

B-26/01
October 30, 2001

2001 Annual FTA Revenue Estimation and Tax Research Conference *Summary of Proceedings*

To State Tax Administrators:

SUMMARY

The 56th Annual FTA Revenue Estimating and Tax Research Conference was held September 23-26, 2001, in Minneapolis, Minnesota. Presiding over the conference was Tom Potiowsky of the Oregon Office of Economic Analysis and Chair of the FTA Research Section. This bulletin summarizes the proceedings and lists the various papers available from FTA.

The 56th Annual FTA Revenue Estimating and Tax Research Conference was held September 23-26, 2001, in Minneapolis, Minnesota. Presiding over the conference was Tom Potiowsky of the Oregon Office of Economic Analysis and Chair of the FTA Research Section. Welcoming the participants was the Conference Host, Matthew Smith, Commissioner of the Minnesota Department of Revenue.

The program included presentations by the major forecasting firms and industry representatives on their economic forecasts for the next 18 months. In addition, presentations on the Streamlined Sales Tax Project and an overview of electric utility deregulation were given. The entire day Tuesday was dedicated to various concurrent sessions covering issues of interest to state economists such as tax reform, estimating the impact of the Streamlined Sales Tax Project, forecasting personal income taxes, revenue forecasting during an economic downturn, deregulation of utilities, the impact of single sales factor, data base techniques, and estate tax forecasting.

On Wednesday morning, the participants heard several presentations on topics of broad interest to state economists. These presentations included recent federal legislative activities, the Census Bureau efforts to improve e-commerce estimates, and an update on Michigan's education finance reform.

Economic Forecasts

The conference began with several presentations by the major forecasting companies discussing the overall macro, regional, and international economic outlooks. Both Cynthia Latta, with DRI-WEFA, and Charles de Seve, with American Economics Group, noted that the economy is currently in a recession. However, they differ in the expected length of this recession. Cynthia Latta described the current outlook as the "U.S. Economy Between Two Eras." The era containing the longest period of economic growth has ended with the current recession. The recovery that will begin in early 2002, will mark a new era.

Currently, several forces are acting to push the economy into a recession. They include low consumer confidence, excess capacity, bad investments in dot-coms, overpriced dollar, and general liquidation of inventories by businesses. However, Latta noted that several forces promoting an economic recovery should become more dominant early next year. These forces include a decline in energy prices, general tax reductions, lower short-term interest rates, a new Microsoft operation system, and increased federal spending. The DRI-WEFA forecast projects two quarters of decline, followed by a strong recovery in 2002. By the fourth quarter of 2002, the rate of growth in real GDP is expected to reach 4.6 percent.

Charles de Seve, giving the regional outlook, began his presentation with an overview of the national forecast. He noted how the U.S. is currently in a recession, with a recovery at least three to four quarters away. The unemployment rate is expected to reach 6 percent, with consumer spending—including automobile sales—projected to decline sharply.

The impact on the different states will depend heavily on each state's mix of industry. De Seve noted that states dependent on travel industries will suffer, while those with a large federal government sector will not. States expected to perform best, include Alaska, Delaware, District of Columbia, Kansas, Louisiana, Maryland, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, Virginia, West Virginia, and Wyoming. These states can expect employment growth (from 2nd quarter of 2001 to the trough) of zero to -1.4 percent. Meanwhile, states expected to perform worst, include Arizona, Hawaii, Indiana, Michigan, Minnesota, Nevada, New Hampshire, Ohio, Tennessee, Vermont, and Wisconsin. Employment growth in these states are expected to grow by -2.1 percent to -6 percent. De Seve noted that states in the farm belt will gain the most after the recession.

Diane Hardt, Wisconsin Department of Revenue, gave an update on the Streamlined Sales Tax Project (SSTP). The project was created to help solve the complexity of the current state sales and use tax. This complexity has cost states use tax revenues while creating a disadvantage for main street vendors. Its goal is to modernize the sales and use tax system by simplifying it and using technology to improve compliance. SSTP has grown from an initial eight states to 33 states that have approved legislation, and it also has seen a steady increase in participation by business representatives.

Ms. Hardt noted that the program has already created a number of uniform definitions, which would enable states to pick from a menu of uniformly defined items to specify their tax base. Another subgroup has been working on uniform administration and sourcing rules. A technology group has developed different models to utilize technology to administer and collect the tax. Indeed, a number of states have released RFP's to contract with a provider that would test the system for a Certified Service Provider.

