

The Future of Work and State Income Taxation

NCSL Fiscal Chairs Institute

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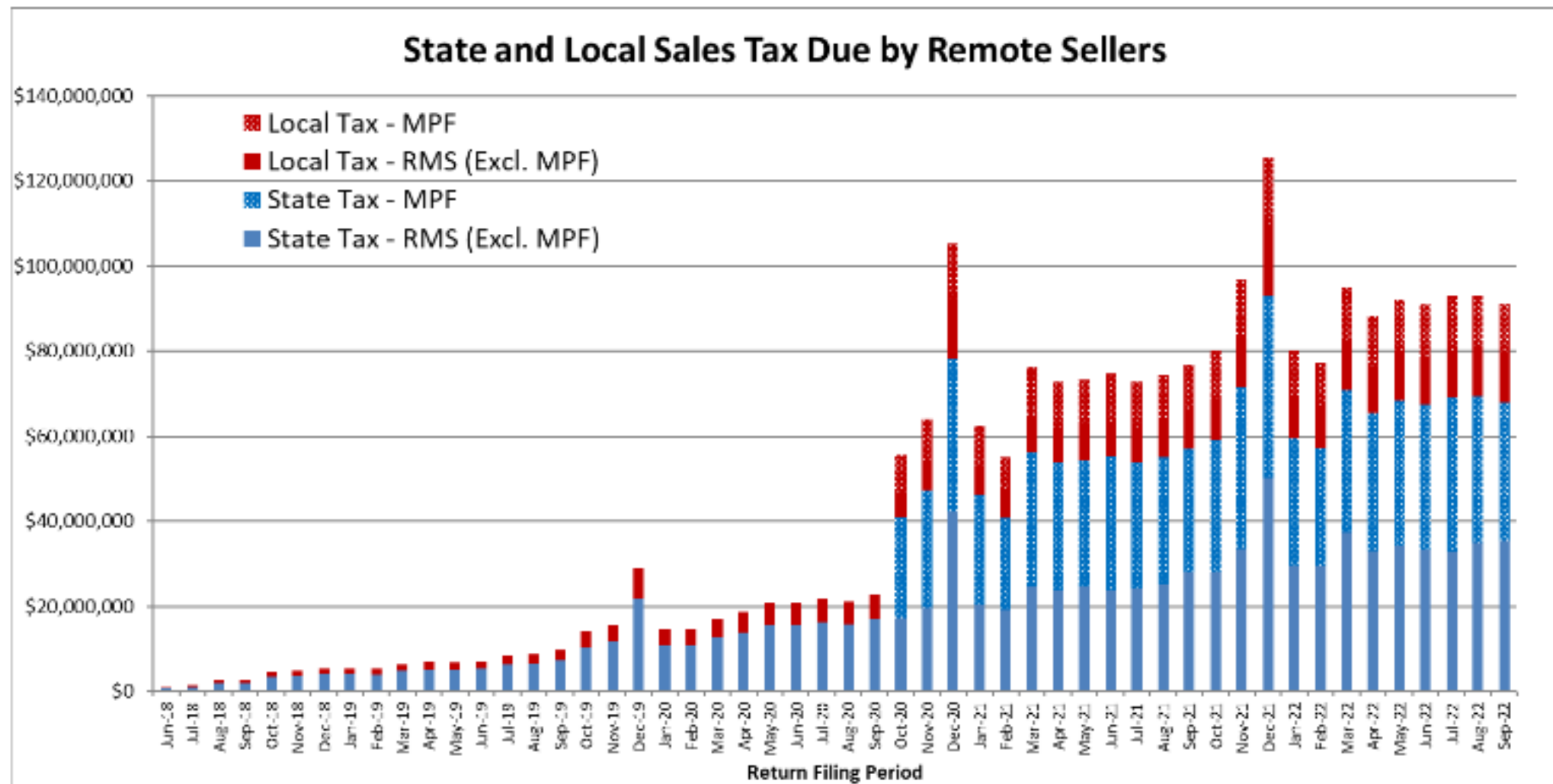
Economic Transitions Underway – How Do They Affect Tax Policy?

- What we buy
- How we acquire goods and services
- The form of goods and services – industries change slowly
- How they are produced – how people do their job changes fast
- How goods and services are paid for
- Where work occurs
- Heavily driven by new technologies, and accelerated by Covid

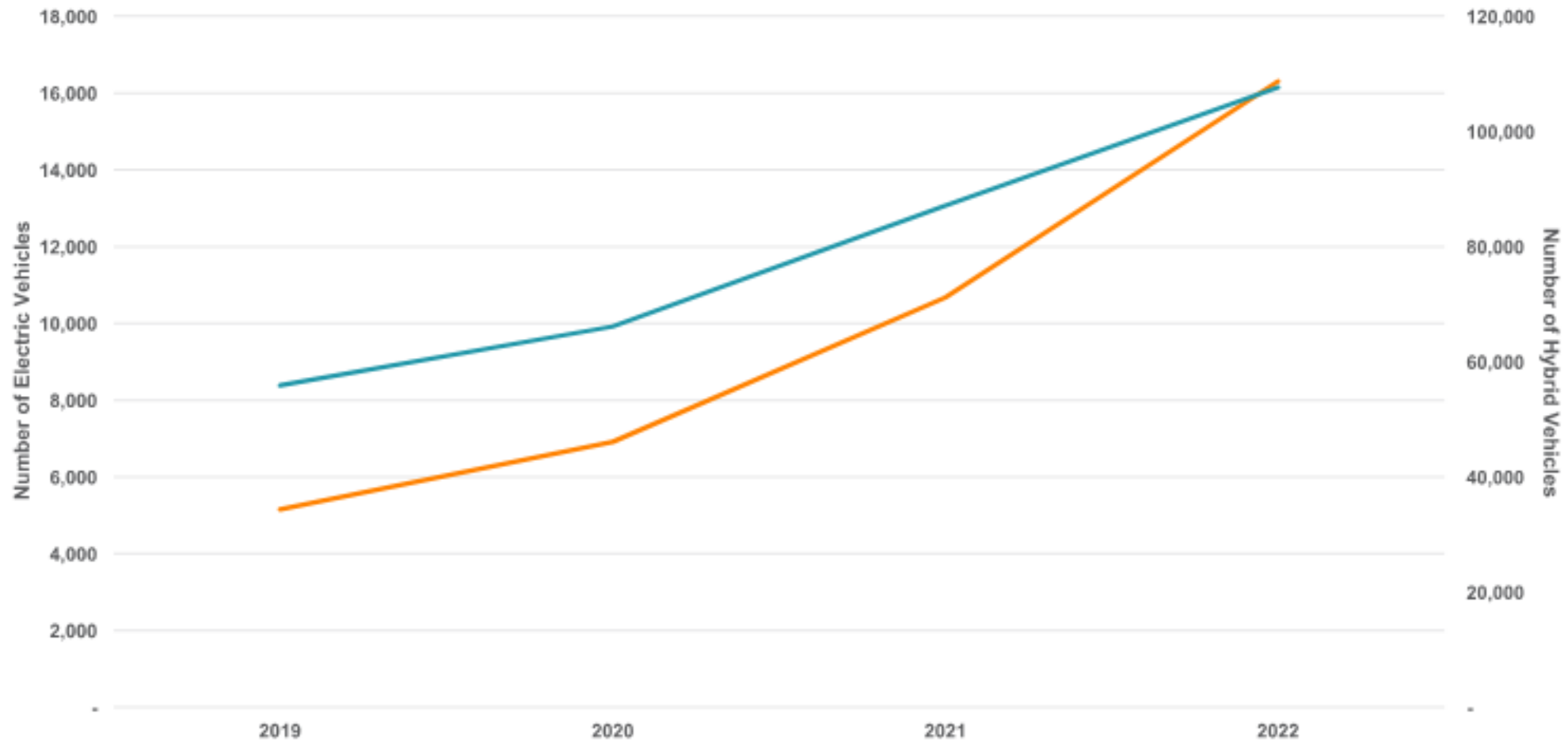
Issues We discussed Last Year

- Remote commerce – e-commerce
- Autonomous and electric vehicles
- Social media and two-sided platforms

Tennessee Tax on New Remote Sellers has Risen Dramatically Since the Wayfair Case



Both Electric Vehicles and Hybrid Vehicles have seen Rapid Adoption in Tennessee Despite Supply Chain Issues



Autonomous vehicles are already with us



AVs are Transporting Freight in Tennessee, and other States

Sweden's Einride to Test Autonomous Trucks on U.S. Roads

The company will put its chunky, self-driving vehicles on short runs between warehouses in Tennessee under an agreement with GE Appliances



An autonomous, electric freight truck at a logistics facility operated by GE Appliances in Louisville, Ky.

