the areas of: (1) encouraging economic development and competitiveness, (2) supporting educational, governmental, literary, scientific, religious, or charitable initiatives or organizations, or (3) securing tax fairness. The Commission also proposed that the state create an 18 member committee to review state sales tax exemptions based on selected criteria and to make recommendations on adjustments to the exemptions (Clouser 2008b).

The Commission proposed a constitutional amendment to allow a local option sales tax to support community colleges (Clouser 2008c).

Property Tax

The Commission proposed Constitutional amendments and supporting statutory language to:

1) Allow the legislature to change state assessment practices to reward improvements to property that increase resistance to wind damage or add renewable energy source devices;

2) Create a property tax exemption for land conservation;

3) Limit local property taxes for schools from 10 mills to 5 mills and limit increases in assessed value to five percent annually, repeal state requirements that local governments levy a minimum tax to participate in the Florida Education Finance Program (FEFP), and replace lost revenue with state collected taxes. (See sales tax for options). There is also a "hold harmless provision for school districts" that the state funds will fully replace any revenues lost through these provisions (Clouser, 2008a, 2008b);

4) Change the method of assessing "working waterfronts" from "just value" or "market value" to "current use" and defines "working waterfronts" more clearly.

The Commission also proposed statutory changes in standards for establishing "just value" of property when assessing property and shifts the burden of proof to the assessor to establish that an assessment is less than "just value" if the original assessment is determined to be erroneous.

Source: Clouser (2008a); Closuer (2008b); Clouser (2008c); Clouser (2008d).

Hawaii (2001-2003)

Commission

The state Tax Review Commission was created by the Hawaii Constitution and every five years it convenes to review the state's tax structure.

Results

The Commission recommended a variety of changes as well as fiscal policy improvements including increasing the revenue shortfall reserve as well as improving the fiscal research capacity of the state. Few of the recommended changes were adopted. Further, an assessment of all previous tax reform commissions suggests that most significant changes were not adopted.

Recommendations

Income Tax

The Commission recommended that the state phase-in a higher standard deduction, a higher personal exemption, and wider marginal tax brackets. The standard deduction and personal exemptions should be indexed for inflation, as should the tax brackets. These recommendations have been made on a consistent basis in the reports of previous Tax Review Commissions. Specifically:

1) Increase the standard deduction to the federal amount. The state standard deduction is $1,900, while the federal is $7,600;

2) Increase the personal exemption to the federal amount. The state personal exemption is $1,040 and the federal is $2,900;

3) Widen the marginal tax brackets so that persons on public assistance do not have to pay taxes and the highest marginal tax rate does not start until (married filing jointly) income reaches $100,000;

4) Increase federal conformity; and

5) Conform with federal filing deadlines.

The Commission recommended that all forms of retirement income should be taxed the same. Currently, pension income is not taxed, but 401(k) income is.

Sales Tax

The Commission generally expressed satisfaction with the state's General Excise Tax (GET) which is a broad based consumption tax and is therefore stable and permits an overall low rate of four percent. The Commission explicitly rejected exemptions for food, housing, clothes and instead proposed to increase the low income tax credit (LITC) to improve vertical equity.

Further proposals suggest:

- A limit on allowing GET payments to be treated as a tax credit or deduction against other taxes, such as the corporate tax;
- Conducting cost-benefit studies for each type of GET exemption;
- Further work to review the GET for problems associated with the taxation of business inputs or the pyramiding effect of the tax; and
- Limiting nonprofit organization exemptions from GET. Require that they pay GET on their sales of goods and services, but not pay GET on other forms of income such as gifts and pure contribution activities;
    - Also, nonprofit organizations and other taxpayers who claim exemptions from GET should be required to compute and report the amount of GET saved from each exemption claimed on their GET returns in order to improve tax monitoring and compliance.

Corporate Tax

The Commission proposed to develop a systematic review of business tax incentives, including:

1) Cost-benefit studies prior to adopting or revising a tax credit. Such a study should examine social costs and benefits as well as fiscal and economic effects;

2) Periodic re-evaluations of all tax incentive programs;

3) "Truth and disclosure reporting" separate from a taxpayer's tax returns should generally be required to improve the transparency of subsidies for private investment;

4) Tax incentives should be part of an overall strategic plan for economic development;

5) Public participation and comment should be solicited prior to adopting tax credits for businesses;

6) Sunset provisions should be embedded in any tax incentive along with the evaluation and public participation provisions described above;

7) The legislature needs to provide oversight of tax incentives, and the Department of Taxation needs to be given sufficient resources to police the incentives credits.

The Commission also recommended an overhaul of the capital goods excise credit which is used to refund the GET on capital goods purchased by businesses. Also, the Commission suggested that the state needed to investigate ways to revise the corporate income tax or find a new means for taxing businesses.

Estate Tax

The Commission recommended that Hawaii conform with all of the Federal Estate Tax repeal provisions except the repeal of the State of Hawaii Death Tax Credit. The state should establish a new Hawaii Estate Tax which is based on a fixed percentage of a declining Federal Estate Tax. This would result in the repeal of the new Hawaii Estate Tax if the Federal Estate Tax is repealed. The state should reconsider the issues around the state death tax at that time.

Source: Tax Review Commission (2003).

Hawaii (2005-2007)

Commission

The state Tax Review Commission was created by the Hawaii Constitution, and every five years it convenes to review the state's tax structure.

