COMMISSION ON STATE TAX AND FINANCING POLICY

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MEETING MINUTES[1]

Meeting Date:	**October 3, 2011**
Meeting Time:	**10:00 A.M.**
Meeting Place:	**State House, 200 W. Washington St., Room 431**
Meeting City:	**Indianapolis, Indiana**
Meeting Number:	**2**

Members Present: **Sen. Brandt Hershman, Chairperson; Sen. Ryan Mishler; Sen. Timothy Skinner; Rep. Eric Turner; Rep. Scott Pelath.**

Members Absent: **None.**

Senator Brandt Hershman, chairman of the Commission, called the meeting to order shortly after 10:00 A.M.

Tax Incentives for Logistics and Homeland Security Expenditures

Chairman Hershman recognized Professor Mark Frolich and Professor Steve Jones of Indiana University's Kelley School of Business. Professor Jones explained an analysis of SB 222-2011 that had been prepared during the past legislative session. He estimated that with a 50% tax credit for logistics investments, the tax credit would pay for itself (on a cumulative basis) within five to seven years; with a 35% tax credit, the tax credit would break even (on a cumulative basis) by the fourth year. Professor Frolich testified concerning the importance of logistics, including: (1) the broad impact of logistics, and the fact that logistics underlies many other industries (such as agriculture); and (2) that improving infrastructure also improves the efficiency of other industries. (See Exhibit A.)

Chairman Hershman noted that SB 222-2011 was broad in scope and that this was an issue with the proposed tax credit because the lost revenue would have to be offset either with revenue increases or spending reductions. Professor Jones testified that: (1) investment would

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continue to occur without the tax credit, because of Indiana's location, but that some investments that might occur over the rest of the decade would be made sooner because of the credit; and (2) an investment tax credit has a higher multiplier effect than a cut in the tax rate. Professor Frolich then described certain rail initiatives in surrounding states. In response to a question from Representative Scott Pelath, Professor Jones testified that property tax revenue, corporate income tax revenue, and individual income tax revenue would be generated by the tax credit.

David Holt of Conexus Indiana described intermodal rail initiatives by the city of Columbus, Ohio. (A description from Mr. Holt of certain logistics initiatives in Illinois and Ohio was distributed to Commission members. See Exhibit B.) Mr. Holt then described changes that have been made to the proposed tax credit legislation to address concerns expressed during and since the legislative session. The changes are as follows: (1) the tax credit rate has been reduced from 50% to 35%; (2) only those investment expenditures above the previous two years' average expenditures would be eligible for the tax credit; (3) an oversight provision was added, requiring the Department of Revenue to report to the State Budget Committee; and (4) a provision that would have prohibited local tax abatement on the same investment had been removed. (See Exhibit C.)

Historic Preservation Tax Credit

Chairman Hershman recognized David Duvall of the Department of Natural Resources (DNR). Mr. Duvall provided background information concerning the Historic Preservation Tax Credit. (See Exhibit D.) Mr. Duvall testified that because of the $450,000 annual cap on the amount of credits that can be approved by DNR, a backlog of approved historic preservation tax credits has developed. As a result, the tax credits that are currently being approved by DNR can not be claimed by taxpayers until fiscal year 2023. In response to a question from Representative Pelath, Mr. Duvall testified that because the benefit of the tax credit is deferred for so long, it no longer provides much of an incentive. Representative Eric Turner asked Mr. Duvall to provide Commission members with a map showing the projects that had been approved for the tax credit.

Representative Ed Clere testified regarding HB 1547-2011 which he authored. He explained that the bill would have done the following: (1) increased the annual limit for the historic preservation tax credit to $10,000,000; (2) increased the minimum amount of expenditures to qualify for the credit; (3) required 20% of the tax credits to be reserved for small projects; and (4) provided that no single project could receive more than 20% of the tax credits. In response to a question from Representative Turner, Representative Clere testified that for some smaller projects it may not make sense to go through the process of obtaining the parallel federal tax credit, and that in such a case the state tax credit may be decisive for such projects.

Marsh Davis, president of Indiana Landmarks, testified regarding the history of the tax credit. He testified that 31 states now offer state-level historic rehabilitation tax credits that can be coupled with the federal tax credit. Mr. Davis then discussed a 2007 report concerning Indiana's historic rehabilitation tax credit. (See Exhibit E.) In response to a question from Chairman Hershman, Mr. Davis explained that the tax credits are not transferrable. Mr. Jon Anderson, an attorney from Indianapolis, gave examples of projects that might have been accomplished with an improved historic rehabilitation tax credit. He testified that the tax credit is an economic development tool and that the bill should be for new investment, rather than for tax credits that have been deferred. Chairman Hershman then recognized Bill Konyha, president and CEO of the Economic Development Group of Wabash County and chairman of the Mainstreet Council. Mr. Konyha testified that: (1) for rural communities, downtown areas have been battered for longer than the recent economic downturn; (2) money from local income taxes and subsequent investment would pay back the costs of the tax credit; and (3) the General Assembly should increase the tax credit allocation and make the tax credits transferrable. Chairman Hershman asked about the possibility of providing the tax credit against local income taxes. Steve Croyle, the mayor of Winchester, described redevelopment efforts in his city and testified that: (1) the ability to pursue federal tax credits is often not feasible; and (2) some investment would not occur without incentives. Chairman Hershman noted that the state pays for the credit, but that the local communities benefit from the increase in property values. Representative Turner encouraged interested parties to think about a local component to this issue.

Impact of Tax Structure on Senior Citizen's Decision to Reside in Indiana

Chairman Hershman recognized Representative Clere, who testified that: (1) everyone can agree that it is desirable to keep senior citizens in Indiana; and (2) federal employees who were employed before 1986 are a particular group that is treated unfairly. He explained that the state income tax deduction for federal civil service retirees' annuity income is $2,000, while all Social Security retirement income is deductible for state tax purposes. Representative Clere also testified: (1) that his bill on this issue in the 2011 legislative session would have increased the civil service annuity income tax deduction from $2,000 to $5,000, and then would have phased in an increase in the deduction to $13,000 (with an offset for Social Security benefits); (2) that Indiana has lost retirees to other states; and (3) that he was unsure of the original rationale behind treating federal retirees differently than Social Security recipients. Senator Ryan Mishler noted that some states tax Social Security benefits.

Chairman Hershman recognized Professor Bob Tannenwald of Brandeis University, who testified by video-conferencing concerning the influence of taxation on interstate migration of the elderly. Professor Tannenwald testified that: (1) independent scholars have not found significant state tax effects on the migration of the elderly or the affluent (other than the very rich elderly); (2) revenue consequences of tax breaks for the elderly are growing rapidly; and (3) studies by tax opponents on this issue are flawed. (See Exhibit F.) Representative Turner questioned Professor Tannenwald concerning migration into and out of Florida. Senator Tim Skinner noted that the presentation had provided only general information and that some taxes are viewed as more egregious than others by seniors.

Callie Potts of the National Active and Retired Federal Employees Association (NARFE) -- Indiana Federation testified regarding: (1) inequities related to the deduction for federal civil service annuitants; and (2) the benefits of keeping senior citizens in Indiana. Ms. Potts provided background information on the federal retirement system and testified concerning the benefits of retaining retirees in Indiana. (See Exhibit G.) Senator Skinner asked if LSA analysts could determine the extent to which the cost of the deduction would decrease over time because of the fixed population of individuals eligible for the deduction.

Dean Jones representing NARFE testified regarding the aging population in Indiana and the aging of the workforce. He cited estimates that the population of those aged 65 and over will double from 2003 to 2040. Mr. Jones testified that: (1) keeping retirees is important for a healthy economy; (2) the migration of seniors out of Indiana exceeds the migration of seniors into Indiana; and (3) Florida, Texas, Tennessee, and Arizona receive more than twice as many retirees from Indiana as they lose to Indiana. He also testified that among Florida, Texas, Tennessee, and Arizona (the four states receiving more than twice as many retirees from Indiana as they lose to Indiana), three of those states have no income tax and three of the states have no inheritance tax.

Alan Ader representing NARFE testified regarding experiences he has observed of retirees moving out of Indiana for tax reasons. He provided the Commission with information concerning: (1) the number of federal civil service annuitants and survivors in Indiana; and (2) the amount of income received by these annuitants.

Allen Lauer testified regarding the net migration of senior citizens out of Indiana. Mr. Lauer provided the Commission with information regarding the amount of annuity payments to retired federal employees during the month of September 2010 (33,639 retirees received $68,702,000). (See Exhibit H.)

Representative Clere testified that issues related to migration out of Indiana because of tax issues is a separate issue from fairness issues concerning the taxation of federal retirement benefits.

Don Savage representing NARFE testified that: (1) he had provided background information to legislators on Organization Day; (2) many states have programs to attract retirees; and (3) Indiana should think of attracting retirees in the same manner as it thinks of attracting businesses.

(Exhibits I, J, and K were distributed to the Commission by LSA but were not discussed.)

Impact of Phasing Out the Inheritance Tax

Jessica Harmon of LSA presented a memorandum concerning inheritance tax revenue. The memorandum included information regarding: (1) total state and county distributions; (2) county distributions and county inheritance tax replacement amounts; and (3) a breakdown by county of inheritance tax replacement amounts. (See Exhibit L.)

Chairman Hershman recognized attorneys Jeff Kolb and Jeff Dible, representing the Indiana State Bar Association. Mr. Kolb testified that there are problems with the procedures governing the inheritance tax and that the cost to prepare the inheritance tax return often exceeds the amount of tax due. He also testified that the tax is not fair and that the state is losing revenue because the tax is causing individuals to leave the state. Mr. Dible testified that the inheritance tax is an inefficient tax and that complying with it is the largest single expense and time-consuming element for an estate. He noted that Indiana is the only state with an inheritance tax on transferees that taxes transfers to lineal descendants. He also testified that it would not be difficult to determine a tax that applied only to those who file a federal estate tax return. Chairman Hershman commented on the need to find suitable replacement revenue or spending cuts. Representative Turner asked the witnesses about ways to streamline the inheritance tax process (apart from the issue of finding replacement revenue). (See Exhibit M.)

Andrew Berger of the Association of Indiana Counties testified that counties do not have a philosophical attachment to the inheritance tax, but there would be a revenue-replacement issue for counties if the tax is eliminated. Representative Turner stated that legislators will need to know what savings to counties would come from eliminating the county's current role in the process.

Katrina Hall of the Indiana Farm Bureau (IFB) testified that the inheritance tax is an important issue for IFB members, especially because agriculture is a capital-intensive industry and also because the tax is burdensome when property is transferred. Ms. Hall explained that to avoid burdensome taxes, some farmers must choose business structures that they might not otherwise choose. She testified that she hopes the Commission will continue to look at a phaseout of the tax.

Bill Waltz of the Indiana State Chamber of Commerce testified that the inheritance tax is a business issue, especially for small businesses, and that the Chamber of Commerce supports elimination or phaseout of the tax, as well as any useful administrative changes.

Representative Turner noted that Representative VanNatter was attending the meeting and had been involved with the inheritance tax issue.

Sales Tax Holidays

Representative Greg Steuerwald testified that he has introduced a sales tax holiday bill in each year in which he has been a member of the General Assembly and that Representative Battles has been a co-author. He testified that there are no states bordering Indiana that have a sales tax holiday and that taxpayers and retailers support sales tax holidays.

Chairman Hershman then recognized Joseph Henchman of the Tax Foundation, who testified by video-conferencing concerning sales tax holidays. Mr. Henchman explained that 17 states have had a sales tax holiday in 2011 and that most are of short duration and involve narrow categories of goods, such as school supplies, clothing, energy efficient appliances, firearms, and hurricane preparedness supplies. He testified that: (1) sales tax holidays shift existing sales in time and do not promote economic growth; (2) there are complex rules regarding what is covered by the sales tax holidays; and (3) it is not good economics to discriminate among goods or across time periods. (See Exhibit N.)

Grant Monahan of the Indiana Retail Council testified that a sales tax holiday would have a significant positive impact and that a sales tax holiday would help to stretch family budgets. (See Exhibit O.)

Dr. Horacio Soberon-Ferrar of the Washington Economics Group testified regarding Florida's experience with sales tax holidays. Dr. Soberon-Ferrar testified that models previously used to analyze sales tax holidays were based on simplistic assumptions. He discussed a study prepared by the Washington Economics Group concerning Florida's experience, including findings that: (1) there were positive economic impacts and no meaningful time-shifting effects; and (2) the sales tax holidays resulted in positive direct and indirect effects as well as second-generation effects. (See Exhibits P and Q.)

Justin Kingsolver, president of the Indiana University Student Association, testified that the costs of college education have increased faster than the rate of inflation and that a sales tax holiday would lower the costs of textbooks for college students.

(Exhibits R and S were distributed to the Commission by LSA but were not discussed.)

There being no further business, Chairman Hershman adjourned the meeting at approximately 2:50 P.M.

Exhibit A
Commission on State Tax and Financing Policy
Meeting #2 Oct. 3, 2011

DRAFT February 14, 2011

SB 222 proposes a 50% tax credit for new investment in a broad range of logistical infrastructure assets, as well as related capital assets supporting the logistical infrastructure of state. Estimating the economic and fiscal impact of this proposed tax credit on output and the state budget requires making a number of assumptions. The case for such a credit, of course, relies on a material response from the privates sector in terms of marginal new investment that, in turn, generates additional economic growth.

Given the importance of the logistics industry to the economy of the state, and the strategic nature of certain key investments, such as the expansion of intermodal rail facilities, we believe, and our analysis bears out, that this credit could spur economic output significantly, on the order of 4.5 times the amount of the credit, itself. Even impressive growth multiplies of this magnitude cannot, however, generate enough to be revenue neutral, to the state, in the very near term. We estimate that it would take approximately 3.5 years to generate enough state tax revenue to offset the amount of the credit taken in the first year; 5 years to offset the amount of the credit taken in the first 2 years, and that by year 7, of the credit, enough marginal economic growth will have resulted that the additional revenue, from the larger tax base, would offset the amount of the credit taken in that year. Subsequent to year 7, the credit should then be self-sustaining. These are, of course, point estimates and involve substantial uncertainty. To illustrate this uncertainty we will describe a few best and worst case scenarios and, in doing so, explain the key assumptions and the economic logic underpinning our analysis.

The most important assumption in our analysis, and perhaps the one fraught with the most uncertainty, relates to the marginal investment this tax credit will spur, relative to what would have been invested otherwise. This tells us not only the size of the credit but forms the basis for determining the incremental economic output from the multiplier. Our assumption, here, rests on a study conducted by the Federal Reserve Bank of San Francisco, which estimates that an tax credit of this magnitude would spur investment by a multiple of 2.7 times the amount that would occur in the absence of the credit. We assume that this level of investment is achieved gradually, by year 5, and that the marginal investment then declines over the subsequent 5 years so that by year 10, the marginal investment is zero. A multiple of 2.7 is admittedly quite dramatic; however, we estimate that it could be achieved on the basis of just a few major projects, along the lines of those this credit is intended to spur. In addition, by assuming this multiple will be achieved only at the peak of the response, in year 5, and that the response will then gradually decline back to zero, we have built a measure of conservatism into the results. To provide a measure of the results sensitivity to this assumption, we note that an incremental investment multiple of 1.45, on average, over 10 years, would make the credit revenue neutral by year 10.

The other key assumption in our analysis relates to the economic output multiplier that is applied to the tax credit, the latter of which is, in SB 222, 50% of the total investment in qualifying logistical infrastructure. The multiplier is applied to only the additional investment, spurred by the credit, and it reflects the incremental economic output not only from the decrease in taxes but, more importantly, from the ripple effects of the additional investment through the economy, in the form of new jobs and services, much of which results an expansion in the manufacturing base. The multiplier value of 4.5 is from the higher end of a range estimates provided in some very recent and highly-regarded econometric studies. These studies point out that tax credit that spur infrastructure investment generate the highest multipliers due the ripple effects mentioned. Decreasing this multiplier to 1.5, the low end of the range, yields considerably less economic output but shifts the point at which the credit is revenue neutral back only one year, to year 8.

The actual values realized for the investment multiple and the economic multiplier in a regional economy, such as for the state of Indiana, are very much a function of the strategic relevance of a tax credit. We would suggest that the strategic relevance of infrastructure development is very high right now in Indiana, given the long life of infrastructure and significant first-mover advantages that exist in a highly networked industry such as logistics. To illustrate the strategic significance of the industry to the state, consider that Indiana's combined transportation and warehouse industries have gone through two cycles of growth and contraction over the past thirteen years as shown in Figure 1 below. Notably, the late 1990's were a period of growth followed by a downturn in 2001 and limited expansion in 2002 during that short recession. A second period of strong growth followed the 2001-2002 recession in the range of 5 to 9 percent from 2003 to 2006 leading up to the Great Recession beginning in 2008. The most recent year (2009) for which data is available from the Department of Commerce was also Indiana's worse in terms of performance with a 3.7 percent reduction.

Figure 1.
Indiana's Transportation and Warehouse GDP from 1997 to 2009 (in Millions of Dollars)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
$5,811	$6,170	$6,517	$6,805	$6,735	$6,827	$7,198	$7,725	$8,423	$9,103	$9,220	$9,242	$8,898
Change	6.2%	5.6%	4.4%	-1.0%	1.4%	5.4%	7.3%	9.0%	8.1%	1.3%	0.2%	-3.7%

Source: US Department of Commerce - Bureau of Economic Analysis

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It is important to note that the Great Recession not only impacted transportation and warehousing in Indiana for 2009, but also the other four bordering states with Michigan down -6.9 percent, Ohio -6.1 percent, Illinois -3.6 percent, and Kentucky at -1.9 percent. Similar trends in 2009 were seen in many other states including those noted for having aggressive state transportation and warehousing policies including Georgia at -4.1 percent, Utah at -2.4 percent, Arizona at -1.7 percent, and Texas at -1.5 percent. In 2009, Nevada was the only such state showing any growth in transportation and warehousing with a modest increase of 0.7 percent. In short, the Great Recession has affected transportation and warehousing across the United States, and set the stage for what is likely to be a competitive decade ahead in terms of states adopting even more aggressive transportation and warehousing fiscal policies. Such fiscal policies will likely be aimed at a variety of goals including supporting existing transportation and warehousing businesses, stimulating new infrastructure investments and workforce expansions, as well as tempting companies to relocate some or all of their operations across borders.

Respectfully,
Steven L. Jones, Associate Professor of Finance
Mark T. Frohlich, Associate Professor of Operations Management
Indiana University Kelley School of Business, Indianapolis Campus at IUPUI

Changes to Logistics Tax Credit

1) Lowered the credit from 50% to 35% (IU Study shows that the most effective credit ranges from 25-50%)

2) Created a cap (any cap x expenditure identified in the legislation above the last 2 year average of capital expenditures would qualify for the credit) on new qualified expenditures

3) Oversight by the State Budget Committee (they would receive a report from the Department of Revenue on its use)

4) Took out the section that disqualified the credit, if you received a local tax abatement. Accounting firms indicated that this would prevent its use and would not be as effective – should give the locals and state tools to attract companies

Economic Development Program (EDP)

The purpose of the EDP program is to provide assistance in improving highway access to new or expanding industrial distribution or tourism developments. The intent is to make available state matching funds that will be a positive contribution in the location-selection process and to target those projects which will expand the state's existing job base or create new employment opportunities. The focus of the program is on the retention and creation of primary jobs. Funding will be available to construct highway facilities that provide direct access to industrial, distribution or tourism developments. The program is designed to assist in those situations where development of these types of facilities is imminent. Projects which only improve opportunities for development or are speculative in nature are not eligible for EDP funding. Projects providing access to retail establishments, office parks, government facilities or school/universities are not eligible for EDP funding.

The EDP program is designed to provide up to 50 percent state matching funds for eligible local agency roadway-related construction and engineering items. The remaining funds will be provided by local or private sources. This basic funding arrangement may be altered on a case-by-case basis for projects involving improvements on roads under state jurisdiction. The EDP is a program for reimbursement of a portion of eligible costs of an approved project and is not a grant program.

All candidate projects must be constructed to Motor Fuel Tax standards and, in addition, must have a local government sponsor (a county, municipality, township or other taxing body). If a project is selected for funding, a joint local-state agreement must be executed between the governmental entities involved to serve as the basis of understanding for financial responsibilities.

It has been a long standing departmental requirement that the local sponsor provide their financial share of the improvement. Our EDP policy was based on the intent that the locals have a financial responsibility towards the project as well and should have a vested interest in the project. EDP policy requires that the locals provide matching funds and that state funds from other state agencies cannot be used towards the local match.

However, for those businesses that are EDP eligible and have been approved for both EDP and other state agency (such as DCEO) infrastructure improvement funds, we will allow the amount of those funds the sponsor receives to be subtracted from the total amount of the project cost. The department will then calculate the EDP participation from the remaining balance of those items which are EDP eligible. It is critical for the department to coordinate this effort between all affected parties as early as possible. The local project sponsor should report any outside funding sources to IDOT as soon as possible.

If the outside agency funds are not reported on the initial EDP application, they must be reported prior to execution of an intergovernmental agreement between the department and local sponsor. Should the department receive notification from the local sponsor of their intent to use other state funds after the EDP commitment was made, this may cause the department to review its commitment and alter the EDP funds allocated to the project.

The cost-effectiveness of each investment of EDP dollars is a major factor in the evaluation of proposed projects. Priority considerations are:

- Need for the highway improvement and imminence of development.
- Compatibility of the proposed roadway with the design of the existing roadway system.
- Primary jobs created or retained in Illinois and total developer site cost estimate.
- Annual and peak day attendance at tourist developments.
- Commitment of the industrial/distribution/tourist development to the site to be served by facility.
- Willingness of the sponsoring local government to participate in the local share of the improvement cost.

Exhibit B
Commission on State Tax and Financing Policy
Meeting #2 Oct. 3, 2011

Source: Illinois Dept. of Transportation; http://www.dot.state.il.us/edp/edp.html

Intermodal Facilities Promotion Act

The purpose of the legislation is to encourage business development along Illinois' freight-rail lines. State income taxes attributed to jobs created at an intermodal facility will be placed in the *Intermodal Facilities Promotion Fund.* The Illinois Department of Commerce and Economic Development will administer the fund to reimburse developers and railroads for infrastructure improvements. The department will award an annual grant of up to $3 million for fiscal years 2010 through 2016.

The bill is in response to CenterPoint Properties plans to build an intermodal terminal in Joliet, Illinois that will be operated by Union Pacific Railroad.

Source: State of Illinois; http://www.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=1&RecNum=7782

Rail Freight Program (RFP)

The purpose of the RFP is to provide capital assistance to communities, railroads and shippers to preserve and improve rail freight service in Illinois. The primary role of the program is to facilitate investments in rail service by serving as a link between interested parties and channeling government funds to projects that achieve statewide economic development. IDOT will generally provide low interest loans to finance rail improvements and, in some cases, provide grants. The focus is on projects with the greatest potential for improving access to markets and maintaining transportation cost savings, and where state participation will leverage private investments to foster permanent solutions to rail service problems. A benefit/cost ratio is used to evaluate potential rail freight projects.

Requests for RFP funds require the following information:
- A general description of the project and a location map depicting the beginning and ending points.
- Benefits expected from the project (e.g., job creation and retention, transportation saving, etc.)
- The name of the industries involved, and the name, title, address and telephone number of the principal contact for the project.
- An engineer's cost estimate, if available

Source: Illinois Dept. of Transportation; http://www.dot.state.il.us/rfp.html

Truck Access Route Program (TARP)

The purpose of the TARP is to help local government agencies upgrade roads to accommodate 80,000 pound trucks. The routes are to provide access to points of loading and unloading and to facilities for food, fuel, truck repair and driver test. Projects must connect to a truck route and end at another truck route or truck generator. IDOT will provide up to $30,000 per lane mile and $15,000 per intersection. The state participation will not exceed 50 percent of the total construction cost or $600,000, whichever is less. Each fall IDOT solicits local projects that can be constructed during the upcoming fiscal year. The following information is required for application:
- A general description of the project and a location map
- An engineer's cost estimate of the improvement
- Amount and source of local matching funds

Source: Illinois Dept. of Transportation; http://www.dot.state.il.us/tarp.html

Business Development Public Infrastructure Program (BDPIP)

The BDPIP program is designed to provide grants to units of local government for public improvements on behalf of businesses undertaking a major expansion or relocation project that will result in substantial private investment and the creation and/or retention of a large amount of Illinois jobs. The infrastructure improvements must be made for public benefit and on public property and must directly result in the creation or retention of private sector jobs. The local government must demonstrate clear need for financial assistance to undertake the improvements. Grant eligibility and amounts are determined by the amount of investment and job creation or retention involved.

The Program helps to fund public infrastructure projects. There is no maximum amount of infrastructure funds which may be invested in any one project. However, the amounts must be commensurate with the number of jobs created or retained. For this program, at least one private sector job must be created or retained for every $10,000 awarded by the department. Typically, the department will limit its assistance to $500,000 or less.

Source: Illinois Department of Commerce and Economic Opportunity; http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Grants/bdpip.htm

Port District Loan Program

The Illinois Department of Commerce and Economic Opportunity (DCEO) administers the Port District Revolving Loan Program. DCEO is authorized by the Illinois Small Business Development Act (30 ILCS 750/9-11) a/k/a the Port Development Revolving Loan Program to provide loans to Illinois port districts to facilitate and enhance the utilization of Illinois' navigable waterways and the development of inland intermodal freight facilities. Up to $3 million loan funds will be made available on a competitive basis.

Source: Illinois Department of Commerce and Economic Opportunity; http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Loan+Programs/Port+District+Loan+Program.htm

Ohio

Freight Development/Rail Spur Program Summary

The ORDC provides assistance to companies for new rail and rail-related infrastructure. The goal of this program is to promote the retention and development of Ohio companies through the use of effective rail transportation. Additionally, companies who are considering adding rail to existing operations in the state are also eligible under this program. ORDC works closely with the Ohio Department of Development and other public and private development related organizations to provide assistance to companies.

Grant funding is generally limited to projects where significant job creation or retention is involved (25 or more jobs). Applicants must commit to job creation/retention numbers subject to contractual clawbacks. Further, applicants are required to commit to rail usage, also subject to clawbacks.

ORDC loan financing is available to qualified applicants even when jobs are not being created or retained. ORDC's standard loan package is a five year loan term and an interest rate which equals 2/3 of prime at the time of the loan closing. Collateral or a letter of credit is required. For funding consideration, an applicant may need to provide some or all of the following information:

1. Briefly describe overall company, including parent organization if applicable. Include products made, locations of plants, markets served, overall size in terms of sales volumes and employees, and other relevant data.
2. Provide detailed description of the project including:
   - How new plant or expansion (project) fits into the company's operations.
   - Investment broken down by building, land, equipment and machinery, and inventory;
   - Building description (sq. ft.), land (acreage), equipment and machinery, and uses;
   - Products to be produced, services rendered, markets served, and major competitors;
   - Map, diagram, building layout plan or other graphic showing the location of the new plant or plant expansion including the existing and proposed rail infrastructure;
   - Description of rail construction including the length of new track, new turnouts, description of related track rehabilitation and related information;
   - Detailed cost estimate of all new rail infrastructure and any track rehabilitation work; and
   - Projected time frame for new plant construction/expansion.
3. Describe benefits resulting from new plant or expansion, including:
   - Number of jobs company will commit to create within three years;
   - Number of jobs company will commit to retain;
   - Average hourly wage for jobs created or retained;
   - Number of new rail carloads company will commit to generate within three years; and
   - Additional benefits to Ohio.
4. Statement regarding whether any of the jobs created will result from displacing jobs at any other Ohio facility.
5. Provide a listing of incentives and their value to the company or project provided by: Local Sources; Other State Agencies; Federal Agencies; and The Serving Railroad Company.