Several States have Autonomous Vehicles Moving People

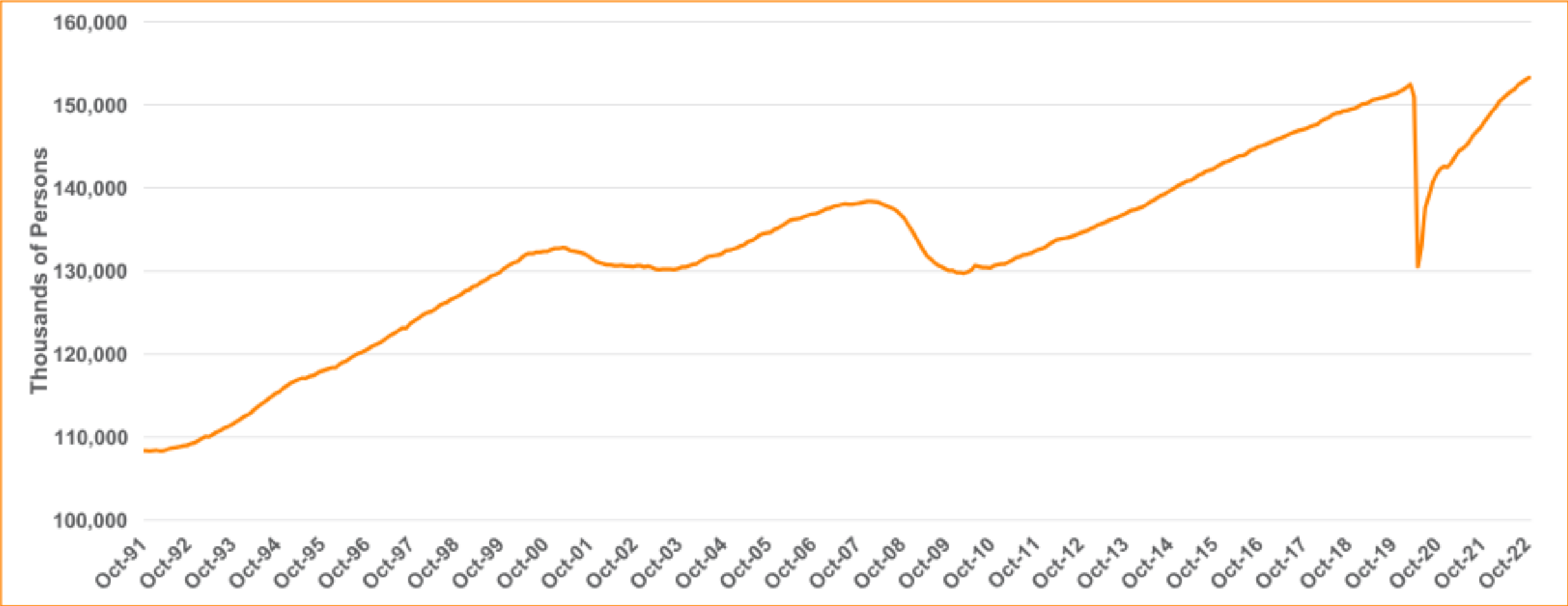


ROUTE-FIFTY.COM

Driverless Vehicles Are Finally Hitting City Streets

In San Francisco, people can now catch rides in cars without anybody behind the wheel. But as the technology spreads, are regulators ready?

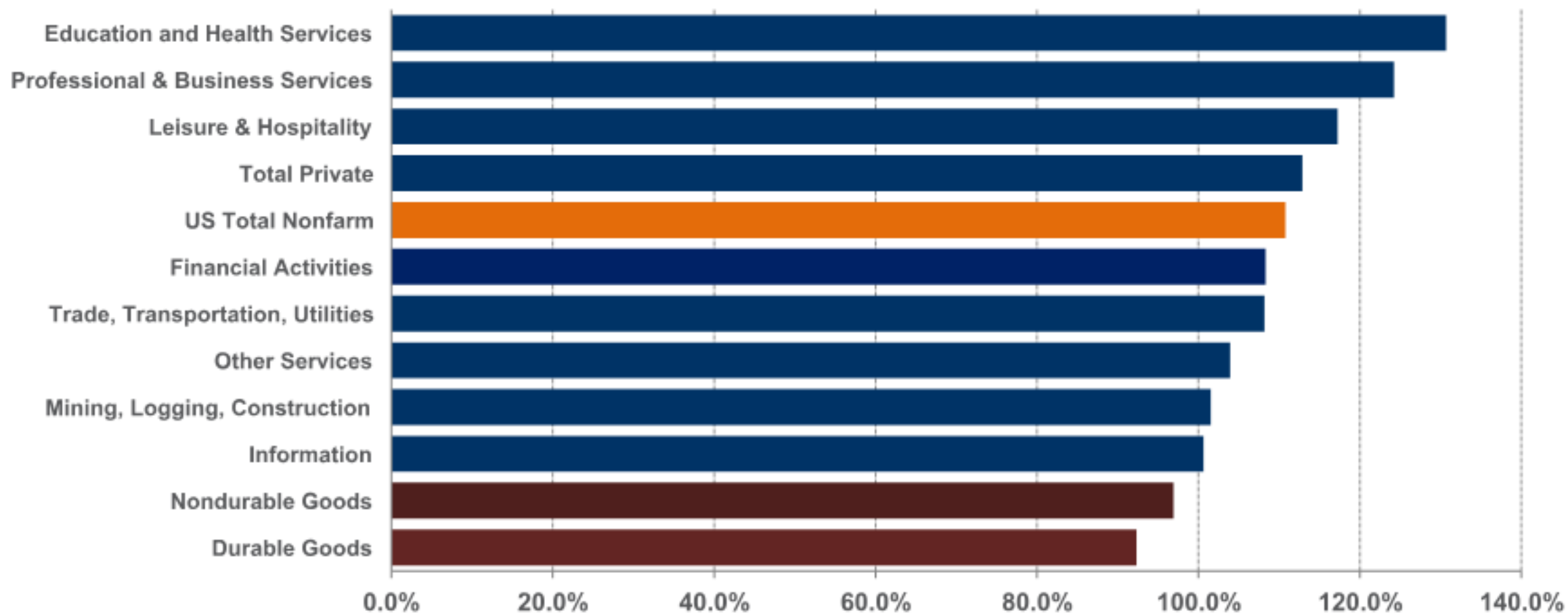
US Employment has fully Recovered from the Pandemic



