

NTA NETWORK

JULY 2007

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The first half of 2007 has been a productive period for the Association. In early April, it cosponsored a conference entitled *New Developments in State Business Taxation*. Cosponsors included the Federal Reserve Bank of Chicago, and the University of Illinois Institute of Government and Public Affairs. Speakers provided insightful analyses of recently enacted and proposed business tax reforms. Particular attention was paid to gross receipts taxes, such as the long-standing one in New Mexico, the newly enacted one in Ohio, and the proposed one in Illinois. NTA members making presentations included Ron Fisher, Fred Giertz, LeAnn Luna, Tom Pogue, and Bill Testa. Thanks to Bill, Fred, and Rick Mattoon, of the Chicago Fed, for organizing this event. Materials presented at the conference are available at www.chicagofed.org/news_and_conferences/conference_events/2007_business_taxation.cfm

The Spring Symposium and State Local Tax Program, both held in mid-May, were interesting, well-organized, and well-attended. Tom Woodward did a great job of organizing the former, while LeAnn Luna deserves equal praise for arranging the latter. The Association also took the opportunity to celebrate Jane Gravelle's long distinguished career by awarding her the Davie-Davis Award for Public Service.

Wichita State Program on Appraisal for Ad Valorem Taxation of Communications, Energy, and Transportation Properties. Co sponsors include Committee on Taxation of Energy, Communications and Transportation and the Center for Management Development, Barton School of Business, Wichita State University. This perennial five-day event is one of the best-attended programs co sponsored by the Association. Some 50 presenters from throughout the nation address hundreds of attendees.

Last, but not least, is our 100th Annual Conference, to be held in Columbus, Ohio from November 15th through 17th. It is already possible to register and to reserve a hotel room at www.ntanet.org. Don Bruce and Mehmet Tosun are organizing a memorable program, especially designed to celebrate our 100th anniversary. The Association's first annual conference was held in Columbus in 1907, an event that got front-page billing in local newspapers.

Come help us celebrate, reminisce, and connect with our distinguished history!

No, Ohio State does not have a home football game that weekend.

-Robert Tannenwald

2007 Spring Symposium Focuses on Unfinished Business for Tax Policy

The Symposium—entitled *Tax Policy—Unfinished Business*—began with a thoughtful, moving tribute to Richard Musgrave, a giant in the field of public finance, who passed away earlier in the year. Professor Musgrave was a member of the Association for decades and a recipient of its prestigious Holland medal. Diane Lim Rogers brought together a group of Professor Musgrave's former students and colleagues that included Henry Aaron, Helen (Sunny) Ladd, Wally Oates, and Joel Slemrod. Subsequent sessions at the Symposium addressed a host of timely and intriguing issues, including estate taxes, the Alternative Minimum Tax, taxes and health policy, taxes and retirement, tax compliance, and a host of federal corporate tax issues. Peter Orszag was the luncheon speaker.

After a short break, the Association moved right into the state-local program, this year entitled *Thoughts for the New Congress: Federal Impact on State Policy, Revenue, and Spending*. Tom Barthold, Acting Chief of Staff of the Joint Committee on Taxation, launched discussion and debate with a stimulating luncheon address.

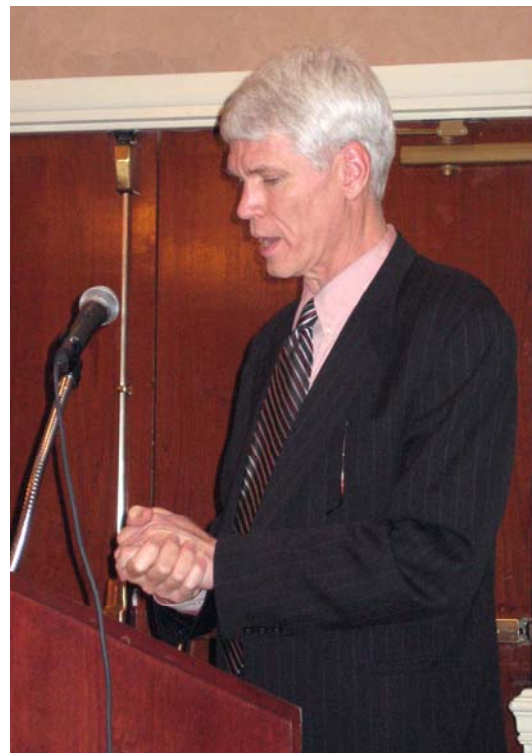
Over the remainder of the afternoon, presenters and panelists, with the help of participating members of the audience, generated a host of interesting questions about the current condition of federal-state fiscal interactions and what might be done to make them more fruitful.