Source: Ohio Dept. of Transportation;
http://www.dot.state.oh.us/Divisions/Rail/Programs/freight/Pages/FreightRailDevelopment.aspx

Rail Line Acquisition Program

The ORDC provides assistance for the acquisition of rail lines to prevent cessation of service or preserve the line or right of way for future rail development. ORDC will also consider providing assistance to acquire a line if the acquisition can enhance the line's viability. For funding consideration, an applicant may need to provide some or all of the following information:

1. Acquisition cost and financing plan, including why the line acquisition cannot be financed through private lenders.
2. Copy of rail line appraisal, or evidence of the valuation.
3. Pro Forma or other business plan detailing service plans after acquisition.
4. Evidence of clear title by seller.
5. Describe Rail Line to be acquired including:
   - Mileposts and end points of entire line; mileposts of line portion to be acquired;
   - Location map, track charts, and ZITS maps;
   - Connections to other railroads from line;
   - Rail users on the line along with commodities shipped & received for the last three years;
   - Overhead traffic on the line by volume and commodity for last three years; and
   - Description of line condition and detailed breakdown of track rehabilitation needs.

Illinois

Economic Development Program (EDP) – Page 2

- The purpose of the EDP is to provide assistance in providing direct highway access to new or expanding industrial, distribution or tourism developments.
- Provides up to 50% state matching funds for eligible local agency roadway-related construction and engineering items. Remaining funds are provided by local or private sources.

Intermodal Facilities Promotion Act – Page 2

- The purpose is to encourage business development along Illinois' freight rail lines.
- The Department of Commerce and Economic Opportunity (DECO) will award an annual grant of up to $3 million for fiscal years 2010 through 2016

Rail Freight Program (RFP) – Page 3

- RFP provides capital assistance to communities, railroads and shippers to preserve and improve rail freight service in Illinois.
- Illinois Dept. of Transportation (IDOT) provides low interested loans to finance rail improvements and, in some cases, provide grants.

Truck Access Route Program (TARP) – Page 3

- TARP assists local government agencies in upgrading roads to accommodate 80,000 pound trucks.
- IDOT provides up to $30,000 per lane mile and $15,000 per intersection. State participation will not exceed 50% of the total construction cost or $600,000, whichever is less.

Business Development Public Infrastructure Program (BDPIP) – Page 3

- BDPIP is designed to provide grants to units of local government for public improvements on behalf of businesses undertaking a major expansion or relocation project that will result in substantial private investment and the creation and/or retention of a large amount of Illinois jobs.
- At least one private sector job must be created or retained for every $10,000 awarded by the department. Typically, the department will limit its assistance to $500,000 or less.

Port District Loan Program – Page 3

- Provides loans to Illinois port districts to facilitate and enhance the utilization of Illinois' navigable waterways and the development of inland intermodal freight facilities.
- Up to $3 million of loan funds are available on a competitive basis.

Ohio

Freight Development/Rail Spur Program – Page 4

- The Ohio Rail Development Commission (ORDC) provides assistance to companies for new rail and rail-related infrastructure.
- ORDC provides grants to projects which retain or create at least 25 jobs. If the project does not meet the job retention/creation requirement, ORDC provides a 5-year loan at a rate equal to 2/3 of prime rate at the time of loan closing.

Rail Line Acquisition Program – Page 4

- ORDC provides assistance to acquire rail lines to prevent cessation of service or preserve the line or right of way for future rail development. ORDC will consider providing assistance if the acquisition can enhance the line's viability

Railroad Rehabilitation Program – Page 5

- ORDC provides assistance to public and private entities for the rehabilitation of rail lines in Ohio to improve safety and efficiency.

Warehouse Machinery & Equipment Sales Tax Exemption – Page 5

- Provides an exemption from the entire State and County sales tax for companies that purchase eligible warehousing machinery and equipment.
- Machinery and equipment must be used primarily (51%) in storing, transporting, mailing or handling inventory in warehouse/distribution center or similar facility if the inventory handled by the facility is primarily distributed outside Ohio to retail stores owned by the business or affiliated group that owns the facility or distributed by means of direct marketing.

Warehouse Inventory Tax Exemption – Page 6

- Provides an exemption from the personal property tax on qualifying inventory.
- Applies to inventory such as goods brought into Ohio for storage without additional processing and then distributed outside of the state. This tax exemption should be claimed on the Ohio Personal Property Tax Return.

6. Describe Project Benefits, including:
   • Explanation of importance of rail line for rail users and overhead traffic;
   • Breakdown of the number of people employed by rail-dependent rail users ;
   • Explanation of importance of rail line to rail users including rail-truck cost differentials.
7. Project future increased usage of the line by:
   • Existing customers; and
   • Potential new customers.
8. Provide a listing and description of industrial parks and sites located along the line including availability of other key infrastructure such as sewer, water, roads, electricity, gas, etc.
9. Describe any additional sources of revenue generation associated with the property (i.e. cellular telephone towers, fiber optic lines, billboards, etc.)

Source: Ohio Dept. of Transportation;
http://www.dot.state.oh.us/Divisions/Rail/Programs/freight/Pages/RailLineAcquisitionProgramSummary.aspx

Railroad Rehabilitation Program
The ORDC provides assistance to public and private entities for the rehabilitation of rail lines in the state of Ohio to improve safety and efficiency. For funding consideration, an applicant may need to provide some or all of the following information:
1. Physical description of the rail line/structures including:
   • Mileposts and end points of entire line;
   • Location map, track charts, and ZITS maps, of entire line;
   • Connections to other railroads from the line;
   • Rail users located along the line along with commodities shipped and received for the last three years;
   • Overhead traffic on the line by volume and commodity for last three years; and
   • Profit/Loss statements for operation of the rail line in the last three years.
2. Physical description of Rehabilitation Project including:
   • Description of work by milepost;
   • Detailed cost estimate of work; and
   • Description of how work will be performed (i.e., by bid, force account, etc.) Note: a pre-audit procedure may be required for all force account work.
3. Description of Project Benefits including:
   • Itemization of savings to railroad (i.e. reduced crew time, derailments, maintenance);
   • Description of benefits/importance of the project to rail users and overhead traffic;
   • Breakdown of the number of people employed by rail users;
   • Anticipated useful life of the improvement; and
   • Anticipated safety benefits resulting from the improvement.
4. Projection of future increased usage of the line by existing and potential new customers.
5. Description of industrial parks/sites located along the line including existing infrastructure.
6. Sources of revenue generated by the line.
7. For the last three (3) years:
   • Average net profit / mile
   • Average net investment / mile

Source: Ohio Dept. of Transportation;
http://www.dot.state.oh.us/Divisions/Rail/Programs/freight/Pages/RailroadRehabilitationProgramSummary.aspx

Ohio Warehouse Machinery and Equipment Sales Tax Exemption
Provides an exemption from state and county sales tax for companies that purchase eligible warehousing equipment. Includes machinery and equipment used primarily (51%) in storing, transporting, mailing or handling inventory in a warehouse, distribution center or similar facility if the inventory handled by the facility is primarily distributed outside Ohio to retail stores owned by the business or affiliated group that owns the Ohio facility or distributed by means of direct marketing.

Source: Ohio Department of Development; http://www.development.ohio.gov/Business/Tax_Credit.htm

Warehouse Inventory Tax Exemption

Provides an exemption from the personal property tax on qualifying inventory. Claimed as part of the Personal Property Tax return. Inventory brought into Ohio from out of state, held for storage only with no further processing and then distributed back outside of the state, will be subject to a reduced personal tangible property assessment rate. "Held for Storage Only" is a specific standard of eligibility that may preclude the value of some inventory being shipped directly to customers from qualifying for the reduced assessment rate.

Source: Ohio Department of Development; http://www.development.ohio.gov/Business/Tax_Credit.htm

Dave DuVall

Exhibit D
Commission on State Tax and Financing Policy
Meeting #2 Oct. 3, 2011

LEGISLATIVE STUDY COMMITTEE – Indiana Historic Rehabilitation Credit

September 2011

Program history

Federal RITC 1981 ("substantial Rehabilitation" required. Benefit is 20% of qualified rehab costs)

Parallel Indiana State Program went into effect June 1994 (FY '95)

> $450,000 annual allocation (minimum expenditure of $5K) (FY '95 is start-up year, so not representative)
>
> During FY '96 $730,942 credits certified ($280,942 over allocation – 1st extension of queue)

Amended 1997(FY '98 – '99)

> $750,000 for 1 bi-annum (minimum expenditure of $10K)
>
> By end of FY '98 Queue had been assigned $174,509 into FY 99's allocation for claim according to queue position

Reverted 1999 (FY 2000)

> $450,000 annual allocation
>
> By end of FY '99 new approvals were being assigned to FY 2001 for claim according to queue position

New approvals as of August 7, 2011 are being assigned to queue for FY '23

> Since its establishment (through end of FY2011), the program has certified 197 projects
>
> Approximately 7 approvals annually with an average credit of approximately $64,000 each
>
> (7.3 X $63,870= $466,251 average approved annually)

Summary of Backlog

Had these projects been certified without deferment to a queue an annual allocation of $786,406 would have provided for full disbursement of credits in sync with the approval of credits.

Although theoretically all $7,632,501 in claims assigned to fiscal years through FY 2011 might have been claimed, much of this has in fact been carried over due to limited tax liability of taxpayers etc. When DoR reported actual claim of credits assigned through 2008, they found annual claims to average only $163,000 (only 35.7% of $450,000 annual allocation) DoR reported an annual average for these years of 51 taxpayers each claiming and average of $3,150 each. This indicates that the annual allocation does not accurately represent the actual loss of revenue associated with this program. The cost of the program to the state seems to be inherently limited by the annual tax obligations of the claimants so long as the per-project cap (presently found in the administrative rule) remains in place.

Note that these figures have changed significantly since 2008 when the last critical appraisal of the queue occurred, as new applications have fallen off significantly. At that time it was estimated that a $4.5M supplemental appropriation would have permitted reassignment of queue positions, clearing out this backlog and making new certifications available for claim with the next annual filing.

Presently the balance of certifications into advanced years (assigned into FY 2023) is $4,950,000.

9-29-11 / David B. Duvall – Historical Architect, IN-DNR, Division of Historic Preservation & Archaeology

LEGISLATIVE STUDY COMMITTEE – Indiana Historic Rehabilitation Credit

Index to Tables

Table 1

compares the monetary value of federal and state credits according to date of certification

Table 2

compares the monetary value of certified credits according to date of certification to the monetary value of credits as they may be claimed according to the present annual statutory allocation for these credits.

Table 3

compares the number of credit applications according to their date of certification with these applicant according to their assignment for commencing claims according to the queue required by the annual allocation.

Table 4

compares the monetary value of state and federal credits according to their date of certification with the monetary value of the construction expenditures represented by the credits

Table 5

compares the monetary value of the construction expenditures represented by the credits according to the date of certification and the date of assignment to the queue required by the annual allocation.

Table 6

Shows the Percent of approved projects representing small projects I correlation with the actual percent of qualified costs subsidized by the credit (theoretically 20% of costs, but mitigated by $100,000 per-project cap.

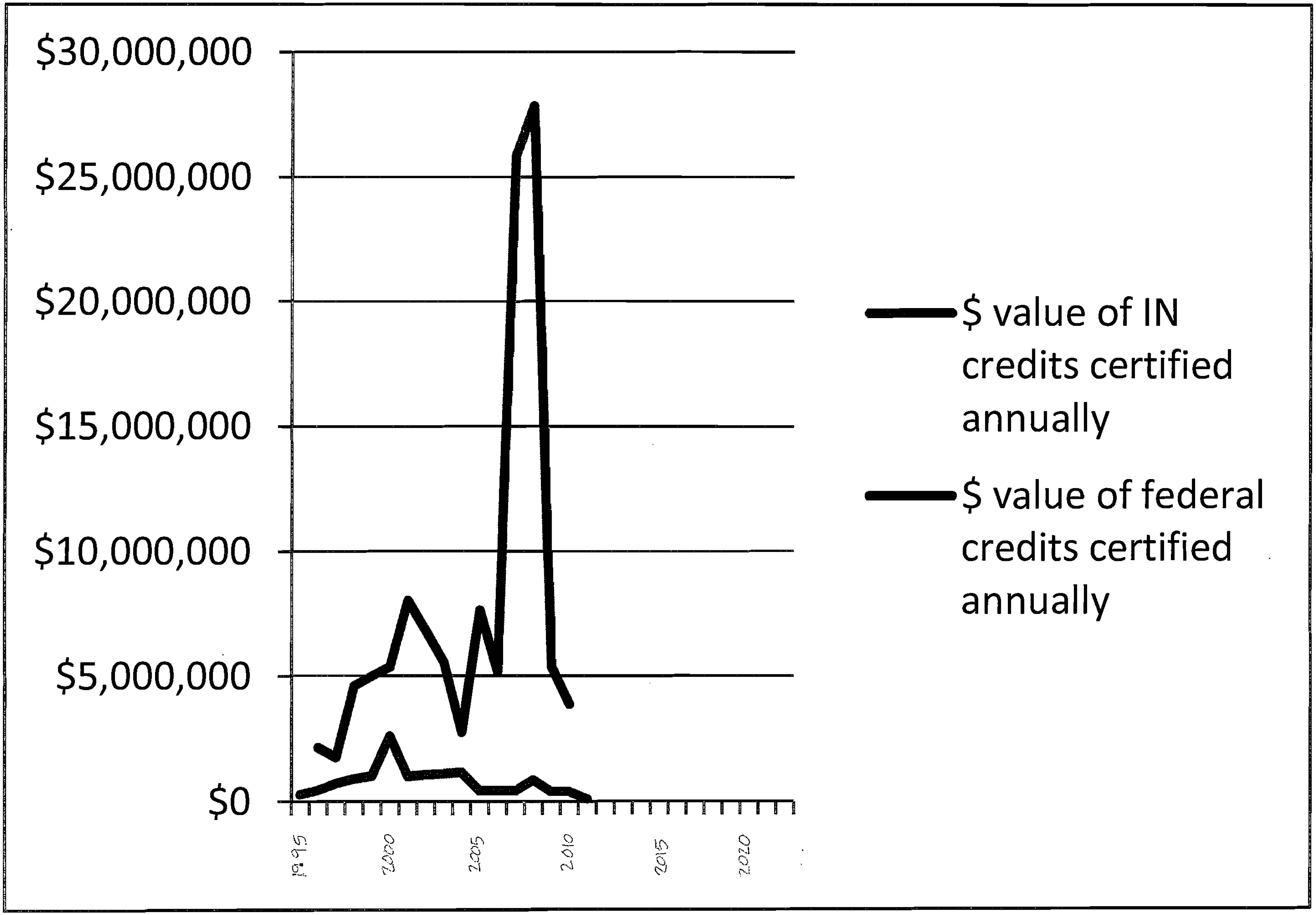
Table 7

Shows the percent of approved projects representing large projects projects I correlation with the actual percent of qualified costs subsidized by the credit (theoretically 20% of costs, but mitigated by $100,000 per-project cap).

(essentially the inverse of table 6)

10-3-11 / David B. Duvall – Historical Architect, IN-DNR, Division of Historic Preservation & Archaeology

Table 1



$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
1995
2000
2005
2010
2015
2020
$ value of IN credits certified annually
$ value of federal credits certified annually

Table 2

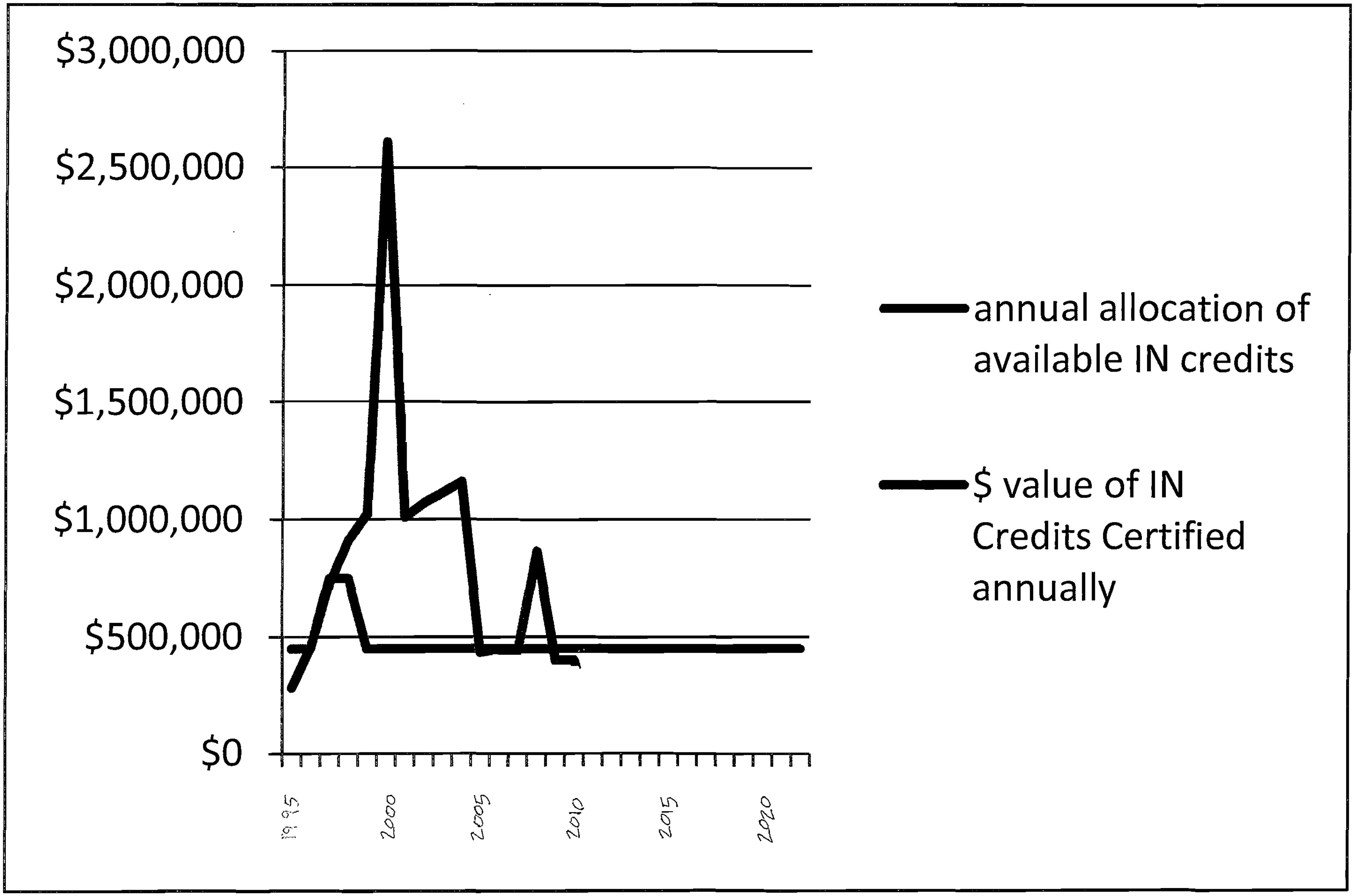
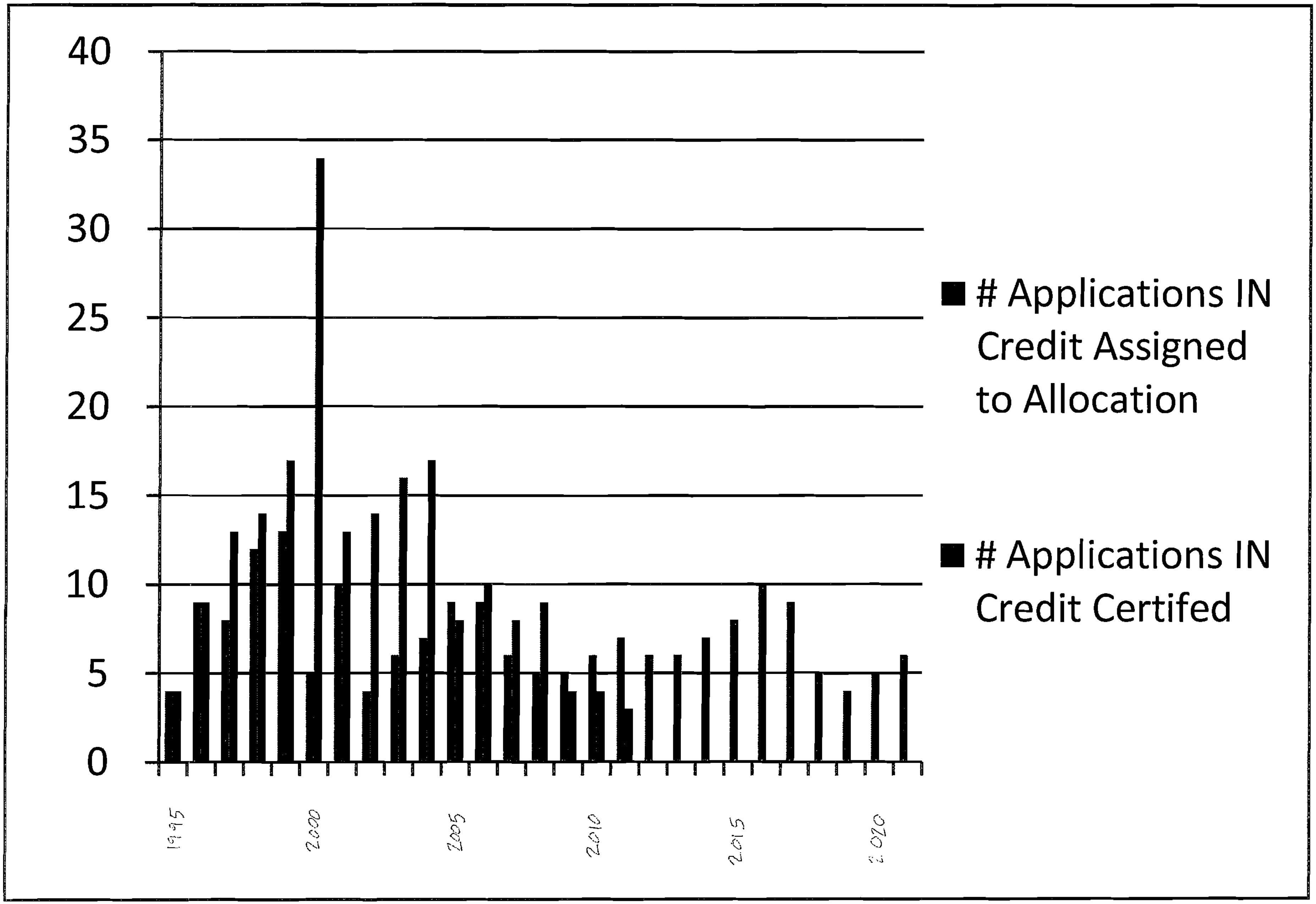
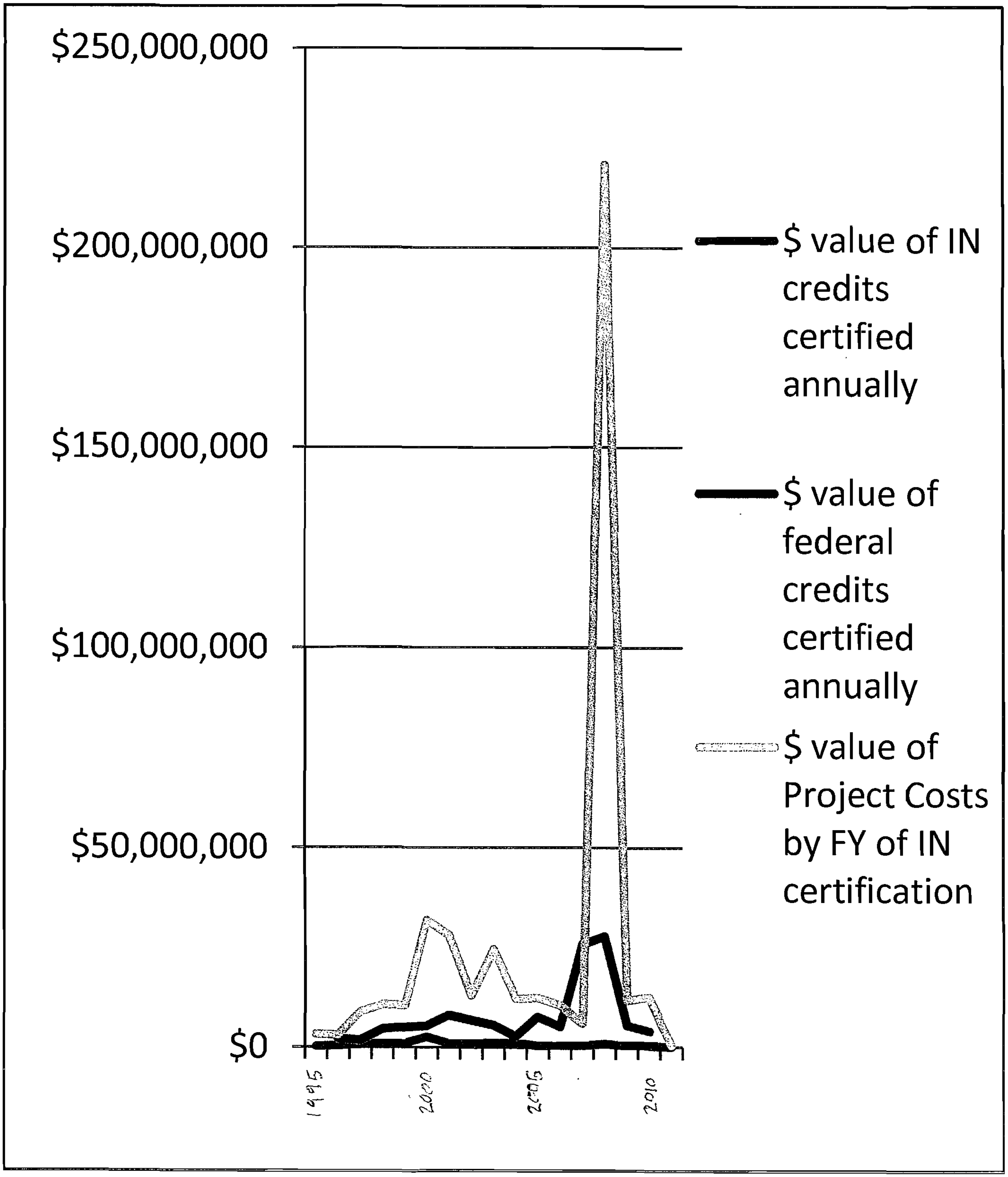

$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
1995
2000
2005
2010
2015
2020
annual allocation of available IN credits
$ value of IN Credits Certified annually

Table 3



40
35
30
25
20
15
10
5
0
1995
2000
2005
2010
2015
2020
Applications IN Credit Assigned to Allocation
Applications IN Credit Certifed

Table 4



$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
1995
2000
2005
2010
$ value of IN credits certified annually
$ value of federal credits certified annually
$ value of Project Costs by FY of IN certification