The US Labor Market is Fully Employed, Unemployment rates



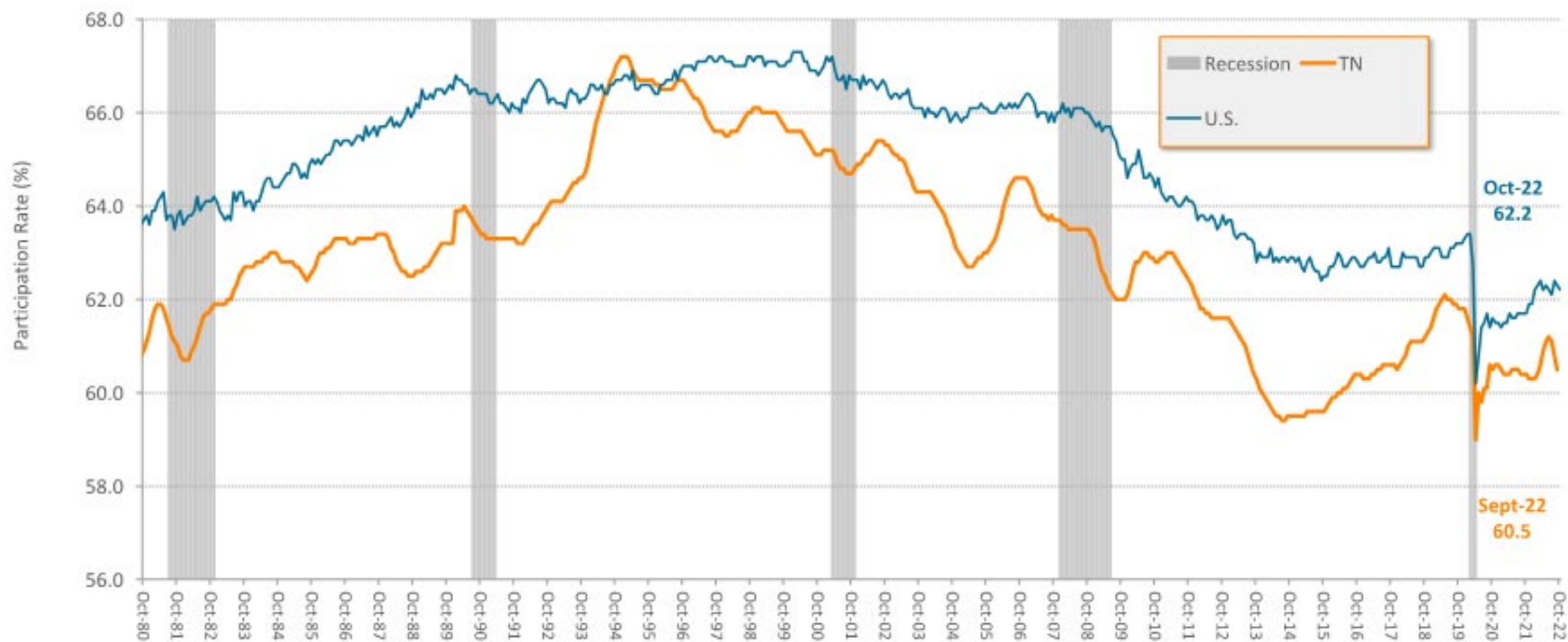
Most Sectors of the U.S. Economy have fully Recovered Since the Great Recession (October 2022 Employment as a share of December 2007 Employment)



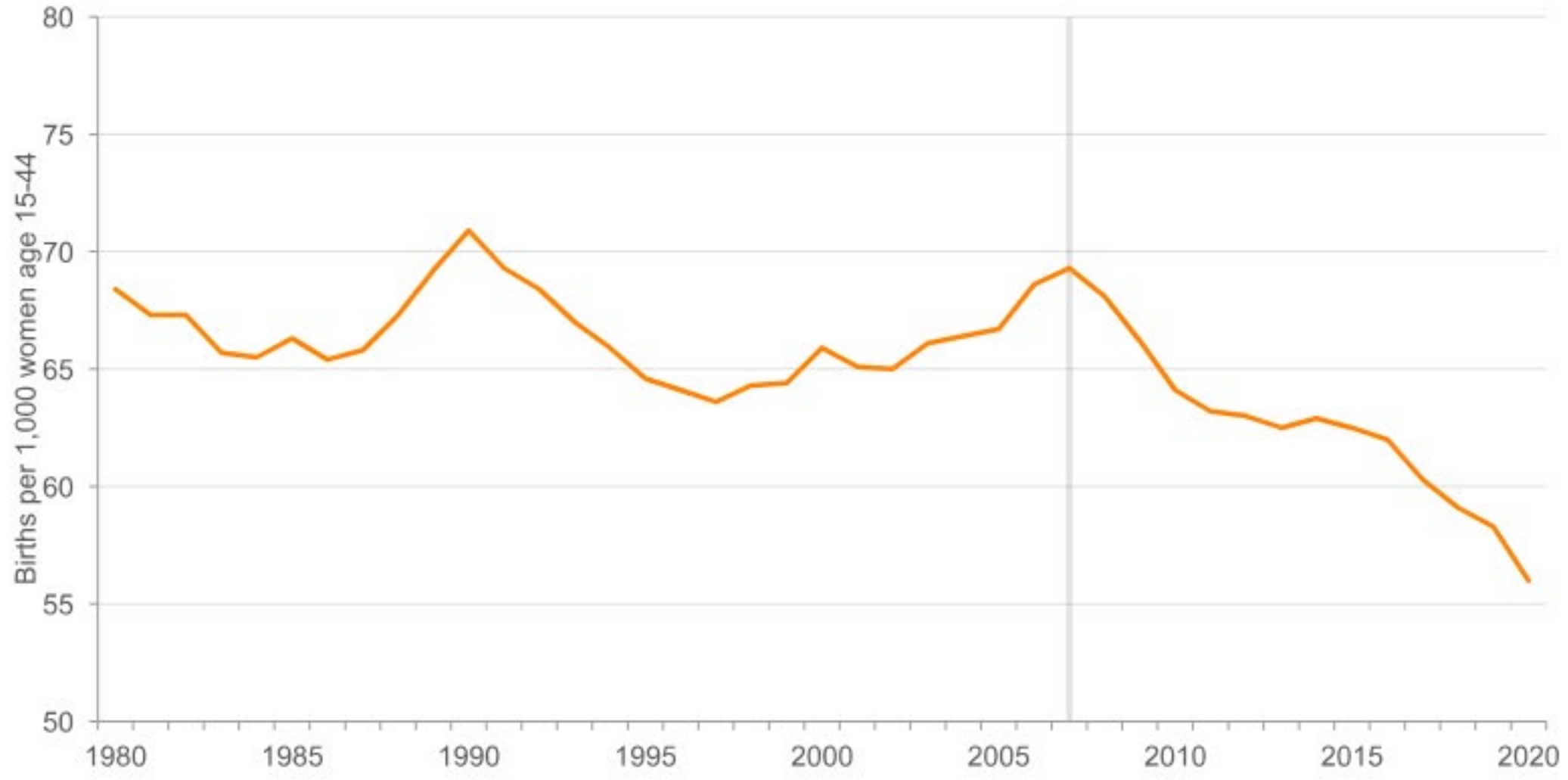
Why is the Labor Market Tight?

- COVID
- Labor force participation rate
- Demographics
 - Low birth rates
 - Aging
 - Limited immigration

