Technical Advisory Group

December Meeting

Date	December 15, 2020
Attendees	The following people attended the meeting via WebEx or on the phone:

Technical Advisory Group	**Department of Revenue**
Katie Baird	Preston Brashers
Doug Conrad	Laura Chartoff
Lucy Dadayan	Braden Fraser
Rachelle Harris	Melissa Howes
Hart Hodges	Valerie Torres
Patrick Jones	
Steve Lerch	
Jeff Mitchell	
Mike Nelson	
Andy Nicholas	
Pete Parcells	
Rick Peterson	
Kriss Sjoblom	
Jim Schmidt	

Corporate Income/Net Receipts Microsimulation

Presenter: Preston Brashers

Question:
On the data exploration – Macro versus Micro slide, it appears there are about three parts that may negatively impact the actuals. Do you have a sense as to which specific provisions might have led to the collections falling below estimates in 2018? Also, if possible would you be able to dig into the details and see how each provision impacted results in 2018?

Answer:
I came across a report from the Treasury Inspector General for Tax Administration and some other discussions that suggested that the deemed repatriation came in "far below estimates" in 2018, partly as a result of administrative/processing issues (https://www.treasury.gov/tigta/auditreports/2019reports/201934033fr.pdf). This would suggest that the 2018 collections shortfall may be unconnected to federal taxable income, and therefore may not impact estimates of a Washington corporate income/net receipts tax receipts. I can dig into this issue once the 2018 microdata becomes available. I should be able to at least informally discuss the findings and may share more formal information, depending on time constraints and confidentiality issues.

Corporate Income/Net Receipts Microsimulation, *continued*

Question:
Can the model include the option or a parameter to allow modeling of three-factor appointment?

Answer:
Modeling three-factor apportionment at the micro level requires property and employment data, which is very difficult to get at a detailed company and/or industry level. We may be able to model this outside the model or adjust at the Macro level, but not as likely with the Micro model.

Question:
The ability to model both will come up from the Legislature, single sales factor apportionment does not currently apply to manufacturing and could make large manufacturers in Washington very happy.

Answer:
When we talk about modeling single factor apportionment, what we are really doing is mimicking the B&O tax apportionment, so we would be accounting already for the difference in the manufacturing industry.

Question:
Why single versus 3-factor apportionment?

Answer:
The multi-state tax commission and other states appears to be moving in the direction of some form of single factor apportionment, so that is why we chose this. We do recognize we could be asked to do either or both.

Question:
Does the Technical Advisory Group have suggestions on adjustments we can make for COVID-19?

Answer:
COVID relief considerations could impact the revenues too. Likely will need to look at the data and see where possible adjustments need made. Payment protection, loan forgiveness could also impact business revenues.

Response:
Good point, may not be all be negative impacts, possibly shifting between industries and business sizes. However, it is going to be difficult to look at the 2018 data and model 2020 data.

Comment:
Three-factor apportionment is very difficult. Because of the need to get employment data at the business level for both Washington and all states. Also seeing how tax burden changes from one state to another. With 3-factor, getting the data and having confidence is the biggest issue.

Next Meeting   Valerie and Keri will work together to set meetings for March through July (2021)

At this time, we have a couple items we need to work on for the final report that were not included in the preliminary report.

Also, we expect the Tax Structure Work Group will begin requesting we model proposed changes to the tax structure for the final report.

And getting back to you all on the formulas and details within the Corporate Income/Net Receipts model, will be helpful for us and you.

Thank you all for your work this last year on helping us with these models. Your insights and feedback have been very helpful in fine tuning our models.