Results

The Commission recommended a number of tax changes that were similar to previous recommendations and additionally made recommendations to improve and streamline tax administration and compliance. Some general, overarching recommendations include:

- The state should look for ways to reduce the state's tax rates and broaden the base;
- The state's taxes should be lowered by exercising fiscal and political discipline;
- The state should minimize all tax exemptions and credits;
- When enacting credits and exemptions, the legislature should include a sunset date that will trigger a review of whether the credit or exemption should be continued.

Recommendations

Income Tax

State should investigate eliminating the individual income tax. However, if kept:

- The standard deduction, the personal exemption and the tax brackets should be indexed for inflation;
- The state should conform to federal tax treatment of retirement income, excluding an annual base amount. The current tax unfairly distinguishes between different types of retirement income taxing pensions differently from investment income from sources such as a 401(k).

Also, the state should adopt withholding rules for all non-resident taxpayers involved in partnerships, S-corporations, and limited liability partnerships in order to increase income tax compliance.

Sales Tax

The Commission reiterated its previous recommendations that "all proposals to exempt transactions from the GET should be weighed carefully." The state should not exempt consumer purchases such as health care services, food, apparel, or shelter. Should the legislature want to grant tax relief on equity grounds, "it should pursue these goals either through low-income credits against income taxes or through the appropriation and expenditure process, which enhances transparency and accountability" (Tax Review Commission, 2007b, p. 17).

The Commission recommended that the state eliminate the GET exemption for not-for-profit organizations to ensure that they are treated in the same manner as for-profit entities. This would not affect donations to non-profits but is intended to target the sale of goods and services by non-profits. In the absence of eliminating this exemption, the Commission recommended that the legislature consider establishing a maximum exemption amount for not-for-profit organizations. Additionally, all non-profits should be required to obtain a GET license.

Corporate Tax

The state should eliminate the corporate income tax and replace this with increases in the GET and the Public Service Company Tax (PSCT), a tax on public utility gross income. The GET and the PSCT would need to rise from four percent to 6.7 to 6.9 percent depending on whether the state also eliminated the bank franchise tax and the tax on insurance premiums along with corporate and net income taxes.

The legislature should avoid using tax credits as an economic development tool. Specifically, the cost of the high technology business investment tax credit has proven hard to determine in a timely manner. In order to get more control over the program and to curb potential abuses, the legislature should change it from a tax credit to a program of grants administered by a state agency. If the credit is kept, the Commission recommends the following changes be adopted:

1) Increase transparency and timely disclosure so that the credit can be evaluated effectively. Data reporting should be mandatory and expanded to include sales, employment by compensation ranges and status, including full-time, part-time, and seasonal, and number of trademarks, patents, and copyrights obtained during the year;

2) The data should be collected by NAICS codes and distributed to the public periodically, but not less frequently than annually;

3) To gather the data, a tax confidentiality waiver should be required so that pertinent data can be released to the public;

4) An independent evaluation should be performed prior to any extension of the credit.

These considerations apply to all other tax credits as well.

Property Tax

- The Hawaii Real Property Tax Act (HARPTA) withholding rate should be increased and penalties imposed on withholding agents for noncompliance. Many non-residents do not pay the full tax particularly when the liability is greater than the HARPTA withholding. The Commission also recommended some other minor changes to boost compliance with the tax on the sale of real property by non-residents.

Source: Tax Review Commission (2007b).

Maine

Commission

Maine has gone through a series of efforts at tax reform over the past decade, including efforts at comprehensive reform as well as a number of ballot initiatives. Based on a review by the former Chairman of the Maine House Joint Committee on Taxation, the following reflect major efforts at comprehensive reform.

In 2003, the Maine Speaker established an Advisory Committee on Tax Reform. The Committee was composed of a former Governor, former Chief Justice, the Speaker of the House, academics, and other state leaders.

In 2005, the Governor proposed a tax reform plan to increase property tax relief and increase state funding for education, while also establishing state limits on expenditure growth.

In 2007-08, the legislature proposed comprehensive tax reform creating a flat six percent income tax and a resident tax credit to institute progressivity. The proposal would increase selected sales taxes and expand the base to selected services as well as provide property tax relief for resident homeowners.

In 2009-10, a legislative committee continued to refine the tax reform proposal from the previous session. The proposal passed the General Assembly and was signed by the Governor. The proposal reduced the income tax in a manner similar to the 2007-08 proposal, increased the sales tax base to selected personal services, and increased the sales tax on selected tourist targeted items. (See details below).

Results

Although the 2009 proposal passed the legislature and was signed by the Governor, opposition groups initiated a referendum to repeal the proposal prior to its being implemented. The referendum repealing the changes was approved by the voters in June 2010.

Recommendations

The Governor and General Assembly proposed a revenue neutral package to flatten and lower the income tax while expanding the sales tax base to services.

<u>Income Tax</u>

The initiative "[r]eplaces the progressive income tax rate structure with a flat 6.5 percent rate on incomes up to $250,000. An additional 0.35 percent surtax is imposed on incomes above $250,000, leading to a top statutory rate of 6.85 percent. The new system replaces traditional exemptions and deductions with a newly designed "household credit" that restores the system's progressivity. The credit phases out at higher income levels, and is partially refundable at lower income levels, to offset increases in sales taxes in other parts of the act. LD 1495 is projected to lower income taxes for about 95 percent of Maine resident households" (Woodbury, 2009, p. 25).