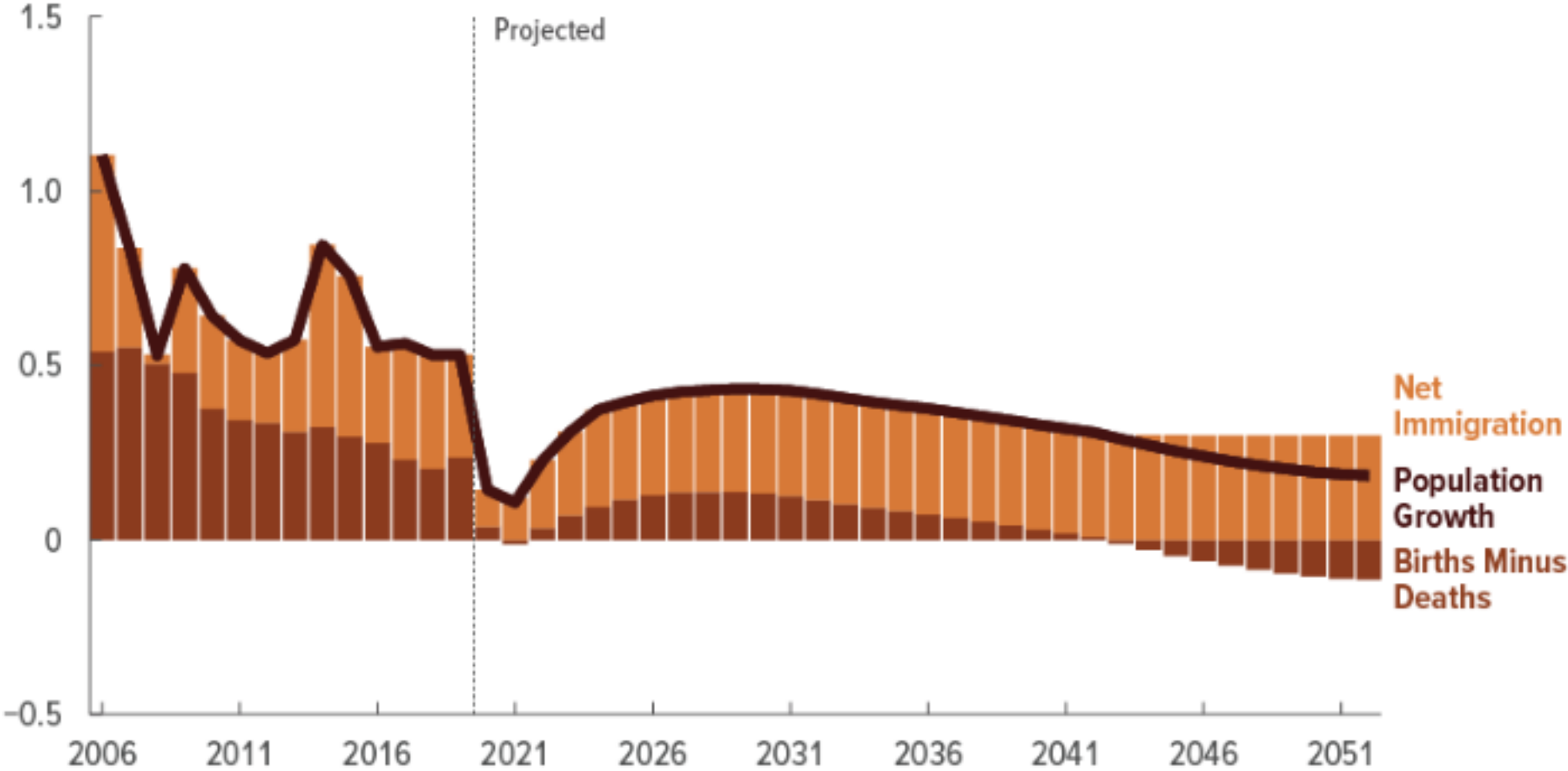
Labor Force Participation Has Not Fully Recovered from the Pandemic, Will it?



Birth Rates have Plummeted Since the Great Recession

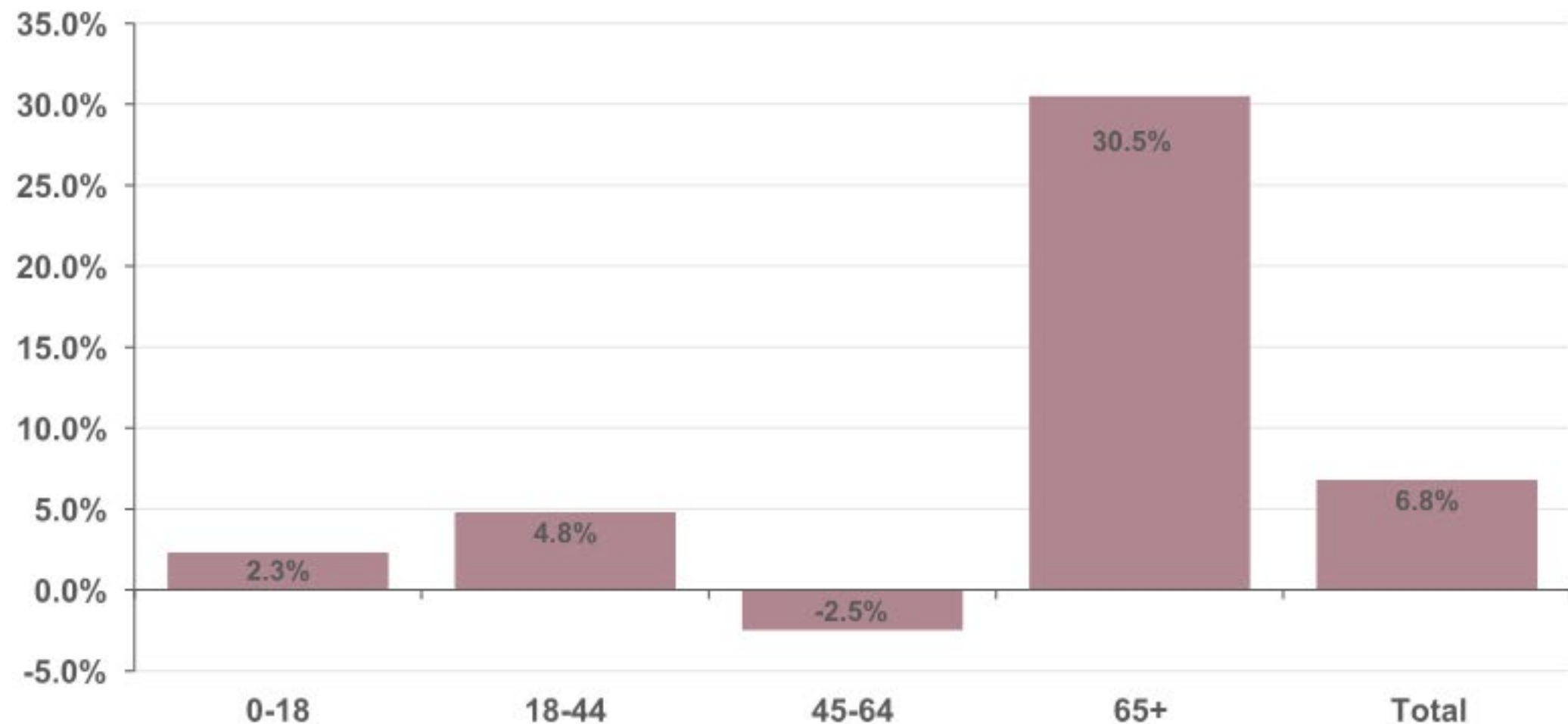


Natural Population Change will provide few New People in next 30 Years, Meaning Immigration likely will be the Source of Most Population Growth



