

New Directions in State and local Tax Policy: Views from Practitioners, Policymakers and Taxpayers.

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Across the states, proposed and enacted tax reforms have become widespread as states attempt to adjust their tax structures to either unwind, make permanent or adapt to the lessons of the great recession and economic changes. Proposals have emerged ranging from the introduction of income taxes in states that presently have none, to mandatory unified combined reporting, to sales tax base expansion to both final consumption services and intermediate services, to economic nexus, to a resurgence of gross receipts taxes, to altered treatment for partnerships, to "millionaire" taxes, to erosion of homestead property tax bases, to shifting education tax reliance. Our review of state tax proposals has shown substantial attention to personal income taxes (rates, brackets, base, exemptions, exclusions, deductions, credits, capital gains and tax swaps), corporate/business income taxes (combined reporting, inversions/tax havens, transfer pricing, rate structure, credits, deductions, exclusions, pass-through, apportionment, NOL carryforward, etc.), sales taxes (service and intermediate service base, remote sellers and click-through (and economic) nexus, rates and differential/classified rates, holidays, exemptions, local option), property tax (valuation basis, personal business property, off-sets, exemptions, deductions, limits, relief, circuit-breakers, earmarked), excise taxes (fuel, carbon, tobacco, nicotine, accommodations, communications, utilities, sugar). The frontier of state tax reform is cluttered and many of the proposals strongly depart from what might be described as desirable tax policy.

We surveyed policy makers, practitioners and taxpayers in all 50 states regarding on their views on areas most in need of reform, areas likely to be reformed, the implications of those reforms and the coalitions and motivations behind them. Specifically we surveyed state revenue departments, state budget offices, state legislative services agencies, chambers of commerce, economic development corporations and businesses within each state to ascertain their views on needed and probable tax reform in their state. In this paper, we report the findings across states and regions. There is sometimes a surprising level of consensus on the need for particular structural adjustments to state tax systems, however, that consensus often dissipates when it comes to the likelihood that actual adjustments will be made. Expectation are not always consistent with perceived need and many of the adjustments which are perceived to be most likely reflect significant departures from what would general be considered "good" tax policy. Motivations vary, however, perceptions of necessity seem to motivate a significant portion of expectations. While necessity may be the mother of invention, our findings suggest that it is not the mother of good tax policy, at least not in 2016.

We end with a typology /classification of reforms, by region of the country, identifying their strengths and weaknesses in the face of tax theory and weight these possible outcomes by their expected probability of enactment. This provides a regional index for tracking the balance of expected tax structure adjustments across the nation and a forward looking view of the degree to which tax reform is likely be tax structure enhancement or degradation for resident populations and businesses.