<u>Sales Tax</u>

"The loss in income tax revenue is offset by an increase in the meals and lodging tax from 7 to 8.5 percent, an increase in the tax on rental cars from 10 to 12.5 percent, an 8.5 percent tax on candy, and an expansion of the sales tax base to four

new categories of services. These are (1) "amusement, entertainment and recreation services," including movies, concerts, festivals, amusement parks, sporting events, miniature golf, go-carting, exhibition shows, sightseeing excursions, whitewater rafting, and the hiring of entertainers; (2) "installation, repair or maintenance services" for jewelry, cameras, guns, musical instruments, electronic and mechanical equipment, lawn and garden equipment, computer hardware and office equipment, appliances, clothes, shoes, and furniture, as well as auto repair services; (3) "personal property services," including dry cleaning, laundry and diaper services, embroidery and monogramming, car washing, pet grooming, picture framing, house cleaning, furniture and rug cleaning, interior decorating, warehousing and storage, moving, towing and boat mooring; and (4) "transportation and courier services," for the in-state transport of persons or property by limousine or courier" (Woodbury, 2009, p. 25).

Source: Woodbury (2009).

Minnesota (2009)

Commission

Governor Pawlenty appointed 15 citizens, primarily members of the business community, to the 21st Century Tax Reform Commission with the charge that they should modernize the tax system.

Results

The Commission made a series of recommendations meant to stimulate business growth in the state including elimination of the state's corporate income tax while expanding the sales tax to services and increasing the excise tax on cigarettes to pay for this. The Commission's report also recommended that the state regularly produce a "benefits received" report showing the tax-to-benefit ratio for businesses and recommended that the state create various loan programs to help small and start up businesses.

Recommendations

Income Tax

- Exempt 20 percent of active "pass through" business income from taxation. This exemption would be limited to individual shareholders, partners and other member of S corporations or Limited Liability Partnerships who have business operations and employees in Minnesota.

Sales Tax

- Expand the sales tax to a broader range of consumer products and services;
- Replace the capital equipment sales tax refund with an upfront exemption; and
- Extend the capital equipment exemption to businesses that produce services subject to the state sales tax.

Corporate Income Tax

- Repeal the state corporate income tax;
- If the state chooses not to fully eliminate the corporate income tax, then the state should:
    - Conform to federal tax write off provisions for business related assets.
    - Increase its research and development tax credit. The Commission acknowledges that this is not sound tax policy but argues that the state has to compete with other states.
    - Provide an "angel investor" tax credit for investors in start-up companies.

Property Tax

- Simplify the property tax classification system. Minnesota currently has 51 different classes of property and associated tax structures. These could be reduced to 4 classes;
- Minnesota uses a very low assessed value calculation that is often 1 or 2 percent of market value. This makes the rates appear very large. Recalibrate the tax system to appropriately reflect the tax on the market value of the property to improve the transparency of the system; and
- Repeal the Limited Market Value law which does not allow the property tax liabilities to grow as the market value of a property grows. The

Commission found that this law caused low growth properties to bear a heavier burden of taxation.

Other

- Increase the excise tax on cigarettes.

Source: The Governor's 21st Century Tax Reform Commission (2009).

New Mexico

Commission

The Blue Ribbon Tax Reform Commission was created by the General Assembly in 2003 to review the New Mexico tax system. There were 23 members on the commission, 10 members of the legislature and 13 members of the public.

Results

Major issues addressed included concerns about the corporate income tax and the extent to which it hindered economic competitiveness. Also the Commission examined recent cuts made in the personal income tax and whether the administration of tax law was too burdensome. The Commission committee members developed 196 separate proposals and adopted 71.

Recommendations

Major recommendations submitted by the Commission included:

Income Tax

- Expand the low income tax credit and add a personal exemption of up to $3,000 for families below median income for their filing status; and

- Cap the state capital gains income tax deduction.

Gross Receipts Tax

- Create a new gross receipts tax deduction for health care providers' receipts from managed health care contracts and part C Medicare payments; and

- Increase the gross receipts deduction for for-profit hospitals from 50 percent to 100 percent.

Corporate Taxes

- Reduce the highest corporate income tax rate from 7.6 percent to 6.4 percent and compress the tax table from three brackets to two; and
- Require corporations to file on a unitary basis.

Other Recommendations

- Increase gas tax, vehicle registration fees and other fees for state and local roads.

Source: Blue Ribbon Tax Reform Commission (2003).

New York

Commission

In 2009, the New York State Senate established a Select Committee on Budget and Tax Reform to review reforms to the state tax system.

Results

In 2009, the Committee issued 4 reports and has issued an additional report in 2010. The work is on-going as of the date of this review. The members of the Commission have introduced some legislation based on the findings.

Recommendations

Income Tax

The Select Committee recommended:

- Increasing the amounts in the rainy day fund to help buffer the state from volatility in the income tax revenues;
- Indexing income tax brackets for inflation; and
- Creating an income tax "circuit breaker credit" based on household income and need (Schlett, 2010).

Sales Tax

The Committee recommended examining ways to broaden the state's sales tax base, particularly with an eye towards conforming with New York City's sales tax base, which includes more services. Also, the Committee recommended that the state look at ways to make the sales tax more progressive (Select Committee Staff, 2010).

Corporate Income Tax

The Committee recommended:

- Aligning NYC's business and banking tax structures with the state tax structures. Specifically, the state closed some tax loopholes that the City did not close and the commission chair introduced legislation to bring the City into alignment. (This was signed into law);

- Reviewing how other states have used tax incentives to spur job growth; and

- Developing a simpler, more accountable process for small businesses to apply for tax incentives (Schlett, 2010).

Property Tax

The Commission suggested that the state could reduce proliferation of property tax exemptions by requiring more detailed fiscal notes. Additionally, local governments should have more authority to accept and administer property tax exemptions. The state should establish a more systematic method of determining PILOTs (Payments in Lieu of Taxes) for state owned properties so that the state is not at the whim of local property tax rate setting (Schlett, 2010).