Table 5

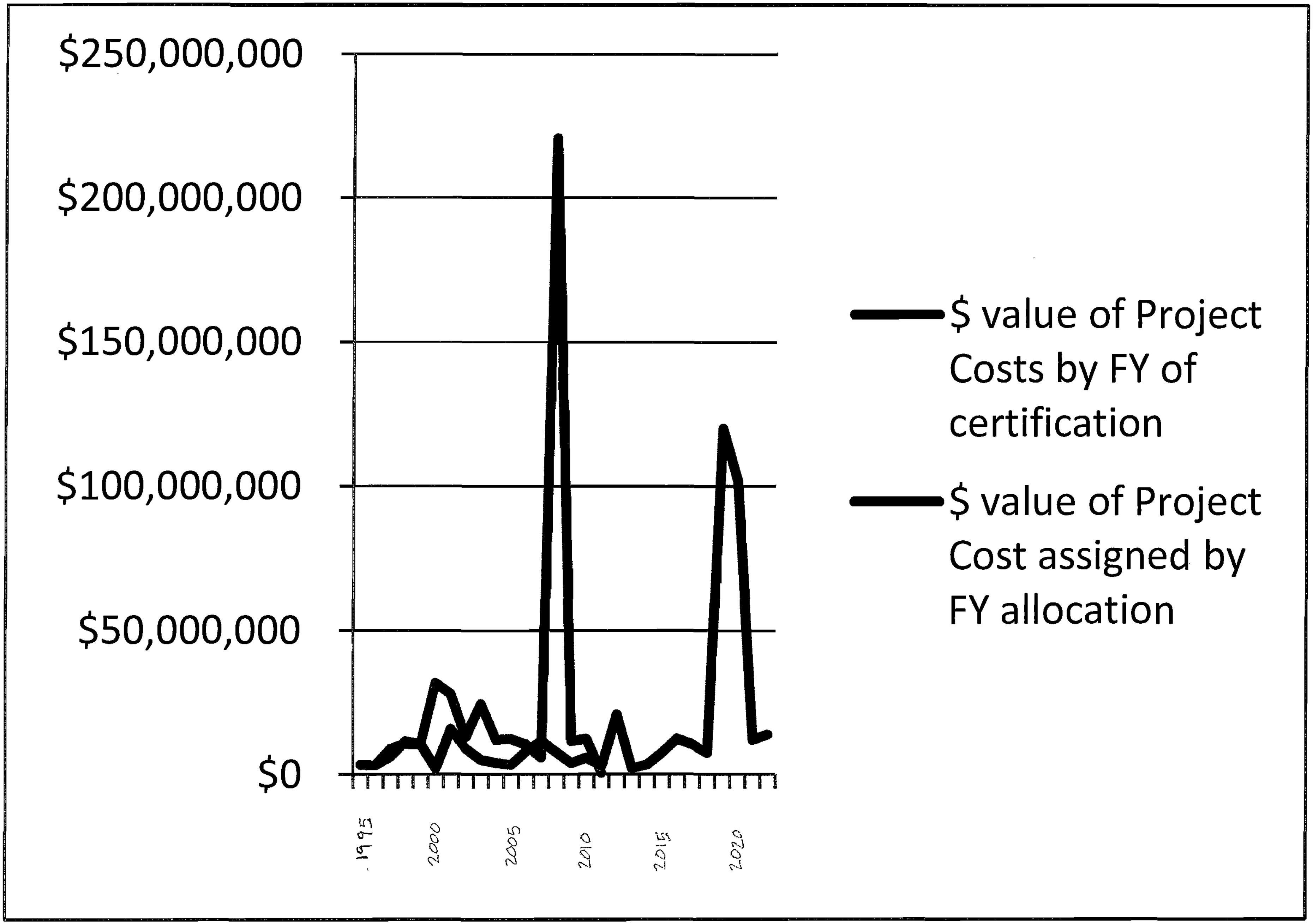

$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
1995
2000
2005
2010
2015
2020
$ value of Project Costs by FY of certification
$ value of Project Cost assigned by FY allocation

Table 6

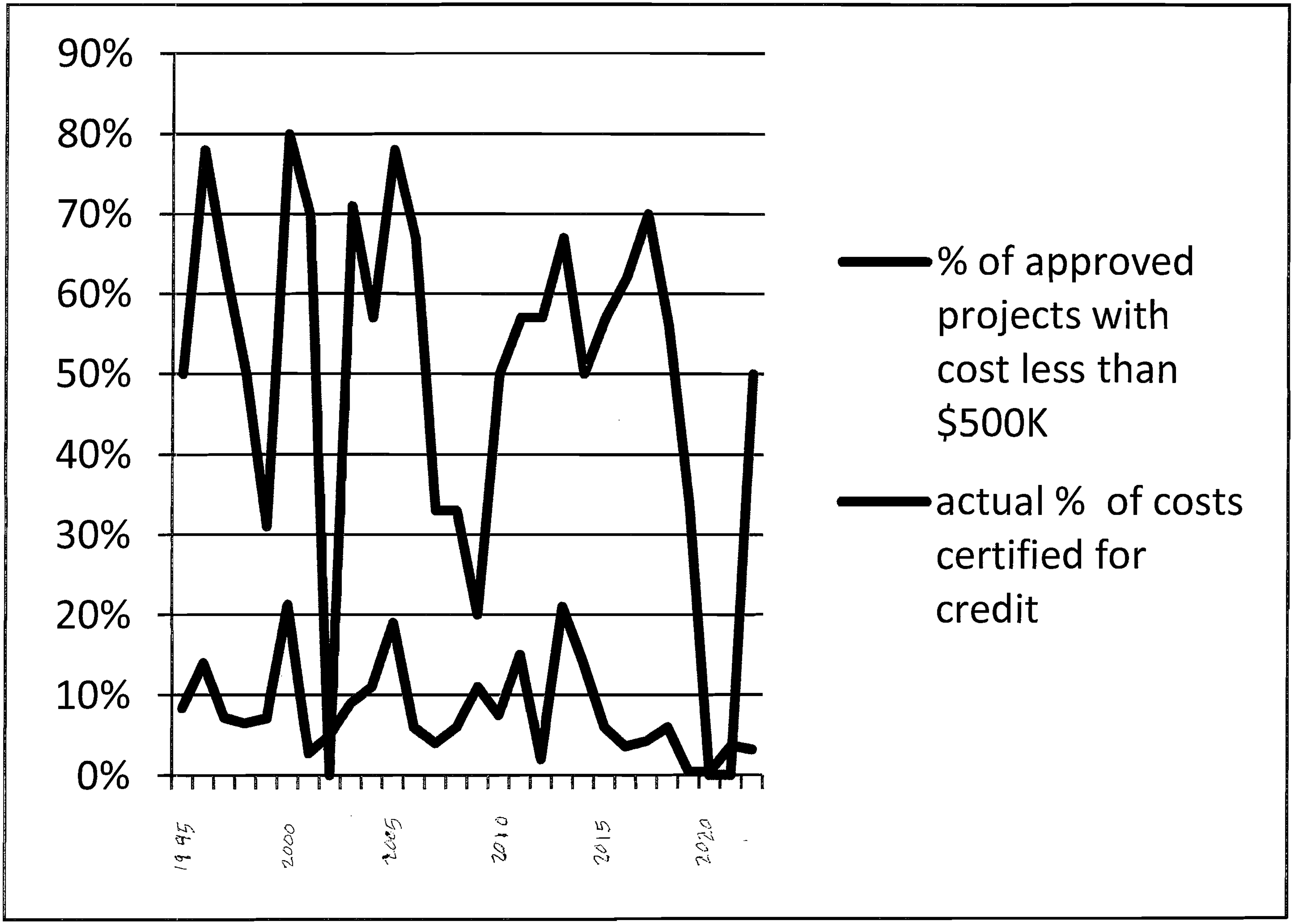
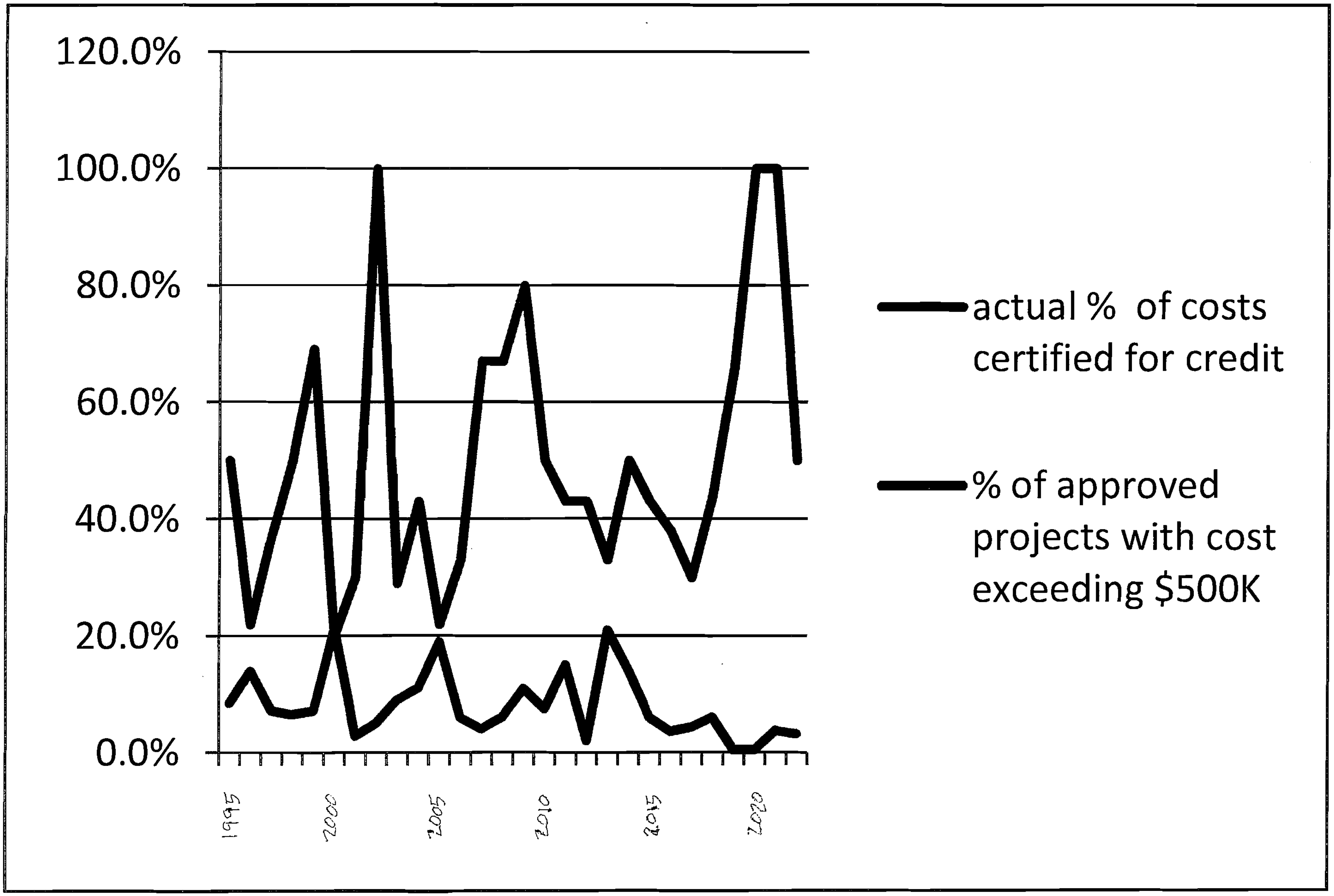

90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1995
2000
2005
2010
2015
2020
% of approved projects with cost less than $500K
actual % of costs certified for credit

Table 7



120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
1995
2000
2005
2010
2015
2020
actual % of costs certified for credit
% of approved projects with cost exceeding $500K

Exhibit E
Commission on State Tax and
Financing Policy
Meeting #2 Oct. 3, 2011

Marsh Davis

PolicyAnalytics, LLC

RESEARCH. ANALYSIS. RESULTS.

An Analysis of the Indiana Historic Rehabilitation Tax Credit

A Report to the Historic Landmarks Foundation of Indiana

HISTORIC
LANDMARKS
FOUNDATION OF
INDIANA

Prepared by Policy Analytics, LLC

October 19, 2007

Table of Contents

Executive Summary

The Indiana Historic Rehabilitation Tax Credit was established in 1994 to encourage the rehabilitation of Indiana's historically valuable properties. The state credit program was modeled on the successful Federal Historic Rehabilitation Credit, but its effectiveness has been limited in recent years due to an annual cap and the resulting ten-year waiting list. The Historic Landmarks Foundation of Indiana has engaged Policy Analytics, LLC to assess the current state of the historic credit program, estimate the economic and fiscal impacts of historic rehabilitation.

This report presents the following findings relating to the current implementation of the Indiana Historic Rehabilitation Tax Credit:

1. The geographic distribution of tax credits is heavily concentrated in the most populous counties of the state. Over the course of the program, 43% of the projects receiving tax credits have been located in Marion County.

2. Historic rehabilitation produces a significant economic impact. Approximately $170 million has been invested in rehabilitation projects participating in the state credit program. The economic output from this investment activity is estimated at $853 million. Rehabilitation activities using the state credit have also generated an estimated 3,451 jobs throughout the economy.

3. The historic credit program generates a positive return for the state. Since the program's inception, approximately $11 million in credits have been approved for rehabilitation projects statewide. The increase in state sales and income tax revenue generated by rehabilitation activity is estimated at $30 million, a nearly 3 to 1 return on the state's initial investment.

4. The $450,000 annual program cap reduces statewide rehabilitation investment. Currently, there is a 10 year wait from the time a rehabilitation project is complete to the time the tax credit is received.

5. A lack of transferability further reduces the value of the incentive. Many individual investors do not have a large enough tax liability to take advantage of the full tax credit.

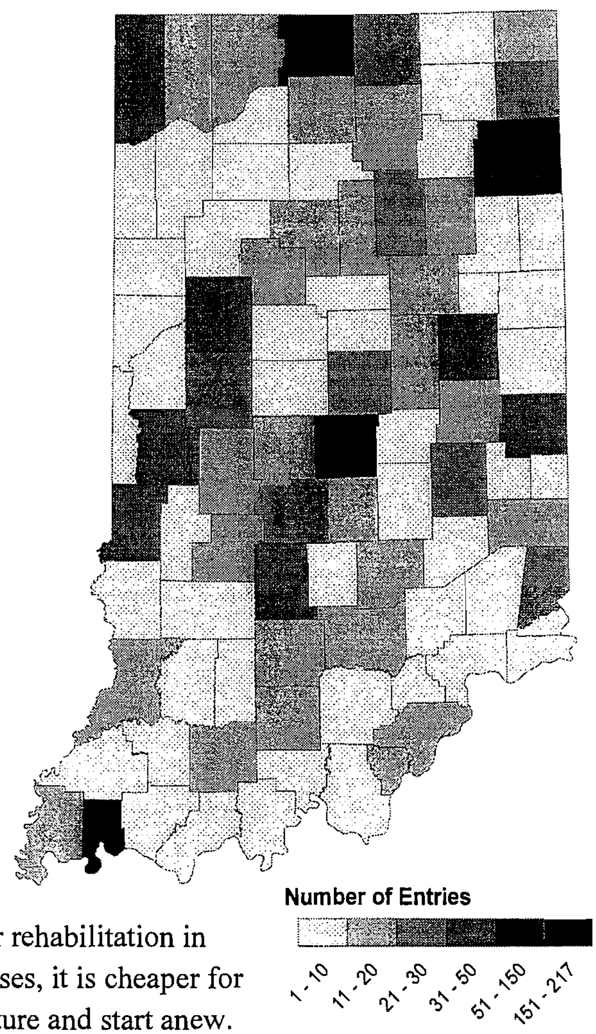
The move to market value as the basis for property tax assessment has increased the pressure on urban core geographies to remain viable. Addressing the shortcomings of the Indiana Historic Rehabilitation Tax Credit would provide some relief to this situation.

Overview of Historic Rehabilitation

Over the past 40 years, federal and state programs have been enacted to encourage the rehabilitation of historically valuable properties. A community's historic architecture is vital to its heritage and identity, preserving the creative work of the past and adding diversity to streetscapes and countrysides. There are more than 1,500 historically significant properties and historic districts in Indiana listed on the National Register of Historic Places and State Register of Historic Sites and Structures, many in need of rehabilitation. Without preservation efforts, these structures will fall into disrepair, and eventually face demolition.

Historic rehabilitation can pay economic dividends by infusing investment dollars into a community. As investment occurs, increased spending works through the local economy, supporting businesses and increasing earnings for area residents. Rehabilitation also produces jobs—initially construction related jobs during development—then also retail, service and industrial jobs that may utilize the rehabilitated structures. The positive economic effects of historic rehabilitation can extend beyond the restored structure, to cause property values to increase in neighboring buildings as well.

National and State Register of Historic Places



While the benefits of historic preservation are evident, rehabilitation is not economically feasible for many historic properties without outside assistance. Structures may be in poor physical condition, be located in depressed neighborhoods, or require extensive work to meet municipal code. Market conditions may not exist to support the rents and leases necessary for rehabilitation in these types of environments. In many cases, it is cheaper for developers to demolish the historic structure and start anew.

When used properly, tax credits produce an incentive to invest in projects that would not produce a satisfactory return given existing market conditions Tax credits provide a means of raising capital and reduce the net cost of rehabilitation.

The Fiscal Impact of the State Tax Credit

Though a useful economic development tool, the historic credit program does carry an upfront cost to the State budget. In Indiana, the fiscal impact is limited at $450,000 annually, however in many other states there is no annual upper limit. These states realize that development produces increased public revenue in the form of income tax, sales tax and property tax. A sustainable tax credit program may be defined as one where the increases in public revenues exceed the cost of the tax credit. As properties are rehabilitated, increased sales and income taxes are paid by developers, merchants, tenants and customers.

> *"Historic preservation not only promotes an increased appreciation of the past; it is often a key feature of successful community planning and economic development."*
>
> **Investing in Michigan's Future: The Economic Benefits of Restoration**

Historic preservation adds to the property tax base by converting dormant properties with little assessed value to productive uses. However, because the value of surrounding properties may respond slowly to historic development, owners may seek property abatements to make rehabilitated properties profitable in the short term. These abatements are normally partial and only for a few years.

Cost of Alternatives

The long-term cost of not providing an incentive for historic rehabilitation is an important consideration when assessing the fiscal impact of the state credit program. Historic rehabilitation carries an intrinsic quality of life value that may not be realized without the aid of tax credits or other public subsidies. Historic buildings help to define the character of a community and are often important components of vibrant downtown and main street districts. The distinct, time-specific features of historic architecture cause historic buildings to stand out from general modern retail and office development and serve as longstanding community landmarks. Communities that work to extend the useful life of historic structures help to ensure an attractive place to work and live. As historic structures are stripped of their distinguishing features or demolished, a community loses an irreplaceable piece of its history.

Neglecting the rehabilitation of existing structures may result in sprawl and other development problems. Without tax credits or another form of subsidy, it is often more expensive to rehabilitate and convert a historic building to a new use than to build a new structure. For many cities and towns, this causes investment dollars to move from the urban core into new suburban development. As structures age and deferred maintenance accrues, a productive historic asset can become a drain on public resources. Deteriorating buildings attract crime and reduce the value of neighboring properties.

A historic building that has outlived is original usefulness will not produce substantial property tax revenue. However, the property will still need public safety protection and will consume other public resources. Absent restoration, historic buildings will eventually be demolished, often at public expense. Furthermore, the new investment that may take place instead of rehabilitation may carry a significant fiscal impact in the form of new streets and other infrastructure. While outside the scope of this analysis, these factors are relevant when assessing the fiscal impact of historic credits.

Federal Historic Rehabilitation Tax Credit

Historic rehabilitation tax credits were first developed on the national level with the institution of the Federal Historic Rehabilitation Credit in 1976. The federal credit is widely seen as an effective tool to encourage historic rehabilitation. Many state historic credit programs (including Indiana's program) are modeled after the federal program. Currently, the program provides a credit of 20% of qualified investment costs on eligible properties listed on the National Register of Historic Places (properties listed on the National Register are also listed on the Indiana Register of Historic Sites and Structures). Projects that are listed only on the Indiana Register are not eligible for the federal credit. The state credit may be used in conjunction with the federal credit to leverage additional resources for rehabilitation. The federal credit carries a greater subsidy for large projects than the state credit. The maximum state credit a project can receive is $100,000, while the 20% federal credit has no maximum limit.

"The Historic Preservation Tax Incentives have proven to be an invaluable tool in revitalizing communities and preserving the historic places that give cities, towns, and rural areas their special character."

National Park Service
U.S. Department of the Interior

Indiana Historic Rehabilitation Tax Credit

The Indiana historic rehabilitation credit is designed to encourage the renewal and reuse of historically significant structures in Indiana. Most projects use the state credit to supplement the federal credit. The state credit is available to commercial or income producing properties that are at least 50 years. The property must be either listed individually on the Indiana Register of Historic Sites and Structures, or be considered a historically significant structure within a listed district. Qualified rehabilitation activities must conform to program guidelines and meet the Secretary of the Interior's standards for the treatment of historic property.

Indiana Historic Rehabilitation Credit Eligibility Requirements

IC 6-3.1-16.8

1. The historic property is:
   A. located in Indiana;
   B. at least fifty (50) years old; and
   C. except as provided in section 7(c) of this chapter, owned by the taxpayer.

2. The division certifies that the historic property is listed in the register of Indiana historic sites and historic structures.

3. The division certifies that the taxpayer submitted a proposed preservation or rehabilitation plan to the division that complies with the standards of the division.

4. The division certifies that the preservation or rehabilitation work that is the subject of the credit substantially complies with the proposed plan referred to in subdivision (3).

5. The preservation or rehabilitation work is completed in not more than:
   A. two (2) years; or
   B. five (5) years if the preservation or rehabilitation plan indicates that the preservation or rehabilitation is initially planned for completion in phases.

   The time in which work must be completed begins when the physical work of construction or destruction in preparation for construction begins.

6. The historic property is:
   A. actively used in a trade or business;
   B. held for the production of income; or
   C. held for the rental or other use in the ordinary course of the taxpayer's trade or business.

7. The qualified expenditures for preservation or rehabilitation of the historic property exceed ten thousand dollars ($10,000).

As added by P.L.77-1993, SEC.1. Amended by P.L.54-1997, SEC.4.

Participants in the rehabilitation credit program qualify for a state income tax credit equal to 20% of a project's eligible rehabilitation cost. The credit is applied to the adjusted gross income tax after all other pertinent credits have been applied (IC 6-3.1-16.5). If the credit amount exceeds a taxpayer's liability, the credit can be carried forward to future tax years, for up to 15 years. The historic tax credit is not subject to any carry-back or refund provisions. If the owner of a participating property does not incur income tax liability, the credit can be "passed through" to other shareholders, partners or members as specified in IC 6-3.1-16.7. If, within five years, the property is sold or transferred or if additional modifications are made that do not meet rehabilitation standards, the tax credit will be recaptured from the owner by the state.

The state credit is equal to 20% of qualified investment cost, up to a limit of $100,000 per approved project. The credit program's annual fiscal impact has been limited to $450,000, except for the 1997-98 and 1998-99 fiscal years when the limit was increased to $750,000. If the amount of credit approved in a year exceeds the annual limit, then projects are placed on a list until funds become available in later years. Projects approved for credit in 2007 have been deferred until at least 2017. Those projects actually receiving credit in the 2007-08 fiscal year were rehabilitated in 2001.

Program History

Since the inception of the Indiana Tax Credit program in 1994, more than $11 million in tax credits have been approved for 199 projects. Due to the waiting list, tax credits are scheduled to be paid out through 2018. Table 1 shows the distribution of credits over time to the counties receiving the most credits. The data is based on the year completed rehabilitation is approved for credit, not the year the project receives tax credits. Counties of all sizes have participated in the tax credit program, although the majority of the credits have been distributed to counties with large cities. Marion County has had the most program applicants and has received the greatest share of tax credits.

Table 1

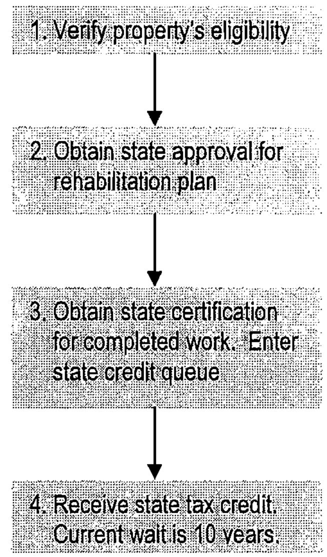
Geographic Distribution of Tax Credits

	1994-1998	**1999-2003**	**2004-2007**	**Total**	
Marion	1,378,531	2,679,819	771,492	4,829,842	43%
Tippecanoe	440,698	824,234	-	1,264,932	11%
Monroe	387,904	200,000	78,860	666,764	6%
Vanderburgh	100,000	436,600	-	536,600	5%
Rest of Indiana	792,704	1,894,562	1,207,405	3,894,671	35%
Total	**3,099,837**	**6,035,215**	**2,057,757**	**11,192,809**	

Participation Process

The Indiana historic credit uses a three-step application process, similar to the federal credit. The first step of the application process is to verify that the project meets all eligibility requirements for participation in the program. The second step is the approval of the project rehabilitation plan. If proposed rehabilitation does not meet the standards set forth by the program, then the project will not be approved. The final step is to certify that the completed rehabilitation does in fact meet program standards. A project may only claim the state tax credit upon the certification of actual, completed rehabilitation.

Credit Application Process



Properties listed on the National Register of Historic Places are automatically listed on the Indiana Register of Historic Sites and Structures, and are eligible for both the federal and state tax credit. However, there are approximately 140 properties and districts that are listed only on the Indiana Register. These properties may only seek income tax incentives through the state historic credit program. Some rehabilitation projects are not eligible for the federal credit because they do not meet the minimum investment standard. The minimum investment for the federal credit program is roughly equal to the depreciated value of the structure. This is often greater than the $10,000 minimum investment required by the state program.

Economic Impact of State Credits

The effectiveness of state tax credits can be measured by estimating the extent of resulting economic activity. This analysis used IMPLAN, a professionally accepted economic input-output model, to estimate the economic impact of historic rehabilitation in Indiana throughout the duration of the tax credit program. An input-output model estimates the effect of an individual economic event or policy decision on a region's economy. The economic impact calculations in this report estimate the impact of rehabilitation associated with projects that enrolled in the state credit program.

The economic impact of historic rehabilitation is comprised of two components. The first is the impact of construction period activities, or economic activities directly relating to the rehabilitation of a property. The economic impact is measured in the year the project is completed and approved for credit, and not in the year(s) the credit is received. The second component is the economic activity generated by the new use of the historic property. Once a property is put to a productive use, the incremental income works through the economy in the form of indirect and induced impact. An example of this dynamic is a project where an underutilized historic property is rehabilitated for use as a retail outlet. The rehabilitation-period impact (construction impact) is generated by the purchase of materials and labor necessary to restore the structure to a productive state. The post-rehabilitation impact (or return on investment impact) is derived from employment and business activities of the retail operation once the structure has been rehabilitated.

Researchers estimate the economic impact of a project using four measures: direct effect, indirect effect, induced effect, and total effect.

- **Direct Effect**—Economic activity relating to the purchase of goods and services directly involved in the rehabilitation project. Includes construction labor and materials.

- **Indirect Effect**—In-state economic activity involving the supply of resources needed for rehabilitation activity. Includes warehousing, transportation and fabrication.

- **Induced Effect**—Economic activity of new household spending by those either directly or indirectly involved in the rehabilitation project.

- **Total Effect** — Sum direct, indirect and induced effects.

Total economic output is the amount of new spending that results from the rehabilitation of historic structures. Direct investment refers to the actual investment in rehabilitation, while the indirect and induced effects occur as the spending works through the economy. The total economic impact of projects utilizing the historic credit is estimated at $301 million during the rehabilitation period, and $550 million after rehabilitation. Each dollar in rehabilitation investment causes additional $0.77 in indirect and induced economic activity. Rehabilitation investment and total output peaked during a four year period from 1999-2002, at an average of over $24.5 million each year. After 2002, the waiting period for credits grew to 10 years and the number of program applicants declined.

