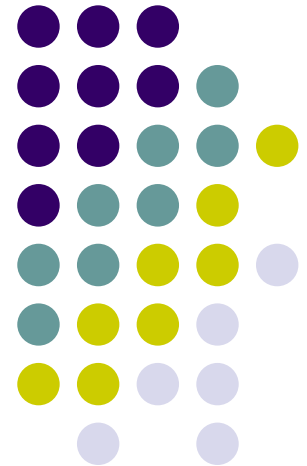
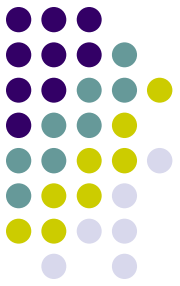


# The State of State Taxation

Western States Association of  
Tax Administrators  
September 11, 2007



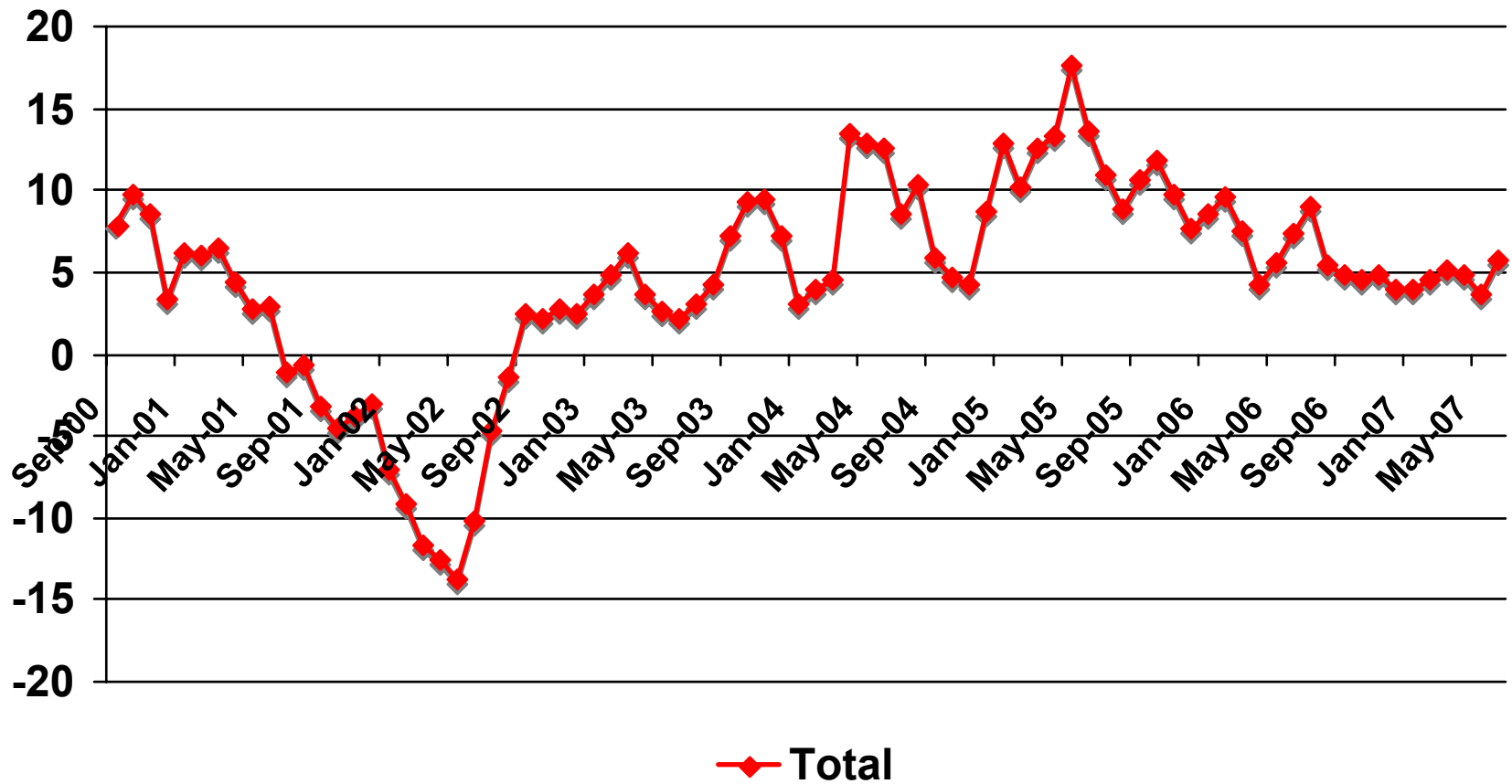
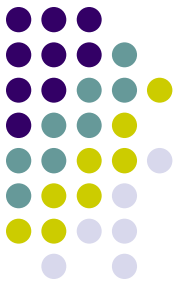
# Agenda



- Review recent revenue trends with a quick look at what we should expect
- Look at major pieces of federal legislation likely to be introduced that will affect states