Mike Bull, an analyst with the Minnesota House Research Department, gave a presentation on the current trends in the electric utility industry. He noted that competition was all the rage throughout the 1990s, as 23 states and the District of Columbia enacted laws or Commission orders authorizing retail choice. Then the problems developed in California. However, Bull noted how these problems were unique to the law in this state, which created a disconnect between retail and wholesale prices. It had a restriction requiring utilities to buy only one day ahead, and the state lacked the infrastructure to permit full competition to prevail.

While no state has acted to reverse its deregulation of electric utilities since California, Mr. Bull noted there has not been any effort in other states to enact retail choice of electricity. Currently states are monitoring their infrastructure to be sure of electricity availability. States are creating or using Regional Transportation Operators (RTO) to ensure availability of electricity. They are also enacting tax incentives for new infrastructure, while examining their tax systems to ensure a level playing field for different infrastructure providers.

Governor Jesse Ventura gave the luncheon talk to the conference addressing the recent tax reform activities in Minnesota. To pursue his goal of helping the people to get control of government, he knew that it was necessary to make tax reform issues simple to understand. He noted how the state's tax laws have become so "complex that it defies logic." Minnesota has an extremely complex property tax system used to finance education. Its sales tax consists of a patchwork of exemptions and has not kept pace with the changing economy—shifting to services. All pointed to a need to overhaul the tax system.

While the legislature did not enact all of the proposals this year, Governor Ventura did note that extensive property tax changes were enacted. The property tax system will be simplified with fewer categories, and the overall rate will be reduced by shifting education funding to the state. The sales and income tax proposals were not enacted. However, legislation was approved to enter Minnesota into the Streamlined Sales Tax Project, simplifying the sales tax system. In conclusion, Ventura suggested that states looking to implement tax reform should look at their system to identify where it is not working, measure and estimate how it affects the people, and "stand your ground" after coming up with solutions.

Wednesday Morning

On Wednesday morning, participants heard presentations of general interest to state tax analysts. Harley Duncan, Executive Director of the Federation of Tax Administrators, gave an update of recent federal legislative activities. He began by reviewing the current tax bills that could affect states finances. They include several bills on the Internet Tax Freedom Act (ITFA), a business activities tax (BAT) nexus bill, and 4-R protection for broadband providers. With the congress operating on a shortened and focused agenda since September 11, many of these are not on the agenda. The most likely scenario is straight short-term extension of ITFA. The BAT and 4-R type bills are most likely going to be addressed next year, so state analysts should sharpen their understanding of the issues and project the impact on states.

Mr. Duncan then turned his discussion to the tax reduction bill recently approved by Congress. The costliest pieces do not affect states and include marginal rate reductions and marriage penalty relief. Provisions related to children, education incentives and retirement/pension incentives would have a minor impact on state revenues. Meanwhile, the phased reduction in the state estate tax credit costs the states the most of any provision in the tax bill.

And finally, the executive director discussed federal legislative options after September 11. Budgetary constraint from the social security lockbox is no longer applicable, as Congress responds to the terrorist threat. An economic stimulus package is likely which could have various tax components. Some options discussed include capital gains reductions, further rate reductions/rebates, accelerated depreciation, AMT fixes, energy provisions, and corporate tax reductions.

John Gates, from the U.S. Census Bureau, gave a presentation on the Bureau's efforts to improve measurements of electronic business. He notes how the Census Bureau's efforts have been to measure three different aspects of the digital economy. E-Business infrastructure measures the use of hardware, software and telecommunications networks. Secondly, Census is examining e-business processes, to understand how the new technologies affect business operations, improve efficiency and affect economic measures. And finally, Gates noted how they are measuring the value of e-commerce transactions. Indeed, Census measurements of e-commerce retail sales were only 0.9 percent of all sales. Additional data, papers and information on Census's future activities can be found on its Website at <http://www.census.gov/estats/>

With renewed attention on education finance in several states, Mark Haas, with the Michigan Department of Treasury, gave an update on the comprehensive education finance reform in his state.

Haas noted that in the early 1990s, Michigan's property taxes were 30 percent above the national average, assessments outpaced inflation and there were large funding inequities among school districts. In 1994, the state legislature placed a cap on local property tax rates and increased state funding for education. To finance the state funding, they placed on the ballot a constitutional amendment that would raise the sales tax and cigarette tax. If the ballot was not approved, an income tax increase would automatically take effect. The result was lower property taxes, an increased and more equalized level of funding for schools, and a tax structure in Michigan more like the national average.

Breakout Sessions

On Tuesday, conference participants were offered several concurrent breakout sessions. The topics included issues in tax reform, estimating the impact of the Streamlined Sales Tax System, issues forecasting personal income taxes, revenue forecasting during an economic downturn, deregulation of utilities, the impact of single sales factor, data base techniques, and estate tax forecasting issues.

