

Economist proposes ideas for state tax systems as governors grapple with new taxes



David M. Kall | Monday, August 1, 2016

At this year's annual meeting of the MultiState Tax Commission, economist Annette Nellen, the director of the Master of Science in Taxation Program at San Jose State University, offered several "new and used" ideas to help state tax systems reflect the principles of good tax policy and 21st century ways of living and doing business.

In her [presentation](#), Nellen outlined the following principles:

1. **Administrability:** includes simplifying commonly encountered rules, using technology to streamline and simplify, and avoiding new complexities by imposing a moratorium on new tax breaks;
2. **Equity and Fairness:** includes determining desired levels of progressivity, and whether longstanding justifications for special rules make sense today;
3. **Federal Connection:** includes letting Congress know concerns about tax reform;
4. **Modernization:** includes fixing tax rules that have become out-of-date due to personal consumption changes, road and transit funding needs, and the new economy, including ride-share (Uber and Lyft) and home-share (AirBnB) business models;
5. **Revenue Considerations:** includes finding tax revenue that is owed but not collected and making unnecessary expenditures;
6. **Accountability and Transparency:** includes avoiding new taxes that are earmarked, moving too fast on tax cuts, and preparing for marijuana revenue.

The governors of most states are currently grappling with many, if not most, of these concepts. For example, on June 30, 2016, New Jersey's Gov. Chris Christie declared a State of Emergency, shutting down nearly all work on the state's transportation systems, due to an insufficient gas tax that broke the funding authority, as we [explained](#) last month.

Now, Gov. Scott Walker of Wisconsin and Gov. Charlie Baker of Massachusetts are struggling with similar issues. Officials in Wisconsin disagree over the state's transportation funding, and in Massachusetts, Gov.

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Baker is balking over passing a short-term rental tax, sometimes referred to as an “Airbnb tax.” Both of these matters touch on the considerations that Nellen addressed in her presentation.

Wisconsin

On July 27, 2016, Gov. Walker issued a [press release](#) in which he responded to Rep. John Nygren’s call for new revenues for the transportation budget. Rep. Nygren is the Assembly Co-Chair of the budget-writing Joint Finance Committee.

Declared the Governor:

“Raising taxes and fees is not the answer. Under our administration, we will keep it a priority to live within the means of the hardworking people of Wisconsin. That is a commitment I will honor. Leadership will require us to identify cost savings and prioritize our needs, as I have directed my Department of Transportation secretary to do, especially when it comes to safety and maintenance. I am confident we can do better than placing new taxes on Wisconsin citizens.

”

Gov. Walker justified his refusal to consider a gas tax with these reasons:

- Since he took office, more than \$18 billion in transportation investments have been made, which is \$2 billion more when compared to the six years before he took office.
- Wisconsin spends more on state highways per capita than almost any other neighboring state, according to the latest data from the Federal Highway Administration.
- For decades, the state’s gas tax has been among the highest in the nation.
- This summer, a Wisconsin resident would be hard pressed to travel the state and not see road construction taking place with more than 300 projects set to be completed this year.
- According to the latest published data, more than 90 percent of our most heavily traveled highways are rated fair or better in condition. These are roads carrying half of all traffic and 70 percent of our freight.
- The last state budget included the lowest levels of new borrowing in at least 20 years.
- Wisconsin is ranked 4th in the nation for the lowest levels of total long-term financial obligations, according to a recent study by Pew Charitable Trusts.
- The Transportation Fund condition is running better than projected in Act 55. Lower debt service and higher than projected revenues are resulting in a nearly \$100 million better fund condition at the close of the biennium.

Rep. Nygren disputed the picture Gov. Walker painted. On July 27, 2016, Wisconsin Public Radio [reported](#) that a non-partisan Legislative Fiscal Bureau [memo](#), requested and released by the Representative, estimates a \$939 million shortfall for transportation projects if funding levels remain the same. Thus, “[a]ll options should be on the table, including a gas tax or vehicle registration fee increase[s].”

Other lawmakers agree, including State Assembly Speaker Robin Vos, R-Rochester. In June, citing a \$600 million shortfall, he [told](#) Wisconsin Public Television’s “Here and Now” that he “doesn’t intend to pass the next state budget without a plan to improve roads across Wisconsin.” He referred to reports that have ranked the state’s roads among the worst in the country and called out the related expenses for drivers.

Massachusetts

In the Bay State, Gov. Baker is having doubts about [Bill H.4236](#), which is intended to regulate and tax short-

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term residential rentals. The law encompasses rooms in a bed and breakfast establishment, hotel, lodging house, transient accommodation, or motel.

Such rentals would be subject to an excise tax of 5 percent, and a local excise tax of up to 6 percent.

In April, the [Boston Globe](#) pointed to disagreement over whether “the fledgling industry should be subjected to new regulations.” One lawmaker, Rep. Aaron Michlewitz of Boston, supports the legislation because the industry is currently “virtually unregulated.”

Another, Senator Michael Rodrigues, the Senate chair of the Joint Committee on Revenue, argued that it “would help to level the playing field as the short-term rental industry competes with traditional hotels... There’s been a blatant unfairness, in that if I rent a room through a hotel, I’d be required to pay the room occupancy tax, but if I rented a room through Airbnb, I wouldn’t be required to pay the tax.”

Even so, last week, Gov. Baker [revealed](#) to the newspaper that he was having second thoughts about the tax. He told reporters that he is sympathetic to complaints from traditional hotels and motels that private home rentals are eating into their business, and thinks that is a “legitimate issue and one that’s worth discussing.” But while he wants to level the playing field, he is not interested in raising taxes. “At this point in time, on this particular issue, those two things seem to be in conflict.”

What is notable about both governors’ justifications is that neither appears to take into consideration the good tax policy principles outlined by economist Nellen.



David M. Kall

[Team member bio](#)