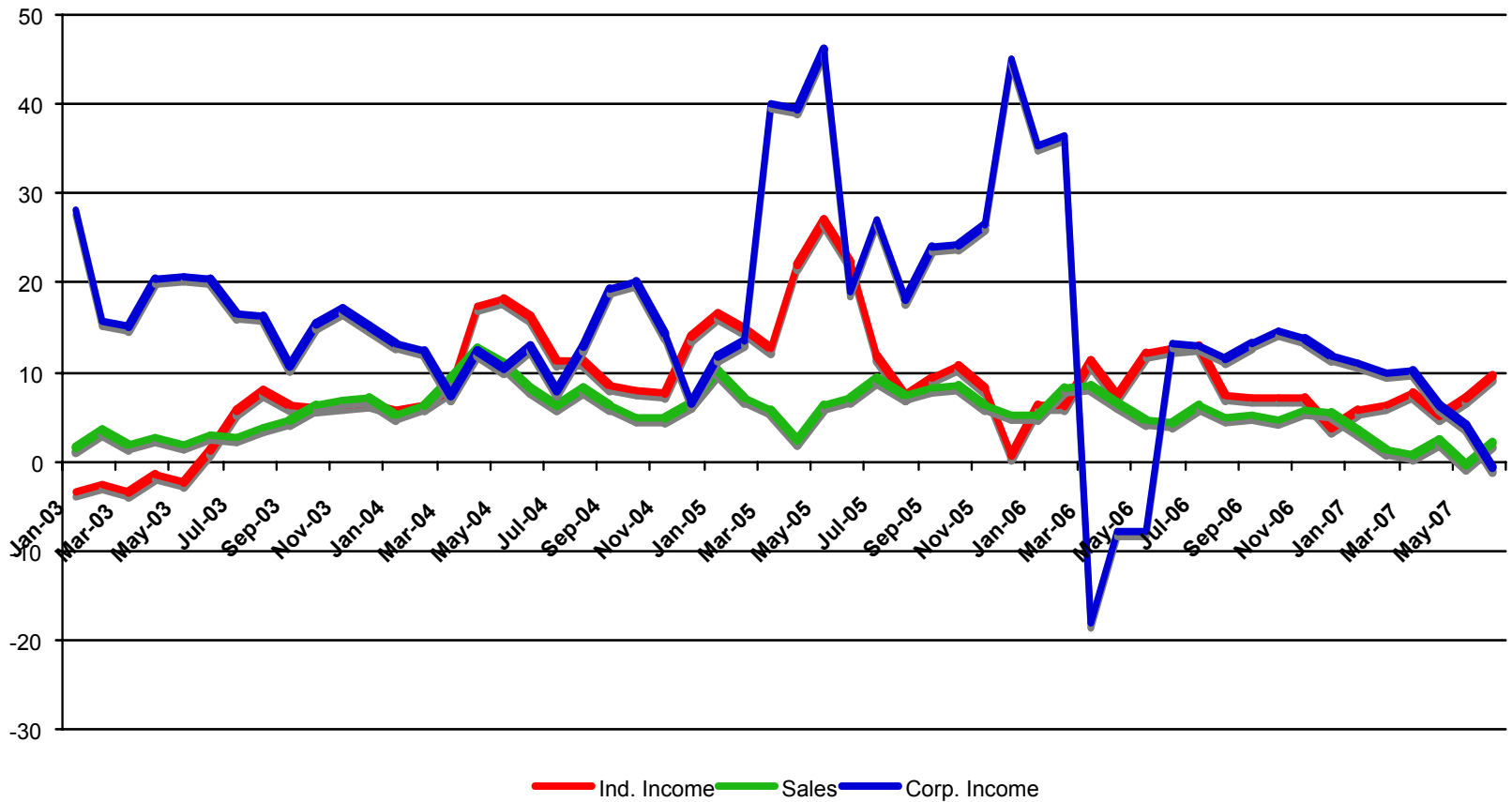
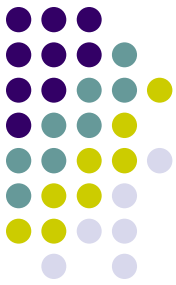
# State Revenues - Total Taxes

3-month moving average of monthly data

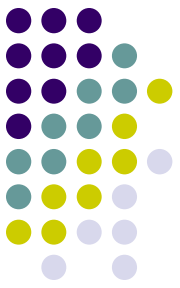


# Breaking It Down

## 3-Month Moving Average of Monthly Data



Source: Federation of Tax Administrators



# Other Reasons to Worry?

- U.S. economy is slowing
- Real estate slowdown will affect fiscal situation in several ways
  - \$1 trillion in “excess” cash
  - Relationship to purchases of durables
- Recent performance of corporate profits and taxes is unprecedented. Can’t be expected to continue
- Capital gains realizations unlikely to continue to increase

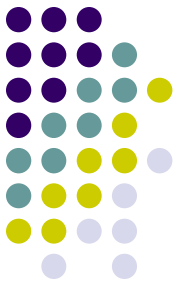




# Punchline

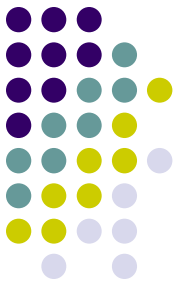
- NASCAR yellow caution flag should be out
  - Underlying revenue base seems decent
  - Medicaid is giving us a break, however
  - Unfunded pensions/universal health care will take it away
- Would seem to argue for caution in budgeting
  - One-time expenditures, infrastructure, prepare for rain
  - Caution regarding ongoing programs
- Don't really see that happening