Attached is a complete list of papers available from FTA. If a topic was discussed for which no paper is available, please contact us and we can put you in contact with the presenter. Also, electronic versions of many presentations can be found on the FTA Web site at <http://www.taxadmin.org>.

Sincerely,

Harley T. Duncan
Executive Director

Attachment: as stated

Papers Available

Monday Morning -- General Session

The U.S. Economy: Between Two Eras

Cynthia Latta, DIR-WEFA

The Economic Outlook

Mark Zandi, Economy.com, Inc. *(Not Presented)*

Regional Forecast: We are in Recession

Charles W. de Seve, Ph.D., American Economics Group

Streamlined Sales Tax Project

Diane Hardt, Wisconsin Department of Revenue

The Electric Industry As Told by Yogi Berra [tables accompanying remarks]

Mike Bull, Minnesota House Research Department

(Not available electronically--hard copy only)

Wednesday Morning -- General Session

Washington Update

Harley Duncan, Federation of Tax Administrators

Measuring Electronic Business

Thomas L. Mesenbourg, U.S. Census Bureau *(presented by John Gates, U.S. Census Bureau)*

Michigan's Experience With School Finance Reform

Mark Haas, Michigan Department of Treasury

Monday Afternoon -- Concurrent Session

Economic Outlook by Sector

Motor Vehicle Outlook

Mark Haas, Michigan Department of Treasury

Retail Sales/Sales Tax

Charles W. de Seve, Ph.D., American Economics Group

The American Love Affair With Housing

Cynthia Latta, DIR-WEFA

Issues in Tax Reform

New Hampshire Education Funding Reform

G. Philip Blatsos, New Hampshire Dept. of Revenue Administration

Minnesota's Tax Reform 2001

Richard Gebhart, Minnesota Dept. of Revenue

Tax Reform: West Virginia Style [presentation]

Mark Muchow, West Virginia Dept. of Tax and Revenue

(Not available electronically--hard copy only)

Tuesday -- Concurrent Session

Estimating the Impact of the Streamlined Sales Tax System

Fiscal Effects on Wisconsin of Adopting the Definitions Proposed by the Streamlined Sales Tax Project

Blair P. Kruger, Wisconsin Department of Revenue

Streamlining One Industry: The Communications Industry in Florida [presentation]

Christian Weiss, Florida Dept. of Revenue

(Not available electronically--hard copy only)

FY 2002 Personal Income Tax Forecasting . . .

Issues in Tax Year 2001 Income Tax Forecasting in Minnesota [tables accompanying remarks]

Thomas Stinson, Minnesota Dept. of Finance

(Not available electronically--hard copy only)

Issues in Forecasting Individual Nonwithholding Payments [tables accompanying remarks]

John R. Layman, Virginia Dept. of Taxation

(Not available electronically--hard copy only)

Issues with Taxing Deregulated Industries

Minnesota Utility Tax Reform

Jennifer Eng, Minnesota Department of Revenue

A Tax System That Make Sense for Minnesota: Utility Tax Reform [final report]

(Not available electronically--hard copy only)

Study of Electricity Taxation

Ray Philen, Washington State Department of Revenue

Anne Solwick, Washington State Department of Revenue

Lorrie Brown, Washington State Department of Revenue

Electricity Generation: Customer Choice and Competition

Brenda Stoner, Pennsylvania Department of Revenue

Single Sales Factor

The "Single Sales Factor" Formula for State Corporate Taxes

A Boon To Economic Development or a Costly Giveaway?

Michael Mazerov, Center on Budget and Policy Priorities

The Double-Weighted Sales Factor in the Pennsylvania Corporate Net Income Tax 1993-1998

C. Daniel Hassel, Pennsylvania Department of Revenue

Single Sales Factor Apportionment Distributional Data

Pam Walgren, Wisconsin Dept. of Revenue

Forecasting for an Economic Downturn

Hunting for Leading Indicators: The Iowa Experience

Michael Lipsman, Iowa Dept. of Revenue and Finance

(Not available electronically--hard copy only)

Data Base Techniques

Corporation Simulation Model

Bill Witzlenben, New York State Dept. of Taxation & Finance

Capital Gains Data From the Wisconsin Tax Model

Eng Braun, Wisconsin Department of Revenue

Estate Tax Forecasting Issues

Estimating the Effect of Federal Estate Tax Changes on Michigan Revenues

David Zin, Michigan Senate Fiscal Agency *(Presented by Rebecca Ross, Michigan House Fiscal Agency)*

Some papers are not available in electronic form. Copies of these papers can be obtained from FTA. All papers are free for FTA members, while non-members will be charged a nominal copy and shipping charge (10 cents/page plus postage). To receive copies of any papers, send an e-mail message to pat.wehland@taxadmin.org.