Table 2

Economic Impact of Historic Rehabilitation

	Rehab. Period Output	**ROI Output**	**Total Output**	**Rehab. Period Employment**
Direct Effect	170,035,044	345,734,809	515,769,853	2,024
Indirect Effect	52,981,899	137,833,405	190,815,304	534
Induced Effect	77,991,334	68,868,818	146,860,152	891
Total Effect	**301,008,277**	**552,437,032**	**853,445,309**	**3,451**

The post-investment economic impact is evaluated at the end of the holding period, the point in time in which investors can sell or recapitalize the project to collect the return on the original investment. This return is estimated at an average of 15.25% across all projects. The total economic impact of post-rehabilitation activity is estimated to be $552 million, more than 1.8 times the rehabilitation period impact.

The investment activity from projects receiving state credit has created an estimated 3,451 jobs since 1994. Every million dollars in investment is responsible for more than 20 new jobs throughout the economy, though most of these jobs employ workers directly involved in historic rehabilitation. While the number of jobs created by rehabilitation is not large compared to statewide labor force, these jobs can be attributed to increased activity in a single sub-sector of the economy.

Fiscal Impact of State Credits

The fiscal impact of investment is the incremental public revenue stream created by rehabilitation activity. When a historic property is rehabilitated, the increased business income and employee earnings associated with the project generate public revenue, mostly in the form of sales and income taxes.

More than $170 million has been invested in the historic rehabilitation of properties involved in the state credit program. This investment has been leveraged by more than $11 million in state credits. The public revenues generated by historic rehabilitation have been estimated using the economic outputs of the IMPLAN model and a series of fiscal impact calculations. Projected public revenues are estimated out to 2012, the end of the holding period for 2007 investments. Estimated revenues in years later than 2007 have not been adjusted for inflation. As shown in Table 3, the fiscal impact of the rehabilitation of historic properties using state tax credits is estimated at over $30 million dollars.

Table 3

Historic Credit State Fiscal Impact
State Income and Sales Tax

Total Incentivized Investment	$170,035,044
Total Tax Credits	11,192,809
Revenues	
Individual Income Tax	17,555,354
Indiana Sales Tax	12,513,334
Total State Revenues	$30,068,688

The increased earnings directly associated with rehabilitation activities generate the first round of public revenue. During the construction period, the fiscal impact is estimated at more than $3.4 million in individual income tax revenue, and $3.5 million in Indiana sales tax revenue. A second round of public revenue is generated as rehabilitated properties are put to new, profitable uses and the return on investment is realized. The fiscal impact of the return on investment is estimated at $23 million, approximately double the original state investment.

Property tax revenue has not been included in this analysis for several reasons. First, property tax revenue is primarily directed to local units of government, and not to the state, which bears the cost of the credit program. Secondly, property tax rates and assessments vary substantially across the state, making future property tax revenue difficult to estimate.

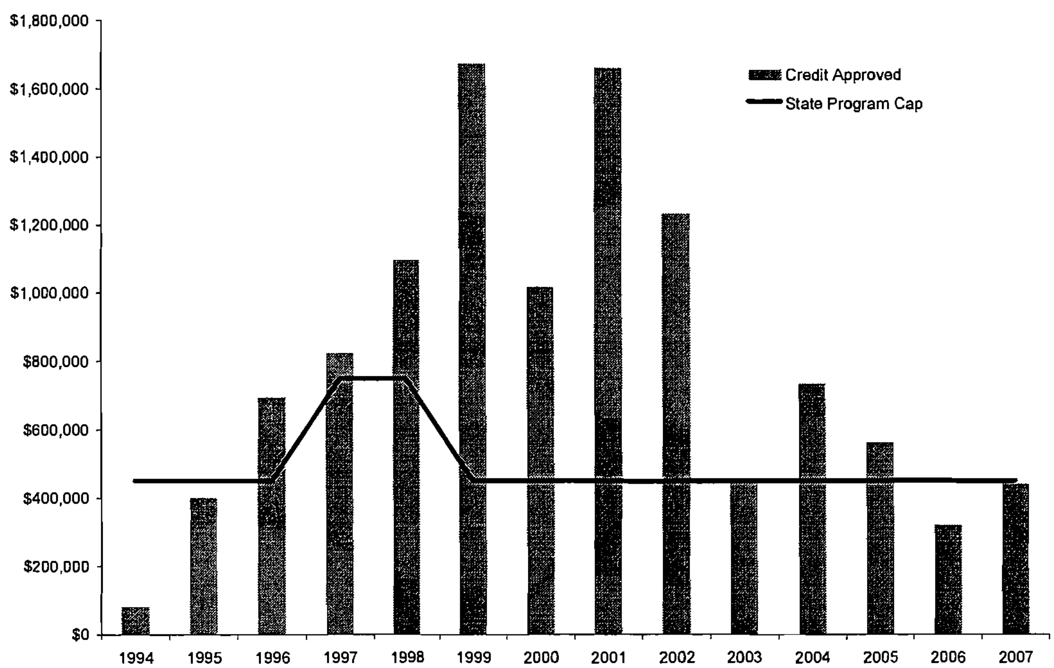
Weaknesses in the Indiana Credit Program

When the Indiana Historic Credit was implemented in 1994, the General Assembly capped the amount of statewide credits at $450,000 annually. From 1994 through the 1999-00 fiscal year, the amount of credits approved did not greatly exceed the cap. This was, in part, because the annual cap was increased to $750,000 for the 1997 and 1998 fiscal years. However, after the 1998-99 fiscal year the cap was again reduced to $450,000, and the number of applications for the state credit began to increase.

Since 1998, an average of 13 applications have been approved each year, but only 9 projects each year have been able to claim funding due to the credit limit. This disparity resulted in a waiting list to which projects are added in the order they are approved. From 1999 to 2002 more than 100 projects were approved for state credit. The amount of credit approved was more than triple the state limit during these years. Chart 1 compares the amount of credits approved each year to the annual statewide program cap.

Chart 1: State Credits Approved for Completed Rehabilitation

Projects on the waiting list do not receive credits in the year they are approved



As of October 2007, the waiting list for state credit funding extended out to the 2017-18 fiscal year. When inflation and the time value of money is taken into account, the real value of the credit is approximately half of its original value. As the waiting list has grown longer, the number of applications for state credit each year has declined signifcantly. This can be largely attributed to the decreased real value of the tax credits.

Chart 2: Rehabilitation Credit Waiting List

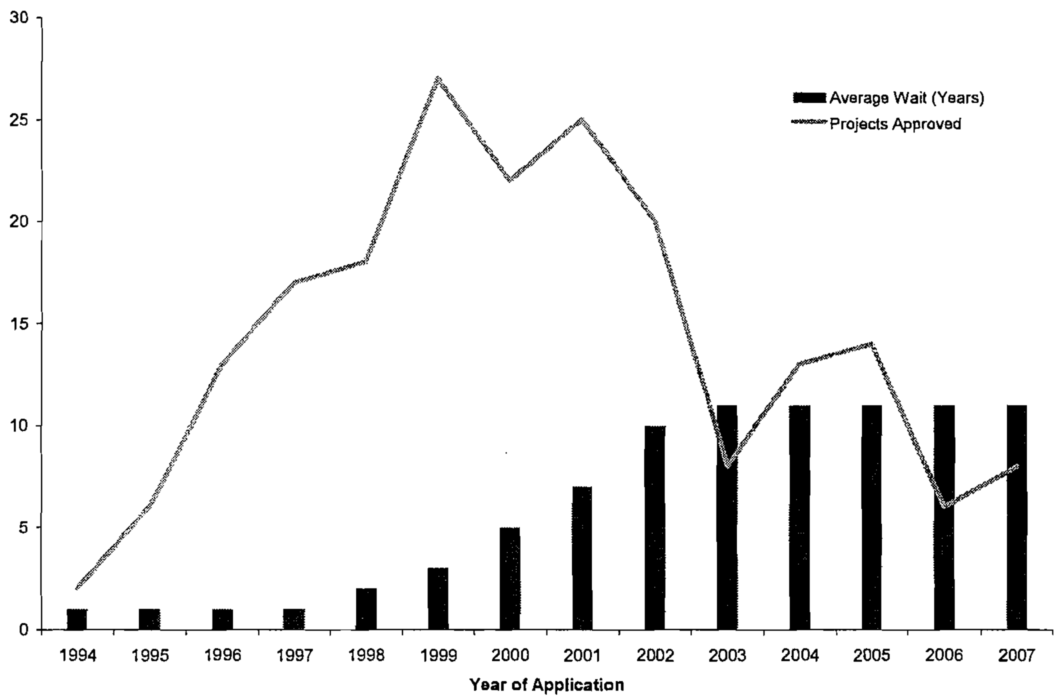
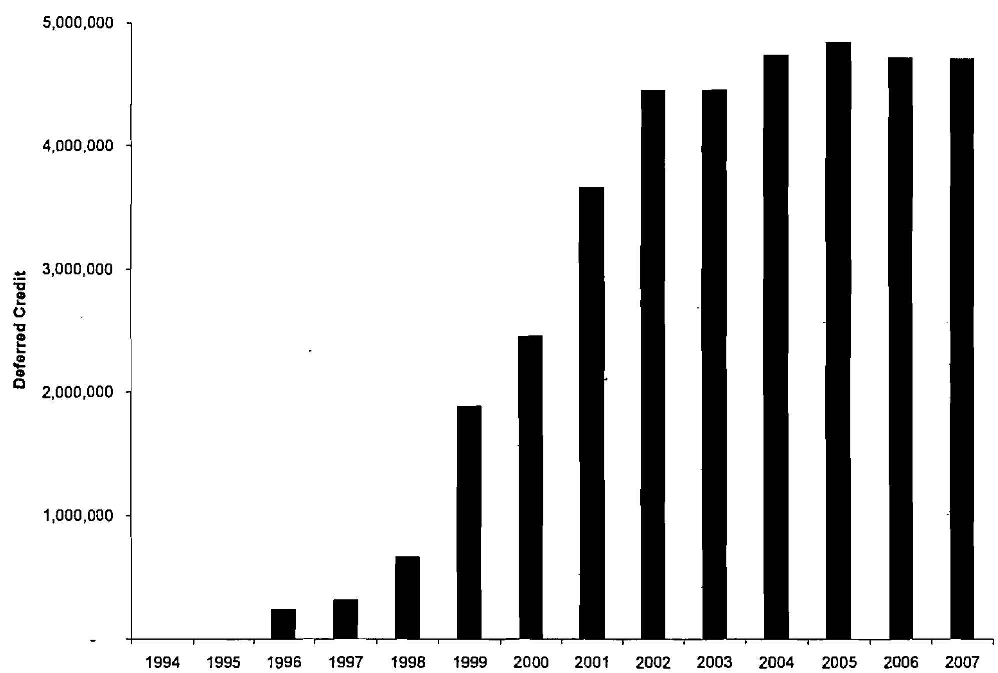


Chart 2 shows the number of projects approved in a given year and the average time between project completion and credit receipt. During the research for this report, consultations with several developers indicated that some developers do not apply for the state credit because of its minimal effect on a project's financial structure. Furthermore, due to the waiting list, projects that are not eligible for the federal credit (properties listed only on the Indiana Register of Historic Places) do not have a financially effective access to tax credits.

The extended waiting list adds a factor of uncertainty to a developer's investment decision. Projects are placed on the waiting list after the completed rehabilitation work has been certified, and are prioritized in the order they are approved. During the planning stages of a project, investors do not know with certainty when they will receive credits. If a large number of projects are completed in the same year, then the wait for credits may be longer than expected. Investors account for these and other uncertainties by discounting the value of the credits, further reducing their value to the project.

Chart 3: Deferred Rehabilitation Credits



Credit Transferability

Even without a waiting list, the state tax credit is difficult to use for individual developers. Projects with multiple investors often use "pass-through" entities to distribute tax credits among shareholders. However, for many individual investors, the tax credit is claimed against a single filer's personal income tax liability. The tax credit may exceed the taxpayer's state income tax liability in a given year.. Even after carrying the credit forward for up to fifteen years, many individual investors will be unable to claim the entire credit.

Table 4 shows that to claim the maximum credit ($100,000) in fifteen years, the investor would need a taxable income of $200,000. The calculations assume a tax rate of 3.4%. For taxpayers with less taxable income, some portion of the rehabilitation credit will go unclaimed. If the tax credits could be sold or were transferable as collateral for bank loans, they would be much more valuable to individual investors. Twelve states, including Oklahoma, Missouri and Iowa include provisions that allow state historic credits to be transferred or sold.

Table 4

Historic Credit Redemption

Taxable Income	Tax Liability	Carry-Forward
50,000	1,700	58
100,000	3,400	29
200,000	6,800	15
500,000	17,000	6

Distribution

Of the historic tax credits approved since 1994, 39% percent of projects are located in counties with populations of 300,000 or greater. While it is true that counties with large populations have a greater number of historic properties in general, the current distribution of credits does not seem to reflect the distribution of historic places throughout the State. This discrepancy could be caused by a number of reasons, ranging from a simple lack of information to the deterrent effect of the waiting list on small projects. In any case, the objective of the historic credit to preserve structures important to Indiana's heritage will not be fully realized until credits are more widely distributed among urban and rural regions.

Chart 4: Distribution of Historic Places

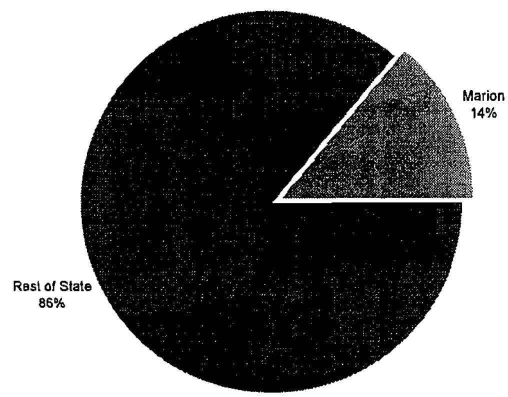
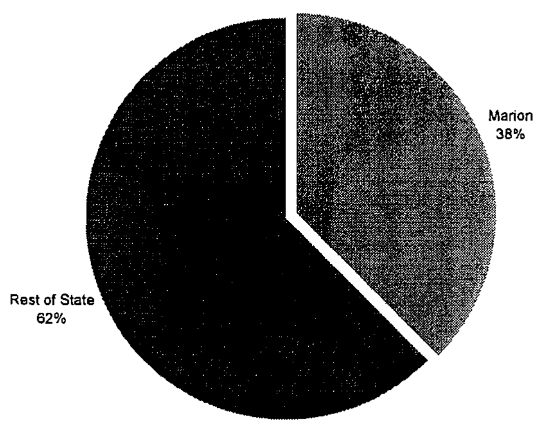
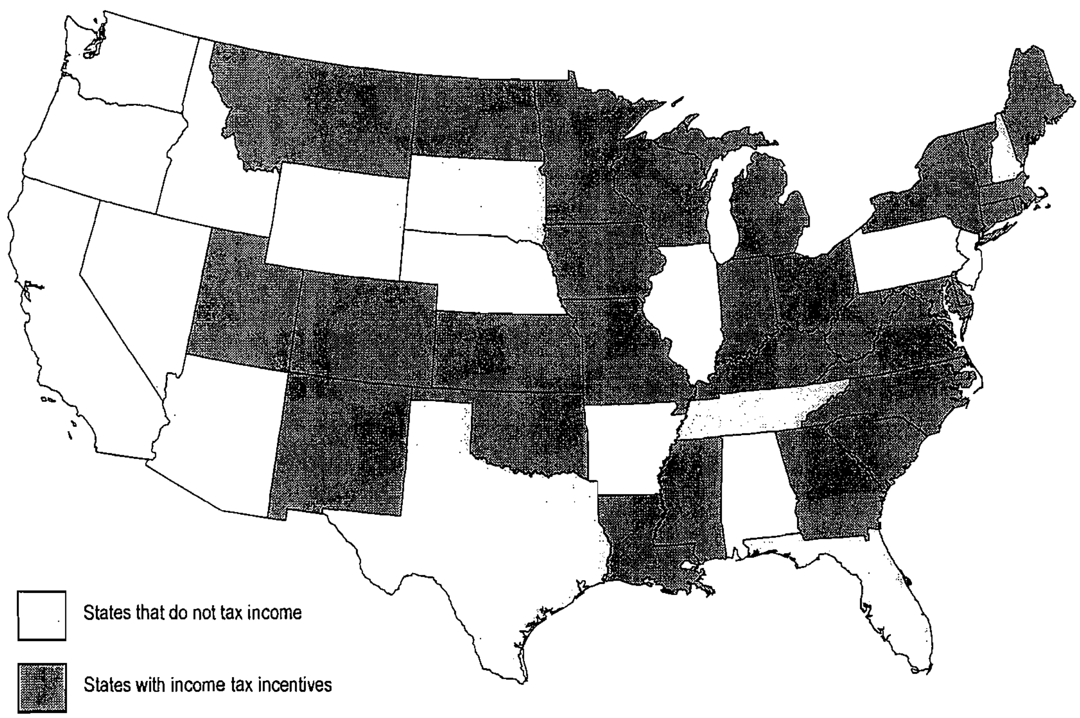


Chart 5: Distribution of State Credits



Historic Credits in Other States

Due to the popularity and perceived effectiveness of the Federal Historic Preservation Tax Credit, many states have instituted a state-level credit. These credits either supplement the federal credit, or provide coverage for properties not eligible for the federal credit (such as residential properties in some states). According to the National Trust for Historic Preservation, twenty-eight of the forty-one states that tax income have some type of state historic preservation tax credit as of July, 2007. Guidelines and criteria are generally established by each state to specify the types of properties and rehabilitation efforts are eligible for the credit. State programs are differentiated by the size of the credit, the aggregate program cap, and the minimum investment amount among other factors. The success of historic tax credits varies among states, but successful programs must be accessible, easy to use and provide an economic incentive great enough to induce rehabilitation investment.



Source: National Trust for Historic Preservation

States can use a variety of controls to direct the allocation of historic tax credits. These controls can have a profound impact, both positive and negative on the scope and effectiveness of historic tax credits.

Size of Credit

Historic tax credits are calculated as a percentage of the approved rehabilitation cost of a property. The Federal Historic Rehabilitation Credit, which the state programs are modeled after, is 20% of the rehabilitation cost. Likewise, most states with tax credit programs offer an income tax credit of 20% - 25%. States can use the credit in different ways. Montana's tax credit is only 5% of the rehabilitation cost, but the credit applies to all properties that receive the federal credit. On the other hand, New Mexico offers a tax credit of 50%, but places more restrictions on potential participants. Some states offer credit in different amounts to commercial and residential property owners, or provide increased credit for specific types of property.

> *"More and more, historic districts have become the strategy to stabilize and reinvigorate urban neighborhoods."*
>
> **Donovan Rypkema**
> **PlaceEconomics**

Aggregate Program Cap

To control costs, some states have instituted annual caps for historic credit programs. Because rehabilitation activity is not consistent among states, these caps vary widely. Massachusetts limits its credit program at $50 million annually, while Indiana has the lowest cap nation-wide at $450,000 for commercial property. Program caps are not widely used—twenty of the twenty-eight states with historic credits have chosen not to institute an aggregate program cap.

Project Cap

A cap on the amount of rehabilitation credit available to an individual project is in use in twelve states. Some states use a project cap instead of, or in conjunction with an aggregate program cap. Project caps can range from several thousand to several million dollars.

Minimum Investment

Nearly all historic tax credit programs require a minimum amount of investment to qualify for credit. A minimum investment is required to ensure that the rehabilitation activity results in a substantive improvement to the property. The federal program stipulates that the investment amount must be greater than the *adjusted basis* of the property, or roughly the current depreciated value of the building, excluding land value. Some state credit programs use some form of the adjusted basis methodology, while others require a flat minimum investment amount.

Transferability

A historic income tax credit only provides an incentive as long as a taxpayer's income tax liability exceeds the amount of the credit. Most states allow participants to carry forward tax credits to future years. This allows the tax credit to be used even if a taxpayer's liability is less than the credit. Twelve states also have policies that permit credits to be transferred or sold to other parties. This allows owners with low tax liability to take short-term advantage of the full value of the tax credit.

Survey of Selected State Tax Credits

Maryland	**Credit: 20%** **State Cap: $30 million** **Project Cap: $3 million** Maryland's tax credit program was authorized in 1997. From 2000-2001, rehabilitation activities created over 2,400 jobs, and $260 million in economic output. Increases in public revenues reduced the cost of the program to the state by 34%.
South Carolina	**Credit: 10%** **State Cap: none** **Project Cap: none** Credit is available for properties that also receive federal credit. Preservation results in the creation of more than 750 jobs annually and adds an estimated $73 million to the state economy (preservation activity includes both commercial and residential rehabilitation).
Michigan	**Credit: 25%** **State Cap: none** **Project Cap: none** Approximately 600 projects approved from 1999 to 2007. From 1999-2001, 205 projects were approved with a rehabilitation cost of $8 million.
Virginia	**Credit: 25%** **State Cap: none** **Project Cap: none** Since its inception, the Virginia credit has spurred more $317 million in direct investment, and the rehabilitation of more than 250 historic buildings
Iowa	**Credit: 25%** **State Cap: $10 -$20 million** **Project Cap: none** State credit began in 2001. From 2001 – 2007, more $165 million in actual investment, and $42 million in tax credits granted.
Rhode Island	**Credit: 30%** **State Cap: none** **Project Cap: none** The state credit program has generated more than $480 million in direct investment throughout the state, and a total economic impact of $790 million. Approximately 20% of the fiscal expense is recouped through increased tax revenue due to rehabilitation.
Missouri	**Credit: 30%** **State Cap: none** **Project Cap: none** Missouri's state credit program began in 1998. By 2001, $295 million in rehabilitation had been completed. Rehabilitation resulted in $578 million in economic output, and over 11,000 annual jobs statewide.
Colorado	**Credit: 20%** **State Cap: none** **Project Cap: $50,000** More than $32 million in historic rehabilitation activities have taken place using Colorado's state credit, yielding over 1,000 jobs and almost $74 million in new economic output.

Best Practices of Other State Programs

When considering ways to improve Indiana's state credit program, it is helpful to consider features that have been successful in other states. Most state credit programs are similar in the size of incentive (20%-30% of qualified cost) and eligibility requirements for program participation. The Indiana credit differs most visibly from many other state credit programs in its annual statewide cap and transferability restrictions. Other states, even without these restrictions manage effective, fiscally responsible state credit programs

> *"Studies across the country have shown that historic preservation acts as a powerful economic engine, creating tens of thousands of jobs and generating significant household income."*
>
> **Economic Benefits of Historic Preservation in Colorado**

Annual Statewide Cap

Many argue that statewide program caps are counter-productive. Program caps delay the distribution of credits, reducing the incentivizing effect of the program. Furthermore, competition for limited funds may not lead to the most economically beneficial distribution. Aggregate caps also introduce a level of uncertainty into the credit application process that further diminishes the value of the credits.

To avoid these problems, many states choose not to impose an annual state credit limit. Most states that do use an aggregate cap set a high limit. Once all factors are considered, the elimination of an aggregate cap does not necessarily result in a higher cost to the state. In Rhode Island, a state without an aggregate cap, a recent economic impact study shows that the state's initial investment will likely be recouped by construction period taxes, and increase in post construction property, income and sales taxes. A similar Maryland study analyzed individual investments and found that once properties were rehabilitated, increased land value and employment produced tax revenue that exceeded the up-front cost of rehabilitation credits.

Indiana is among the minority of states to use an annual statewide program cap. At $450,000, Indiana's statewide cap is the lowest in the country. The average program cap for the seven other states that employ one is $16.3 million, almost quadruple the Indiana cap.

Transferability

Transferability provisions make state tax credits more usable for property owners with low state tax liability. Transferable credits are treated as a monetary instrument. Depending on state statute, transferable credits can be freely traded, sold, or distributed to raise capital for development. Currently in Indiana, developers can use "pass through" entities to distribute credits to shareholders. By making credits freely transferable, the credits would be more usable for single investors. Tax credits are refundable (at least partially) in three states. Refundable credits are the most direct to transfer the value of unused credits to the taxpayer. Instead of carrying the credit forward, the state pays the remaining credits in the form of an income tax refund.

Appendix A: Summary of State Rehabilitation Credits

Overview of State Credits

State	Credit	Project Cap	State Cap	Carry Forward	Refund	Transfer or Sale
Colorado	20%	50,000	-	10 years		
Connecticut	25%	2,700,000	15,000,000	4 years		•
Delaware	20%	-	5,000,000	10 years		•
Georgia	20%	5,000,000	-	10 years		
Indiana	20%	100,000	450,000	15 years		
Iowa	25%	-	10,000,000	1 year	•	•
Kansas	25%	-	-	10 years		•
Kentucky	20%	400,000	3,000,000	7 years		•
Louisiana	25%	5,000,000	-	5 years		•
Maine	20%	100,000	-	-		•
Maryland	20%	3,000,000	30,000,000	-	•	
Massachusetts	20%	-	50,000,000	5 years		•
Michigan	25%	-	-	10 years		
Mississippi	25%	-	-	10 years		
Missouri	25%		-	10 years	•	•
Montana	5%	-	-	7 years		
New Mexico	50%	25,000	-	5 years		
New York	6%	100,000	-	Unlimited		
North Carolina	20%	-	-	Unlimited		
North Dakota	25%	250,000	-	5 years		
Ohio	25%	-	-	-		
Oklahoma	20%	-	-	10 years		•
Rhode Island	30%	-	-	10 years		•
South Carolina	10%	-	-	-		
Vermont	10%	50,000	1,500,000	10 years		•
Virginia	25%	-	-	10 years		
West Virginia	10%	-	-	5 years		•
Wisconson	5%	-	-	-		

Source: National Trust

Appendix B: Bibliography

Clarion Associates of Colorado, The Economic Benefits of Historic Preservation in Colorado; 2002

Iowa Department of Cultural Affairs. Historic Preservation Tax Incentive Program: Preservation Tax Incentives in Iowa; 2006

Lennox, Chad and Jennifer Revels. Smiling Places Historic Places: The Economic Benefits of Historic Preservation in South Carolina

Lippman, Fizzell and Mitchell, LLC. Heritage Structure Rehabilitation Tax Credits: Economic and Fiscal Impact; February 2002

Lippman, Fizzell and Mitchell, LLC. Historic Preservation Investment Tax Credit: Economic and Fiscal Impact Analysis; March 2005

Listokin, David, Mike L. Lahr and Kevin St. Martin. Economic Impacts of Historic Preservation in Missouri. Center for Urban Policy Research, Rutgers University; 2001

National Trust for Historic Preservation. State Tax Credits for Historic Preservation: A State by State Summary; 2007

Schwartz, Harry K. "State Credits for Historic Preservation." Model Public Policies. National Trust for Historic Preservation; May/June 2006

Exhibit F
Commission on State Tax and
Financing Policy
Meeting #2 Oct. 3, 2011

The Influence of Taxation on Interstate Migration (Especially of the Elderly)

Testimony Before the Commission on
State Taxation and Financing Policy
Indiana General Assembly

Robert Tannenwald
Lecturer in Public Finance
Heller School, Brandeis University
Waltham, Massachusetts

October 3, 2011

Major Points

- People, especially the elderly, seldom move across state lines. The rate of interstate migration has been slowing for decades.
- Serious flaws plague studies commissioned by tax opponents "proving" that tax hikes drive people away in droves.
- Rigorous independent scholars have found that taxes have a small impact on interstate migration, at most.
- Those elderly most likely to flee state tax hikes—affluent, healthy, "young elderly,"—are small in number.
- Anecdotal evidence ("we all have heard of someone who's left because of taxes")---is misleading.