Other Recommendations

The state needs to create a more streamlined system for taxing telecommunications services. A survey of the tax structure shows significant disparities between different types of telecommunications and the tax structure faced. Specific recommendations included: "1) developing a more standardized method for imposing real property taxes on traditional telecoms and cable television companies;

2) create a uniform and competitively neutral tax structure for multi-channel video programming services"(Schlett, 2010, p. 9).

Source: Schlett (2010); Select Committee Staff (2010).

North Carolina

Commission

In 2002, the Governor created a Commission to Modernize State Finances by executive order and appointed 15 members to the Commission.

Results

The Commission not only proposed changes to the tax system but also changes in the balance of state and local services, and changes to unemployment insurance tax laws and fees, as well as other administrative reforms.

Recommendations

Income Tax

The Commission recommended that the state income tax tie more closely to the federal tax code to increase the progressivity of the tax code and broaden the base. Also the state should adopt strategies to help low-income taxpayers. These might include:

- An earned income tax credit, where families with children and earnings below $30,000 would be the primary recipients of the credit;
- A no-tax threshold for those with taxable incomes below $10,000; or
- A reduction in the marginal income tax rate from six percent to a lower number.

Sales Tax

- Eliminate the differential rates of taxation of goods and services and remove caps on the sales and use taxes. These caps and differential rates are inequitable and difficult to administer. NC has eight different state sales tax rates depending on the types of items sold. Also, the state

"caps" certain sales taxes. For instance, the state has a cap of $80 on the sales of an "item" of machinery and equipment.

- Review and eliminate sales tax exemptions. The sales tax specifically exempts numerous items in G.S. 105-164.13 and G.S. 105-164.14. The Commission recommends that each of these exemptions should be considered for elimination if appropriate, especially because many of these exemptions have not been reviewed in many years.

- Consider the expansion of the sales tax base to include more services, but avoid business to business transactions and medical services.

Corporate Taxes

- Eliminate or simplify the use of tax credits, except that the Commission recommends the state retain its research and development tax credit, due to its substantial economic benefits.

- Simplify taxation by moving to combined reporting, as required at the federal level and in many other states.

- Modernize the franchise tax, by expanding it to all types of business organizations, not just traditional corporations. The revenues generated from this base broadening could be used to establish a minimum net worth threshold for payment of the tax. The franchise tax rate could then also be reduced.

- Consider the effect of establishing a throw-out provision. A "throw-out" rule provides that the corporation's sales to customers in states where it has no nexus, and therefore is not taxed, are not included in the calculation of state tax liability.

- Conform more closely to the federal definition of corporate income. Specifically, the state should evaluate any adjustments that the state makes to the definition of "income" for whether it has the intended policy effect. For instance, the state allows an interest expense deduction for financial institutions.

- The Commission also found that North Carolina is one of the few states to use net economic loss rather than net operating loss in the calculation of state corporate income tax, and that the effects of using federal net operating loss instead of net economic loss should be considered.

- Consider the effects of a move back to the equal weighting of payroll, property and sales in determining the share of income taxed by North Carolina. Currently, multistate corporations calculate their North Carolina income tax liability by determining their shares of property,

payroll, and sales in North Carolina. In the late 1980s, the formula was changed from equal weighting of these three factors to a double-weighting of the sales factor. This change was made in order to provide relief to companies that own significant property and employ a significant portion of their total workforce in North Carolina.

Other Recommendations

- Increase the cigarette tax in order to reduce the burden of other taxes. North Carolina's cigarette tax is third-lowest in the nation and the revenues from an increase could be used to replace revenues lost from a reduction in burden of other taxes.

- Adopt "green taxes and fees." Testimony from environmental advocates found that "green taxes and fees" could result in increased revenue, better environmental outcomes, and improved adherence to the Commission's goal that those who benefit from a service pay for its cost.

Source: Commission to Modernize State Finances (2002).

North Dakota

Commission

In 1999, the Governor created a Tax Study Committee with the goal of evaluating whether North Dakota's tax structure was appropriate for a "21st century economy." The Committee was expected to develop a revenue neutral proposal.

Results

The Committee observed that in the 21st Century, because of the internet as well as the mobility of wealth, that federal intervention to stabilize state tax structures might be appropriate. In lieu of this, the Committee proposed a series of mostly generic recommendations for further investigation.

Recommendations

Income Tax

- Eliminate current individual income tax forms and replace them with one tax form that starts with either federal AGI or federal taxable income. This would have the effect of eliminating most of the current state credits and deductions.

Sales Tax

- Redefine the consumption/sales tax base to capture all economic activities. A federal uniform solution might be more appropriate.

- Examine all tax exemptions and prepare a tax expenditure report.

- Adopt the streamlined sales tax agreement and consider other ways to capture remote sales.

Corporate Income Tax

- Eliminate the deduction for federal taxes and reduce rates.

Property Tax

- Redefine the wealth/property tax base to encompass all activities of the new economy.

- Reduce the school property tax burden on commercial and agricultural property and replace with other state or local tax instruments. Options include: local sales tax option, state sales or income tax increase, or a "business privilege tax" based on agricultural net income.

- Conduct property tax assessments at the state level with similarly trained state employees rather than at the local level.

Source: Tax Study Committee (2001).

Ohio (2003)

Commission

In 2002, the Committee to Study State and Local Taxes was created by the General Assembly and was composed of 9 members, at least 6 of which were members of the General Assembly. The Committee was asked to produce a revenue neutral report.

Results

Their overall recommendation focused on lowering income and corporate franchise tax rates or eliminating the tangible personal property tax in order to make

the state more attractive to business. This revenue would be replaced by broadening the sales tax base (Committee to Study State and Local Taxes, 2003).