Thanks to organizers Tom Woodward and LeAnn Luna and their committees for pulling together this great set of panels. Watch for papers from the Symposium in the September edition of the *National Tax Journal*.

-Robert Tannenwald



CBO Director, Peter Orszag



**Thomas Barthold,
Acting Chief of Staff, JCT**

The Gross Receipts Tax Debate in Illinois

"Let's go backwards when all else fails ... when everything old is new again." Peter Allen

The gross receipts tax (GRT) made a brief, but dramatic appearance in Illinois this spring when Gov. Rod Blagojevich (D) put it forward as the centerpiece of the revenue component of his state budget. Blagojevich proposed a new \$7 billion GRT to finance increased spending for education, a universal health care plan, and local property tax relief. If approved, the tax would have increased the state's general fund revenue by approximately 30 percent. His final proposal called for a tax of 1.0 percent on goods and a 2.0 percent tax on services, buffered by a \$2 million sales threshold that would have excluded small firms from taxation. The proposed rates were much higher than those employed in other states that use the GRT. The distinction between goods and services was never clearly delineated for transactions that include elements of both. Under the plan, GRT payments could have been used as a credit against the existing corporate tax.

A GRT, sometimes called a turnover tax, is imposed on all transactions with no exclusion for business-to-business purchases. The GRT has long been considered a dinosaur among transaction-based taxes, having been largely replaced by general sales taxes and valued added taxes. The GRT is hardly mentioned in the *Encyclopedia of Taxation and Tax Policy*. And it is rarely addressed in public finance textbooks aside from its use as an example of an inefficient tax because of cascading or pyramiding impacts that result from the full taxation of inputs in the production process along with the taxation of the final sale.

The prevailing view of the GRT among tax experts is summarized by sales tax authority John Mikesell of Indiana University: "There is no sensible case for gross receipts taxation. The old turnover taxes—typically adopted as desperation measures in fiscal crisis—were replaced with taxes that created fewer economic problems. They do not belong in any program of tax reform."

GRT taxes, along with sales taxes, came into being in the 1920s and 1930s when states were searching for a ready source of revenue, often to replace delinquent property tax payments. Only Delaware, Washington, and Ohio are still using a GRT. (It should be noted that some other states label their sales taxes as gross receipts taxes.) Ohio is notable for its recent adoption of a low-rate (.26 percent) GRT (called the Commercial Activity Tax) that is currently being phased in as a replacement for the corporate fran-

chise and tangible personal property taxes. Texas recently imposed a gross margins tax which is a hybrid of a GRT and VAT in that the cost of some, but not all inputs, can be deducted from the base.

The debate in Illinois was a classic example of the use and more often the misuse of the economic arguments concerning taxation. The GRT was heralded as an innovative low-rate, broad-based tax that would be superior to income and sales taxes. When Blagojevich ran for office in 2002, he promised not to raise the income and sales tax rates as well as not to expand the sales tax base to include services. This promise was renewed in 2006 when he ran for reelection. The governor's argument in support of the GRT tax was based on his belief that it was a tax on business, but not on people. He asserted: "They (business) want me to raise the income tax and increase the sales tax. They want us to raise taxes on people. ... I'm going to say again, what I've said before a million times: I will not raise the income tax or the sales tax. I will not raise taxes on people."

Even though most analysts believe a GRT operates like a capricious sales tax with most of the burden passed along to consumers in terms of higher prices, the business community largely bought the governor's assertion and vigorously fought the proposal. The debate took an odd course where some critics suggested revising the GRT to exempt previously taxed inputs. This would have made the GRT more like a VAT. Other proposals suggested differential GRT rates based on the amount of pyramiding for particular goods or services which would have resulted in something akin to a sales tax much like Washington State's multi-rate GRT.

