

December 5, 2017

Revenue and Transportation Interim Committee  
Megan Moore, Research Analyst

# STATE TAX STRUCTURE STUDY CONSIDERATIONS

The recent special legislative session to address declining revenues in the current biennium has created interest in a study of the state's tax system. Members of the Legislative Finance Committee are also interested in this topic. The purpose of this document is to provide options for the committee to consider when contemplating a state tax structure study.

## WHAT IS THE REASON FOR A STUDY?

Before the committee undertakes a study of the state tax structure, some discussion of the following questions may be useful:

- What is the problem a study aims to solve?
- Does the current tax system raise sufficient revenue?
- What is the incidence of the state's taxes? (Who pays? How much? Should there be changes?)
- How does the state's tax system interact with the economy?

## WHO SHOULD STUDY THE STATE'S TAX SYSTEM?

Members of this committee and members of the Legislative Finance Committee have expressed interest in a study of the state's tax system. If both committees plan to pursue a study, there would likely be benefits from a coordination of effort.

Another option is to prepare for a study during the next biennium and designate a committee to study the issue in a study bill. The designated committee could be a special committee formed specifically to study the state's tax system. If this option is pursued, the committee may wish to think about who should select members for the committee and whether the committee should include members who are not legislators.

## WHEN SHOULD THE STUDY TAKE PLACE?

There is interest in studying the state's tax structure this interim but the committee should consider how such a study fits into the work plan and whether a study can be completed in the remainder of the interim. There is also uncertainty about whether there will be changes to the federal income tax system and how those changes will affect the state's income tax.

This is the last 2017 meeting of the committee and, in 2018, meetings are scheduled for March, May, July, September, and November. (Legislative Council guidelines require interim work to be completed by September 15, and the November meeting is designated for adopting a revenue estimate.)

If the committee does wish to begin a tax structure study this interim, there will be less time available for the three assigned interim studies and the committee would be asked to amend the work plan. There is likely enough staff time

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available with the committee's current workload for researching how to design a tax study and drafting a study bill for the next biennium.

## **NEXT STEPS**

Whether the committee opts to move forward with a study during this interim or to work on designing a study for the next interim, the committee may wish to communicate its plan in a letter to the Legislative Finance Committee and Legislative Council.

The committee should also provide direction to staff on how to prioritize other work if the decision is to move forward with a study during this interim. If there is interest in drafting a bill for a study next interim, the committee should provide input on what types of information will be useful in deciding how to design a study.