In 2005, the Ohio legislature passed and the governor signed legislation that did the following:

- Cut the state income tax by 4.2 percent from 2005 through 2009, reduces the top state rate from 7.5 percent to 5.925 percent and eliminates the lowest two brackets, including incomes less than $10,000;
- Added a permanent state tax of trusts;
- Reduced the sales tax rate from six percent to 5.5 percent;
- Increased the cigarette excise tax by $0.55 per pack;
- Phased out the tangible personal property tax at 25 percent per year beginning in 2006;
- Phased out the corporate franchise tax at a rate of 20 percent a year, beginning in 2006;
- Eliminated the additional Ohio estate tax;
- Eliminated a property tax rollback on commercial and industrial properties.

These taxes were replaced with a Commercial Activity Tax, a form of gross receipts tax. This tax would be on businesses with gross receipts of over $150,000. Those with receipts between $150,000 and $1 million pay $150 in tax, while those businesses over $1 million in receipts are taxed at $150 plus 0.26 percent of receipts when fully phased in (Ohio Department of Taxation 2005a, 2005b). In 2009, the state delayed phasing in additional income tax rate cuts in order to deal with the fiscal problems caused by the recession (Henchman & Stephenson, 2010).

Recommendations

Income Tax

Unlike many other states, Ohio has a local income tax. According to the Committee report, the tax is generally very progressive in nature but raises concerns about stability partly because of increasing volatility in capital gains. The Committee

was also concerned about the top income tax rates because they might undermine the state's competitiveness in attracting high paying jobs.

The Committee recommended some changes including:

- Reduce the number of low income taxpayers by eliminating tax liability for those with low incomes;
- Eliminate the 2005 sunset on taxing trust funds; and
- Lower the personal income tax rate and pay for this with the elimination of income tax deductions and credits.

Sales Tax

- Broaden the sales and use tax base including taxing services, but avoid services that are very mobile and could be taxed outside the state. Focus on personal service items and non-essential services;
- Eliminate sales tax exemptions; and
- Do not allow local governments any additional local option sales taxes authority.

Business Taxes

A primary recommendation was to lower the corporate franchise tax rate and/or eliminate the tangible personal property tax.

The Committee also recommended:

Corporate Income Tax/Corporate Franchise Tax

- Adoption of a combined/unitary income tax base for the corporate income tax, either adopting a "combined group tax" through which a corporation and all affiliated companies report their combined income or a "consolidated return" which would build on the federal income tax return;
- Review and elimination of special deductions and tax credits against the corporate franchise tax;
- Adoption of a throwback rule for the sales factor apportionment process to capture income that is not taxed in other states or "no where" sales;
- The state currently has a $150,000 net worth cap for the net worth tax. The Committee recommended retaining the cap but raising the cap amount;

- Adoption of uniform definitions of business and non-business income;

- Retain net operating loss (NOLs) deductions and continue to allow carryover; however, the legislature should review NOLs that are artificially created for tax planning purposes versus those that are the result of legitimate business losses; and

- Lower the top corporate franchise net income tax rate and eliminate the brackets.

Tax Treatment for "Dealers in Intangibles"

Ohio treats financial institutions, insurance companies and companies that are "dealers in intangibles" (such as businesses that buy or sell bonds, stocks or securities), differently from other corporations or corporate income. Such companies are regulated by the Department of Insurance and do not pay a tangible personal property tax. Financial institutions pay the corporate franchise tax but only on net worth at a special rate of 13 mills. Insurance companies do not pay the municipal income tax but pay a gross receipts tax based on premiums paid for insurance in Ohio. Dealers in intangibles also do not pay the municipal income tax but pay a net worth tax of 8 mills, or a special "dealers in intangibles" tax.

- Because this structure is unique to Ohio and may create distortions between types of industries as well as harm interstate competitiveness, the Committee recommended that the state eliminate the dealers in intangibles tax and review the tax on financial industries.

Tangible Personal Property Tax

In Ohio, all businesses must file a statement for a property tax on tangible personal property. There is a $10,000 exemption, and the state reimburses local governments for the value of the exemption.

- The Committee recommended eliminating the personal property tax and replacing it with another type of tax with a broader base and lower rate, such as a gross receipts tax or a tax on overall property and payroll.

- Alternatively, the state should accelerate the elimination of the inventory tax base, eliminate filing requirements for those businesses that will fall below the $10,000 threshold, and phase out local reimbursement for the $10,000 exemption.

- Finally, the state should allow County auditors to "abate" the tax for "good cause."

Real Property Tax

- The state should allow County auditors to "abate" the tax for "good cause" (as they are allowed to do with other taxes).

The Committee noted that the public utilities industry, including the telecommunications industry, had changed in structure and so required a new type of tax treatment. They recommended further research on eliminating disparities between public utilities and other businesses as well as insuring that telecommunications companies specifically are taxed in an equitable fashion.

Other Recommendations

The Committee recommended a number of reforms to the municipal income tax, including:

- Create uniform tax base for the definition of "net profits" at the local level: for instance, require uniform local treatment of federal bonus depreciation;
- Create a uniform withholding tax base;
- Provide appeals to the Board of Tax Appeals and the Ohio Supreme Court;
- Create uniform net operating loss carryover treatment;
- Provide uniform treatment of pass through entities;
- Provide a centralized system of tax filing for local income taxes through the state and change other aspects of municipal tax administration (e.g., due date for filing tax returns);
- Eliminate the three-year requirement for reporting for withholding tax purposes. Employers may become locked into withholding reporting because if they reach the reporting threshold at any time, they have to keep up reporting for three years, even though they may no longer be required to make payments.