Source: CBO

US Labor Force Growth will be Very Slow in the 2020s

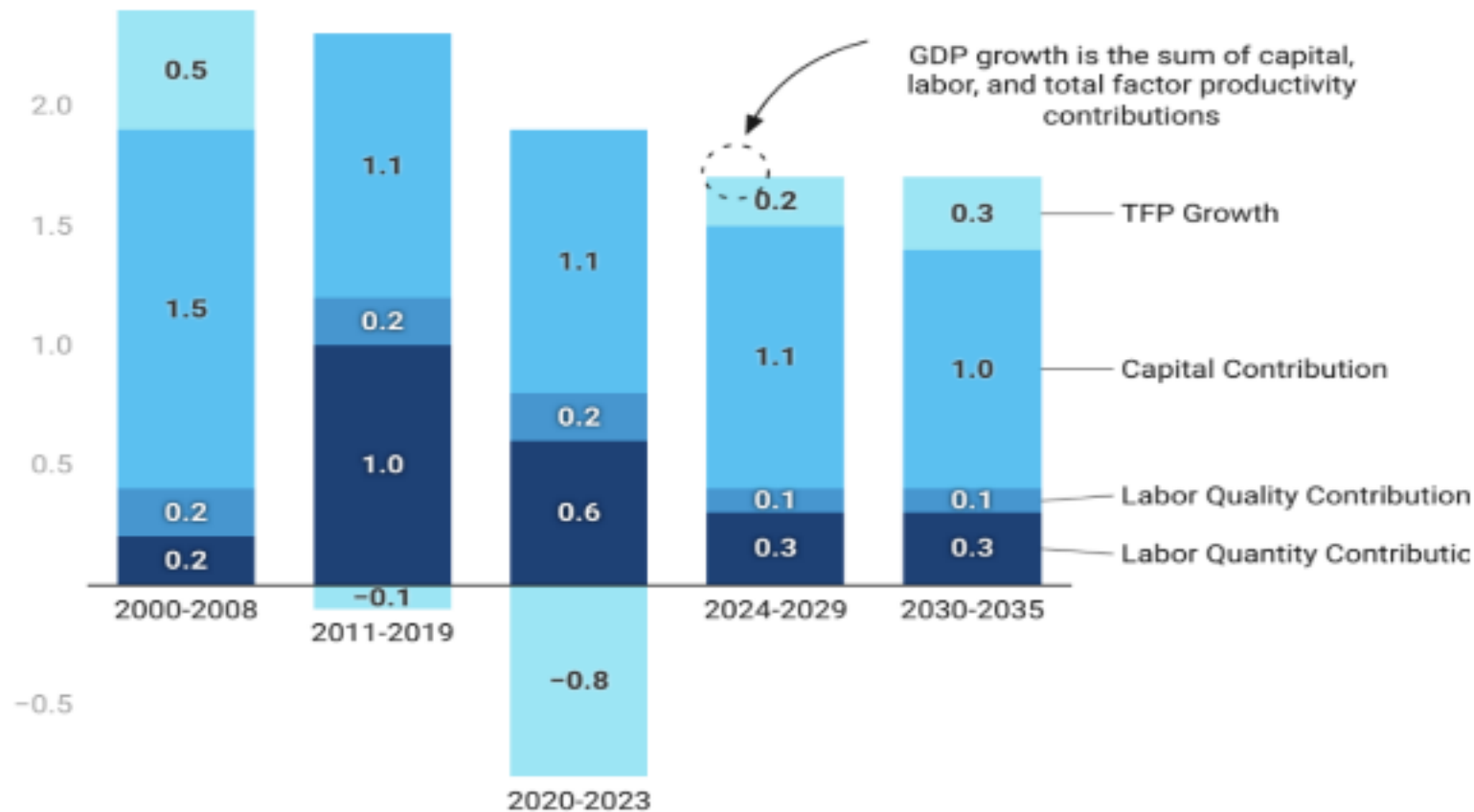


Source: Census Current Population Reports, Feb 2020

Labor's Contribution to the Economy is Slowing

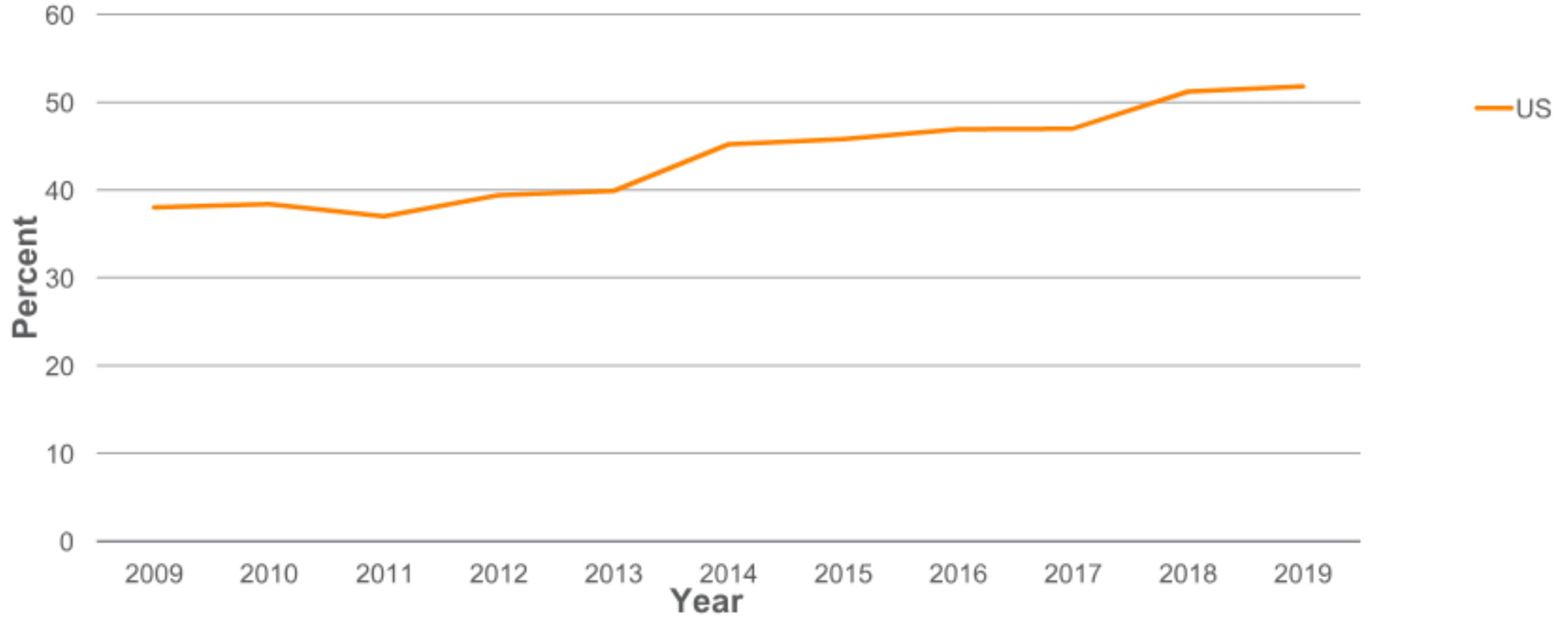
The US trend growth rate is weakening

Contribution of factor inputs and efficiency changes to US GDP growth (average annual % change)



Source: The Conference Board Global Economic Outlook 2023 • Created with Datawrapper

US Skill Level has Grown, but 70 Percent of Population needs more than a High School Education



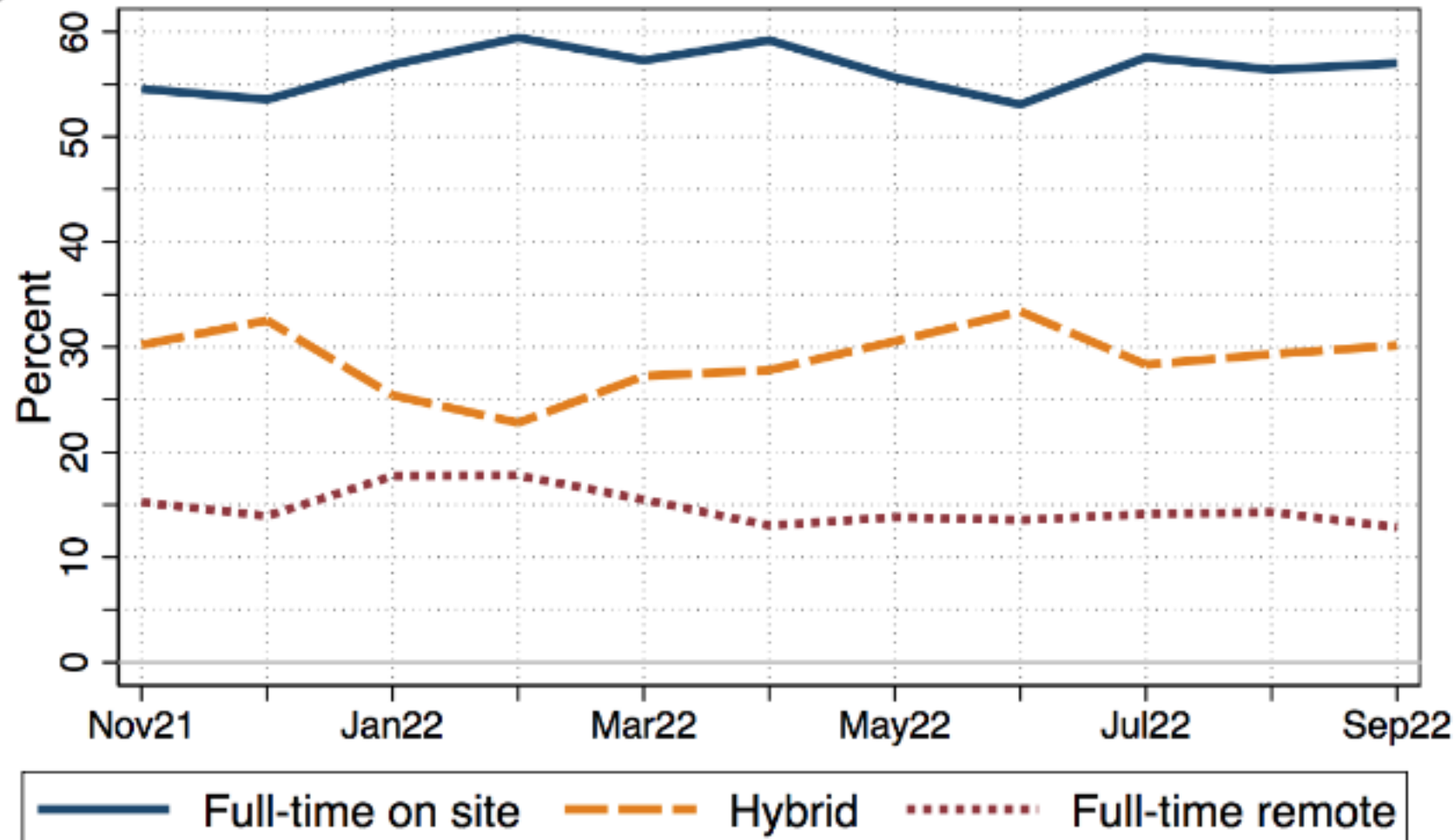
Wages are Growing Much Faster among the Lower Wage Part of the Market (Percent annual wage growth)