Interstate migration is infrequent

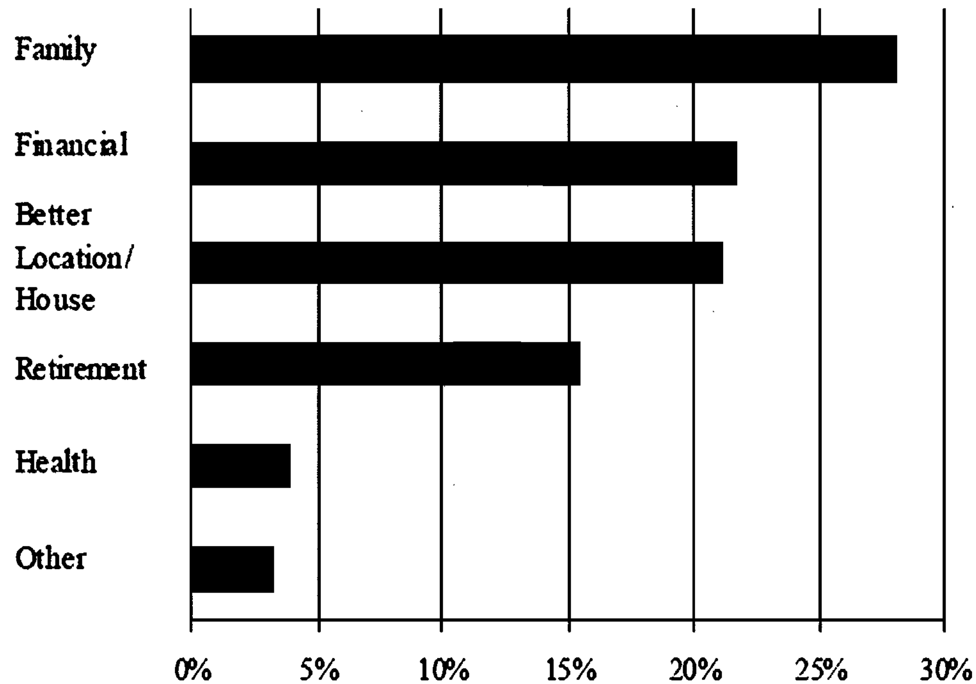
- In any given year, an average of 1.7 percent of the U.S. population moves across state lines. That's down from earlier decades.
- 18-24 year olds have the highest rate of interstate migration (3.0 percent)
- For elderly (65+), interstate migration rate is only 0.7 percent.
- Sixty percent of elderly moves are less than 20 miles. Eighty-three percent are within the same Census Division.

Why Are Most Elderly So Reluctant to Move?

- Decades-old ties to residence, community
- Need for care of relatives, familiar health-care providers
- Rigors of move

Elderly rarely cite" taxes" as a reason to move

Figure 4. *Distribution of Reasons for Migration*, 1994-2004



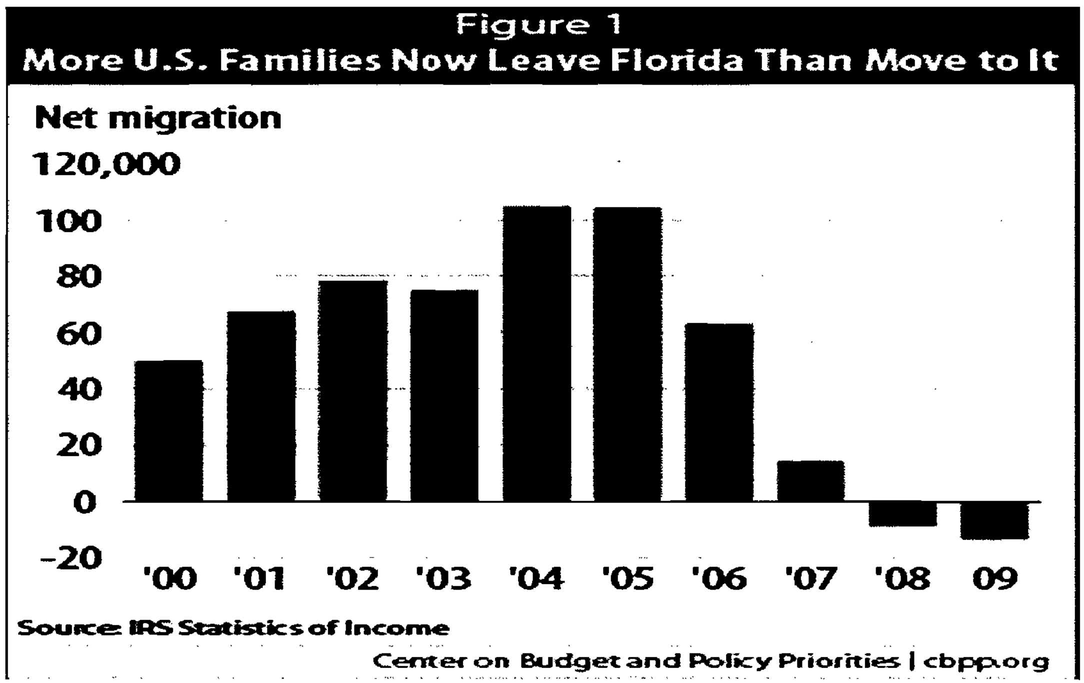
Note: Households are classified according to the first reason they mention. Numbers do not add to 100 percent because non-respondents are not included.
Source: Authors' calculations from 1994-2004 HRS.

Reasons for moving cited under "financial" category

Dispossessed/forced to move (e.g. old house sold by owner; property condemned; house/property not well maintained, falling apart; conflict with owner)
Natural disaster
Desperation; nowhere else to go
Sold old home; in order to sell home
Smaller or less expensive home
Simpler house to take care of; less upkeep; old property too much upkeep
Cheaper area
Negative change in economic status of respondent or spouse/partner (e.g., respondent or spouse/partner laid off or unemployed)
Financial reasons

How the tax flight myth is perpetuated:
three common fallacies in analyses by tax opponents

1. Confusing correlation with causation: e.g., the case of Florida



How the tax flight myth is perpetuated:
three common fallacies in analyses by tax opponents

2. *Misrepresenting significance of irrelevant findings*

"Ladies and gentlemen, if you tax them, they will leave." Governor Chris Christie, State of New Jersey, referring to Boston College Retirement Center study.*

"Taxes are just one possibility. I think the data could support a series of conclusions." Prof. John Havens, author of Boston College study. **

Study measured flows of wealth, not designed to isolate and measure tax effects of movement of wealth or income.

*"Text of Gov. Chris Christie Budget Speech to Legislature," March 16, 2010, http://www.nj.com/politics/index.ssf/2010/03/text_of_gov_chris_christie_bud.html.

** Tom Moran, "Can't blame taxes for flight of the wealthy from New Jersey," *The Star Ledger,* February 7, 2010, *http://blog.nj.com/njv_tom_moran/2010/02/cant_blame_taxes_for_flight_of.html.*

How the tax flight myth is perpetuated:

three common fallacies in analyses by tax opponents

3. Improper measurement of migration: the case of Maryland outmigration

a. Maryland had a "millionaires tax" in 2008 and 2009.
b. During these years, 812 millionaire families left Maryland
c. But Maryland millionaire families had been leaving the state, on net, well before the tax, at an average rate of about 5.8 percent
d. Tax effect would be reflected in *acceleration* of trend. Based on this standard, a total of 119 millionaire families left because of the tax.
e. Upper estimate. Non-tax factors not controlled for.

What Do Academics Say?

On the issue of state tax preferences for the elderly:

Conway and co-authors are authorities. Latest article:

"Our findings overwhelmingly suggest that **these incentives** [state tax incentives targeted on the elderly] **have no credible effect on elderly migration**."* (bold added)

- * "No Country for Old Men (or Women)—Do State Tax Policies Drive Away the Elderly?"]Unpublished manuscript http://pubpages.unh.edu/~ksconway/ConwayRork%20No%20Country%20Oct08.pdf

What Do Academics Say? (cont'd)

- Denslow and Pakhotina (2005):

  - "..well conceived and carefully implemented studies yield conflicting results"

  - "...the effects of state and local tax policy reported in the literature...have not been large."

  - "most of [the elderly] retire where they worked, and those who move are influenced by destination characteristics [other than taxation]."

What Do Academics Say ? (cont'd)

On the impact of state and local taxes in general:

- High estate and inheritance tax burdens appear to have a modest negative affect on the location of the elderly rich. However the effect is small, especially if measured in terms of loss of revenue resulting from tax-induced out-migration of wealthy elderly.*
- Some scholars argue that wealthy in-migrants get estate and inheritance taxes lowered, not vice-versa.**

*Joel Sllemrod and Scott Bakija, ""Do the Rich Flee from High State Taxes? Evidence from Federal Estate Tax Returns". NBER Working Paper No. 10645, July 2004.
**Karen Conway and Jonathan Rork, "State 'Death' and Elderly Migration: the Chicken or the Egg?" *Naational Tax Journal, Vol LIX, No. 1,, March 2006, available at* http://pubpages.unh.edu/~ksconway/NTJ_Conway_Rork_Finalv.pdf.

What Do Academics Say ? (cont'd)

- **On the impact of increases in income taxes on the affluent in general (millionaire taxes):**

  Results suggest little or no effect at current levels of taxation:

Young and Varner (2011), authors of latest study, using actual New Jersey tax return data, find no statistically significant effect of "half millionaire" tax on net out-migration of filers subject to tax (with taxable income greater than $500 thousand).*

***Cristobal Young and Charles Varner, "Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment," *National Tax Journal,* vol. 64, No. 2, part I, pp. 255-284.**

What Do Academics Say ? (cont'd)

- **On the impact of increases in <u>income taxes</u> on the affluent in general (millionaire taxes) (cont'd):**

Conway and Rork (focusing on elderly), Slemrod and Bakija, reach results that are inconclusive.

Feldstein and Vaillant (1997) infer strong negative impact on migration of raising taxes on the rich, but don't actually observe migration behavior. Leigh (2008)* and Thompson (2011)** find results that contradict Feldstein and Vaillant.

*Andrew Leigh, "Do Redistributive Taxes Reduce Inequality?" *National Tax Journal*, vol. 61, no. 1, March 2008, pp. 81-104,
Jeff Thompson, *The Impact of Taxes on Migration in New England*, Political and Economy and Research Institute, University of Massachusetts, Amherst, April 2011, pp. 14-15.

What Do Academics Say ? (cont'd)

- **On the impact of increases in income taxes <u>on the affluent (millionaire taxes) (cont'd)—</u>**
- **which highly affluent sub-groups (groups within the top 0.1 percent of income distribution) are most tax sensitive, according to Young and Varner?**
  - **65+ years of age**
  - **Earn all income from investments**

Conclusions

- Independent scholars have yet to detect significant state tax effects on the migration of the elderly or the affluent, but have found negative tax impact on the elderly “uber rich”. This is a very small group.
- Revenue consequences of tax breaks for the elderly are growing rapidly and will continue to do so.
- The studies receiving the most attention in the press, touted by tax opponents, are flawed, biased.

Exhibit G
Commission on State Tax and
Financing Policy
Meeting #2 Oct. 3, 2011

INDIANA ECONOMIC DEVELOPMENT & TAX EQUALITY INITIATIVE

SPONSORED BY

NATIONAL ACTIVE & RETIRED FEDERAL EMPLOYEES ASSOCIATION – (Indiana Federation)

Printed July 2011

INDEX OF EXHIBITS (NARFE)

1. CALLIE POTTS - PRESENTER (Oct 2010 OPM, Population - www.workforcewise.com, Aging Friendly Communities, Dr. Gene Warren, President, Thomas,Warren & Associates Consultants, Morton Marcus articles – May 2010 & August 2011, Medicare enrollees (2010), Migration of Retirees of IN www.workforcewise.com, Surrounding/border states taxation law information

2. AGING POPULATION IN INDIANA (WWW.WORKFORCEWISE.COM)
   DEAN JONES – PRESENTER

3. NETWORTH OF INDIANA RESIDENTS AGE 65-74 ALAN ADER - PRESENTER (WWW.WORKFORCEWISE.COM)

4. INDIANA SENIOR RESIDENT MIGRATION (WWW.WORKFORCEWISE.COM)
   ALLEN LAUER- PRESENTER

5. BEST/WORST STATES FOR RETIREES (MSN MONEY & KIPLINGER)
   DEAN JONES - PRESENTER

6. RETIREE VOLUNTEERS ARE AN ASSET TO STATE –ALAN ADER – PRESENTER (WWW.VOLUNTEERINGINAMERICA.GOV)

7. PERCENT CHANGE IN POPULATION OF INDIANA COUNTIES (2010 CENSUS) ALLEN LAUER - PRESENTER

8. ADDENDUMS
   ACTIVE & RETIRED FEDERAL EMPLOYEES (OFFICE PERSONNEL MANAGEMENT)
   OPM NUMBER OF ANNUITANTS – TOTAL MONTHLY INCOME (OPM 10/10)
   ALLEN LAUER

Testimony by Callie Potts, past president of National Active & Retired Federal Employees, Chapter 1777, Postal Service retiree a resident of Floyd County and a supporter of fair state income tax for civil service annuitants.

Federal CSRS retirees are here to plea for fair state taxation that does not discriminate against Civil Service retirees in Indiana. Civil Service retirees receive a $2,000 deduction ONLY if they are at least 62 years of age, and do not receive more than $2,000 of Social Security or Railroad Retirement benefits annually. The maximum savings this "benefit" allows in Floyd County is a reduction in state income tax $90.00 per year.

Recipients of Social Security or Railroad retirements do not pay state income taxes on their retirement benefits. CSRS retirees also must pay the increase in Medicare premiums during years when there are no COLAs. (Unlike Social Security recipients). As everyone else in the state, retirees are confronted with rising cost at the grocery store, gas station, utilities and along with the 7% sales taxes; balancing our budgets is more difficult each month.

Federal retirees are often asked why the state should take from others to give them a tax break. For years federal retirees have been paying state income taxes that Social Security and Railroad retirees have not been paying. If federal retirees receive the same tax treatment as other retirees, that money will stay and circulate within the communities in which we live. This is in addition to almost a Billion dollars that comes into Indiana in federal annuity payments each year.

Indiana has a total of 33,639 Federal annuitants as of October 2010 (U. S. Office of Personnel Management).

2010 Annuity payments to CSRS, FERS and survivors annuitants in Indiana was $68,690,838 monthly or over $824,000,000 annually (OPM). This is a simple average payment of only $2,042 per month.

The Civil Service Retirement System (CSRS) was replaced by the Federal Employee Retirement Systems (FERS) on January 1, 1985. FERS employees participate in Social Security. Therefore, FERS retirees are receiving the maximum Social Security allowable tax exemption from the State.

Why is this important? The number of CSRS retirees is finite. There will be fewer of us each year and unlike many requests that come before you, the fiscal impact will be reduced each year. The latest statistics from 2009 OPM Statistical Abstracts for annuitants covered by the CSRS, at the time of that snapshot, the CSRS covered 82% of annuitants, down from 87.8% of annuitants in 2005. This is a 6.6% reduction of CSRS annuitants in four years.

It has been and continues to be our conviction, based on research of several economists that comprehensive tax reduction for retirees is a sound Economic Development Initiative

Exhibit 11

for Indiana. Other states have long recognized this and now Indiana is one of only five states that fully tax retirees' CSRS annuities

Indiana is facing major demographic changes:

- 2005-2040 the 65+ population will increase by 90% In 2040. 1 in 5 Hoosiers will be 65 or older.
- There are multiple economic development benefits with aging: The in- migration and retention of older person, retaining skills and knowledge, new housing construction, expansion of healthcare workforce services, start-up businesses as "encore" careers, expansion of monetary capital/spending power at local level, volunteerism, and all forms of civic engagement.
- A need to focus on and create aging-friendly and aging-ready environments, joins the **Aging-Friendly Community Movement**, attract retirees and create communities that are livable across the lifespan.
- According to U.S. census data from 2009 Indiana experienced a net loss of 8,805 citizens in the age range of 45 to 75+. When the range is reduced to age 55+ the net loss is 6,626. This is a valuable resource leaving the state and taking their resources with them.

According to Gene Warren, President of Thomas, Warren & Associates, a consulting firm that has developed an attribute based approach to helping cities attract retirees.

"Attracting retirees is a particularly appropriate type of economic development for rural communities. Because many of the younger residents of rural communities leave to find jobs in metropolitan areas, most rural communities do not have a workforce available to fill the jobs in the businesses that are the target of traditional economic development. However, the strategy of attracting retirees has two major advantages in rural areas. First, the amenities retirees attract will provide jobs to entice new workers into the community or persuade the younger residents not to seek jobs elsewhere thereby expanding the community's workforce. Secondly, many highly skilled retirees may want to work part time. Including such individuals in the workforce increases the skill set of a rural community's workforce. This ratcheting up of rural community's workforce will eventually provide it with the workforce necessary to induce economic development."

In a Morton J. Marcus article, May 2010, based on 2008 IRS data a total of $2.9 billion was lost to Indiana as taxpaying Hoosiers left the State, $967 million to four adjoining states, $396 million to Florida.
Morton J. Marcus wrote in August 2011, " Want to do something more beneficial for the state? Help retain retired persons who have pensions. Currently retirees who leave Indiana take out of the state millions of dollars of taxable income and retail trade. Other states, in an effort to keep the money at home, exempt part or all of pension income from their state income taxes."

Federal retirees are a very low risk for Medicaid enrollment and related costs. We have

Exhibit 12

our own healthcare insurance (Federal Employee Health Benefits Program, (FEHBP), including drug coverage and a sizable percentage of us have long-term care insurance (LTC) via government and private plans. Retirees pay healthcare insurance premiums and the total premiums for LTC. These insurance measures are cost containment to Indiana.

Indiana has 996,966 Medicare enrollees (2010) receiving payments of $6.8 BILLION for FY 2007, (consolidated Federal Reports) greatly benefiting the Indiana healthcare industry.

Summary

In a recent national survey by the National Active Retirement Association 28% of those 60-69 said they would move out of state in retirement.

Over two-thirds of all respondents 51-69 said they will be seeking a more affordable location in retirement.

Federal retirees are a tremendous economic asset to Indiana, bringing in almost a billion dollars in income and spending power plus the multiplier effect in job creation, charitable contributions and volunteerism. Some economist report that each retiree generates 1.7 jobs.

Keep in mind that retirees continue to pay property taxes, sales taxes, gasoline taxes and many other state taxes and fees. In general retirees are paying to support schools; public services while not a major consumer of these services. Seniors migrating out of Indiana have higher incomes than seniors moving into the state. The average income for out-migrant's is $25,898 versus $22,064 for in migrants. The seniors leaving the state and taking their wealth with them have higher levels of wage and salary income, self employment income, investment income, and retirement income.

Many states have recognized this and are developing or accelerating retirement strategies to attract and retain retirees.

States surrounding Indiana are considerably more favorable toward retirement income:

- Kentucky: Exempts $41,110 per retiree.
- Illinois: Total exemption.
- Michigan: Total exemption.

Reducing taxes on retirement income is perhaps the best economic development investment the state of Indiana can make.

Exhibit 13

I will give you two examples of the unfairness of the current Indiana State income tax situation: For tax year 2010, one couple paid Indiana Income taxes of $3540.00 on their combined CSRS retirement income. I personally paid $2,270.00 Indiana income taxes. If we had worked and retired from Norton Hospital or UPS instead of the Federal Government we would not have paid state income tax.

NARFE's position continues to be that all retirees, whether public or private should be treated equally. It is our goal as I believe it is yours, to help all Hoosier retirees and develop a retiree friendly environment in Indiana with a strong economic future.

The Linton's City motto "A good place to grow up and a good place to grow old" should be the motto for the state.

Respectfully submitted by:

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812-952-2663

Exhibit 14

AGING POPULATION IN INDIANA

- During the next 35 years the 65+ population in Indiana will increase by 63%
- The 65+ population will increase from 753,000 to 1.48M
- In the year of 2035 adults age 65+ will outnumber the children under the age of 15
- In 2008 approximately 29% of the population was 50+
- Keeping and attracting retirees should be a top priority for the sate of Indiana
- Annual average of 241 retirees in 11 northeastern counties moved out of Indiana 241annual average for these 11 counties 1995-2010 means a loss of 3,615 retirees
- Annual income loss of 6M X 15 years totals to 90M (2010) (Workforcewise.com)

Exhibit #2

NET WORTH OF INDIANA RESIDENTS AGE 65-74

- Baby Boomers are 27% of the Indiana Population
- Indiana's estimated net worth is about $310B (2005)
- Large transfers of wealth will occur over the coming decades (66B over the next 10 years)
- Indiana's wealthiest citizens are between the ages of 65-74
- September 2010 – 33,639 Civil Service Annuitants – Total Payments $68,702,751.00 (annual) (Office Personnel Management OPM)
- December 2010 – 756,433 Social Security beneficiaries – Total Payments $934,269,000.00 (annual) (Social Security Administration – New Albany IN office 9/26/11)

Exhibit #3

INDIANA SENIOR RESIDENT MIGRATION

- 2000 Census indicated there were 751,193 65+
- The census estimates show 30,575 seniors moved from Indiana (1995-2000 4% of the population)
- 7,229 65+ migrated from Indiana to our border states (1995-2000)
- 1995-2000 data shows 24,260 seniors moved to Indiana (net decline of 6,315)
- 2007 data indicates a net loss of 3,422
- 2008 data indicates a net gain of 3,471
- 2009 data net loss of 6,626
- 2010 data indicates a net loss of 3,151
- Losses 3 out of the past 4 years
- Seniors leaving Indiana have higher incomes $25,898
- Seniors coming to Indiana have incomes of $22,064

Exhibit #4

INDIANA SENIOR RESIDENT MIGRATION

- 2000 Census indicated there were 751,193 65+
- The census estimates show 30,575 seniors moved from Indiana (1995-2000 4% of the population)
- 7,229 65+ migrated from Indiana to our border states (1995-2000)
- 1995-2000 data shows 24,260 seniors moved to Indiana (net decline of 6,315)
- 2007 data indicates a net loss of 3,422
- 2008 data indicates a net gain of 3,471
- 2010 data indicates a net loss of 3,151
- Seniors leaving Indiana have higher incomes $25,898
- Seniors coming to Indiana have incomes of $22,064

Exhibit #4

<u>BEST/WORST STATES FOR RETIREES</u>

- As of July 2011 – Wyoming, Mississippi, Alaska, Michigan & Pennsylvania **(Best)**
- California, Rhode Island, New Jersey, Vermont, Iowa *(Worst)*
- 36 of the 50 states does not tax Social Security Benefits (Indiana is one those states)
- The exception is federal CSRS retirees (Indiana)
- We want to have the equal/fair tax treatment of our annuities

Exhibit #5

<u>RETIREE VOLUNTEERS ARE AN ASSET TO STATE</u>

- TOTAL NUMBER OF VOLUNTEERS IN INDIANA 1.5M
- 29.9% OF SENIORS ARE VOLUNTEERS
- TOTAL NUMBER OF VOLUNTEER HOURS 2009 – 206.1M
- MONETARY BENEFIT OF VOLUNTEER SERVICES – 4.3B
- INDIANA RANKS 19TH OUT OF THE 50 STATES IN VOLUNTEERS
- AVERAGE VOLUNTEER HOURS PER RESIDENT 42.0 (IN RANKING NATIONALLY 13TH)
- GOSHEN IN – MOST VOLUNTEERS LIVE IN OUR RETIREMENT COMMUNITIES (IN Economic Digest 7/11)

THIS INFORMATION IS AVAILABLE ON WWW.VOLUNTEERING INAMERICA.GOV

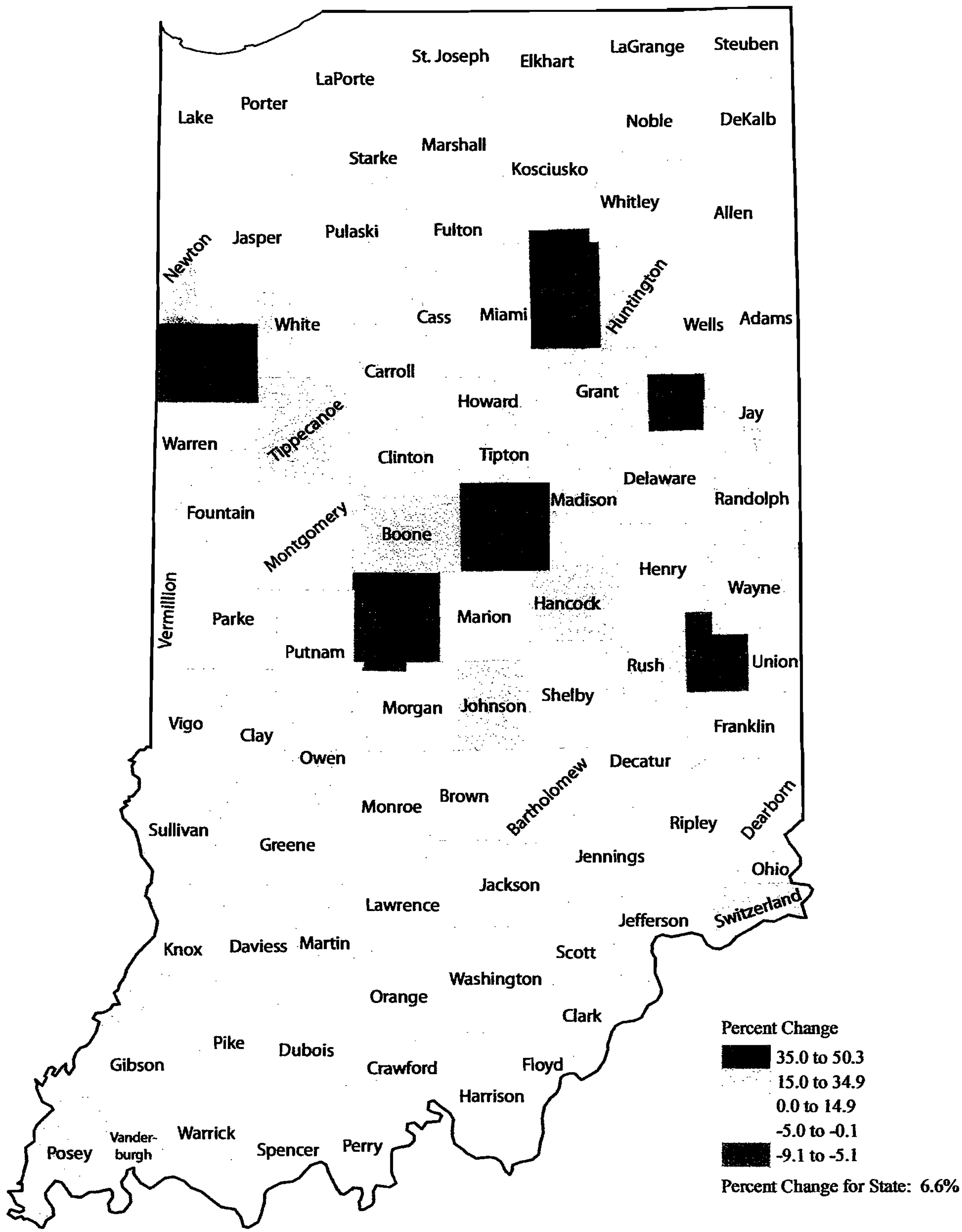
Exhibit #6

PERCENTAGE CHANGE IN POPULATION OF INDIANA COUNTIES (2010 CENSUS INFORMATION FOR REDISTRICTING

- HAMILTON/HENDRICKS COUNTIES POPULATION INCREASED 35-50%
- BOONE, HANCOCK,JOHNSON, SWITZERLAND & TIPPECANOE COUNTIES POPULATION INCREASED 15-34.9%
- 56 COUNTIES POPULATION INCREASED 0.0-14.9%
- 25 COUNTIES POPULATION DECREASED -5.0-O.1%
- 4 COUNTIES POPULATION DECREASED -9.1-5.1%
- 10 OF THE 29 COUNTIES LOSING POPULATION WERE ON OR CLOSE TO STATE BORDERS

INDIANA - 2010 Census Results

Percent Change in Population by County: 2000 to 2010



United States Census Bureau

Source: U.S. Census Bureau, Census 2000 and 2010 Census Redistricting Data Summary File
For more information visit www.census.gov.