The Committee recommended a review of the real property tax at the local level as well as expanding county auditor abatement powers for "good cause."

Source: Committee to Study State and Local Taxes (2003).

Oklahoma

Commission

The Oklahoma report was put together by academics from Oklahoma institutions. They were asked by the Governor, the Senate President, and Speaker to review the tax code with the following goals: 1) eliminate the personal income tax (PIT); 2) eliminate the sales tax on groceries; 3) eliminate capital gains; 4) alter the estate tax to make Oklahoma a "pick up" state, and 5) implement tax changes in such a way that Oklahoma can still provide adequate funding for existing programs and services (Dauffenbach, Holmes, Olson, Penn, &Warner, 2001, p.1).

As such the main purpose of the Committee was to look at the impact of these tax changes and what state options would be for replacing the revenues lost. The Commission assumed a revenue neutral impact.

Results

The Committee did not endorse a tax change so much as develop simulations of several options including: 1) expanding the sales tax base to a significant number of services; 2) imposing a gross receipts tax on business transactions; 3) increasing the property tax to cover the lost revenues and several hybrid options of the above.

Ultimately, the committee made a point of recommending against eliminating the income tax, pointing out that this would require significant increases in other taxes (Dauffenbach, Holmes, Olson, Penn, & Warner, 2001). These proposals were scrapped in the face of the 2002 recession (Talley, 2002).

Oregon (2009)

Commission

The Tax Force on Comprehensive Revenue Restructuring was established in 2007 by the legislature. The Task Force was composed of 22 members appointed by the Governor.

Outcome

For the most part the recommendations of the task force focused on process rather than actually restructuring the tax code, for instance they proposed a more open participatory process for considering restructuring the tax code and that ballot initiatives should have "balanced budget requirements" associated with them. They also made recommendations relative to local tax expenditure limitations and increasing the state's rainy day fund. Generally, they recommended diversifying local revenues away from the property tax, restructuring property tax growth limitations, and finding new ways to share state and local revenue sources.

Income Tax

Options associated with the income tax included: eliminate the personal income tax and establish an equal yielding general retail sales tax or reduce personal income and property taxes and establish a broad gross receipts tax.

Sales Tax

(See the income tax provisions.)

Business Taxes

Options associated with the corporate tax include: eliminate the corporate income tax and replace with a corporate franchise tax, or eliminate the corporate income tax and replace with a VAT.

Property Tax

Options associated with the property tax included eliminating the residential property tax, reducing the personal income tax and establishing a retail sales tax.

Source: Task Force on Comprehensive Revenue Restructuring (2009).

South Carolina

Commission

In 2009, the legislature created the South Carolina Tax Realignment Commission (TRAC) in order to assess the state's current tax structure and make recommendations about changes that might be needed if any. The Commission is composed of 11 members picked by the Governor and members of the General Assembly. The membership is primarily people appointed because of their background in taxation or public finance. There are no elected officials on the board (South Carolina Taxation Realignment Commission (TRAC), 2009).

Results

The Commission has made a recommendation on the sales tax to the General Assembly. Other recommendations are still pending review as of the date of this report.

Recommendations (Sales Tax Only)

Broaden the base and lower the sales tax rate from six percent to five percent, by:

- Removing any exemptions on items that reflect the final sale of a product to a consumer. (Retain key exemptions on business inputs for manufacturing, agriculture, or industry.);
- Remove state sales tax caps on consumer products, such as the sales tax cap on car sales;
- Tax residential water, electricity and natural gas purchases, but at a lower rate than the regular sales tax;
- Tax prescription drugs at a lower rate than the regular sales tax, except retain exemptions for prescription medicines sold to Medicaid and

Medicare recipients as well as for certain medicines sold to health care providers, donated to health care providers, or provided to free clinics;

- Restore the sales tax on groceries but at a lower rate;
- Develop tax policy to allow the state to respond to e-commerce; and
- Broaden the base to selected services and to "intangibles" such as software downloads, and data processing services.

Source: South Carolina Taxation Realignment Commission (TRAC) (2010).

Tennessee (2004)

Commission

The Tennessee General Assembly created the Tax Structure Study Commission in 2002. The Commission was composed of 19 voting and five non-voting members.

Results

This Commission proposed primarily to institute an income tax and reduce the sales tax, the reforms do not appear to have been implemented. Interestingly, these recommendations followed a 1999 proposal by the Governor to enact a flat income tax of 3.75 percent and cut the sales tax from six percent to 3.75 percent and cap local sales taxes at 2.75 percent. The plan would have increased the corporate excise tax (on corporate profits) from six percent to 6.5 percent. This plan also was met with little success. (Locker, 1999) The Commission also made recommendations about other fiscal concerns such as recommending independent review of all tax appeals and imposing a tax expenditure limitation.

Recommendations

<u>Income Tax</u>

- Repeal the Hall income tax, which is an income tax on interest and dividend income. The Commission expressed concern that retirees are particularly dependent on this form of income, while most other citizens were not and this induced retirees to leave the state.

- Enact a broad based personal income tax with a graduated rate ranging from 3.5 percent to six percent, a $15,000 exemption for single filers, a $2,000 deduction per dependent, and a credit against the professional privilege tax for the amount of income tax paid.
  - This proposal would offset the revenue loss from repeal of the Hall income tax credit and changes to the sales and franchise taxes. This would replace approximately $3 billion in revenue.