Possible Residence/Work Situations

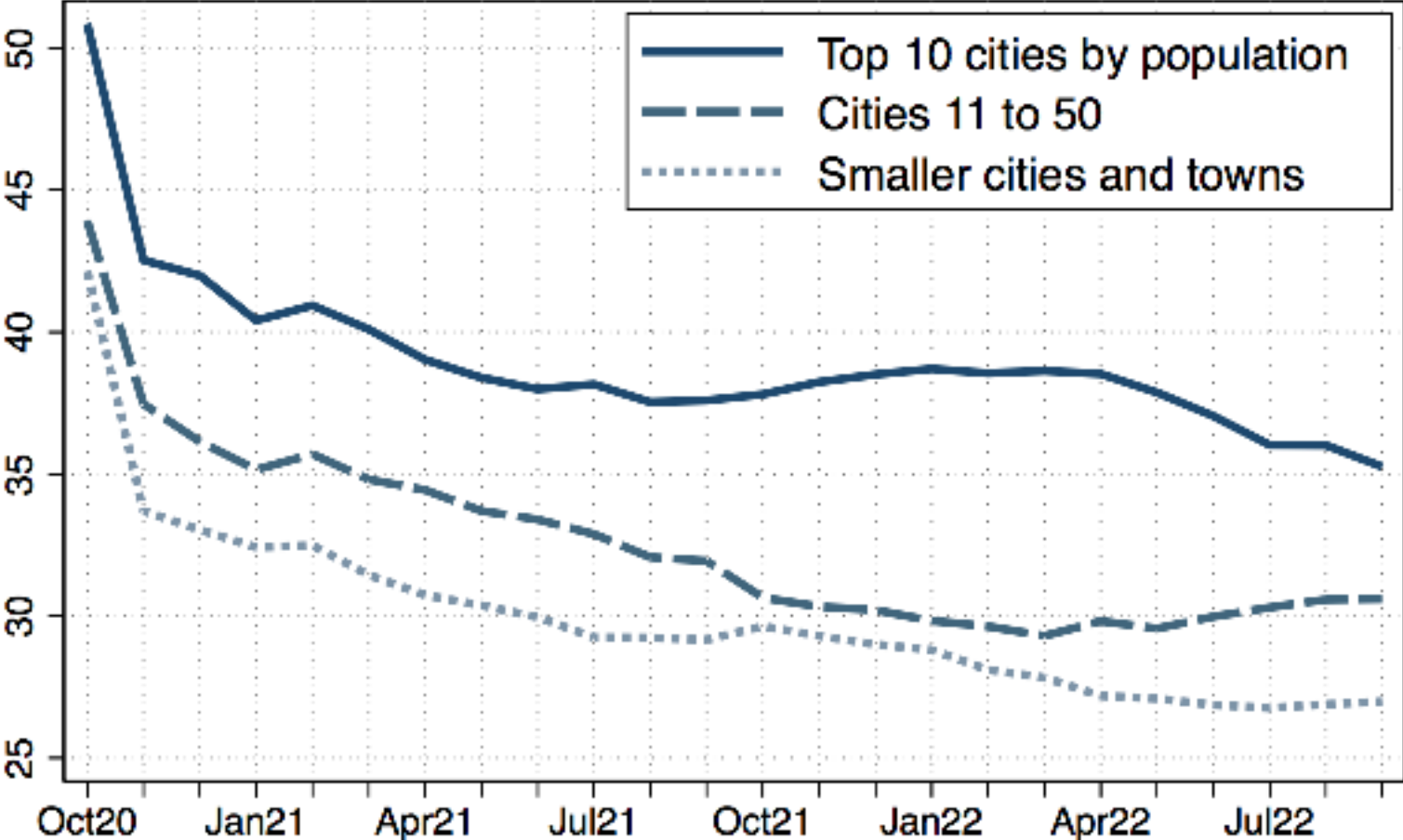
- Live and work in same state
- Live in one state and physically work in another
- Live in one state and physically work in multiple states (possibly including state of residence) – includes hybrid workers
- Live in one state and remotely work in one or more other states
- Residence state could vary during a year if a person worked from their permanent residence, worked from a vacation home, and worked while living with family members
- People with no residence

Current Working Arrangements: Full-time Employees



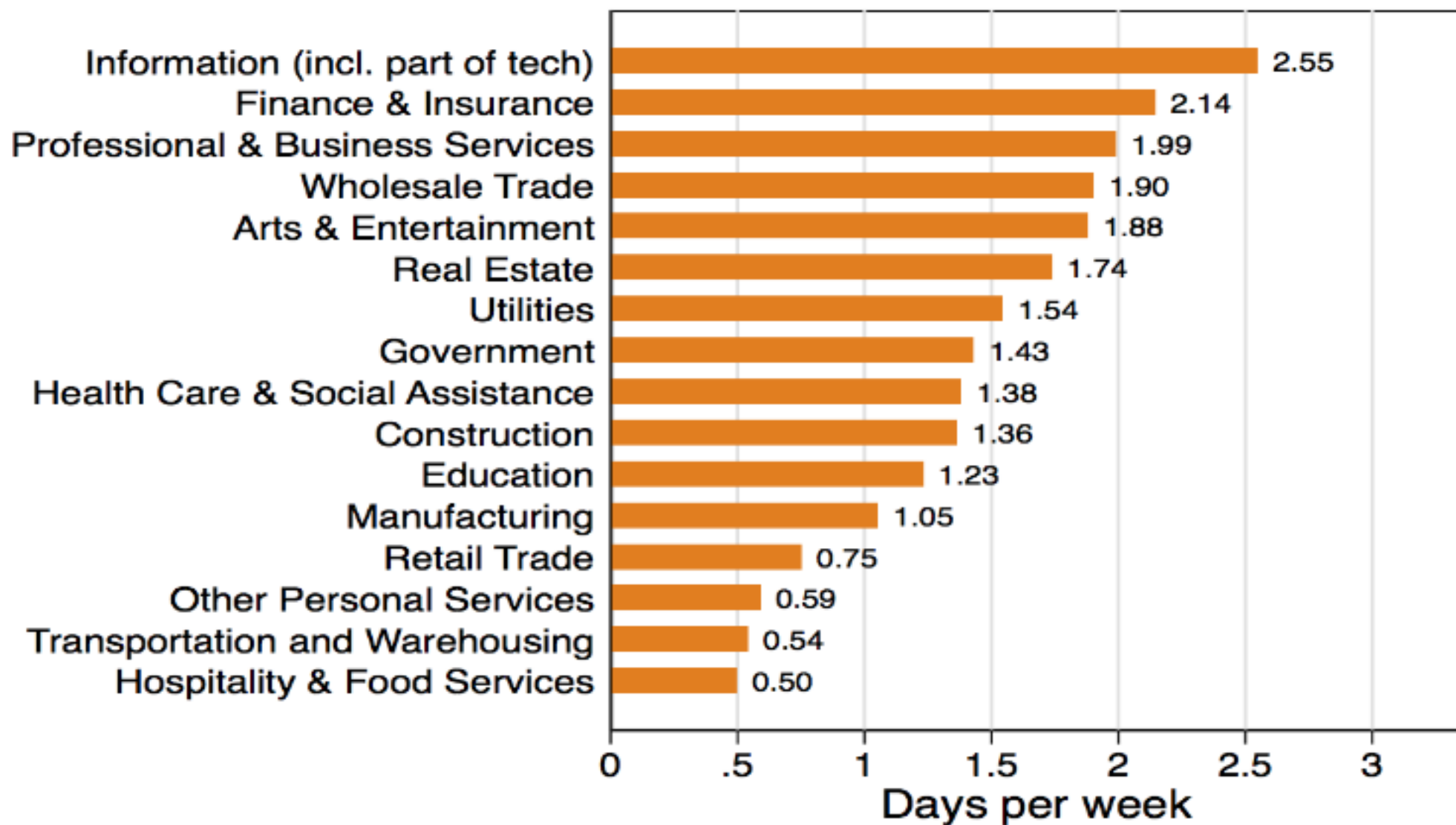
*The sample includes wage and salary employees who worked 5 or more days during the survey reference week.