Exhibit #2

OPM LISTING OF THE ANNUITANTS/MONTHLY INCOME
(10/10)

Exhibit 8

Office of Personnel Management

Annuity Payments to United States
by Congressional District
show all claims
grouped by Payment Type
for the month of September 2010

Indiana											
	Total		**EFT**			**Checks To Home**			**Checks To Bank**		
District	No	Amount	No	Amount	Pct	No	Amount	Pct	No	Amount	Pct
01	1,880	3,941,439	1,793	3,806,280	0.9537	87	135,159	0.0463			
02	2,041	3,966,444	1,976	3,878,014	0.9682	65	88,430	0.0318			
03	2,014	3,889,121	1,939	3,786,941	0.9628	74	101,982	0.0367	1	198	0.0005
04	4,472	10,235,002	4,303	9,972,329	0.9622	168	262,151	0.0376	1	522	0.0002
05	5,115	11,083,857	4,959	10,855,774	0.9695	155	226,946	0.0303	1	1,137	0.0002
06	2,485	4,722,393	2,378	4,542,760	0.9569	107	179,633	0.0431			
07	5,302	10,367,019	5,039	9,941,616	0.9504	260	419,928	0.049	3	5,475	0.0006
08	5,427	11,177,519	5,174	10,787,567	0.9534	253	389,952	0.0466			
09	4,903	9,319,957	4,653	8,955,907	0.949	250	364,050	0.051			
Total	33,639	68,702,751	32,214	66,527,188	0.9576	1,419	2,168,231	0.0422	6	7,332	0.0002

Exhibit 92

	Retired	Active	Total
ID TOTAL	14,081	10,496	24,577
IL01	5,669	4,152	9,821
IL02	5,986	4,885	10,871
IL03	2,346	2,128	4,474
IL04	461	1,234	1,695
IL05	1,578	1,910	3,488
IL06	2,239	2,184	4,423
IL07	3,592	4,191	7,783
IL08	2,859	2,069	4,928
IL09	2,459	2,478	4,937
IL10	3,187	2,635	5,822
IL11	2,583	1,921	4,504
IL12	7,016	4,515	11,531
IL13	2,812	2,803	5,615
IL14	2,554	2,074	4,628
IL15	4,578	2,441	7,019
IL16	2,629	1,547	4,176
IL17	5,532	2,655	8,187
IL18	3,653	2,343	5,996
IL19	5,467	2,971	8,438
IL TOTAL	67,209	51,136	118,345
IN01	2,018	2,378	4,396
IN02	2,192	1,940	4,132
IN03	2,161	1,723	3,884
IN04	4,798	3,457	8,255
IN05	5,514	3,666	9,180
IN06	2,663	2,253	4,916
IN07	5,665	4,925	10,590
IN08	5,809	3,753	9,562
IN09	5,269	4,301	9,570
IN TOTAL	*36,092	24,734	60,826
KS01	4,487	3,460	7,947
KS02	8,540	6,096	14,636
KS03	6,213	4,626	10,839
KS04	4,650	3,610	8,260
KS TOTAL	24,251	17,792	42,043
KY01	3,771	4,059	7,830
KY02	7,311	5,529	12,840
KY03	6,372	4,513	10,885
KY04	5,585	5,201	10,786
KY05	2,819	3,189	6,008
KY06	6,984	4,032	11,016
KY TOTAL	32,845	26,523	59,368
LA01	5,641	4,032	9,673
LA02	3,672	5,007	8,679
LA03	1,831	2,241	4,072
LA04	6,140	4,836	10,976
LA05	4,302	3,001	7,303
LA06	2,744	1,955	4,699

Exhibit #83

Annuity Payments to United States
by Congressional District
show CSRS CSF claims only
grouped by Payment Type
for the month of September 2011

Indiana											
District	Total		EFT			Check To Home			Check To Bank		
	No	Amount	No	Amount	Pct	No	Amount	Pct	No	Amount	Pct
01	351	$478,600.00	335	$463,748.00	95.44 %	16	$14,852.00	4.56 %			
02	490	$638,599.00	471	$616,028.00	96.12 %	19	$22,571.00	3.88 %			
03	476	$615,163.00	446	$586,965.00	93.70 %	29	$28,000.00	6.09 %	1	$198.00	0.21 %
04	1,028	$1,433,593.00	973	$1,377,263.00	94.65 %	54	$54,495.00	5.25 %	1	$1,835.00	0.10 %
05	979	$1,359,317.00	933	$1,322,334.00	95.30 %	46	$36,983.00	4.70 %			
06	576	$737,089.00	553	$713,226.00	96.01 %	23	$23,863.00	3.99 %			
07	1,020	$1,342,621.00	967	$1,288,853.00	94.80 %	52	$53,222.00	5.10 %	1	$546.00	0.10 %
08	1,263	$1,647,317.00	1,199	$1,575,947.00	94.93 %	64	$71,370.00	5.07 %			
09	1,069	$1,323,675.00	1,001	$1,258,905.00	93.64 %	68	$64,770.00	6.36 %			
Total	7,252	$9,575,974.00	6,878	$9,203,269.00	94.84 %	371	$370,126.00	5.12 %	3	$2,579.00	0.04 %

ANNUITY PAYMENTS TO UNITED STATES
BY
CONGRESSIONAL DISTRICT
U.S. OFFICE OF PERSONNEL MANAGEMENT (OPM)
MONTH OF SEPTEMBER, 2010

Exhibit H
Commission on State Tax and
Financing Policy
Meeting #2 Oct. 3, 2011

FOR INDIANA

District	Number of Retirees	Amount
1	1,880	$ 3,941,439
2	2,041	$ 3,966,444
3	2,014	$ 3,889,121
4	4,472	$ 10,235,002
5	5,115	$ 11,083,857
6	2,485	$ 4,722,393
7	5,302	$ 10,367,019
8	5,427	$ 11,177,519
9	4,903	$ 9,319,957
Total	**33,639**	**$68,702,751**

Average Monthly Annuity Payment $ 2,042

Average Annual Annuity Payment $ 24,508

Most Civil Service Annuitants receive no or limited Social Security income

Exhibit I
Commission on State Tax and Financing Policy
Meeting #2 Oct. 3, 2011

NATIONAL CONFERENCE
of STATE LEGISLATURES

The Forum for America's Ideas

STATE PERSONAL INCOME TAXES ON PENSIONS & RETIREMENT INCOME: TAX YEAR 2010

Ronald Snell National Conference of State Legislatures
Denver, Colorado
February 2011

Most states that levy a personal income tax allow people who receive retirement income to exclude part of it from their taxable income. The table that accompanies this introduction provides state-by-state detail. "Retirement income" means income from federal, state and local governments' retirement plans, Social Security, Railroad Retirement, private pension plans, and deferred compensation plans in the public and private sectors. Retirement income excludes income from current employment, rents and dividends, disability payments and SSI. This report does not address personal exemptions or deductions that are available to every filer over some specified age, like the federal provision for a larger standard deduction for people who are 65 years old or older than for those under 65.

State policies on retirement income exclusions vary greatly, but have one or both of two purposes: to protect the income of taxpayers who are no longer in the workforce, and to serve as an economic development tool by attracting retired people to, or retaining them in, a state. Such tax provisions seem to have originated years ago as a means of assisting retired public employees who received relatively small pensions. Over the years, many states have made age, not former employment in the public sector, the criterion for retirement income exclusions. The exclusions discussed below generally include an age restriction which has been omitted from this discussion for the sake of simplicity, but the age eligibility requirements are specified in the table that follows.

Retirement exclusions and general tax policy

States are generally free from federal control in deciding how to tax pensions, but some limits apply. State tax policy cannot discriminate against federal civil service pensions, according to the U.S. Supreme Court decision in Davis v. Michigan (1989), which ended the once common practice of more favorable state tax treatment for state pensions than for federal civil service pensions. In 1992 the U.S. Supreme Court ruled in Barker v. Kansas that states cannot tax U.S. military pensions if they exempt state pensions from taxation. There is no federal impediment to a different state tax policy for public and private pensions, and, as the table indicates, some states provide less favorable tax treatment for private pension income than for public pensions and Social Security retirement benefits.

Prevalence of retirement income exclusions

Of the 50 states, seven – Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming – do not levy a personal income tax. New Hampshire and Tennessee collect income tax only on interest and dividend income. The District of Columbia and 41 states levy a broad-based personal income tax.

Among the 41 states with a broad-based income tax, 36 offer exclusions for some or all specifically identified state or federal pension income or both,, a retirement income exclusion, or a tax credit targeted at the elderly. The District of Columbia provides an exclusion for District and federal pension income. The five states that offer none of these are California, Nebraska, North Dakota, Rhode Island and Vermont. Practice regarding Social Security income varies somewhat from those generalizations. Federal law preempts the ability of states to tax income from Railroad Retirement.

Limited retirement income exclusions

States take two broad approaches to excluding retirement income from taxation. Some states provide a specific amount of exclusion according to the type of retirement income. For example, Arizona allows the exclusion of $2,500 of state or local government retirement income, federal pension income and military pension income; full exclusion for Social Security income; and no exclusion for private-sector pension income. This model was more prevalent in the past than now. It allowed states to provide a greater exclusion for state and local benefits than for federal civil service benefits, until *Davis v Michigan* prohibited that in 1989. Attaching income exclusions to retirement income according to its source is now relatively rare among the states (except with reference to private-sector pension or deferred compensation benefits), but it continues to be the practice in Connecticut, the District of Columbia, Idaho, Indiana, and New Jersey, as well as Arizona.

The states that offer an exclusion for all state and local government pension income are Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, New York and Pennsylvania. The District of Columbia, Idaho, Iowa, Kentucky, Maine, Missouri, Montana, New Jersey, North Carolina, South Carolina, Oklahoma and West Virginia provide a partial tax exclusion for such income. Consistently with *Davis v Michigan,* those states policy is the same toward federal civil service benefits as for state and local government retirement benefits. Some of the states apply different policies toward income from out-of-state pensions and toward pensions that originate from the state and its political subdivisions. The table shows where that is the case.

Other states (and some of the same states) provide a retirement income exclusion that taxpayers over a specified age, usually 62 or 65, can apply to non-earned income and in rare instances to some earned income. Usually the exclusion is applicable to public sector benefits, Social Security and only some private sector benefits, but sometimes it is applicable to all income. In a number of states, Social Security is subject to a separate exclusion. Virginia, for example, allows an income exclusion of $12,000 per taxpayer applicable to income from any source for people over 65 (subject to income limitations). In addition, Social Security income is fully exempt. Colorado has a different practice: it allows an exclusion of $24,000 per tax return for filers over 65, regardless of the source of income, and includes Social Security benefits in the base on which the exclusion is determined.

In addition to those in Colorado and Virginia, exclusions of this sort exist in Arkansas, Delaware, Georgia, Idaho, Iowa, Kentucky, Maine, Maryland, Minnesota, Missouri, Montana, New Jersey, New Mexico, North Carolina, Oklahoma, South Carolina, Utah and West Virginia. The amount of the exclusion varies from $2,000 in West Virginia to $41,110 in Kentucky.

Social Security retirement benefit exclusions

Most states exclude Social Security retirement benefits from state income taxes. As the table indicates, the District of Columbia and 27 states with income taxes provide a full exclusion for Social Security benefits – Alabama, Arizona, Arkansas, California, Delaware, Georgia, Hawaii, Idaho, Illinois, Indiana, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Virginia, and Wisconsin. In addition, Kansas provides a full exemption for lower-income taxpayers.

The remaining 15 states with broad-based income taxes tax Social Security to some extent:

- Iowa, Kansas, Missouri and Montana exempt a portion of Social Securiry income, or all if the taxpayer's meets an earnings test.

- Connecticut, Minnesota, Nebraska, North Dakota, Rhode Island, Vermont and West Virginia tax Social Security income to the extent it is federally taxed.

- Age-determined income exclusions in Colorado, Minnesota and West Virginia, and the age-determined income tax credit in Utah can remove some or all Social Security income from taxation.

- Kentucky, New Mexico and Utah require that federally untaxed Social Security benefits be added back to federal AGI to calculate the base against which their broad age-determined income exclusions apply.

Full and nearly full pension income exclusions

Ten states exclude all federal, state and local pension income from taxation – Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, New York and Pennsylvania, although in some of them the state and local exemption is restricted to pensions from within the state. Among these 10 states, only Kansas taxes any Social Security income; in 2007 Kansas provided that by tax year 2008 persons with an AGI of less than $75,000 may exclude Social Security income from state taxation.

These 10 states differ on the taxation of retirement income from private-sector sources. Kansas and Massachusetts do not exclude any private-sector retirement income, but most of the others allow a fairly broad exclusion:

- Pennsylvania allows a full exclusion.

- Alabama excludes income from defined benefit plans.

- Hawaii excludes income from contributory plans.

- Illinois and Mississippi exclude income from qualified retirement plans.

- Louisiana, Michigan and New York cap the private-sector exclusion at $6,000, $45, 120 and $20,000, respectively (amounts are for taxpayers filing singly for tax year 2010).

Sources:

The principal sources for this report are instructions for state income tax returns for tax year 2010. Specific state sources are identified in the notes to the table. The other sources consulted have been as follows.

Massachusetts Department of Revenue, "Other States' Tax Treatment of Out-of-State Employee Contributory Government Pensions," 2010.
http://www.mass.gov/?pageID=dorterminal&L=6&L0=Home&L1=Individuals+and+Families&L2=Personal+Income+Tax&L3=Current+Year+Tax+Information&L4=Guide+to+Personal+Income+Tax&L5=Massachusetts+Income&sid=Ador&b=terminalcontent&f=dor_help_guides_abate_amend_personal_issues_general_info&csid=Ador#Pensions

Minnesota House of Representatives, House Research Agency, "Taxation of Social Security Benefits," December, 2010. http://www.house.leg.state.mn.us/hrd/issinfo/sstaxes.htm#Q5

Wisconsin Legislative Fiscal Bureau, "Individual Income Tax Provisions in the States, Informational Paper 4," January 2011.
http://legis.wisconsin.gov/lfb/Informationalpapers/4_individual%20income%20tax%20provisions%20in%20the%20states.pdf

STATE PERSONAL INCOME TAXES ON RETIREMENT INCOME: TAX YEAR 2010

Notes and sources are listed by states following the table; * indicates a substantive note. Amounts excluded are for tax year 2010 unless otherwise specified.
SS = Social Security, RR = Railroad Retirement, which is exempt from state income taxation by federal law.
Exclusions for state and local government pensions apply to pensions from state and out-of-state sources unless otherwise specified.

STATE PERSONAL INCOME TAXES ON RETIREMENT INCOME: TAX YEAR 2010					
State	**State/Local Pension Exclusion**	**Federal Civil Service Pension Exclusion**	**Military Pension Exclusion**	**Social Security**	**Private Pension Exclusion**
AL	Full	Full	Full	Full	Income from defined benefit plans
AK	No personal income tax.				
AZ	AZ plans: $2,500	$2,500	$2,500	Full	None
AR*	$6,000 per taxpayer	$6,000 per taxpayer	$6,000 per taxpayer	Full	$6,000 from qualified traditional IRAs
CA	None	None	None	Full	None
	Tax credit of $99 (tax year 2010) for each taxpayer or spouse over 65 years of age.				
CO*	65 +, $24,000 55-65, $20,000 Spouses must qualify individually	65 +, $24,000 55-65, $20,000	65 +, $24,000 55-65, $20,000	65 +, $24,000 55-65, $20,000	65 +, $24,000 55-65, $20,000
CT	None	None	50% exclusion	SS: Same as federal	None
DE*	60+, $12,500 under 60, $2,000 Amounts are for each taxpayer. Married taxpayers must individually qualify.	60+, $12,500 under 60, $2,000 Amounts are for each taxpayer. Married taxpayers must individually qualify.	60+, $12,500 under 60, $2,000 Amounts are for each taxpayer. Married taxpayers must individually qualify.	Full	60+, $12,500 under 60, $2,000 Amounts are for each taxpayer. Married taxpayers must individually qualify.
DC	62+, $3,000. DC pensions only.	62+, $3,000	62+, $3,000	Full	None
FL	No personal income tax.				

STATE PERSONAL INCOME TAXES ON RETIREMENT INCOME: TAX YEAR 2010					
State	**State/Local Pension Exclusion**	**Federal Civil Service Pension Exclusion**	**Military Pension Exclusion**	**Social Security**	**Private Pension Exclusion**
GA	See below	See below	See below	Full	See below
	Taxpayers aged 62 and over are entitled to a retirement income exclusion of $35,000 per taxpayer ($70,000 joint), of which a maximum of $4,000 per taxpayer may be earned income. In addition. SS/RR income are also excluded from taxable income.				
HI	Full	Full	Full	Full	Full except for partial taxation of plans to which employees contributed.
ID	65+, 62+ if disabled: $27,876 filing singly/$41,814 filing jointly, (minus SS/RR benefits) limited to certain public safety officers' benefits. Applies to ID pensions only.	65+, 62+ if disabled: $21,900 filing singly/$32,850 filing jointly, (minus SS/RR benefits). Applies only to CSRS not to FERS benefits	Capped at the same exclusion as CSRS benefits.	Full	None
IL	Full	Full	Full	Full	Full for qualified retirement plans
IN*	None	62+ $2,000 minus Social Security income. Spouses must qualify individually.	62+ $5,000. Spouses must qualify individually	Full	None
	Taxpayers over 65 may be entitled a tax credit of up to $140 (joint returns) depending on income.				
IA*	55+ $6,000 individual; $12,000 joint	55+ $6,000 individual; $12,000 joint	55+ $6,000 individual; $12,000 joint	Exclusion of 55% of taxable SS benefits. Taxation of SS benefits will be phased out by 2014.	55+ $6,000 individual; $12,000 joint

STATE PERSONAL INCOME TAXES ON RETIREMENT INCOME:
TAX YEAR 2010

State	State/Local Pension Exclusion	Federal Civil Service Pension Exclusion	Military Pension Exclusion	Social Security	Private Pension Exclusion
KS	Full. Applies to KS plans only.	Full	Full	Full for AGI of $75,000 or less	None
KY	$41,110 per taxpayer; but benefits from Kentucky systems earned before 1/1/98 may be fully excluded.	$41,110 per taxpayer	$41,110 per taxpayer	Full, although SS benefits may limit taxpayer eligibility for the exclusions listed in other categories of retirement income.	$41,110 per taxpayer;
LA	Full for pensions from LA state and local governments. Others: same exclusion as for private pensions	Full	Full	Full	65+: $6,000 single, $12,000 joint
ME	$6,000 for taxpayer plus $6,000 for spouse, or survivor of a pension beneficiary. SS and RR benefits must be deducted from the excluded amount.	$6,000 for taxpayer plus $6,000 for spouse, or survivor of a pension beneficiary. SS and RR benefits must be deducted from the excluded amount.	$6,000 for taxpayer plus $6,000 for spouse, or survivor of a pension beneficiary. SS and RR benefits must be deducted from the excluded amount.	Full	$6,000 less SS/RR, but income from IRAs, SIMPLE IRA's and certain deferred compensation plans is not eligible. Income from government-sponsored 457(b) plans is eligible after age 55.
MD	See below	See below	See below	Full	See below: not applicable to IRA, Roth IRA, SEP or Keogh plans.
	Taxpayers aged 65 and over are entitled to an exemption of $26,100 per person minus SS/RR benefits.				

STATE PERSONAL INCOME TAXES ON RETIREMENT INCOME: TAX YEAR 2010					
State	**State/Local Pension Exclusion**	**Federal Civil Service Pension Exclusion**	**Military Pension Exclusion**	**Social Security**	**Private Pension Exclusion**
MA	Full for MA pensions; out-of-state are exempt if the state extends reciprocal treatment to MA pensions.	Full	Full	Full	None
MI	Full for MI pensions; capped at the levels for private pensions for out-of-state pensions unless MI has a reciprocal agreement with the other state not to tax pensions.	Full	Full	Full	$45,120 single, $90, 240 joint. Plans under Sections 401(k), 457, and 403(b) of the IRC are not eligible.
	Persons aged 65 and older or older) may subtract interest, dividends, and capital gains included in AGI. This subtraction is limited to a maximum of $10,058 on a single return or $20,115 on a joint return. However, the maximum must be reduced by the retirement pension subtraction				
MN*	None	None	None	SS taxable to extent federally taxed;	None
	Taxpayers aged 65 and over may be entitled to an exemption of up to $9,000 for single taxpayers and $18,000 married and filing jointly if both spouses are over 65. Income limits apply.				
MS	Full	Full	Full	Full	Full for qualified plans
MO*	Age 62+: 65%, capped at $33,703 per spouse: income limits apply. Amount of Social Security exclusion must be deducted from pension exclusion.	Age 62+: 65%, capped at $33,703 per spouse: income limits apply. Amount of Social Security exclusion must be deducted from pension exclusion	15%	65%, income limits apply.	$6,000: income limits apply.

STATE PERSONAL INCOME TAXES ON RETIREMENT INCOME:
TAX YEAR 2010

State	State/Local Pension Exclusion	Federal Civil Service Pension Exclusion	Military Pension Exclusion	Social Security	Private Pension Exclusion
MT*	Up to $3,640 for single filers whose AGI is less than $30,320. For joint filers who both have retirement income, up to $7,680.	Up to $3,640 for single filers whose AGI is less than $30,320. For joint filers who both have retirement income, up to $7,680.	Up to $3,640 for single filers whose AGI is less than $30,320. For joint filers who both have retirement income, up to $7,680.	SS is taxable for taxpayers whose income including SS exceeds $25,000 single, $32,000 joint.	Up to $3,640 for single filers whose AGI is less than $30,320. For joint filers who both have retirement income, up to $7,680.
NE	None	None	None	SS taxable to extent federally taxed.	None
NV	No personal income tax.				
NH	No personal income tax. Residents over the age of 65 are entitled to exempt $1,200 in income subject to the interest and dividends tax.				
NJ	62+, $20,000 joint; $15,000 single, subject to an income ceiling	62+, $20,000 joint; $15,000 single, subject to an income ceiling	Full	Full	62+, $20,000 joint; $15,000 single, subject to an income ceiling
	Taxpayers over the age of 62 are entitled to an additional income exclusion to allow them to reach the amount of the pension exclusion. The sum of the pension exclusion and the additional exclusion may exceed the pension exclusion if the recipient is ineligible to receive Social Security retirement payments.				
NM	None	None	None	None	None
	Taxpayers aged 65 and older are eligible for an income exemption capped at $8,000 single, $16,000 filing jointly, phased out as AGI grows, and ended at AGI of $51,001 for joint filers, $28,501 for single. People aged 100 or older are fully exempt from income tax unless claimed as a dependent				
NY	Full for NY and DC pensions; out-of-state treated like private pensions.	Full	Full	Full	$20,000 for taxpayers aged 59 years, six months and older.
NC*	$4,000 single; $8,000 filing jointly	$4,000 single; $8,000 filing jointly	$4,000 single; $8,000 filing jointly	Full	$2,000 single; $4,000 filing jointly

STATE PERSONAL INCOME TAXES ON RETIREMENT INCOME:
TAX YEAR 2010

State	State/Local Pension Exclusion	Federal Civil Service Pension Exclusion	Military Pension Exclusion	Social Security	Private Pension Exclusion
ND	None	None	None	Same as federal	None
OH	None	None	Full	Full	See note
	A retirement income tax credit of as much as $200 is allowed, depending on income. A senior citizen tax credit of $50 per tax return is allowed to filers of 65 or older; each taxpayer may claim it only once. A one-time tax credit is available for lump-sum distributions to people over 65: $50 multiplied by remaining life expectancy.				
OK*	$10,000 per individual. Spouses must qualify individually.	80% of CSRS benefits, plus up to $10,000 in FERS and remaining CSRS benefits.	Greater of 75% of benefits or $10,000 not to exceed amount included in federal AGI.	Full	$10,000 per individual.
OR	62+: 9% credit for retirement income. Income limits apply	Income attributable to service before October 1991 is exempt. In addition: 62+: 9% credit for retirement income. Income limits apply	62+: 9% credit for retirement income. Income limits apply	Full	Payments from certain plans can be subtracted if previously taxed. 62+: 9% credit for retirement income. Income limits apply
PA	Full	Full	Full	Full	Full
RI	None	None	None	Same as federal	None
SC	Under 65: $3,000; over 65: $10,000; see below	Under 65: $3,000; over 65: $10,000; see below	Under 65: $3,000; over 65: $10,000; see below	Full	Under 65: $3,000; over 65: $10,000; see below
	Each taxpayer over 65 is entitled to an income exemption of $15,000 ($30,000, married filing jointly) less the amount of any retirement income exemption claimed.				
SD	No personal income tax				
TN	The individual income tax is imposed only on individuals and other entities receiving interest from bonds and notes and dividends from stock. Persons over 65 with total income less than $16,200 for a single filer or $27,000 for a joint filer are exempt.				
TX	No personal income tax				

STATE PERSONAL INCOME TAXES ON RETIREMENT INCOME:
TAX YEAR 2010

State	State/Local Pension Exclusion	Federal Civil Service Pension Exclusion	Military Pension Exclusion	Social Security	Private Pension Exclusion
UT	Utah provides individual taxpayers aged 65 and older a non-refundable retirement income tax credit of $450. The credit is reduced and phased out at higher income levels, beginning at $25,000 single and $32,000 married filing jointly.				
VT	None	None	None	Same as federal	None
VA	Virginia provides individual taxpayers aged 65 and older a deduction of up to $12,000 ($24,000 married filing jointly.) The deduction is reduced and phased out at higher income levels, beginning at $50,000 for single taxpayers and at $75,000 for married couples regardless of their filing status. The base is state-adjusted federal AGI.				
WA	No personal income tax				
WV	WV state or local police, deputy sheriffs' or firefighters' retirement benefits are fully exempt. Other WV pensions: $2,000.	$2,000; see below	$22,000; see below	Same as federal; see below	None; see below
	Each West Virginia taxpayer aged 65 or older is entitled to a deduction of $8,000 minus retirement income deductions.				
WI*	65+: $5,000 for filers with an AGI of less than $15,000 (single) or $30,000 (joint)	65+: $5,000 for filers with an AGI of less than $15,000 (single) or $30,000 (joint)	Full	Full	65+: $5,000 for filers with an AGI of less than $15,000 (single) or $30,000 (joint)
WY	No personal income tax				

NOTES:

AL: Source: Alabama 2010 Form 40 Booklet. http://www.revenue.alabama.gov/incometax/2010_forms/10f40bk.pdf
AZ: Source: Arizona Booklet X, 2010, Vol. 1. http://www.azdor.gov/LinkClick.aspx?fileticket=33Vs-c609Sw%3d&tabid=66
AR: Amount indicated is a retirement income exclusion; the total exclusion per taxpayer cannot be more than $6,000 from all exempt sources other than SS/RR retirement income. Source: Arkansas 2010 Individual Income Tax Forms and Instructions.
http://www.dfa.arkansas.gov/offices/incomeTax/individual/Documents/LongBooklet_2010.pdf
CA: Source: Instructions for Form 540/540A — California Resident Income Tax Return. http://www.ftb.ca.gov/forms/2010/10_540a_540ins.pdf
CO: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated from all exempt sources. However, SS/RR retirement income not taxed by the federal government is not added back to AGI for state income tax purposes. Source: Colorado Department of Revenue, Pension/Annuity Subtraction
CT: Source: 2010 Form CT 10-40. http://www.ct.gov/drs/lib/drs/forms/2010forms/incometax/ct-1040booklet.pdf
DC: Source: 2010 DC Individual Income Tax Forms and Instructions. http://otr.cfo.dc.gov/otr/frames.asp?doc=/otr/lib/otr/2010_rpa_forms/2010_d-40_d-40ez.pdf
DE: Amounts indicated are a retirement income exclusion per taxpayer. The total exclusion may not be more than the amounts shown from all sources other than SS/RR retirement income. Source: 2010 Delaware Resident Individual Income Tax Return
http://revenue.delaware.gov/services/current_pit/TY10_booklet_res.pdf
GA: Source: 2010 Individual Income Tax 500 and 500EZ Forms and General Instructions.
etax.dor.ga.gov/inctax/2010_forms/TSD_Form_IT511_Instructions_2010.pdf
HI: Source: 2010 N-11 Hawaii Resident Income Tax Forms and Instructions. http://www6.hawaii.gov/tax/2010/n11ins.pdf
ID: Source: Idaho 2010 Individual Income Tax Forms and Instructions. http://tax.idaho.gov/forms/EIN00046_10-12-2010.pdf
IL: Source: Publication 120: Retirement Income. http://www.revenue.state.il.us/Publications/Pubs/Pub-120.pdf
IN: Individual taxpayers are entitled to a disability retirement deduction of up to $5,200 per year. Sources: 2010 Indiana IT-40 Full Year Resident Individual Income Tax Instruction Booklet and various 2010 Individual Income Tax Forms and Instructions. http://www.in.gov/dor/4439.htm
IA: Source: Iowa 2010 Expanded 1040 Instructions. http://www.iowa.gov/tax/1040EI/GenInfo/10Military.html
KS: Source: Line-by-line K-40 and Schedule S Instructions - 2010. http://www.ksrevenue.org/pdf/forms/k-40inst10.pdf
KY: Source: 2010 Kentucky Individual Income Tax Instructions for Forms 740 and 740-EZ. http://www.revenue.ky.gov/forms/CurrentYrForms.htm
LA: Source: 2010 Louisiana Resident Income Tax Booklet, http://www.revenue.louisiana.gov/forms/taxforms/IT540(2010).%20INST.pdf
and Credits, Exemptions, Exclusions, & Deductions for Individual and Corporation Income Tax, Corporation Franchise Tax, Inheritance Tax, and Gift Tax.
http://revenue.louisiana.gov/forms/publications/40058(11_07).pdf

ME: Source: 2010 Maine Resident, Nonresident or Part-Year Resident Individual Income Tax Booklet
http://www.maine.gov/revenue/forms/1040/2010/10_Long1040MEBook_dwnld.pdf
MA: Source: Department of Revenue, Current Year Tax Information, Pensions-Government.
http://www.mass.gov/?pageID=dorterminal&L=6&L0=Home&L1=Individuals+and+Families&L2=Personal+Income+Tax&L3=Current+Year+Tax+Information&L4=Guide+to+Personal+Income+Tax&L5=Massachusetts+Income&sid=Ador&b=terminalcontent&f=dor_help_guides_abate_amend_personal_issues_govpension&csid=Ador#Out

MD: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated from all exempt sources. Source: Maryland 2010 State and Local Tax Forms and Instructions. http://forms.marylandtaxes.com/current_forms/Resident_booklet.pdf

MI: Source: 2010 Michigan Individual Income Tax Forms and Instructions. http://www.michigan.gov/documents/taxes/MI1040book_341323_7.pdf

MN: Source: 2010 Individual Income Tax Forms. http://taxes.state.mn.us/individ/pages/forms.aspx#prior

MS: Source: 2010 Mississippi Resident and Non-Resident/Part-Year Resident Income Tax Forms and Instructions. http://www.dor.ms.gov/docs/Form80-100-10IndividualInstructions.pdf

MO: 2007 legislation authorized an income tax deduction to be phased in over six years for Social Security benefits, Social Security disability benefits, and benefits received from a nonprivate retirement system for individuals 62 years of age or older. For Tax Year 2010, 65% of federally taxable qualified income may be deducted; for 2011, 80%; and for 2012 and thereafter, 100%. A single taxpayer with an adjusted gross income of $85,000 or less or a married taxpayer filing a combined return with an adjusted gross income of $100,000 or less will qualify for the maximum deduction. If a taxpayer's adjusted gross income exceeds the income amount, the deduction will be decreased by $1 for every dollar in excess of the maximum. If a taxpayer receives both Social Security benefits and public retirement benefits, the maximum deduction for the publicly funded retirement benefits will be decreased by $1 for every dollar of Social Security benefits received by the taxpayer if the benefits are not included in his or her Missouri adjusted gross income. The maximum deduction for the publicly funded retirement benefits is limited to the maximum Social Security benefits available for the tax year less any Social Security benefits not taxable to Missouri. For TY 2010 that amount is $33,703. Source: Missouri Department of Revenue, What's New? http://dor.mo.gov/personal/whatsnew/ and 2010 Income Tax Reference Guide. http://dor.mo.gov/pdf/refguide.pdf

MT: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated from all exempt sources. Source: Montana 2010 Form 2 Individual Income Tax Forms and Instructions.
http://revenue.mt.gov/content/formsandresources/downloadable-forms/2010/2010-2-Booklet.pdf

NE: Source: 2010 Nebraska Individual Income Tax Booklet. http://www.revenue.ne.gov/tax/current/f_1040n_booklet.pdf

NJ: Source: Tax Topics: Pensions and Annuities. http://www.state.nj.us/treasury/taxation/pdf/pubs/tgi-ee/git1.pdf

NM: Source: Instructions for 2010 PIT-ADJ, Schedule of Additions and Deductions/Exemptions.
http://www.tax.newmexico.gov/SiteCollectionDocuments/2010pit-adj-ins.pdf

NY: Source: Combined Instructions for Forms IT-150 and IT-201 Full-Year Resident Income Tax Returns.
http://www.tax.ny.gov/pdf/2010/inc/it150_201i_2010.pdf

NC: Certain public-sector recipients of pension benefits who had five years of service credit before 1989 may be exempted from state income tax on their retirement benefit. Source: 2010 North Carolina Individual Income Tax Instructions. http://www.dor.state.nc.us/downloads/D401.pdf

ND: Source: 2010 Individual Income Tax. http://www.nd.gov/tax/indincome/forms/2010/nd1instruct.pdf

OH: Source: Ohio 2010 Income Tax Booklet. http://tax.ohio.gov/documents/forms/ohio_individual/individual/2010/PIT_IT1040_Instructions.pdf

OK: Other than the 80% CSRS exclusion, SS benefits and RR benefits, an individual's exclusion cannot total more than $10,000. The cap applies to military retirement benefits as well as benefits from other sources. Source: 2010 Oklahoma Resident Individual Income Tax Forms and Instructions.
http://www.tax.ok.gov/it2010/511Pkt-10.pdf

OR: Tax credit of up to 9 percent of taxable pension income is available to recipients of pension income, including most private pension income, whose household income was less than $22,500 for single filers and $45,000 for married filing jointly and who received less than $7,500/$15,000 in SS or RR benefits. The credit is the lesser of tax liability or 9 percent of taxable pension income. Some federal pension income is exempt if the beneficiary was employed by the federal government before October 1, 1991. Source: Oregon Income Tax Full-Year Resident Form 40, Form 40S, Schedule WFC, and Instructions.
http://egov.oregon.gov/DOR/PERTAX/docs/2010Forms/101-043-10.pdf

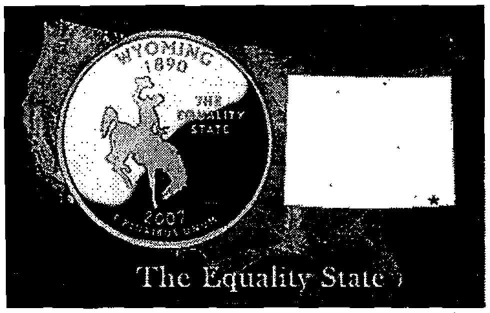
PA: Source: Pennsylvania Personal Income Tax Return 2010. 2010_pa-40_book.pdf

RI: Source: Rhode Island Resident Individual Income Tax Return.
http://www.tax.state.ri.us/forms/2010/Income/2010%20RI-1040%20Resident%20Booklet.pdf
SC: Source: SC 1040 Instructions 2010.
http://www.sctax.org/NR/rdonlyres/9EA05818-4B57-4913-B451-D70190AC742D/0/SC1040Inst.pdf
TN: Source: Individual Income Tax. http://www.tennessee.gov/revenue/faqs/indincome.htm#13
UT: The tax credits described in the table replaced previous provisions of income exemptions in 2008. Source: http://incometax.utah.gov/credits/retirement-income.html
VT: Source: Vermont 2010 Income Tax Return Booklet. http://www.state.vt.us/tax/pdf.word.excel/forms/2010/2010IncBook.pdf
VA: Source: 2010 Virginia 760 Resident Individual Income Tax Booklet. http://www.tax.virginia.gov/taxforms/Individual/Income%20Tax/2010/760Instr.pdf
WV: Each taxpayer over 65 can claim an $8,000 exemption, from which the pension exclusions noted in the table must be deducted. Source: 2010 Personal Income Tax Forms and Instructions. Source: http://www.state.wv.us/taxrev/forms/2010/it140.booklet.pdf
WI: State, local pensions, federal civilian and military pension income exemptions exist for those who retired before January 1, 1964 or who receive a pension benefit from an account established before that date. Source: Wisconsin Income Tax 2010. http://www.revenue.wi.gov/forms/2010/10i-111.pdf

Exhibit J
Commission on State Tax and Financing Policy
Meeting #2 Oct. 3, 2011

JUNE 2011
10 TAX-FRIENDLY STATES FOR RETIREES 2011

#1 WYOMING



State Income Tax: None
State Sales Tax: 4%
Estate Tax/Inheritance Tax: No/No

Thanks to the abundant revenues that Wyoming collects from oil and mineral companies, its residents have one of the lowest tax burdens in the nation, according to the Tax Foundation, a nonprofit research group in Washington, D.C. There is no state income tax. The state sales tax is 4%, and counties in the Equality State can only add up to 1% in additional levies -- a very low ceiling. Plus, prescription drugs and groceries are exempt from state sales taxes. For most property, only 9.5% of market value is subject to tax, so a home worth $100,000 is taxed on $9,500 of assessed value.

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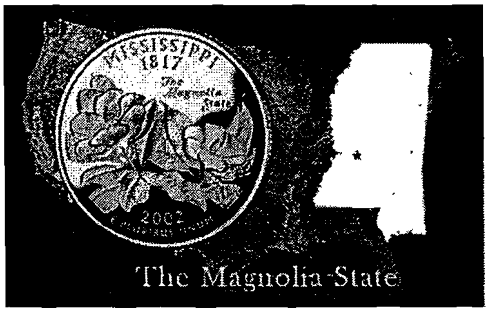
#2 MISSISSIPPI



State Income Tax: 3%-5%
State Sales Tax: 7%
Estate Tax/Inheritance Tax: No/No

Mississippi offers a sweet income-tax deal for retirees. It not only exempts Social Security benefits from state income taxes but also excludes all qualified retirement income -- including pensions, annuities, and IRA and 401(k) distributions. Remaining income is taxed at a maximum 5%. In addition, the Magnolia State is home to some of the lowest property taxes in the nation. Residential property is taxed at 10% of assessed value, and seniors qualify for a homestead exemption on the first $75,000 of value. The statewide sales tax is 7%, and counties and cities may add up to 3% to the state rate. But prescription drugs and health care services are exempt.

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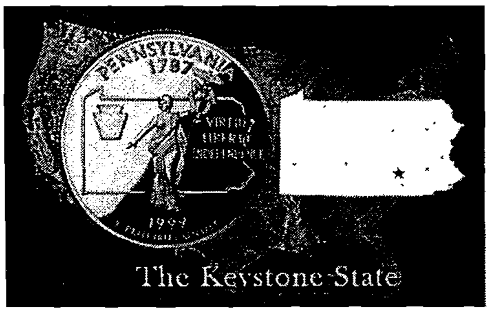
#3 PENNSYLVANIA



State Income Tax: Flat rate of 3.07%
State Sales Tax: 6%
Estate Tax/Inheritance Tax: Yes/Yes

True to its Quaker roots, Pennsylvania extends a friendly hand to retirees. It offers unusually generous exclusions from state income tax on a wide variety of retirement income. Pennsylvania does not tax Social Security benefits or any type of public or private pensions. Nor does it nick distributions from 401(k)s, IRAs, deferred-compensation plans or other retirement accounts. Remaining income is taxed at a low, flat rate of 3.07%. Food, clothing and medicine are exempt from state sales taxes. Property taxes can be high in the Keystone State, especially near larger cities, but rates vary widely. One caveat for the wealthy: Your heirs won't get off so easily. Pennsylvania is one of the few states to have both an inheritance tax, paid by the heirs, and an estate tax -- though it applies only when an estate is large enough to trigger federal estate taxes ($5 million or more).

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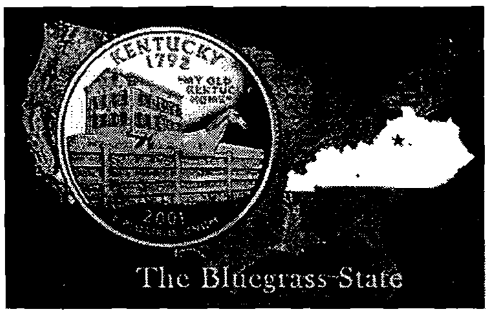
#4 KENTUCKY



State Income Tax: 2%-6%
State Sales Tax: 6%
Estate Tax/Inheritance Tax: No/Yes

The home of the Kentucky Derby is a good bet for retirees. It exempts Social Security benefits from state income taxes, and it allows residents to exclude up to $41,110 per person in retirement income from a wide variety of sources, including public and private pensions and annuities. Personal income-tax rates range from 2% to 6%. A 6% sales tax is imposed at the state level only. Homeowners 65 and older qualify for a homestead provision that exempts part of the value of their property from state taxes. The Bluegrass State has an inheritance tax, but immediate family members are exempt.

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10 TAX-FRIENDLY STATES FOR RETIREES 2011

#5 ALABAMA

State Income Tax: 2%-5%
State Sales Tax: 4%
Estate Tax/Inheritance Tax: No/No

Alabama is a tax haven for retirees. Social Security benefits, as well as military, public and private defined-benefit pensions, are excluded from state income taxes. Remaining income is taxed at the state's low rates, which range from 2% to 5%. Alabama also has some of the lowest property taxes in the U.S. Homeowners 65 and older are exempt from state property taxes, but some cities assess their own property tax. The only downside is sales taxes. Although the statewide rate is just 4%, cities and counties in the Yellowhammer State can impose their own levies, and together the taxes can add up to a whopping 10% or more in some cities. Food is taxed, but prescription drugs are not.

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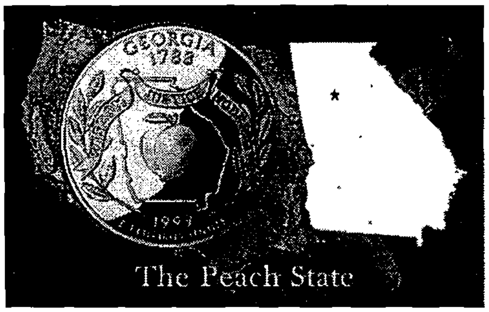
#6 GEORGIA



State Income Tax: 1%-6%
State Sales Tax: 4%
Estate Tax/Inheritance Tax: No/No

Georgia offers a peachy tax environment for retirees. Social Security income is exempt from taxes and so is up to $35,000 per person of most types of retirement income, including pensions, annuities, rental income, interest, dividends and capital gains for residents 62 and older. Beginning in 2012, taxes on all retirement income will be phased out completely. Remaining income is taxed at rates ranging from 1% to 6%, with the top tax rate kicking in on income in excess of $7,000. The statewide sales tax is 4%, but local jurisdictions can add up to 4% of their own taxes. Food and prescription drugs are exempt from sales taxes. Full-time residents of the Peach State qualify for a homestead exemption, and residents 65 and older may qualify for additional property tax deductions.

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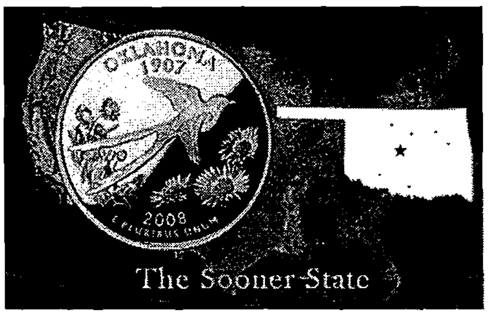
#7 OKLAHOMA



State Income Tax: 0.5%-5.5%
State Sales Tax: 4.5%
Estate Tax/Inheritance Tax: No/No

Oklahoma is more than OK for retirees. The Sooner State has been attracting newcomers since its days when settlers could claim 160 acres of public lands free. It does not tax Social Security benefits or the federal pensions of those who do not participate in the Social Security system. In addition, all residents can exclude up to $10,000 per person ($20,000 per couple) of other types of retirement income (previous income limits for claiming this exclusion were eliminated in 2010). Income-tax rates are low, ranging from 0.5% to 5.5%. Real estate is assessed at an amount between 11% and 13.5% of market value. The statewide sales tax is a modest 4.5%, with prescription drugs exempt. One thing to watch out for: Cities, towns and counties may levy additional sales taxes, which can make the combined sales tax rate top 8%.

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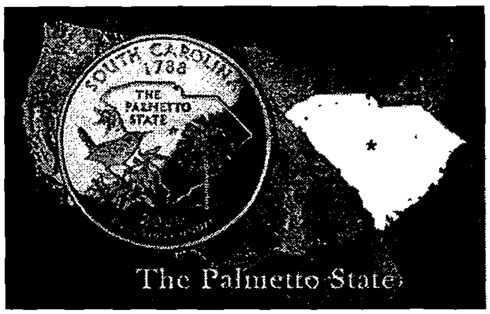
#8 SOUTH CAROLINA



State Income Tax: 3%-7%
State Sales Tax: 6%
Estate Tax/Inheritance Tax: No/No

South Carolina extends its Southern hospitality to retirees. The Palmetto State exempts Social Security benefits from state income taxes, and it allows residents 65 and older to deduct up to $15,000 per person ($30,000 per couple) of qualified retirement income when calculating their state income tax. Retired military personnel 65 and older can deduct up to $10,000 of military retirement benefits. Property taxes are very low. Taxes are based on 4% of the market value of a home, and homeowners 65 and older qualify for a homestead exemption that excludes the first $50,000 of their property's fair market value from property taxes. Sales taxes can be high, though. The statewide rate is 6%, and counties can levy an additional 2%. Prescription drugs are exempt.

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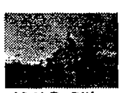
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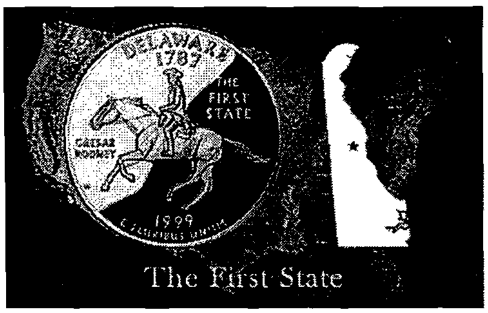
#9 DELAWARE



State Income Tax: 2.2%-6.95%
State Sales Tax: None
Estate Tax/Inheritance Tax: Yes/No

The First State is number one with many retirees, thanks to low real estate taxes, modest income taxes and no sales tax. Social Security and Railroad Retirement benefits are exempt from income taxes, and residents 60 and older can exclude $12,500 per person of investment and qualified retirement income, including out-of-state pensions, dividends, interest and capital gains. Income-tax rates on remaining income range from 2.2% to 6.95%. The top tax rate kicks in when taxable income exceeds $60,000. Residents 65 and older who do not itemize their deductions are eligible for an additional standard deduction of $2,500. Real estate taxes vary by county but are generally low. Residents 65 and older can get a credit equal to half of the school property taxes, up to $500.

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#6 GEORGIA

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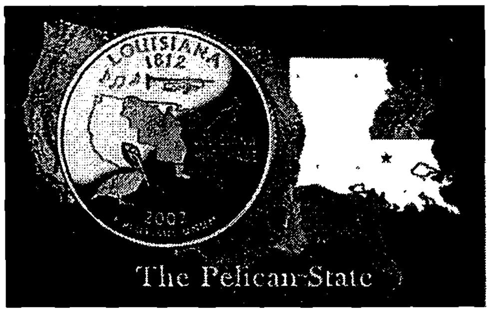
#10 LOUISIANA



State Income Tax: 2%-6%
State Sales Tax: 6%
Estate Tax/Inheritance Tax: No/Yes

Louisiana offers a bayou full of tax breaks to retirees. Social Security and military, civil-service, and state- and local-government pensions are exempt from state income taxes, plus up to $6,000 per person of pension and annuity income. Personal income tax rates are low, ranging from 2% to 6%. Property taxes are the lowest in the nation, according to the Tax Foundation, and assessments are based on 10% of the fair market value. But sales taxes can be steep. The statewide sales tax is 4%, but local parishes and jurisdictions within those parishes can add their own sales taxes. In New Orleans, the combined sales tax rate is 9%. But food and drugs are exempt from sales taxes throughout the Pelican State.

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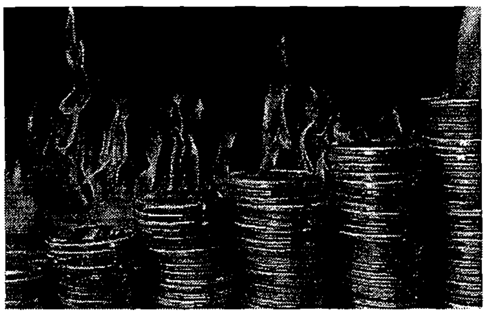

Some states offer attractive tax benefits for retirees (SLIDE SHOW: 10 Tax-Friendly States for Retirees). Then there are these ten tax hells, which have earned a place on our "do not live here for your second act" list either because of higher-than-average taxes across the board or because of policies that don't exempt much retirement income from state taxation. For retirees living on a fixed income, high income taxes, burdensome real estate taxes and hefty sales taxes on daily purchases can really eat into a nest egg. Choosing to relocate to -- or stay put in -- a state with a low overall tax burden can help stretch your retirement income.

By Mary Beth Franklin

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#1 VERMONT

State Income Tax: 3.55%-8.95%
State Sales Tax: 6% (localities can add another 1%)
Estate Tax/Inheritance Tax: Yes/No

There are no exemptions for retirement income in the Green Mountain State, except for Railroad Retirement benefits (which are exempt in every state). Out-of-state pensions are fully taxed. Vermont exempts medical devices and prescription and nonprescription drugs from its 6% sales tax. But it imposes a 9% tax on prepared foods, restaurant meals and lodging, and a levies a 10% sales tax on alcoholic beverages served in restaurants. Real estate taxes have two components: school property tax and municipal property tax collected by towns and cities where the property is located. The Tax Foundation, a nonprofit tax-research group in Washington, D.C., lists Vermont's property tax among the ten highest in the nation.

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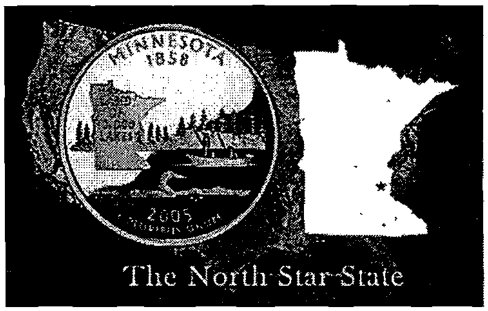
#2 MINNESOTA



State Income Tax: 5.35%-7.85%
State Sales Tax: 6.875% (cities and counties can add another 2.65%)
Estate Tax/Inheritance Tax: No/No

Minnesota offers retirees cold comfort on the tax front. Social Security income is taxed to the same extent it is taxed on your federal return. Pensions are taxable regardless of where your pension was earned. Income-tax rates are high, and sales taxes can reach 9.53% in some cities. Food, clothing, and prescription and nonprescription drugs are exempt from sales taxes. The North Star State does offer some residents 65 and older who have income of $60,000 or less the option of deferring a portion of their property tax. But this is a low-interest loan, not a tax-forgiveness program.

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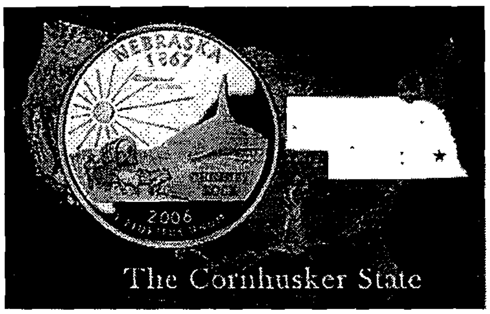
#3 NEBRASKA



State Income Tax: 2.56%-6.84%
State Sales Tax: 5.5% (localities can add another 1.5%)
Estate Tax/Inheritance Tax: No/Yes

There are no tax breaks for Social Security benefits and military pensions in the Cornhusker State. Real estate is assessed at 100% of fair market value. Residents 65 and older qualify for a homestead exemption on property taxes. Food and prescription drugs are exempt from state sales taxes. But Nebraska imposes an inheritance tax on all transfers of property and annuities.

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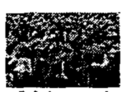
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#4 OREGON

State Income Tax: 5%-11%
State Sales Tax: None
Estate Tax/Inheritance Tax: No/Yes

First, the upside: There's no state sales tax in the Beaver State. But it shares the distinction with Hawaii of imposing the highest tax rate on personal income in the nation on taxable income of $250,000 or more. Although Oregon does not tax Social Security benefits, that's the extent of its income-tax breaks for retirees. And Oregon has an inheritance tax that applies even to intangible personal property, such as investments and bank accounts, no matter where it is located.

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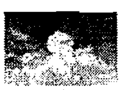
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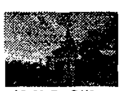
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#5 CALIFORNIA

State Income Tax: 1.25%-9.55%
State Sales Tax: 7.25% (effective July 1, 2011)
Estate Tax/Inheritance Tax: No/No

The Golden State has lost its luster for many retirees. Although Social Security benefits are exempt from state income taxes, all other forms of retirement income are fully taxed. Californians pay some of the highest income taxes in the U.S., with the top rate of 9.55% kicking in at $46,767 of taxable income. State and local sales taxes can reach 9.25% in some cities, although food and prescription drugs are exempt. Real estate is assessed at 100% of cash value, but taxes are capped at 1% of value.

