

Tax Credits & Exemptions: An Update on State Actions

Presentation to Fiscal Leaders Seminar



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Mandy Rafool
Fiscal Affairs Program
NCSL





Overview

- NCSL State Tax Actions report records revenue changes on annual basis.
- 2009 findings:
 - States turned to revenue raising measures to help close budget gaps
 - The net tax increase was \$28.6 billion for FY 2010
 - Primary trend was to raise taxes on high-income earners
 - Secondary trend was to examine existing tax credits and exemptions.
- 2010 findings:
 - Much smaller net tax increase--\$4.2 billion for FY 2011
 - Not a lot of activity so no clear trend
 - To the extent there was a trend it was to broaden the tax base by eliminating some tax breaks.



2009 Actions--Re-examining Tax Breaks

Income Taxes

- Limited deductions for high-income earners: NJ and NY
- Lottery winnings: DE, NH & NJ
- Business credits: HI, KS, PA
- Film credits: IN, KS & WI
- Suspend NOL provisions: ME and CA (2008)
- Environmental credits:
 - NY eliminated credit for purchase of fuel cells and transportation improvements
 - OR reduced credit for renewable energy projects
 - WI delayed credit for biodiesel fuel production



2009 Actions--Re-Examining Tax Breaks Sales Taxes

- Expanded sales tax base to include sweetened tea, candy, grooming and hygiene products (IL)
- ME expanded sales tax base to include several services and entertainment (Repealed by People's Veto)
- KY, MA and VT removed the sales tax exemption for alcoholic beverage sales (MA measure just repealed last month by voters).
- CO removed sales tax exemption from cigarettes.
- Expanded sales tax base to include digital goods and software WI, NC, VT (NC also included magazines)
- NY removed exemptions for limos and black car service
- TN removed exemption on software maintenance



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2010 Actions: Colorado

- Permanently eliminated the sales-tax exemptions on:
 - Candy and soda
 - To-go containers and condiments used to serve food at restaurants
- Suspended sales-tax exemptions on:
 - Purchases of energy used in manufacturing (2-year suspension)
 - A variety of compounds used in agriculture (3-year suspension)
 - Printed materials used in direct-mail advertising (3-year suspension)
- Suspended for two years the senior homestead property tax exemption
- Reduced for three years an income-tax credit on conservation easements
- Capped credits for enterprise zone investment at \$500,000 per year
- Capped NOL



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2010 Actions: Iowa

- Suspended the film tax credit for 3 years
- Lowered the overall cap on business tax credits from \$185 million to \$120 million
- Cut the Supplemental Research Activities Tax Credit in half for large corporations
- Cut other tax credit programs by 10%
- Implemented new, ongoing oversight to ensure regular scrutiny of all credits



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2010 Actions: New York

- Requires taxpayers to add back state and local taxes deducted to federal taxable income
- Limited personal income tax deductions for charitable contributions on high-income earners (those making more than \$10 million per year) to 25 percent
- Required taxpayers with more than \$2 million in aggregated business tax credits to defer amounts over \$2 million
- Eliminated sales tax exemption on clothing
- Eliminated the sales tax vendor credit for timely filing
- Eliminated provisions allowing private credit card companies to take sales tax credits on uncollectable accounts
- Restructured the state property tax relief program so that it reduces benefits for high-income taxpayers



Tax Credits & Exemptions 2010 Actions: Oklahoma

- Established a 12-month moratorium on an array of specified tax credits
- Expected to generate more than \$150 million in FY 2011



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2010 Actions: Washington

- Eliminated the sales-tax exemptions on:
 - Bottled water (repealed by Initiative 1107)
 - Candy & gum (repealed by Initiative 1107)
 - Livestock nutrient equipment
- Narrowed the business and occupation tax exemptions for:
 - Direct sellers
 - Property management firms
 - Manufacturers of certain agricultural products (repealed by Initiative 1107)
 - The deduction of bad debt
 - First mortgage interest income



Tax Credits & Exemptions 2010 Actions

- **California:** Legislature suspended deduction of NOL for another two years
- **Kentucky:**
 - Capped film tax credits
 - Limited domestic production tax credit to 6 percent
 - Limited manufacturing facilities reinvestment credit to 20 percent per year
- **Minnesota**
 - Repealed low-income motor fuels tax credit
 - Temporarily reduced the state-paid property tax refund for renters
- **New Jersey**
 - Reduced the EITC
 - Adopted temporary limits for certain high-tech and film production credits



Tax Credits & Exemptions 2010 Actions

- **New Mexico:** Added back state income tax deducted from federal taxable income
- **Oregon:** Limited the business energy tax credit
- **District of Columbia:** Removed the sales tax exemption on soft drinks



Conclusion

- The pressure to avoid tax increases has increasingly propelled states to evaluate tax credits & exemptions.
- A number of states prepare tax expenditure budgets to determine how much revenue is forgone from tax credits & exemptions.
- Ongoing revenue challenges may spark another round of reviews next year.

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