

NCSL Standing Committee on Budgets and Revenue

POLICY DIRECTIVES AND RESOLUTIONS

**2018 NCSL Legislative Summit
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INTERSTATE COMMERCE
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**POLICY: NATIONAL CONFERENCE OF STATE LEGISLATURES
SUPPORTS PASSAGE OF THE FEDERAL DIGITAL
GOODS & SERVICES TAX FAIRNESS ACT**

TYPE: RESOLUTION

WHEREAS, digital goods and services are online purchases that are downloaded directly by, or services that are provided electronically to, consumers that can transcend numerous state and local boundaries across the United States; and

WHEREAS, the exponential growth of digital commerce has demonstrated the importance of digital products to the American economy; and

WHEREAS, state policymakers recognize that the continued deployment of broadband infrastructure and adoption of broadband services is vital to economic growth and participation in the global economy; and

WHEREAS, digital goods and services are a major driver of the rapidly growing 21st Century digital economy and as such, fair and rational tax policies are needed that will not impede the continued growth of this segment of the economy; and

WHEREAS, due to the complex nature of the way digital commerce is transacted, current state and local tax laws governing the taxation of sales transactions are outdated and ill equipped to address many of the issues that surface in taxing today's "borderless" digital economy; and

WHEREAS, as state and local governments continue to seek to modernize their tax base to include various forms of digital commerce, doing so without establishing a national framework could potentially subject consumers to multiple states claiming the right to tax the same transaction or subject such transactions to discriminatory taxation

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27 at rates higher than the rates imposed on the in-state sales of similar goods or services;
28 and

29 **WHEREAS**, establishing a national framework would clearly identify which state and
30 local jurisdiction can tax a digital transaction, providing much needed certainty to
31 consumers, providers required to collect such taxes and state and local governments
32 seeking to tax such goods and services in a fair, uniform and rational manner; and

33 **WHEREAS**, establishing a national framework as set forth in the Digital Goods and
34 Services Tax Fairness Act as introduced in the 114th Congress preserves state
35 sovereignty as the decision to tax digital commerce or not remains solely with the
36 states; and

37 **WHEREAS**, the Mobile Telecommunications Sourcing Act (P.L. 106-252) established
38 uniformity in sourcing mobile telecommunications services for state and local tax
39 purposes using similar concepts to those contained in the Digital Goods and Services
40 Tax Fairness Act as introduced in the 114th Congress; and

41 **WHEREAS**, NCSL has worked with other state and local organizations as well as
42 members of the Download Fairness Coalition to develop the principles contained in the
43 legislation and is poised to assist states as needed in complying with the federal
44 legislation; and

45 **NOW, THEREFORE, BE IT RESOLVED**, that the National Conference of State
46 Legislatures urges Congress to introduce and pass legislation that provides a
47 framework for the taxation of digital goods and services consistent with NCSL
48 principles, ~~in conjunction with or after consideration of the Remote Transactions Parity~~
49 ~~Act~~, to establish a national framework providing certainty and uniformity for state and
50 local governments in the taxation of digital goods and services, while protecting
51 consumers from multiple and discriminatory taxation and supporting the continued
52 growth of the digital economy.

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COMMITTEE: BUDGETS & REVENUE

**POLICY: STATE AND FEDERAL BUDGETING: PRINCIPLES FOR
FUNDAMENTAL TAX REFORM**

TYPE: DIRECTIVE

It is the policy of the National Conference of State Legislatures to advance and defend a balanced, dynamic partnership among local, state and federal governments.

Tax reform efforts and tax actions at the federal level affect states because:

- Federal and state tax systems are inextricably linked;
- Federal programs rely on state participation for implementation; and
- Any federal reform will likely have serious fiscal and administrative ramifications on the states.

Therefore, NCSL urges that all federal tax reform and other actions be guided by the following principles:

General

- Preserve the fiscal viability and sovereignty of state governments;
- Encourage work, savings, equity and simplicity;
- Promote efficiency and predictability;
- Avoid further intrusion upon the state excise tax base;
- Preserve states' ability and discretion to tax certain revenue sources; and
- Preserve the ability of state and local government to adopt fair and effective tax systems. This includes authorizing states with sales and use taxes to require interstate sellers to collect and remit those taxes and preserving the state and local income tax, sales tax and property tax deductions for federal income tax purposes.
- Continue tax policies that reward work, specifically the Earned Income Tax Credit (EITC) and Individual Development Accounts (IDAs).

