#### WHAT'S NORMAL?

## **DEFINING THE TAX BASE**

**Liz Malm**MultiState Associates
Imalm@multistate.us

Presentation to: NCSL Tax Task Force January 8, 2016

### WHAT'S A **TAX EXPENDITURE?**

A tax expenditure is an exemption, deduction, or other deviation from the 'normal' tax structure.

Definition from the "Tax Expenditure Budgets and Reports: Best Practices," adopted by the NCSL Task Force on State and Local Taxation (August 2014).

### WHAT'S A TAX EXPENDITURE?

A tax expenditure is an exemption, deduction, or other deviation from the 'normal' tax structure.

Definition from the "Tax Expenditure Budgets and Reports: Best Practices," adopted by the NCSL Task Force on State and Local Taxation (August 2014).

• The normal tax base is what our ideal tax base would be if we didn't "fiddle" with it at all (the baseline structure).

- The normal tax base is what our ideal tax base would be if we didn't "fiddle" with it at all (the baseline structure).
- This will likely be different for each type of tax and there's no standard definition of what it should be.

- The normal tax base is what our ideal tax base would be if we didn't "fiddle" with it at all (the baseline structure).
- This will likely be different for each type of tax and there's no standard definition of what it should be.
- The process of defining it is easier said than done.



Define policy goal of tax.



What is the tax meant to achieve?

Define policy goal of tax.



What is the tax meant to achieve?

What's it ideally/in theory intended to tax?

Define policy goal of tax.



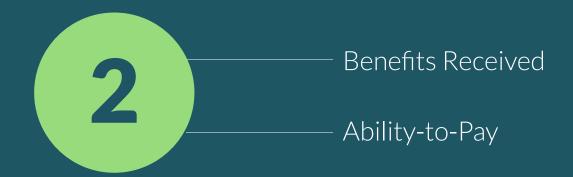
Define policy goal of tax.

Decide what distributional method should be.



Benefits Received

Decide what distributional method should be.



Decide what distributional method should be.

1

Define policy goal of tax.



Decide what distributional method should be.



Find real-world variable(s) that meets (1) and (2).

1

Define policy goal of tax.



Decide what distributional method should be.



Find real-world variable(s) that meets (1) and (2).



Make any necessary adjustments.

### TAX-SPECIFIC QUESTIONS | SALES TAX

What "sales" will be taxed?

What types of sales will be excluded?

How will transactions purchased in our connected, modern economy be treated (like digital goods and services and things purchased online)?

Will all final consumption be taxed, or just some of it?

Will business inputs be included?

Will transactions that are hard to collect tax on be included?

## TAX-SPECIFIC QUESTIONS | INCOME TAX

How will different types of income be treated?

What types of personal/household income should be included?

What types of business income should be included?

How will income earned by out-of-statebusinesses that conduct some business in the state be treated? What types of income might be double taxed if no adjustments made?

How will cyclical profits be taxed?

How will capital asset purchases be treated?

Should any *de minimis* exemption exist?

### TAX-SPECIFIC QUESTIONS | PROPERTY TAX

What kinds of property will be included?

Will different types of property be valued differently?

What types of property will be excluded?

How will types of property that have high administrative and compliance burdens be treated?

How will the property value be determined?

Should any *de minimis* exemption exist?

• The ultimate question to ask when defining the normal tax base for a tax is: what should the tax do and be?

- The ultimate question to ask when defining the normal tax base for a tax is: what should the tax do and be?
- Answer this question and then craft a tax structure that meets this criteria. Then, any deviations from this tax structure are tax expenditures.

- The ultimate question to ask when defining the normal tax base for a tax is: what should the tax do and be?
- Answer this question and then craft a tax structure that meets this criteria. Then, any deviations from this tax structure are tax expenditures.
- It's the most crucial step in the drafting process for expenditure reports or expenditure budgets.

#### WHAT'S NORMAL?

# **DEFINING THE TAX BASE**

**Liz Malm**MultiState Associates
Imalm@multistate.us

**Presentation to:**NCSL Tax Task Force

January 8, 2016