

The Death of Grand Bargains...

- Sequestration is the new normal. States lost over \$2.7 billion in FY13, but no one noticed as it was spread across 30 programs...
- The Senate is holding out for a grand bargain, but the House won't touch anything that includes revenue...
- The result is stalemate and a Continuing Resolution that will fund the government at FY13 levels and trigger more cuts...
- We will hit the debt ceiling as soon as September sparking another cliff-like deadline. The House has hinted that a debt ceiling deal may be linked to an expedited vote on tax reform...



State Taxes in the Crosshairs

<u>Rank</u>	<u>Top 10 Tax Expenditures in 2013 (in billions)</u>	<u>Cost</u>
1	Exclusion of employer payments for health insurance	181
2	Provisions that benefit states	105
	<i>Deductibility of state & local income, sales & property taxes</i>	<i>(69)</i>
	<i>Exclusion of interest on public purpose state & local bonds</i>	<i>(36)</i>
3	Mortgage interest on owner occupied homes	101
4	Treatment of 401(k)-type retirement plans	73
5	Treatment of capital gains	62
6	Treatment of employer pension plans	52
7	Exclusion of imputed rental income	51
8	Deductibility of charitable contributions	49
9	Deferral of income from controlled foreign corporations	42
10	Accelerated depreciation of machinery & equipment	33

Source: As presented by Barry Anderson, National Governors Association, at CSG's December 2012 National Conference, utilizing Fiscal Year 2013 Budget of the U.S. Government, Analytical Perspectives, Table 17-3



The Threat to Infrastructure...

- Both the House and Senate have embarked on a comprehensive effort to limit or remove tax exemptions in order to lower rates or, potentially, generate revenue...
- The President has proposed capping tax exemptions at 28%, which would limited the attractiveness of municipal bonds as an investment tool, and the House has proposed eliminating the bond exemption all together...
- Over the last decade state and local governments have funded over \$3.2 trillion in infrastructure through the bond market. If a 28% cap had been in place this same infrastructure would have cost **\$173 billion** more and had the bond exemption been eliminated it would have cost **\$500 billion** more...
- CSG, and its coalition partners, have made protecting the bond market a top priority for the year ahead...



Hope for Marketplace Fairness...

- State and local governments currently lose over \$23 billion every year in sales tax on remote purchases (both online and catalogue sales). The Marketplace Fairness Act would give states the option to compel remote sellers to collect and remit sales tax in return for streamlining their sales tax systems...
- In May the Senate voted 69-27 to pass the Marketplace Fairness Act. It was brought to the floor over the objection of Senate Finance Committee Chair, Max Baucus, who wanted to tie its passage to tax reform.
- Opponents of the bill have blitzed the House over the past two months to dissuade members from bringing it up for consideration. Some GOP members who initially indicated support for the bill are now facing the prospect of well funded primary opponents...
- House Judiciary Chair, Bob Goodlatte, has indicated that he will release principles for a possible House bill in September. However, the bill will go nowhere unless state and local members keep up the pressure on their delegations...



Uncollected Sales Tax in the South*

Alabama		\$347 million
Arkansas		\$236 million
Florida		\$1.4 billion
Georgia		\$837 million
Kentucky		\$224 million
Louisiana		\$808 million
Mississippi		\$303 million
Missouri		\$430 million
North Carolina		\$436 million
Oklahoma		\$296 million
South Carolina		\$254 million
Tennessee		\$748 million
Texas		\$1.7 billion
Virginia		\$422 million
West Virginia		\$103 million

* According to *State and Local Revenue Losses from Electronic Commerce*,
University of Tennessee, April 2009.



The True Silver Lining...



State innovations in infrastructure financing, controlling Medicaid costs, and meeting other challenges are the “essence of the America that works.”



For further assistance contact **CSG Washington**

Chris Whatley

Washington Director

Tel (202) 624-5460

Email: cwhatley@csq.org

www.csq.org