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Transition

- Provide states with adequate transition time to implement and respond to new tax systems, preferably up to three or more years.
- Avoid the negative state impact of retroactive application of tax changes.
- Provide technical expertise to states to ease any transition of administrative responsibilities to the states resulting from federal tax reform.
- Provide adequate federal administrative funds for any federal tax reform that involves modified or increased collection responsibilities for the states.
- Ensure that federal tax changes are made in a manner that preserves federal data collection used by the states.

Do No Harm

- Provide flexibility and strengthen states' ability to finance and administer programs for which they are traditionally responsible or have gained through devolution.
- Recognize that federal tax reductions should not compromise funding for existing and future commitments to mandated state-federal partnership programs.
- To the extent that a national sales, consumption, or value-added tax is considered as part of ongoing deficit reduction efforts, the historic role of such taxes as a major revenue source for state and local governments must be protected and all deliberations concerning such taxes must include representatives of the federal government's partners in the nation's cities and states.

Tax-Exempt Financing/Bonds

- Preserve tax-exempt financing for infrastructure and capital projects, including the use of public-private partnerships.
- Maintain the tax-exempt status of state and local government bonds and lift existing restrictions on state and local government use of tax-exempt bonds.
- Avoid provisions that weaken the fiscal integrity of state and local governments. This includes: the arbitrage rebate provisions, which essentially are a one-

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hundred percent tax on the interest income of state and local governments; the alternative minimum tax, which now taxes interest from otherwise tax-exempt bonds; volume caps, which have unduly restricted the use of bonds for projects that have increasingly become governmental responsibilities; and restrictions on advance refunding which increases the cost of government.

- Support the Mortgage Revenue Bond (MRB) program and the low-income housing tax credit.

Enforcement

- Increase enforcement efforts of the federal income tax laws so individual and business taxpayers are not bearing the burden of those who fail to pay owed taxes.
- Continue to take into account states' reliance on federal tax rates and federal collection efforts.

Payment in Lieu of Taxes

The National Conference of State Legislatures supports federal efforts to:

- Continue, but reform the Payment in Lieu of Tax Program (PILT) program; to create a more predictable, fair and flexible system that accurately reflects the fiscal effects of federal lands on state and local governments; and
- Provide full funding for the PILT program, provided that this goal is accomplished in a manner consistent with long-term federal debt management and deficit reduction; and
- Provide a more flexible payment system through authorization for the transfer of land of equivalent value from the federal government to states or counties in lieu of monetary payment, consistent with state statutes, and practice.

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State Legislators' Tax Issues

The National Conference of State Legislatures supports the standard deduction allowed state legislators under section 162 (h) of the Internal Revenue Code. Regulation, interpretation, or other statutes should not undermine the section. Regulations implementing this code section should reflect the intent of Congress and should include the following recommendations:

- A "session day" should mean a day in session as defined by the laws or rules of the state of residence of the legislator.
- A "committee" of the legislature should mean 1) a committee of one or more legislators conducting the business of [or reporting to] the legislature, or 2) a committee created by state or federal statute, resolution, order or rule on which the legislator serves in his or her capacity as a legislator. This definition of "committee" should include caucuses that conduct the business of the legislature.
- "State legislator" should include newly-elected legislators who attend official organizational meetings prior to administration of their oath of office.

Other

- Prohibit further preemption of state courts by refusing to give federal courts jurisdiction to establish the valuation of property for state and local tax purposes or by refusing to give selected classes of state and local taxpayers procedural and substantive privileges unavailable to most taxpayers.
- NCSL also encourages Congress and the administration to review the Railroad Revitalization and Regulatory Reform Act (4-R Act) to determine if the courts have expanded the 4-R Act beyond the original intent of Congress and reject federal legislation that would extend to other industries 4-R type benefits.
- NCSL requests the federal government to respect the sovereignty of states to allow or prohibit games of chance or skill. Any effort by Congress or the administration to reform this regulation preempts states and diminishes the

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108 flexibility of state legislatures to use this mechanism as a revenue-related tool to
109 meet the unique needs of residents of each state.

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