

April 2021 Meeting

Date April 20, 2021

Attendees The following people attended the meeting via WebEx or on the phone:

Technical Advisory Group

Doug Conrad
Lucy Dadayan
Hart Hodges
Steve Lerch
Rachel Knutson
Patrick Jones
Andy Nicholas
Pete Parcels
Rick Peterson
Kriss Sjoblom

Department of Revenue

Preston Brashers
Melissa Howes
Steven Lee
Valerie Torres

**Corporate
Income/Net
Receipts
Microsimulation**

Presenter: Preston Brashers

Question:

Do you have data for 2019? Could you use that data to test one year forward?

Answer:

The data we have for 2019 is incomplete which could make testing and comparing to the full year data harder, but this is something that we can look into – particularly for taxpayers in both data sets.

Question:

Preston, you did a nice job putting together the Corporate Income/Net Receipts Tax (CINR) model. The history of the corporate tax/collections shows it goes up and down a LOT. The collections are volatile. For this reason, it may be good to illustrate the error that happens – based on what can and cannot be forecasted.

One thing to remember is that because the model is apportioning on Washington sales (single factor apportionment) there are large businesses in Washington that we are just getting our little piece of the tax. A three-factor apportionment would give Washington a little bigger piece for businesses with lots of employees or property in Washington and lower sales.

In the past, one thing considered was a combination of the CINR tax and the B&O tax. So if the CINR is higher the business would pay that otherwise the business would pay the B&O tax.

Also, there were questions about how many businesses pay more tax under the CINR tax and how many pay less. What were the characteristics of each type of business?

**Corporate
Income/Net
Receipts
Microsimulation,
*continued***

Question continued:

People will be interested in whether different types of businesses do better under CINT or the B&O. The micro model appears to be able to get to those answers.

Have you considered how you'll present that information?

Answer:

You are correct, the CINR tax is volatile. It does bounce up and down and not always in a predictable way. Especially when compared to Sales tax or B&O tax.

These are all good questions and we will look at how we can and what we can present to be prepared to answer these questions.

Question:

It appears the forecasting occurs quarter to quarter each year. I wonder if you would get any benefit by consolidating the forecast year over year. This could perhaps help with errors in the data. Another thought would be averaging the quarters could take out some of the errors.

Answer:

It would be good to think through and look at this type of approach, given the volatility from one quarter to the next. I also have had some thoughts on doing something like that. Perhaps once a tax structure has been in place for a couple years, using a moving average would make sense. I was not able to see a clear way to do this while still addressing the tax planning issue, but agree it seems like it could be a more elegant solution.

Next Meeting

May 26, 2021: 10 am to 12 pm

The Tax Structure Work Group (TSWG) is in the process of putting together packages or scenarios that combine the updated concepts from the preliminary report and other session related tax legislation. I may have the scenarios in time for the May meeting, but it is more up in the air this week than two weeks ago. We would like your assistance to look at the scenarios and help us identify potential questions, any pitfalls, and potential modeling convergence issues with the various elements of each scenario.

Also at the May meeting, we should have a better handle on the budget proviso for the 2021-2023 Biennium and will share what additional work the TSWG has for us.

What other topics should we start looking at?

Tax Shifting – One party shifts that tax to another entity including Owner to Renter tax Incidence

- Valerie will send out the literature review studies that we found last year to the whole group (almost everyone raised their hands).

Demographics overlay – another item we are starting to look at because it is in one of the budget provisos is how to overlay demographic data from the Census Bureau on our models