Sales Tax

- Reduce the general state sales tax rate from seven percent to six percent, and eliminate the general local option sales tax. This would reduce the overall general state and local sales tax rate from a maximum of 9.75 percent to six percent.
- Reduce the state sales tax rate on grocery food from six percent to four percent, and eliminate the local option sales tax on grocery food. This would reduce the overall state and local sales tax rate on grocery food from a maximum of 8.35 percent to four percent.

The Commission determined that Tennessee already taxed more services than surrounding states and because of concerns about tax pyramiding, difficulty in administration, and potential inter-state competition did not recommend further expanding the tax base to additional services.

Business Taxes

- Eliminate the property basis of the business franchise tax (a form of corporate net worth tax), and reduce the rate by 50 percent to $0.125 per $100. The property basis of the franchise tax results in double-taxation of both real and personal business property and may discourage start-up ventures from locating in Tennessee.

Other Recommendations

- Local governments will be "held harmless" from the recommended changes, particularly relative to the sales tax and Hall income tax revenue loss. Distribution of annual growth would be based upon a formula that includes population, situs, and services provided by local government (e.g., education, police, fire, social services, etc).

Source: Tennessee Tax Structure Study Commission (2004).

Utah

Commission

Governor Olene Walker appointed a tax commission composed of academics, business community leaders, and other non-politicians.

Results

Governor Walker issued a report based on the Commission's recommendations in 2004. A new Governor was elected shortly thereafter and the plan changed as it entered the political process. Ultimately, the state did make changes to make its income tax flatter, but it did not broaden the sales tax base. Instead the Governor proposed to narrow it by reducing the rate on sales of food.

Recommendations

<u>Income Tax</u>

The original proposal was to adopt a flat personal income tax with no exemptions or deductions or credits. Among the deductions that would be phased out were retirement income and charitable giving.

After consideration by the legislature, an initial reform passed to let people choose whether to file under the old tax system with exemptions and deductions or the new tax system without. A third version of the reform mandated a modified flat tax with selected deductions and credits for lower and middle income taxpayers and a credit for retirees (Walker, et al., 2008).

<u>Sales Tax</u>

The original proposal of the tax reform was to simplify and expand the sales tax exemption for almost all capitalized business inputs and broaden the sales tax base by taxing services. As the proposal entered the political process, the new Governor shifted the emphasis of reform to removing the state sales tax on food (Walker, et al., 2008).

The legislature eventually decreased the state sales tax on food by two percent from 4.75 percent to 2.75 percent. Local sales taxes on food were left intact. At the beginning of Fiscal Year 2009, Utah's sales tax rate on food was set at a cumulative three percent, with a state rate of 1.75 percent, a local option rate of one percent and a county option rate of 0.25 percent.

Corporate Income Tax

The original proposal was to eliminate the state corporate income tax.
Source: Walker, et al. (2008).

Washington (2002)

Commission

The Washington State Tax Structure Study Committee was created by the legislature and tasked with reporting on "how well the current tax system functions and how it might be changed to better serve the citizens of the state in the twenty-first century" (Washington State Tax Structure Study Committee, 2002c, p. iv). The Committee consisted of eleven members appointed by the Governor, legislative leadership and the Department of Revenue. Committee members included six academic scholars in economics and tax policy, four members representing the legislature, and one member appointed directly by the Governor. Governor Gary Locke appointed William H. Gates Sr. who was selected by the Committee to serve as Chair.

Results

The Committee produced a variety of alternatives rather than a set of recommendations. There were no immediate results; however, in 2010, the state considered a ballot initiative (1098) to institute an income tax. Initiative 1098 would enact a 5-percent tax rate on annual income exceeding $200,000 a year for individuals and $400,000 for couples, along with a 9-percent rate on annual income exceeding $500,000 for individuals and $1 million for couples. The measure would also exempt more than 100,000 businesses from a gross receipts tax known as the

"business and occupation tax" and would cut state property taxes by 20 percent (Gramlich, 2010). This proposal was endorsed by Bill Gates, Sr., but failed to pass.

Recommendations

Income Tax

A majority of the Committee recommended the adoption of a flat rate personal income tax to be used to reduce the state sales and use tax rate and eliminate the state portion of the property tax. The state portion of the property tax would be made available to local governments and/or schools. A majority of the Committee considered the use of the proceeds of an income tax appropriate for any of the following:

- To reduce the state sales and use tax rate;
- To eliminate the state sales and use tax;
- To reduce business taxes; and/or
- To eliminate the state property tax and share all or part of it with local governments and/or schools.

A (smaller) majority recommended the adoption of a graduated income tax.

Sales Tax

- The Committee recommended that a second best option to a VAT (see the Business Tax section) would be a goods and services tax which would replace both the Business and Occupation Tax and the retail sales tax. This would expand the tax base to almost all services.

  The tax base would be equal to sales at every stage of production with a credit for taxes paid on intermediate goods and services purchased by registered taxpayers.

Food prescription drugs and medical services would be exempt.

- Alternatively, the Committee recommended extending the sales tax to more services with a focus on consumer services (beauty shops, amusement recreation and cable TV). The Committee recommended a process for review and automatic sunset of exemptions.

More minor recommendations included:

- Extend the existing 0.5 percent watercraft excise tax to motor homes and travel trailers. Consider increasing the rate to one percent;

- Exempt construction labor from the retail sales tax if the exemption is revenue neutral (i.e. the loss of revenue is offset by another source of revenue);

- Compensate retailers for collecting and remitting state and local sales taxes to the state. The Committee noted that currently Washington did not provide compensation for these collection activities. More than half of other states (26 of the 45 states with a state sales tax) did provide such compensation. This proposal would allow retailers to retain one percent of the retail sales tax collected.