While the governor argued that the GRT was a tax on business, his plan exempted food to protect low-income consumers in contradiction of his own logic. The GRT was advanced as a way of making business in Illinois pay its fair share of the tax burden since corporate tax revenues have been declining in relative terms in recent years. Making Illinois business pay its fair share would suggest an origin-based tax. However, the GRT tax plan contained exemptions for exports from the state and an ill-defined use tax for sales into the state, making it more of a destination-based tax that would presumably fall on Illinois citizens. On a positive note, the tax would have been imposed on all forms of business, not just corporations.

In the end, the GRT plan failed to gain traction in Illinois, culminating in a spectacular 107 to 0 rejection in the Illinois House of Representative in a non-binding advisory vote. Economists are often guilty of focusing too much on efficiency to the exclusion of other important issues. In Illinois, the GRT plan failed because of its massive size and the general aversion of citizens to a huge tax in-

crease in whatever form, not because of its inefficiencies and internal contradictions. However, the technical issues of efficiency were at least raised and discussed in the debate.

References:

Chamberlain, Andrew and Patrick Fleenor, "Tax Pyramiding: The Economic Consequences of Gross Receipts Taxes," *State Tax Notes*, February 19, 2007 pp. 457-467.

Giertz, J. Fred, "The Illinois Gross Receipts Tax Proposal," *State Tax Notes*, March 26, 2007 pp. 899-901.

Mikesell, John L. , "State Gross Receipts Taxes and the Fundamental Principles of Tax Policy," *State Tax Notes*, March 5, 2007 pp. 615-632.

J. Fred Giertz, University of Illinois

Jane Gravelle Wins 2007 Davie-Davis Award

Congratulations to Jane Gravelle, this year's winner of the Davie-Davis Public Service Award. This award was established in 2005, in memory of NTA members Bruce F. Davie and Albert J. Davis. The award honors NTA members who served the public through the provision of expert analyses and objective advice on issues of taxation and government finance to elected officials, other policy makers, and the general public.

Jane is a Senior Specialist in Economic Policy at the Congressional Research Service, where she provides expert tax policy advice on demand for her 535 bosses in Congress. She's a long-time member of the National Tax Association and has served in numerous capacities including as president, board member, member of the editorial advisory board of the *National Tax Journal* and frequent contributor to the *Journal*, chair of the Spring Symposium, and editor of the NTA *Encyclopedia of Taxation*—both editions. Right now, she and her daughter, Jenny, are helping redesign the NTA Web site. She's a lynchpin of this organization.

Jane's articles cover everything, from A-Z, literally. Her vita arranges her many published in alphabetical order, starting with one titled "Altered States" (about the corporate income tax). Jane's dissertation was about effective corporate tax rates—a measure of how taxes affect different kinds of assets in different sectors (and can distort the allocation of resources). It won a NTA dissertation award, has been cited everywhere, and was the start of a long and incredibly productive relationship with the NTA.

Her papers have great titles. Some examples: "Burning Issues in the Tobacco Settlement," and "Marlboro

Math" (two in a series of articles, some with Dennis Zimmerman, about why cigarette excise taxes far exceeded the external costs imposed by smokers. This made her the darling of one of the most insidious industries in the world—something that seems to give her perverse pleasure.) She took the lead in a book about tax expenditures called *Bad Breaks All Around*, in which one will find the answer to the trivia question: "What do Charles Bronson and the mortgage interest deduction have in common?" (Answer: They're both part of the "dirty dozen," the term Jane used to describe the 12 most egregious tax loopholes in the Code.) She's also produced the biennial CRS compendium of tax expenditures for the Senate Budget Committee, an invaluable resource for policy makers who'd like to clean up the tax code.

She's written about every aspect of business and international taxation. She wrote a book on capital taxation. She can speak at length about the defects of the new view of dividends, capital import neutrality, savings incentives, and the concepts of "competitiveness" or "job creation"—and will given the least provocation. She has debunked convincingly the unrealistic assumptions underlying infinite horizon models of taxation—the notion that the rate of return on capital 30 years hence will affect your labor supply decisions now, and so on.

