State Taxes in an Era of Rapid Technological and Demographic Changes

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Technology

• E-Commerce/digitization
• Autonomous vehicles
ESTIMATED TOTAL E-COMMERCE SALES

Billions

- Total Business to Consumer (B2C)
- Total Business to Business (B2B)

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STATES ARE USING SEVERAL APPROACHES TO ENFORCE TAX AT DESTINATION

• Nexus rules
• Increase ability to enforce the use tax through information reporting – Colorado, Nebraska, Washington
• Income tax filing – 25 states allow individuals to report use tax liability on income tax returns
BROADER APPROACHES

• Cooperation – Streamlined Sales Tax Governing Board (24 states)
• Federal legislation
  • Marketplace Fairness Act of 2017
  • Remote Transactions Parity Act of 2017
• Reconsideration of the Quill case – Several states have legislation to enforce collection on remote sales – Alabama, South Dakota, Tennessee
Autonomous Vehicles

• Some employment effects in transition
  • Fewer cars manufactured – assembly and parts
  • Less demand for drivers in taxis and car sharing services
  • Fewer truck drivers
  • Fewer new cars sold, insured, and financed
Some tax implications

• Sales tax revenues decline with fewer vehicles sold
• Motor vehicle registrations and titles fees decline
• Motor fuel tax revenues fall with more electric vehicles
Policy options – keep tax structure up-to-date

• Consider taxing transportation services, such as vehicle sharing and taxis
• Carefully consider how to tax other shared assets with eye towards level playing field
• Work to overcome the Quill limitation
  • Marketplace Fairness Act
  • Reconsideration by the Supreme Court
Demographic Issues

• Growing populations
• Aging populations – living longer, baby boomers passing 65, falling birth rates
U.S. Population Growth by Decade

- **1970-79**: 1.11%
- **1980-89**: 0.96%
- **1990-99**: 1.28%
- **2000-09**: 0.96%
- **2010-16**: 0.73%
U.S. Birth Rate per 1,000 of Population

![Bar chart showing birth rate per 1,000 population from 1910 to 2015. The rate decreases from 30.1 in 1910 to 12.4 in 2015.](image-url)
Population Growth

• Varies widely across states – very fast in some states such as Arizona and Colorado and very slow in others such as Maine and Pennsylvania. Difference arises mostly from immigration.

• Growth adds tax revenues, but creates corresponding expenditures which depend on the demographics of the new population, so uncertain how the fiscal position is affected
U.S. Population by Age Group

- **1990**: Under 18 years: 25.7%, 18 to 64 years: 61.8%, 65 years and over: 12.5%
- **2000**: Under 18 years: 25.7%, 18 to 64 years: 62.1%, 65 years and over: 12.4%
- **2010**: Under 18 years: 24.0%, 18 to 64 years: 63.0%, 65 years and over: 13.1%
- **2015**: Under 18 years: 22.9%, 18 to 64 years: 62.2%, 65 years and over: 14.9%
- **2030**: Under 18 years: 22.5%, 18 to 64 years: 57.4%, 65 years and over: 20.0%
Population 65 Years and Older, 2016

U.S. Average: 15.2%
Expenditure implications of aging

• State and local pensions
• Health care
  • Employees or retirees
  • Low income elderly
• Education – will the elderly want less?
• Demand for different services, such as more or different recreation
Income Tax

• Effects from aging arise with behavioral changes and from structure of statutes

• Behavioral effects
  • Labor force participation varies by age, but will likely see more transitional retirement
  • Average earnings increase through careers, and then drop with retirement
  • Income changes to relatively more pensions, interest and capital gains
Labor Force Participation Rate by Age Group
Personal Income Tax

• Statutory effects
  • Progressivity affects how demographics impact income tax revenues
  • More limited taxation of capital income
  • 37 states have some type of special provision for pension income, and all have some favorable treatment for the elderly
    • Only six states tax social security to the same extent as the Federal Government
    • Many have special treatment for other pensions
    • Other credits and exemptions – GA cost more than $250 million per year a decade ago
Sales Tax

• Some consumption smoothing over life but consumption patterns change with age – middle aged spend the most, oldest and youngest groups spend a little more than half as much

• Elderly consume more health care and food at home, so breadth of base affects how sales tax responds

• Aging population will cause per capita tax revenues to fall, with the most being in Hawaii, Colorado and North Carolina
Sales Tax and Millennials

- How will Millennials lower (at least to this point) asset accumulation alter sales tax? Fewer cars with car sharing and autonomous vehicles?
- Sales tax collection and remote sales
Property tax

• Again, behavioral effects and statutory effects
• Millenial effects
  • How will they behave in terms of property ownership?
  • Household formation affects new property
  • Decisions to own versus rent could alter the value of property
All Housing Units, 2000-2016
New Privately Owned Housing Units Started
Property tax

• Behavior - Older people spend less on housing – want to stay in their home but most ultimately downsize

• Statutory
  • Age specific homestead exemptions
  • Move into nontaxable nursing homes, etc.
Policy Options

• Keep tax bases broad
  • Limit any further age related (and all) exemptions
  • Tax pensions and Social Security under PIT
  • Tax food and services under sales tax
  • What about health care?
  • Homestead exemptions?