Percent of Paid Full Days Worked from Home

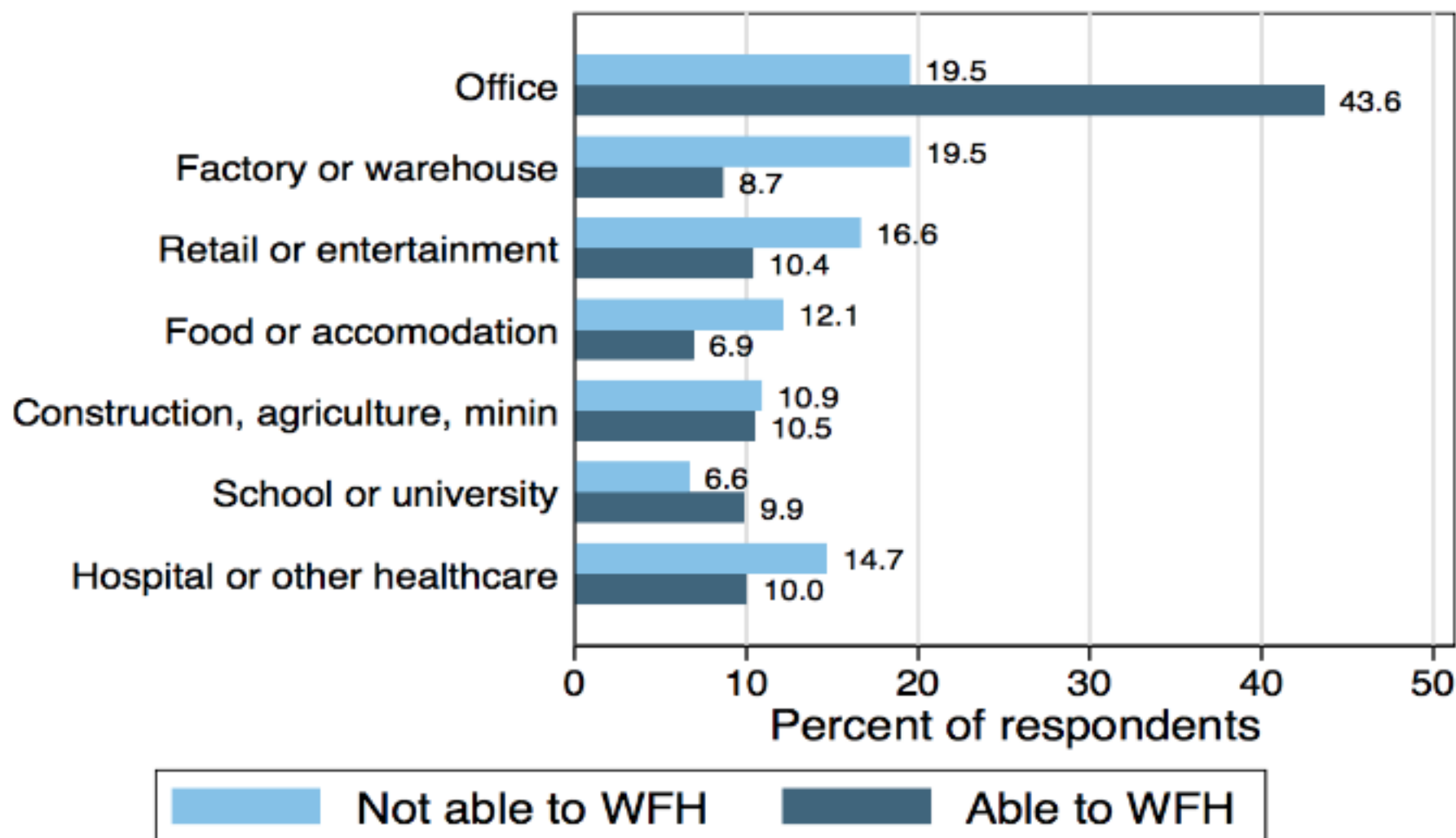


*We define cities using Combined Statistical Areas and use the location of the respondent's current job.

Current Working from Home: All Wage and Salary Employees



What type of facility best describes where you work (or worked in your most recent job)?



Why Remote/Hybrid Work?

- Employers
 - Expand geographic footprint for recruiting employees
 - Reduce wages for employees in high-cost areas
 - Offer a perk for employees
- Employees
 - Separate where they work from where they live
 - Flexible work schedule – childcare costs, work/life balance
 - Save commuting costs

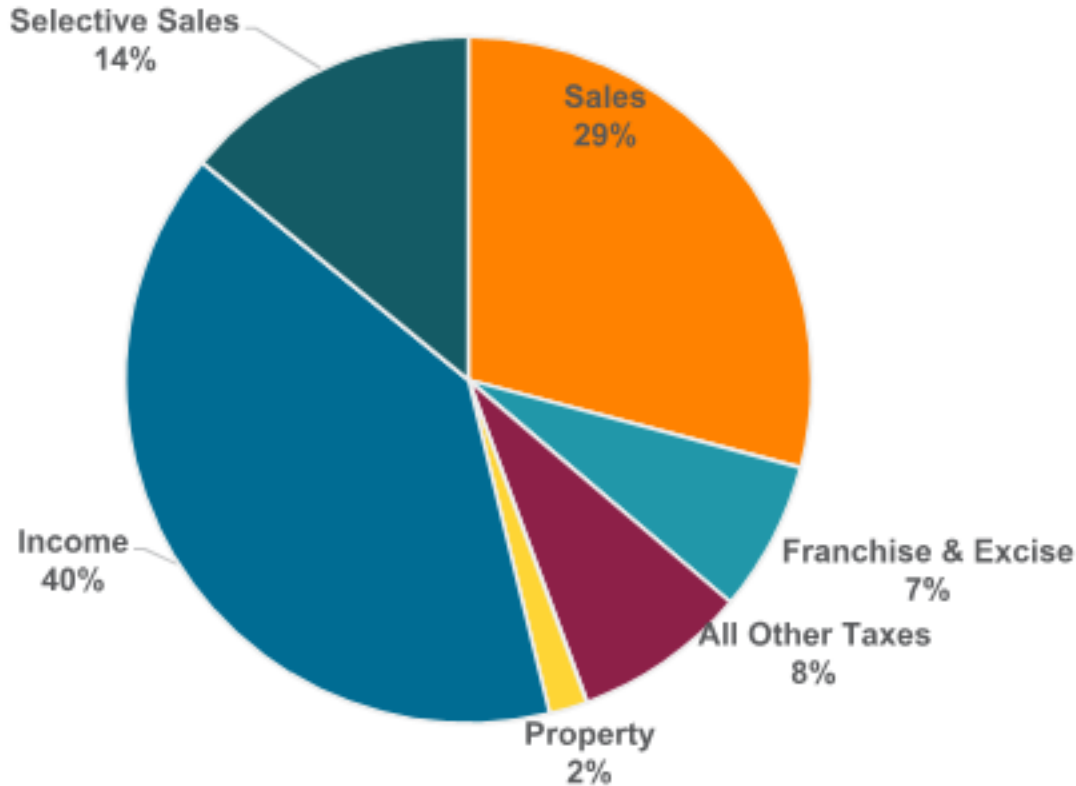
Disadvantages of Remote Work

- Loneliness for workers
- Fewer worker interactions, reducing synergies; will this apply to today's youngest populations?
- Large cities lose
 - office demand
 - demand for public and private city services