Jane was good friends with Al Davis—who, with Bruce Davie, embodied the spirit of public service that this award in their memory recognizes. Al, a key Ways and Means staffer, relied on Jane to provide him ammunition in his quest to scuttle dumb policy proposals or even occasionally sneak good ones in the mix. They had so much fun trying to undermine politicians' natural tendency to mess up the tax code.

-Len Burman, Davie-Davis Chair



Jane Gravelle and Len Burman

Recent Writings in Tax Policy

If you or your organization has a recent publication on a tax or public finance topic that you would like to share, please send the cite and link to natltax@aol.com or Pamela.Moomau@mail.house.gov.

Alternative Minimum Tax

<http://www.taxpolicycenter.org/publications/urlprint.cfm?ID=10183>

Leonard E. Burman, *The Individual Alternative Minimum Tax*, Testimony before the U.S. Senate Committee on Finance Author(s): June 27, 2007.

<http://www.house.gov/jct/x-38-07.pdf>

Joint Committee on Taxation, *Present Law and Background Relating to the Individual Alternative Minimum Tax Scheduled for a Public Hearing before the Senate Finance Committee on June 27, 2007*, JCX-38-07

<http://www.taxfoundation.org/publications/show/22449.html>

Gerald Prante, *A Progressive AMT Fix Without Higher Tax Rates*, Special Report No. 157, June 27, 2007

http://www.aei.org/publications/pubID.26394.filter.all/pub_detail.asp

Alan D. Viard, *Warning, Danger Ahead*, June 25, 2007

Hamilton Project

The following papers on reforming taxation were presented June 12, 2007 as part of the Brookings Institution Hamilton Project - "an economic strategy to advance opportunity, prosperity, and growth."

http://www1.hamiltonproject.org/views/papers/furman/200706summers_bordoff.htm,

Jason Furman, Lawrence H. Summers and Jason Bordoff, *Achieving Progressive Tax Reform in an Increasingly Global Economy*

<http://www1.hamiltonproject.org/views/papers/200706kleinbard.htm>,

Edward D. Kleinbard, *Rehabilitating the Business Tax*

<http://www1.hamiltonproject.org/views/papers/200706batchelder.htm>,

Lily L. Batchelder, *Taxing Privilege More Effectively: Replacing the Estate Tax with an Inheritance Tax*

http://www1.hamiltonproject.org/views/papers/200706clausing_aviyonah.htm,

Kimberly A. Clausing and Reuven S. Avi-Yonah, *Reforming Corporate Taxation in a Global Economy: A Proposal to Adopt Formulary Apportionment*

Announcements

NTA Session Scheduled for the ASSA Meeting in New Orleans, January 4-6, 2008

Look for the NTA session, entitled *What Can Experimental Economics Teach Us About Public Finance?* at next year's Allied Social Science Associations meeting. It will include the following papers:

James Alm and David Sjoquist (Andrew Young School of Policy Studies, Georgia State University): *Experimental Tests of the "Flypaper Effect"*;

Dirk Engelmann (University of London) and Nikos Nikiforakis (University of Melbourne): *Punishment and Feuds in Public Goods Games in the Laboratory*;

Todd Cherry and Michael McKee (Appalachian State University): *Voter Responses to Congested Public Goods: Raise Taxes versus Ration Access?* and

Catherine Eckel, Philip Grossman, and Sherry Xin Li (University of Texas at Dallas): *Giving to Government: Voluntary Taxation in the Lab*

Discussants are Susan Laury, Andrew Young School of Policy Studies, Georgia State, and Christian Vossler, University of Tennessee at Knoxville. Seth H. Giertz, Congressional Budget Office, will moderate.

NTA First Vice President Ranjana Madhusudhan has been named Assistant Director of the Office of Revenue and Economic Analysis for the Division of Taxation in the Department of the Treasury, State of New Jersey.

NTA's Executive Director, Fred Giertz is recovering from hip replacement surgery.