Business Tax

Washington has a Business and Occupation tax (B&O) with varying rates for different types of businesses.

- The Committee recommended that the legislature replace this with a subtraction method Value Added Tax (VAT). The tax base would be gross receipts less the cost of intermediate goods. Imported intermediate goods would be fully deductible. (Capital expenditures and depreciation would be included in the tax base.)

- The Committee also proposed examining a progressive VAT to replace the B&O tax and partly replace the sales tax. The business tax base would be equal to gross receipts by all enterprises less costs of intermediate goods and services and the cost of wage compensation.

  Employees must register and pay a tax on the wages received from employers in the state with wages treated as a measure of the employees "value added." This idea would include a $30,000 exemption per registered taxpayer.

In lieu of these proposals, the Committee proposed that the state examine a corporate income tax.

Other Alternatives

While not favored by the majority of the Committee, it was agreed that the alternative to allow partial credits for the B&O tax paid “upstream” was appropriate for consideration. (This is for the B&O tax paid on business input goods and

services.) A majority of the Committee recommended that the legislature increase the monthly B&O tax credit from $35 to $70 and adjust periodically for inflation.

The Committee did not vote in favor but recommended that the state consider shifting a greater share—perhaps the entire share—of all highway and roads costs to motor vehicle users through higher gas taxes, tolls, and congestion pricing, or by fees such as weight-and-mileage charges.

User fees could also be effective in allocating costs of environmental protection and clean-up directly to the activities that harm the public's natural resources.

The Committee recommended that the legislature establish a schedule for a periodic review of all tax exemptions and implement a sunset review of each new tax exemption prior to permanent enactment. A sunset review period could be between six and ten years.

The legislature should examine the B&O tax which varies significantly by local jurisdiction and look for ways to simplify and streamline this tax.

Source: Washington State Tax Structure Study Committee (2002c).

Wyoming (1999)

Commission

The 1997, Wyoming State Legislature formed the Tax Reform 2000 Committee.

Results

The Commission was primarily concerned with the volatility and uncertainty associated with Wyoming's reliance on the severance tax and proposed adding a corporate and personal income tax and broadening the sales tax. Major changes such as adding income and corporate taxes were not adopted. Some of the recommended administrative reforms were implemented as well as the extension of the sales tax to four percent and the railroad per mile tax (The Legislature of the State of Wyoming, 2007).

Recommendations

Income Tax

- Wyoming currently does not have an income tax. The Committee recommended adoption of a state individual income tax with a credit for sales, use and property taxes paid during the same tax year. Having a flat tax but allowing these credits was thought to add some progressivity to the tax system.

Sales Tax

- Broaden the state sales tax to include more services and extend the "fourth cent" of the sales and use tax past the June 30th, 2002 expiration date; and

- Expand the sales tax to real property as well as other services not currently taxed, including personal and professional services and sporting fees. Currently, the state provides for the taxation of services performed for the repair, alteration, or improvement of tangible personal property. The same services performed on real property are not taxed.

- The exemption given to charitable and non-profit entities from sales and use taxes for goods purchased for their own use, is difficult to administer. Businesses must keep an exemption certificate for every organization that receives this exemption. The legislature should study the impact of this legislation to determine its cost-effectiveness.

Corporate Tax

- Create a state corporate income tax but allow a credit for sales, use and property taxes paid during the same tax year from any state income tax due.

Property Tax

- Implement a real estate transfer tax; and

- Consider limiting property tax increases in areas of the state where property taxes are a burden for individuals on low and fixed incomes and instituting rebate programs for persons with low income or fixed incomes.

Other Recommendations

- Do not change the mineral tax (i.e., severance tax) but divert additional mineral taxes to the Wyoming Mineral Trust Fund to provide government services for future generations when mineral wealth is depleted;

- Adopt possible increases in the cigarette, liquor and fuel taxes to make these comparable to those of surrounding states;
- Explore new revenue sources from nuclear fuel rod storage, lottery system, and land use fees;
- Explore the possibility of adopting a rail mile tax similar to one levied in Nebraska.

Source: State of Wyoming Tax Reform 2000 Committee (1999).

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Georgia Per Capita Income: Identifying the Factors Contributing to the Growing Income Gap **(Sean Turner)**. This report analyzes the factors contributing to the slow growth of Georgia's per capita income, relative to the nation, since 1996. FRC Report/Brief 204 (December 2009)

Historic Trends in the Level of Georgia's State and Local Taxes **(John Matthews)**. This report explores long term trends in Georgia's state and local taxation including taxes as a percentage of personal income, reliance on taxes (as compared to fees, grants, etc) for revenue, the changing balance between income taxes, sales taxes, and other taxes, and other trends. FRC Report 203 (December 2009)

Current Charges and Miscellaneous General Revenue: A Comparative Analysis of Georgia and Selected States **(Peter Bluestone)**. This report examines Georgia’s current charges and miscellaneous general revenue compared to the AAA bond rated states, the Southeastern neighbor states, and the U.S. average for fiscal years 2007 and 1992. FRC Report/Brief 202 (December 2009)

Comparing Georgia's Fiscal Policies to Regional and National Peers (Robert Buschman). This report analyzes the major components of Georgia's state and local revenue and expenditure mixes relative to its peer states. FRC Report 201 (December 2009)

Recent Changes in State and Local Funding for Education in Georgia. **(James Alm and David L. Sjoquist)**. This report examines how the 2001 recession affected K-12 education spending in Georgia school systems. FRC Report/Brief 200 (September 2009)

(All publications listed are available at http://frc.gsu.edu or call the Fiscal Research Center at 404/413-0249, or fax us at 404/413-0248.