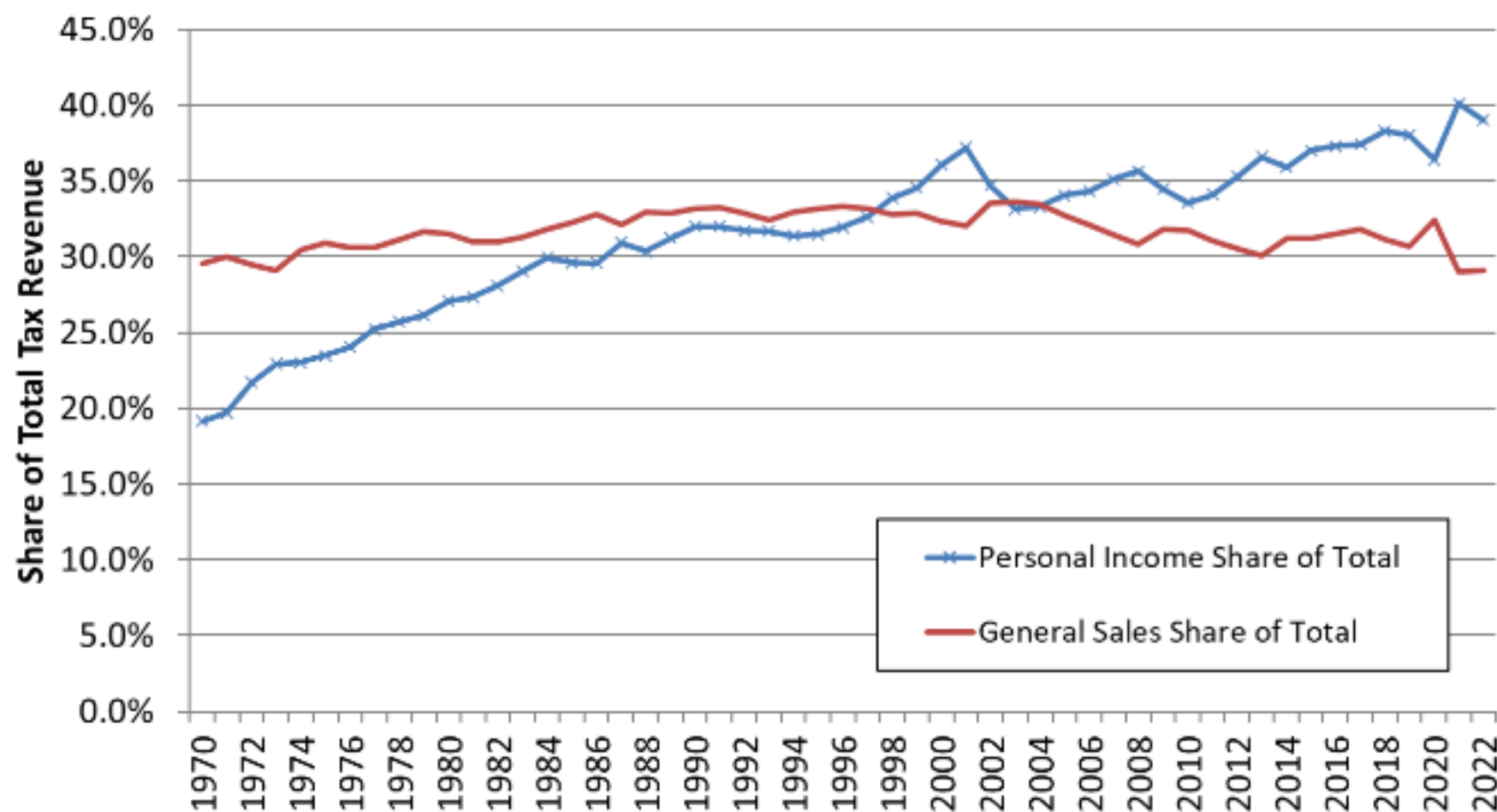
How would a Recession Affect Demand for Remote Workers?

- Many job losses so far are in tech companies – Twitter, Uber, Peloton, Meta, Robinhood, Lyft
- Will employees lose market power relative to employers if significant job losses occur?

Income and Sales Taxes Provide Largest Shares of Tax Revenues, 2021



Personal Income Tax Share has Risen Rapidly Relative to the Sales Tax



Considerations for a Good Tax System

- Fairness
 - Horizontal equity – Even tax burden on those with the same ability to pay
 - Vertical equity – Tax burden differs with ability to pay
- Revenues – Finance public service delivery
- Neutrality/economic growth – Key as we think about new technologies
 - Jobs/higher incomes
 - Washington and Oregon
- Administration and Compliance – New technologies add tax issues/questions and helps collect taxes. Remote workers or people working in more than one state may be subject to high compliance costs for the employee and employer

Types of Taxes Potentially Affected by Remote Workers

- Companies may be deemed to have nexus in a state if company employees are working in the state
 - Based on the employee working in the state, even if working remotely from the state
 - Among other things may overcome PL 86-272
 - Corporate income and franchise taxes, sales and use taxes
 - Registration and compliance requirements
 - Should this depend on the employee or employer convenience?
- Personal income tax

Some Economic Incentives of Remote Work

- Allows remote workers to separate where they live from where they work
 - Most likely higher income and better educated workers
 - Can choose the preferred mix of taxes and services where live, with less concern about where work
 - Commuters could become remote workers to avoid high taxes at source, even without moving
- Allows companies to pay lower wages for workers who work remotely from low cost/low tax jurisdictions
- Likely companies have considerable flexibility regarding where remote work is sourced from the firm's perspective
 - For multistate companies
 - For new workers or companies
- Question is how large and rapidly will these forces take place? Is e-commerce a good example for what we should expect?

Policy Options

- Where to tax work that crosses state borders
 - Source (where work takes place) – generally today's approach
 - Residence – where people live
 - Is apportionment appropriate?
 - Could the decision be different for remote workers vs commuters vs hybrid vs no residence?
- Tax rates
- What creates nexus in the state
- Can affect
 - Where people live
 - Where businesses locate
 - Where work is sourced

Some Policy/Economic Interactions

- No policies allow high tax/high wage states to maintain their advantage
- Remote work raises competition between states and puts downward pressure on tax rates to limit the extent of moving or working remotely
 - Need lower rates to avoid losing residents and to attract remote workers
 - Biggest effect on highest marginal tax rates Decision to tax at source could cause employers to move out of the state, never locate in the state or redefine where the work occurs
- Do states continue to tax cross state commuters at source while not extending the tax to remote workers? If so, do workers slowly transition to remote work to avoid higher tax rates? What about workers with no residence?
 - Will cross border commuters and in-state workers continue being taxed at source while remote workers and hybrid workers (with limited commuting) are taxed at residence?
- Perhaps apportion based on days of physical presence for hybrid workers a rules for remote workers evolve?
- Will states want to define business nexus based simply on the presence of remote workers? Will firms want to prevent employees from working from states where the firm would not otherwise have presence?

See David Agrawal and Kirk Stark, “Will the Remote Work Revolution Undermine State Progressive Income Taxes,” June 2022

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