Keep Fred in your thoughts during this time of recuperation.



Thomas Woodward and Ranjana Madhusudhan

JOB OPENINGS

The **Legislative Analyst's Office (Sacramento, CA)** is the nonpartisan fiscal and policy advisor to the California Legislature. It has served the Legislature and the people of California for over 65 years. The office currently employs 42 analytical and 13 support staff. Staff of the LAO are hired and promoted on a merit basis and are exempt from civil service.

The Economics, Revenues, and Taxation Section is seeking an **Economist** to provide: (1) in-depth economic analysis to the office and the Legislature on a wide array of public finance issues, (2) modeling and forecasting of state tax revenues, and (3) in-house economics consulting on such diverse topics as health insurance and the economic impact of climate change.

A PhD (or ABD) in Economics or a closely related field is preferred, but we will consider candidates with a Masters in Economics, with additional graduate-level economics training a definite plus. Special consideration will be given to candidates with economics-related work experience or abilities and strong interests involving public policy issues—particularly in such areas as economic studies, taxation, demographics, and forecasting and modeling.

Visit http://www.lao.ca.gov/laoapp/Careers/lao_employment_openings.aspx for more information about the position, our office, and how to apply.

The **Tax and Accounting Specialist** is responsible for the preparation and filing of tax returns for high net worth individuals, complex trusts, gift, and private foundation tax returns, the preparation and filing of quarterly estimated taxes; the preparation and filing of appropriate tax work papers, correspondence and supporting schedules.

ESSENTIAL DUTIES AND RESPONSIBILITIES include the following (other duties may be assigned):

Preparation of federal and state income tax returns, including various other states and other compliance related returns for the following entities: high net worth individuals; complex and simple trusts; private foundations; LLCs; some Partnerships and S Corps.

Performs various tax planning and tax relevant research, including quarterly estimated tax forecasts and any other tax related special projects.

Performs and records year-end tax true-up adjustments for the accounting system.

Prepare and record year-end income.

Prepare correspondence and answer information requests and notices from various taxing authorities.

Participate in federal and state income tax audits by assisting with gathering of requested documents and reports.

Assist on special projects in both the tax compliance and accounting areas as needed.

Must be able to work flexible and extended hours in order to complete filings, projects, and work assigned.

EDUCATION, QUALIFICATIONS, and or EXPERIENCE

Bachelor's degree in accounting from a four-year college or university with a minimum of seven years related experience and/or training or equivalent combination of education and experience. Certified Public Account (CPA) license preferred. The candidate must have good working knowledge of Excel and Microsoft Word and Prosystem Tax Software. Must have excellent verbal and written communications skills.

OTHER SKILLS AND ABILITIES

Must be able to demonstrate extensive working knowledge of high net worth individuals, complex trusts, and private foundation tax laws. Also needs to have working knowledge of partnership & S Corporation tax laws. For immediate consideration, please send resume and cover letter to Allenda Simpson, Recruiting Manager, 199 Fremont Street, Suite 1930, San Francisco, CA 94105, or fax to 415-284-8918, or e-mail recruiter@fremontgroup.com.

Fremont Group offers a very competitive benefits and compensation package which includes medical, dental, 401(k) PTO and commuter checks. Fremont Group is an Equal Opportunity Employer.

WELCOME NEW MEMBERS

Roy Clemons, Texas A&M University, College Station, TX
R.K. Jain, The Boeing Company, Houston, TX
Ryanne MacLoughlin, Golden Gate University,
 San Francisco, CA
Katherine Pratt, Loyola Law School, Los Angeles, CA

MEMBERS ON THE MOVE

Jim Eads, from the New Mexico Tax Research Institute to Ryan Company Austin, TX
Jim Nunns, from the Department of Treasury to New Mexico Department of Taxation and Revenue, Santa Fe, NM
Donald Marples, from the Government Accountability Office to the Library of Congress, Washington, DC

Scenes from the 37th Spring Symposium...



Panel on Issues in Corporate Taxation



Panel on the Role of Federal and State Government Interaction in Setting Policy



...Tax Policy -
Unfinished Business



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