March Meeting Minutes

Date	March 19, 2020
Meeting Attendees	The following people attended the meeting: **Technical Advisory Group Members** Katie Baird Adam Cline Doug Conrad Lucy Dadayan Maria Dallenbach Rachelle Harris Bob Heller Hart Hodges Gary Holcomb Sharon Kioko Ashley Kittrell Steve Lerch Jeff Mitchell Pete Parcells Rick Peterson Jim Schmidt Kriss Sjoblom Nick Tucker **Department of Revenue** Kris Bitney Preston Brashers Sara del Moral Ian Doyle Braden Fraser Melissa Howes Steven Lee Laura Chartoff Valerie Torres
Corporate Conversions	Sarah and Preston presented. **What states are you using as examples or that are showing conversions?** California, New York City, and Wisconsin have reported that revenue collections may be showing signs of corporate conversions.
B&O Tax Credit against Personal Income Tax	Sara presented. **What do you consider income?** For the personal income tax model, the base is adjusted gross income (AGI) as reported for the purpose of the federal individual income tax. **What is included in retirement income? Is it social security, pension plans, IRAs?** (slide 10). Yes. It is the taxable amounts of these three things, as well as taxable annuities.

Corporate Income\Net-Receipts Tax

Did the Gates study break this down by household?
We will check. (See answer below.)
Because the direct incidence of the corporate income tax is first borne 100% by businesses, the Gates study reported the breakdown of tax incidence by industry only related to the current tax structure, not related to each of the various proposed tax alternatives. The proviso says we must look at the effects of the Corporate Income\Net Receipts Tax by different business activities.

The Gates study only broke down the current taxes that impact households and the personal income tax portion by household income groups.

Comment
Depending on what inventory method businesses use (accounting and/or inventory records) they can pay taxes at the latest possible time – late in the year (November/December) based on fiscal year. Internal versus external records that can lead to income only showing at the end of the year.

Accounting activity, is there real activity that results later in the following years? Is there a real counter point to what Pete mentioned?
We are aware of the different fiscal year end dates for companies, but you do make a good point, particularly for 2017 to maximize in 2018.

Does the data give any insights into whether the difference between actual vs forecasted tax revenues was visible across businesses of different types or size - or perhaps concentrated in particular areas?
This is something we can look into, though we only have SOI data through 2015 (and Federal Tax Information data is not national).

The CBO seems to have misjudged behavioral responses. Does CBO have any idea in retrospect what they misjudged?
This document provides information on the CBO's thoughts on why the estimates were off. https://www.cbo.gov/publication/56121

Comment
Pete suggested we look at the Tax Foundation, which offers several reports changes in corporate tax structure and impacts to states.

Since you are adjusting for industry as well as large companies, how will you handle those two? Would there be a double-count?
There could be a double-count, therefore we would net out any large company adjustments from adjustments to the same industry.

Comment
During the break Doug looked at material from Brooking Institute, Doug will review and then send some information via email.

Corporate Income\Net-Receipts Tax, *Continued*

Comment
If we look at only sales as an apportionment factor, this could have significant impacts for those companies that do not make sales in Washington. Especially those with large manufacturing activities. We may not be able to buck the trend, but for example, Boeing does not make sales here in Washington, they deliver planes worldwide.
Thank you for this reminder/comment, the Study group will look into this further and get back to the group.

Comment
It is hard for the timeframe you were asked to look at because of the changes at the Federal level. Past proposals, looked at a steady state, which is not the case here. Corporate net income tax is all over the board and changes as the economy changes. One way to approach would be to assume a steady state, and another is to take into account that the federal tax changed right in the middle of the period you were asked to model. This is similar to what happened in the 1983 changes. It might help to think about answering the question in two parts – one in a steady state without the repatriation and then an analysis that looks at how it is different with a big change in the tax structure in the middle.
We will strongly consider this approach. Showing the two different estimates may help explain tax reform's impact.

Do we plan to look at the redistributive impact of the tax alternative across different industries in the state?
Yes. A future presentation will describe our plans to look at the effects of moving to a corporate income tax, broken down by industry.

Have you looked at validating the model, using other states?
Yes, that is where we are going next, moved to next slide.

Comment
Others suggested we look at our competitor states. Based on taxable income by state the mid-west states tend to conform to the federal definition.
Suggested States: Colorado, North Carolina, Minnesota

Comment
The whole business about the state changing when the feds change. Most states cannot not take changes when there is a tax base increase/revenue increase. When there is a loss, usually that can take a couple years for the business community to get the states to change to include.

Corporate Income\Net-Receipts Tax, *Continued*	**Comment** Like that building a macro model and a micro model, one can back up the other. May want to look at tax credits for job creation and research & development. **Comment** May want to consider how the COVID-19 virus is going to have effects. Corporate profit growth likely to be down this year. You may want to include a toggle switch in the model to reflect the impacts. **Does it matter how company size interacts with industry in apportionment adjustments?** It may be valuable to stratify adjustments by industry to allow for interaction effects. **Comment** Perhaps consider creating two estimates. One with and one without tax reform. We will consider this, but as mentioned, the period to complete these models is very tight. **Comment** There may be geographical variation in the effects of CIT. Businesses might move, for example, and different regions have different industries. Businesses in Vancouver, being near Portland, might also have different effects due to their proximity to Oregon.
Next Meetings	**April Meetings** **Tax Structure Workgroup Meeting – WebEx Only** April 2, 2020: 9:30 to 11:30 The group will release WebEx details next week, please let me if you would like to receive that information. **Technical Advisory Group - WebEx Only** April 14, 2020: 9 to noon Presentation on the Value Added Tax Model Presentation on the Personal Income Tax – Disabled Deduction **May Meeting** May 14, 2020: 1 to 4 Presentation from Dick Conway Presentation on the changes to Washington's Tax Structure since 2002 Presentation on Personal Income Tax – Out of State Credit

Next Meetings, *Continued*

Future Meeting Topics
We identified the following as meeting topics:
Corporate Income/New Receipts Modeling by Industry
Property Tax – there is a particular item in the tax structure study related to property tax
Border States Tax Structures
Measuring Tax Shifts – Business to consumer, Property tax to renters
Washington's competitiveness – nationally and globally
Corporate Income/Net Receipts Tax, Micro-simulation Model

Do you have any other topics you would like us to address at future meetings?
Pete Parcells – geographical differences of the tax impacts – discretionary income goes down, firms may move to take advantage of corporate income/net receipts tax, sales tax and Vancouver being close to Portland.