Tax Policy in the 21st Century

Presented to

Wisconsin Family Impact Seminar

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The University of Tennessee
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Characteristics of a good tax system

• Provides sufficient revenue
  – Current revenues
  – Long term growth
  – Stability
Characteristics of a good tax system

• Fairness
  – Incidence must be considered since fairness should be addressed in terms of who actually bears the tax burden
  – Vertical equity
  – Horizontal equity
  – Equity for the system
Characteristics of a good tax system

- Low administration and compliance costs
  - Administration
  - Compliance
  - Evasion and avoidance
Characteristics of a good tax system

• Limited economic effects
  – Work effort
  – Consumption decisions
  – Property transfers
  – Property improvements
  – Savings
  – Business and household locations
Distribution of Wisconsin State Tax Revenues, 2009

- Individual income tax: 41%
- Corporate income tax: 5%
- Selective sales: 18%
- General sales: 28%
- License taxes: 6%
- Other taxes: 2%
Wisconsin Total State Tax Revenue Growth Rates, 1994-2009
Change in Total Taxes,
July-September, 2009 to 2010

U.S. = 3.9%

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Tax Reforms/Changes around the US

• Lower income tax rates until 2009
• Sales Tax
  – Raise sales tax rates
  – Seek tax on remote sales
  – Tax more services
• Business tax reform
• Raise alcohol and tobacco tax rates
• Property tax growth caps
Maximum Individual Income Tax Rates, 2010

<table>
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<tr>
<th>State</th>
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<tr>
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<tr>
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<td>TEXAS</td>
<td>0.0%</td>
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<tr>
<td>FLORIDA</td>
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</table>

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Reduction in the Income Tax Rate (1985 to 2007 Highest Marginal Rate)

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Individual income tax rate changes in 2009 and 2010

Note: Vermont and New Jersey had more than one rate change over the two year span. Shown is the direction of the most recent change.
Source: The Tax Foundation.
Change in Sales Taxes, July-September, 2009 to 2010

U.S. = 4.1%

Less than 3.0% --15--
3.0% to 5.0% --14--
Greater than 5.0% --14--
NA/ND --7--
STATE SALES TAX RATES, 2010

CALIFORNIA
NEW JERSEY
INDIANA
TEXAS
MASSACHUSETTS
ILLINOIS
WEST VIRGINIA
PENNSYLVANIA
MICHIGAN
KENTUCKY
FLORIDA
OHIO
WISCONSIN
NEW YORK

January 2011
NUMBER OF SALES TAX RATE CHANGES

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Sales tax rate changes in 2009 and 2010

D.C. had a sales tax rate increase.

Source: The Tax Foundation.
ESTIMATED TOTAL E-COMMERCE SALES

*Sales-taxing states only.

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Composition of Total State and Local Business Taxes, FY2009

- 36% Taxes on business property
- 22% Individual income tax on business income
- 13% Business license and other business taxes
- 9% Unemployment Insurance tax
- 6% Corporate income tax
- 6% Excise, utility and insurance taxes
- 5% Sales tax on business inputs
- 9% Other business taxes

Change in Corporate Income Taxes, July-September, 2009 to 2010

U.S. = (2.5)%
State Corporation Net Income and License Tax Base

[Graph showing trends in corporate profits as a percent of corporate profits and as a percent of GDP from 1979 to 2007.]

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Types of Business Tax Reform

• New tax structures – Ohio, Michigan, Texas

• State efforts to reduce tax planning
  – Combined reporting
  – Disallow/addback deductions between related companies - Massachusetts
  – Economic nexus - Impose nexus on passive investment companies – South Carolina
  – Examine passive investment companies for valid business purposes - Maryland
  – Audit transfer prices