# Federal Legislation - Intro

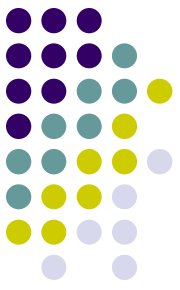


- Bar has been substantially lowered
- Policy of forbearance has been foregone
- Issue seems to be any grievance with states
  - Without regard to multi-state nature
  - Without regard to state remedies/avenues
  - Without regard to cooperative action
- Operating premise is one set of rules
- Also, win the issue in Congress and avoid states
- Little “win-win” thinking

# Federal Legislation - Summary



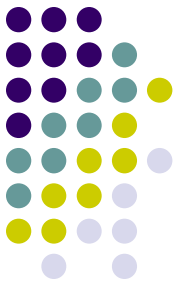
- There has to be a better way
  - Congress should not be an “uber-legislature”
- Cooperative state action -- Pressure for/incentives for
- Federal legislation providing incentives for “doing good”
- More seeking of middle ground
- Concerted business-government dialogue/action



# Remote Sales

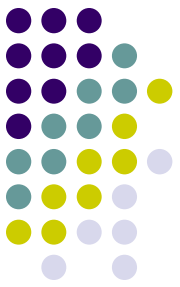
- Authority to require remote sellers to collect
  - If SST Agreement is operational
  - If Member of the Agreement
  - If Agreement meets standards in legislation
  - If seller is above “Small Business Exception”
- Legislation introduced in Senate -- S. 34 (Enzi)
- Legislation introduced in House -- H.R. 3396 (Delahunt, LaHood and Bacchus)
  - Hearing expected in September

# Issues for State

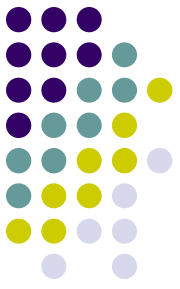


- Vendor compensation
- Telecommunications/cable simplification
- Small seller exception
- Tribal issue
- Federal court review
- Likely effort to attach BAT and other things

# Internet Tax Nondiscrimination

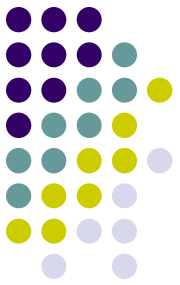


- Current law expires on Nov. 1, 2007
- Issues include:
  - Period of extension
  - Definition of “Internet access”
  - Existence/coverage of any grandfathers
  - Any necessary clarifications of 2004 enactments
    - Questions of state interpretations
  - Relevance of GAO report on “no impact on deployment or adoption”



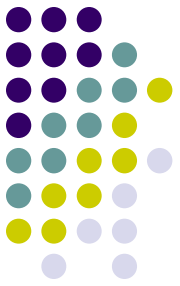
# ITNA -- Continued

- As a “must pass” bill, likely to be the catalyst for action on other issues
- State interest in attaching remote sales legislation
  - What is price?
    - Permanence? No grandfathers?
    - Federal court jurisdiction
    - BAT provisions



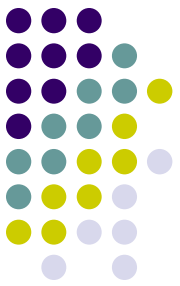
# Business Activity Tax Nexus

- Expansion of P.L. 86-272
  - Types of transactions and taxes covered
  - Types of activities
    - Furnishing information, Covering events
    - Purchasing items
    - Independent/dependent contractor exclusion
- Physical presence
  - 15 days of person or property
  - “Limited or transient” activity
- Issues for states
  - Revenue impacts
  - Opportunities for planning/sheltering
  - Impact on in-state businesses
- Alternative: 30 Years War



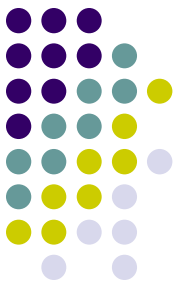
# Nonresident taxation

- Withholding/Liability on Temporary Workers
  - Real issue that is understood
  - Concerns:
    - 60 days is excessive
    - Dollar-limit caps exposure
    - Record-keeping
  - Willing to work with business community



# Other Legislation

- Cell Phone Tax Moratorium
  - Effect on state reform effort
- Rental cars
- Travel intermediaries
- Telecommuting - Convenience of Employer
  - A bi-state/regional issue --What's the 'federal' interest?
  - Our position: No collateral damage



# Prognosis

- Our position is improved with new Congress
  - Little appetite for BAT bill in House Judiciary
- Will require significant work to move or block anything
- Internet tax will be the catalyst/magnet
- Question may be what are states willing to pay for remote sales legislation

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Harley Duncan  
Federation of Tax Administrators  
<harley.duncan@taxadmin.org>

