Federal Issues Affecting the States

FTA Revenue Estimation & Tax Research Conference
September 24, 2003

Purpose

• Federal fiscal situation
• Tax issues affecting the states
• Status and future of federal and state tax relationships
Federal Fiscal Position
Cumulative Surplus/Deficit -- 2004-2013 -- $ Billions

Source: Congressional Budget Office

Federal Fiscal Forecasts
Annual Deficit/Surplus -- Jan. 2001 - Aug. 2003 Forecasts

Source: Congressional Budget Office
Components of Change
Sources of Increased Deficit between January and August Forecasts

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tech. - Outlay</td>
<td>12%</td>
</tr>
<tr>
<td>Tech. - Revenue</td>
<td>19%</td>
</tr>
<tr>
<td>Economic</td>
<td>3%</td>
</tr>
<tr>
<td>Leg. Revenue</td>
<td>11%</td>
</tr>
<tr>
<td>Leg. Outlays</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office

Other Business To Attend To

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extend Expiring Tax Prov.</td>
<td>-$1,564</td>
</tr>
<tr>
<td>Reform AMT</td>
<td>-$400</td>
</tr>
<tr>
<td>Prescription Drug Benefit</td>
<td>-$400</td>
</tr>
<tr>
<td>Inc. Approps by nominal GDP</td>
<td>-$1,392</td>
</tr>
<tr>
<td>Inc. Approps by 7.7%</td>
<td>-$2,832</td>
</tr>
<tr>
<td>Inc. Sel. Approps by inflation</td>
<td>$818</td>
</tr>
<tr>
<td>Freeze Approps at 2003</td>
<td>$1,223</td>
</tr>
</tbody>
</table>

Source: CBO
Summary Position

- Continuing deficit situation; worsened by expected legislation action
- Substantial sensitivity to expenditure restraint
- No consensus on need for or approach to reduction
- No consensus on macroeconomic impact
- Situation does not seem to constrain consideration of further tax changes
  - Small Senate exception
Internet Tax Freedom Act

- Passed House
  - Permanent extension
  - Repeal grandfather
  - Telecom amendment
- Senate
  - Commerce, then Finance
  - Working narrowing of tax types, telecom issues, bundled content issues

Other Direct Issues [Cont.]

- Streamlined/Remote Sales
  - Imminent introduction
  - Issues
    - De minimis standard (measurement)
    - Vendor compensation
    - Federal court jurisdiction
    - Simplification standards
- BAT Nexus restrictions
  - Physical presence
  - Carve-outs
  - Linkage
Federal Policy Issues

• Charitable giving incentives
  - Non-itemizer deduction
  - IRA withdrawals (70 1/2)
• Energy Bill
  - Mainly credits, depletion allowances
  - Ethanol changes

Federal Issues [Cont.]

• FSC/ETI Replacement
  - Domestic manufacturers
  - International reforms
• EGTRRA/JGTRRA extensions and accelerations
• Health savings accounts
• Retirement allowances
• Refund offset
Federal-State Relationship

- Weak to non-existent
- Little recognition, understanding or caring
- No institutions/infrastructure
- Propensity to Preempt
- Choices for states
  - Decoupling
  - Complexity
  - Compliance