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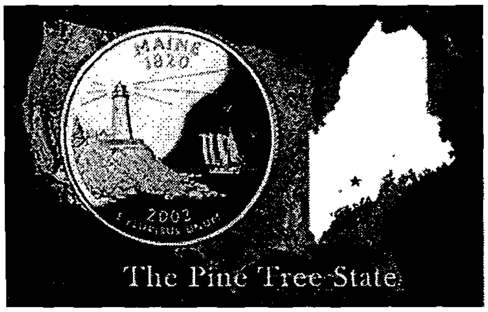
#6 MAINE



State Income Tax: 2%-8.5%
State Sales Tax: 5% (counties can add another 0.5%)
Estate Tax/Inheritance Tax: Yes/No

Like the majority of states, Maine exempts Social Security benefits from state income taxes. And residents can deduct up to $6,000 per person of eligible pension income. But remaining income in excess of $20,150 per year is taxed at a steep 8.5% rate. Residents of the Pine Tree State pay a 5% sales tax statewide on everything except food and prescription drugs. All real estate and personal property is subject to local property taxes (and, in some cases, state property taxes, too), but permanent residents can receive an exemption of $10,000 on the assessed value of their home. Maine is also one of only three states that do not allow cities and towns to impose their own local sales taxes.

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#7 IOWA

State Income Tax: 0.36%-8.98%
State Sales Tax: 6% (localities can add another 1%)
Estate Tax/Inheritance Tax: No/Yes

The Hawkeye State offers no feathered nest for retirees. Although it allows single retirees to exclude up to $6,000 of retirement-plan distributions from state income taxes, and married couples can exclude up to $12,000, the rest is taxed at rates as high as 8.98%. Iowa taxes a portion of residents' Social Security benefits, too, although it is in the process of phasing out the Social Security tax, which is scheduled to disappear in 2014. Food and prescription drugs are exempt from the statewide 6% sales tax. Real estate is assessed at 100% of market value, and most property is taxed by more than one taxing authority, such as cities, counties and school districts. There is a small homestead tax credit for residents who live in-state at least six months of the year.

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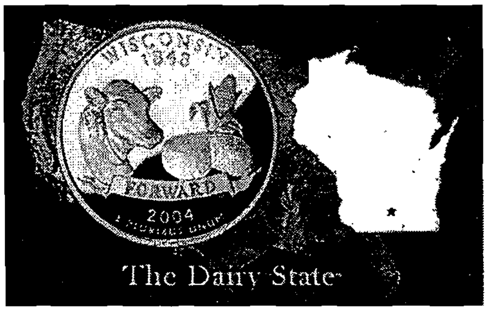

State Income Tax: 4.6%-7.75%
State Sales Tax: 5% (counties can add another 0.5%)
Estate Tax/Inheritance Tax: No/No

The Dairy State exempts Social Security benefits and military-related pensions from its state income taxes, but it taxes most other pension and annuity income the same way the federal government does. Retirees 65 and older can subtract $5,000 of qualified retirement income, including IRA distributions, from their Wisconsin taxable income, subject to income restrictions. Some Wisconsin state- and local-government retirees qualify for a tax exemption. But out-of-state government pensions are fully taxed. Food and prescription drugs are exempt from state sales taxes. Some homeowners may qualify for a school property-tax credit against their state income tax.

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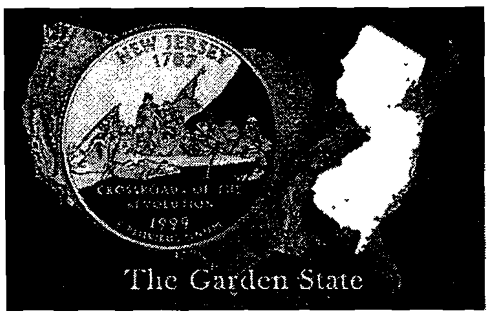

State Income Tax: 1.4%-8.97%
State Sales Tax: 7%
Estate Tax/Inheritance Tax: Yes/Yes

Its nickname may be the Garden State, but New Jersey is no Eden for retirees. The Tax Foundation says New Jersey's combined state and local tax burden is the highest in the nation, thanks in part to sky-high property taxes. But there are a few bright spots: New Jersey does not tax Social Security benefits and military pensions. It also allows residents 62 or older with incomes of $100,000 or less to exclude up to $15,000 ($20,000 for married couples filing jointly) of retirement income, including pensions, annuities and IRA withdrawals. Groceries, medicine and clothing are exempt from the 7% statewide sales tax. The state imposes an inheritance tax on the transfer of real and personal property worth $500 or more, but bequests to family members are exempt. Even with the bright spots, it's an expensive place to live for retirees.

10 of 12

See Our Full Retiree Tax Map for More Details

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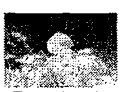
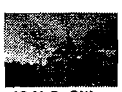


Tax-Friendly States for Retirees



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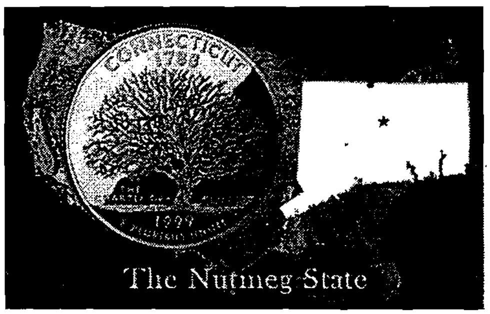
JUNE 2011

10 TAX-UNFRIENDLY STATES FOR RETIREES 2011

#10 CONNECTICUT



State Income Tax: 3%-6.7%
State Sales Tax: 6.35%-7%
Estate Tax/Inheritance Tax: Yes/No

Connecticut can be inhospitable to retirees, depending on their income and where they earned their retirement benefits. Although some residents of the Constitution State can exclude their Social Security benefits from state income taxes, the exclusion applies only if their adjusted gross income is $50,000 or less ($60,000 or less for married couples). All out-of-state government and civil-service retirement pensions are fully taxed. Effective July 1, 2011, the sales tax rate statewide is 6.35%, with luxury items taxed at 7%. Connecticut residents pay some of the highest property taxes in the U.S., according to the Tax Foundation, but residents 65 and older qualify for an annual property tax credit or rent rebate.

11 of 12

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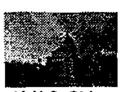
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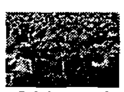
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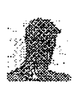
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Exhibit L
Commission on State Tax and Financing Policy
Meeting #2 Oct. 3, 2011

MEMORANDUM

To: Commission on State Tax and Financing Policy

From: Jessica Harmon

Re: Inheritance Tax Revenue

Date: October 3, 2011

This memorandum provides an overview of annual Inheritance Tax collections, Inheritance Tax distributions to the state General Fund and to Counties, and a brief description of the county distribution methodology.

Total State and County Distributions: The table below reports total Inheritance Tax collections, and total state and county distributions, for state fiscal years 2000 through 2011. Inheritance Tax revenue is distributed as follows for tax paid on transfers by resident decedents: (1) 92% to the state General Fund; and (2) 8% to the collecting county, which is the county of domicile of the resident decedent. All Inheritance Tax paid on transfers by nonresident decedents is distributed to the state General Fund.

The Revenue Technical Committee forecast (April 15, 2011) has Inheritance Tax revenue to the state General Fund projected at $145 M annually in FY 2012 and FY 2013. This suggests that county distributions could total about $12.6 M during each year.

Inheritance Tax Revenue				
	Resident Inheritance Tax		Non-Resident Inheritance Tax	
Fiscal Year	**General Fund**	**Counties**	**General Fund**	**General Fund Total**
FY 2000	$118,406,748	$10,292,830	$799,676	$119,206,424
FY 2001	$133,829,736	$11,751,191	$918,445	$134,748,181
FY 2002	$123,096,411	$11,036,070	$809,232	$123,905,643
FY 2003	$164,682,047	$14,705,299	$1,028,435	$165,710,482
FY 2004	$131,427,837	$11,526,966	$803,787	$132,231,624
FY 2005	$148,548,398	$12,740,083	$802,513	$149,350,911
FY 2006	$146,268,833	$12,706,288	$2,636,118	$148,904,951
FY 2007	$149,134,815	$12,716,496	$1,188,181	$150,322,996
FY 2008	$163,569,485	$14,181,463	$1,949,113	$165,518,598
FY 2009	$184,720,739	$15,807,570	$785,155	$185,505,894
FY 2010	$132,184,282	$11,307,639	$972,093	$133,156,375
FY 2011	$146,754,773	$12,660,454	$1,909,244	$148,664,017

County Distributions and Guarantee: While counties retain 8% of the Inheritance Tax collected on transfers by resident decedents, counties are also guaranteed a statutorily determined amount under the replacement provision established when the exemption for Class A transferees was increased under P.L. 254-1997. A Class A transferee is a lineal ancestor of the decedent, lineal descendant of the decedent, a stepchild of the decedent, or a lineal descendant of a stepchild of the decedent. Under P. L. 254-1997, the Class A exemption was increased to $100,000 for transfers made by decedents who died on or after July 1, 1997. Prior to this change, the Class A exemption was either $2,000, $5,000, or $10,000 depending on the Class A transferee's relationship to the decedent.

The replacement provision guarantees that each county receives Inheritance Tax revenue equal to the five-year Olympic average amount of Inheritance Tax received by that county from FY 1991 to FY 1997. The total annual guarantee to counties is approximately $7.4 M, with replacement payments averaging about $150,000 since FY 2000. Replacement payments are made from the state General Fund in the fiscal year following the fiscal year in which counties experience revenue shortages. The following table provides the amount guaranteed to counties, as well as replacement payments for FY 2011. Thirteen counties received replacement payments for FY 2011, totaling $108,812.

County Inheritance Tax Replacement

County	Guarantee Amount	FY 2011 County Revenue	FY 2011 Replacement	County	Guarantee Amount	FY 2011 County Revenue	FY 2011 Replacement
Adams	$42,223	$95,635	$0	Lawrence	$37,524	$49,213	$0
Allen	$424,068	$678,938	$0	Madison	$170,534	$224,104	$0
Bartholomew	$91,062	$143,133	$0	Marion	$1,466,334	$1,688,959	$0
Benton	$22,494	$14,928	$7,566	Marshall	$46,383	$108,404	$0
Blackford	$11,480	$12,535	$0	Martin	$7,383	$23,771	$0
Boone	$88,392	$150,174	$0	Miami	$31,521	$29,991	$1,530
Brown	$12,608	$62,698	$0	Monroe	$128,218	$307,512	$0
Carroll	$30,236	$41,845	$0	Montgomery	$70,150	$46,142	$24,008
Cass	$59,828	$103,772	$0	Morgan	$38,243	$116,627	$0
Clark	$103,378	$168,075	$0	Newton	$25,225	$62,691	$0
Clay	$27,815	$49,964	$0	Noble	$31,359	$43,802	$0
Clinton	$64,595	$92,846	$0	Ohio	$4,635	$8,351	$0
Crawford	$6,410	$5,607	$803	Orange	$19,492	$18,145	$1,347
Daviess	$31,442	$74,360	$0	Owen	$14,413	$10,678	$3,736
Dearborn	$36,821	$77,933	$0	Park	$20,598	$37,914	$0
Decatur	$50,904	$57,025	$0	Perry	$17,301	$30,601	$0
DeKalb	$39,463	$160,936	$0	Pike	$11,429	$19,695	$0
Delaware	$136,707	$151,716	$0	Porter	$134,645	$585,329	$0
Dubois	$53,706	$160,295	$0	Posey	$42,049	$117,876	$0
Elkhart	$185,606	$188,196	$0	Pulaski	$25,778	$70,206	$0
Fayette	$29,861	$56,648	$0	Putnam	$41,900	$49,165	$0
Floyd	$72,938	$156,073	$0	Randolph	$36,599	$63,250	$0
Fountain	$36,339	$34,560	$1,779	Ripley	$38,642	$41,045	$0
Franklin	$21,674	$11,590	$10,084	Rush	$30,822	$77,352	$0

Fulton	$23,446	$44,202	$0	St. Joseph	$309,897	$425,147	$0
Gibson	$53,607	$126,386	$0	Scott	$17,850	$29,511	$0
Grant	$73,785	$90,477	$0	Shelby	$53,631	$148,174	$0
Greene	$38,976	$40,025	$0	Spencer	$18,893	$118,372	$0
Hamilton	$148,043	$508,898	$0	Starke	$20,267	$21,673	$0
Hancock	$56,975	$64,544	$0	Steuben	$28,422	$55,141	$0
Harrison	$27,077	$82,853	$0	Sullivan	$32,040	$72,969	$0
Hendricks	$82,195	$141,003	$0	Switzerland	$6,555	$2,796	$3,760
Henry	$37,847	$64,162	$0	Tippecanoe	$208,840	$436,897	$0
Howard	$77,641	$175,828	$0	Tipton	$38,465	$23,043	$15,422
Huntington	$46,138	$107,688	$0	Union	$11,225	$19,002	$0
Jackson	$44,099	$33,221	$10,878	Vanderburgh	$315,659	$410,592	$0
Jasper	$36,560	$83,319	$0	Vermillion	$21,811	$36,054	$0
Jay	$29,443	$73,449	$0	Vigo	$196,850	$223,470	$0
Jefferson	$22,267	$56,933	$0	Wabash	$49,337	$94,363	$0
Jennings	$13,933	$10,903	$3,030	Warren	$12,245	$87,984	$0
Johnson	$136,148	$189,531	$0	Warrick	$37,425	$104,656	$0
Knox	$68,032	$43,163	$24,869	Washington	$21,513	$34,448	$0
Kosciukso	$73,534	$254,142	$0	Wayne	$89,190	$106,527	$0
Lagrange	$22,451	$29,636	$0	Wells	$38,598	$74,476	$0
Lake	$432,776	$1,036,631	$0	White	$36,288	$62,246	$0
LaPorte	$119,949	$188,738	$0	Whitley	$39,364	$46,879	$0

Frost Brown Todd LLC
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Exhibit M
Commission on State Tax and Financing Policy
Meeting #2 Oct. 3, 2011

MEMORANDUM

To: Indiana State Bar Association (Inheritance Tax Working Group)

From: Jeffrey S. Dible

Date: February 16, 2009 ***updated September 30, 2011***

Re: Indiana Inheritance Tax *compared to* Other States' Transfer Tax Laws

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This memo could be adapted into an informational white paper and submitted to those Indiana legislators who decide to study the potential repeal of or reforms to Indiana's inheritance tax law.

Summary

(a) Of all the U. S. States that (like Indiana) impose an inheritance tax that is computed on a per-beneficiary basis, only Indiana does not completely exempt transfers to children, grandchildren, and other lineal descendants.

(b) Compared to other States' inheritance taxes, Indiana's inheritance tax provides lower exemption amounts and higher effective tax rates for transfers at death to non-relatives and non-lineal beneficiaries such as siblings, nieces and nephews.

(c) In the fiscal year ending June 30, 2010, the State of Indiana collected approximately $133,173,100 in inheritance tax receipts, compared to $185,661,300 for the 2008-2009 fiscal year and $165,518,100 for the 200-2008 fiscal year. By statute, 8 percent of those receipts are returned to the individual Indiana counties in which the decedents (whose estates paid the tax) resided at death.

(d) Compliance with the Indiana inheritance tax law (including the gathering of date-of-death asset values, filing applications for Consents to Transfer to allow the collecting or re-titling of assets, and preparing and filing the Indiana inheritance tax return) is the largest single source of delay and expense in the administration of an estate in Indiana. When a deceased person leaves most of his or her "taxable transfers" to children or other lineal descendants, it is common for the cost of preparing and filing the inheritance tax return to be 5 to 10 times the net tax due on the return.

(e) In early February 2009, attorney Jeffrey B. Kolb took an informal, unscientific survey of the approximately 1,200 participants in the electronic list serve of the ISBA's Probate, Trust and Real Property Section. Mr. Kolb asked members to report (based on their memories, and without record-checking) how many of their individual clients had changed their residences from Indiana to other States and the approximate value of their estates at the time they left Indiana. In less than 72 hours, 84 responses were received, indicating that more than 1,406 individuals with high net worths had left Indiana, taking with them gross estates with a total value of $3.448 billion.

(f) Wealthy individuals, including the owners of closely-held, successful businesses, can and do make decisions to move from one State to another for a variety of reasons, not all of them tax-related. But the comparatively high effective tax rates imposed under Indiana's inheritance tax law are arguably one factor that makes Indiana less competitive as a place to attract and keep business owners with medium-sized and large estates.

General Types of "Death Taxes" Imposed by States

Taxes imposed by U. S. States on the wealth of deceased people can be classified into two broad categories:

1. *Inheritance taxes* or *succession taxes* that are computed and imposed on the *transfer* of wealth from a deceased person to heirs or distributees, with the tax on each transferee's share computed separately, usually with separate exemptions and separate rate schedules applied to transferees in different classes of relationship to the deceased transferor; and

2. *Estate taxes* that are computed on the taxable value, *as a whole*, of reportable property passing at death, with the same rate(s), exemption(s) and deductions applying regardless of who receives the property or in what shares or proportions.

The second category can be further divided into *stand-alone estate taxes* that are computed under definitions, rates, and concepts that are founded solely on state law and *sponge taxes* or *pickup taxes* that borrow concepts or definitions from the federal estate and gift tax law. Some States, like Indiana, have both types of transfer taxes.

Estate tax laws ask the question, "What is the value of the property that this person owned when he or she died?" *Inheritance tax* laws ask that question and also add a second question: "And who receives how much of that property?"

Since the 1970s (if not longer ago), state sponge taxes or pickup taxes have been based on the "federal credit for state death taxes" that could be claimed on a federal estate tax return under 2011 of the Internal Revenue Code. The Code §2011 credit for state death taxes has long been computed under an IRS table, according to the "federal taxable estate" minus $60,000. For most decedents dying in most U.S. States, the §2011 credit for state death taxes, as computed under the table, exceeded the actual wealth transfer tax, *if any*, payable to the State in which the decedent resided. This fact allowed any U. S. State to benefit from a sort of revenue sharing, by diverting federal estate tax dollars that would otherwise flow to the federal Treasury. Each State needed only to impose some sort of state-level inheritance or estate tax that would "soak up" the full amount of the §2011 federal credit for state death taxes.

Most States, including Indiana, enacted simple *sponge taxes* or *pickup taxes* that essentially told each taxable estate, "(1) Calculate the federal credit for state death taxes under the §2011 IRS table, (2) subtract the actual amount of stand-alone inheritance tax that will be paid to this State, and (3) pay the difference to this State as the state estate tax." Each State's sponge tax law customarily apportioned the available §2011 federal credit among all the States in which the decedent owned property, so that the total collectible sponge tax would be spread proportionately among all of those States.

As part of the 2001 federal tax reform act[1], Congress phased out the §2011 federal credit for state death taxes, reducing the table amount by 25 percent for decedents dying in 2002, by 50 percent for decedents dying in 2003, and by 75 percent for decedents dying in 2004. For decedents dying in 2005 or later years, the §2011 federal credit is repealed and is replaced by a *deduction* (under Code §2058) for state death taxes paid.[2] The deduction is taken in the course of computing the federal estate tax base on which the federal estate tax is computed. The 2010 Tax Relief Act (Pub. L. 111-312, enacted December 17, 2010) extended the repeal of the federal credit for state taxes through December 31, 2012 and kept the Code §2058 deduction in place through December 31, 2012.

Starting in 2002, some States "decoupled" their sponge tax or pickup tax statutes from the changes to Code §2011, so that the tax revenues they could collect from the pre-2002 federal credit would not gradually decrease and then disappear in 2005. Indiana was one of 26 States that did *not* decouple their sponge or pickup tax statutes from the changes in the Code §2011 federal credit. As a result, all of those states have experienced a steep decline (essentially to zero, at present) in the revenues collected from their sponge or pickup taxes.

General Information on Indiana Death Taxes

Indiana has had a stand-alone inheritance tax since 1913, when it was the forty-second state to adopt an inheritance tax. Our inheritance tax is an excise tax on the *transfer* of wealth at death, and not an excise tax on the *total taxable value* of taxable wealth passing at death, because the amount of inheritance tax is computed separately on the property passing to each heir or distributee (transferee), where different exemptions and different tax rate schedules apply to transferees in each of three classes (A, B and C). The inheritance tax is currently codified in Article 4.1, Chapters 1 through 10 of Title 6 (I.C. §6-4.1-1-1 *et seq.*).

Indiana's inheritance tax is imposed on:

- All the reportable property transferred at death by an individual who dies as an Indiana resident, *except* real property and tangible personal property physically located outside Indiana, *and*
- All the real and tangible personal property that is physically located within Indiana and owned by a person who dies as a non-resident of Indiana.

---

[1] Economic Growth Tax Reform and Reconciliation Act of 2001 ("EGTTRA"), signed 6-07-01.

[2] All of the reforms enacted as part of EGTTRA will "sunset" and will be automatically repealed effective January 1, 2013, unless Congress acts to extend the reforms. This means that the old, full amount of the §2011 credit for state death taxes, as computed under the IRS table, could come back in 2013. Few commentators expect sunset and repeal of the estate tax reforms to occur.

The vast majority of other States' death transfer taxes also make this distinction and do not impose their death transfer taxes on *intangible* property owned by *non-resident* decedents or on out-of-state real property and tangible personal property owned by resident decedents.

Indiana's inheritance tax system allows an unlimited exemption or deduction for essentially all transfers passing at death to a surviving spouse or to bona fide 501(c)(3) charitable organizations. All other transferees who receive taxable property transfers are either in Class A (lineal ancestors, lineal descendants, and stepchildren of the decedent), Class B (siblings or descendants of the decedent's siblings, spouses of decedents' children), or Class C (all other persons who are not surviving spouses, charities, or Class A or Class B transferees). The available exemptions and tax rates are as follows for the three transferee Classes:

Transferee Class	**Class A**	**Class B**	**Class C**
Exemption per transferee	$ 100,000	$ 500	$ 100
Lowest inheritance tax rate after exemption is used up	1 %	7 %	10 %
Highest marginal inheritance tax rate	10 %	15 %	20 %

Indiana is the only U. S. State that imposes and collects a net inheritance tax (greater than zero dollars) on estate assets that pass to children, grandchildren, parents or grandparents (Class A transferees), where the overall value of the estate is too small to require the filing of a federal estate tax return or to produce a net *federal* estate tax due. For example, Kentucky has an inheritance tax with a structure similar to Indiana's, but the Kentucky inheritance tax rate is always zero on property passing at death to lineal ancestors and lineal descendants (parents, children, grandchildren, etc.).

Indiana's inheritance tax is not a "listed tax" administered solely by the Indiana Department of State Revenue and subject to Indiana Code 6-8.1. The administration and collection of the inheritance tax involves the probate courts, the County Assessors, and the Inheritance Tax Division of the Department.

Indiana's estate tax (sponge tax or pickup tax) is codified in Chapter 11 of Title 6, Article 4.1 (I.C. §6-4.1-11-1 *et seq.*), and was originally enacted in 1931. Because Indiana has not decoupled its definition of the "federal state death tax credit" from the post-2002 changes in Code §2011, Indiana's estate tax was effectively phased out for decedents dying in 2002-2004 and has been effectively repealed for decedents dying after 2004.

Other States' Death Taxes as of September 2010

Other States' death tax regimes can be separated into three categories:

- States that have a stand-alone estate tax or inheritance tax not dependent on federal definitions or concepts;

- States that have a sponge tax or pickup tax that was originally designed to "soak up" the maximum amount from the old federal credit for state death taxes under Code §2011, but in which the sponge tax due has been effectively zero for persons dying after 2004, because the State law has not been "decoupled" from the post-2002 changes to Code §2011; and
- States that have "decoupled" their sponge tax or pickup tax laws from the changes to Code §2011, by specifying that the tax must be computed from the pre-2002 IRS table under §2011.

In the table below, those states that have *both* a stand-alone inheritance or estate tax *and* a sponge tax appear in more than one column.

Stand-Alone Estate or Inheritance Tax	**Sponge Tax Decoupled from Changes to Federal §2011**	**Sponge Tax Not Decoupled *or* Effectively Repealed**
Connecticut, *Indiana*, Iowa, Kentucky, Nebraska,[3] Ohio, Pennsylvania, Tennessee, Washington	District of Columbia, Illinois, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, North Carolina, Oklahoma, Vermont, Virginia	Alabama, Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Georgia, Hawaii, Idaho, *Indiana*, Louisiana, Mississippi, Missouri, Montana, Nevada, New Hampshire, New Mexico, North Dakota, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah, West Virginia, Wyoming

Most of the States that have "decoupled" their sponge tax laws (middle column) impose a filing threshold of $1 million or $2 million, so that an estate whose total in-state assets do not exceed that level will not owe any estate tax to that State and need not file a state return.

In general, a State with a decoupled sponge tax or a stand-alone estate tax (*e.g.*, New York, Connecticut, Illinois, Ohio) will collect more tax from a large estate exceeding $1 or $2 million than the tax that would be collected from a stand-alone inheritance tax by a State like Indiana. But a State with a stand-alone inheritance tax will collect more tax from smaller and medium-sized estates — estates that would generally be exempt from filing a return or owing tax in a State that has a decoupled sponge tax or stand-alone estate tax.

[3] County-level inheritance tax only in Nebraska. Nebraska's sponge tax was repealed effective January 1, 2007.

Comparing Indiana's Inheritance Tax to Neighboring States' Regimes

Michigan has no state death tax other than its sponge tax, which is not decoupled and therefore generates no net tax due. Illinois has a decoupled "estate tax" that is administered by the office of the Illinois Attorney General, and which imposes a net tax due on estates worth $2 million or more.

Kentucky has a stand-alone inheritance tax law that treats surviving spouses, parents, adult or minor children or grandchildren (biological or adopted), and whole or half siblings as Class A beneficiaries completely exempt from the Kentucky tax. Transfers to Class B beneficiaries (nieces or nephews by blood, stepchildren, aunts, uncles, sons-in-law and daughters-in-law) have a $1,000 exemption and are taxed at rates beginning at 4 percent. Transfers to Class C beneficiaries (all persons who are not Class A or Class B) have a $500 exemption and are taxed at rates beginning at 6 percent. The maximum rate is 16 percent.

Ohio repealed its sponge tax ("additional estate tax") for post-2005 decedents.

Ohio's stand-alone estate tax currently applies to each "net taxable estate" with a value of $338,333 or more. According to some sources, about 7 percent of Ohio decedents' estates owe some Ohio estate tax, and in recent years the tax has collected about $310 million per year, with about $250 million of that total ultimately passing to local governmental units. An unlimited marital deduction, an unlimited charitable deduction, and deductions for administration expenses are claimable to reduce the "net taxable estate," which is subject to tax at 6 percent (on the excess over $338,333 but not exceeding $500,000), and at a rate of 7 percent on the excess over $500,000. The net tax due is the computed tax minus a credit of $13,900.

On June 30, 2011, Ohio Governor John Kasich signed into law a massive budget bill (House Bill 153) that repealed the Ohio estate tax, effective January 1, 2013, without a phase-out.

The Indiana inheritance tax, the Illinois estate tax, the Ohio estate tax, and the Kentucky inheritance tax have been computed below for *each* of four hypothetical estates (*W*, *X*, *Y*, and *Z*) whose total asset values and beneficiaries are stated on the next page. The following assumptions are made:

- For each of these four estates, deductions for administration expenses, funeral and burial expenses, and debts are assumed to be zero.
- When each State's tax is computed, the hypothetical decedent is assumed to have died as a resident of that State.
- The hypothetical decedent made no gifts during lifetime that would be pertinent to the state death tax computation in any of the four States.
- All reportable or taxable assets are assumed to be located within the State in which the hypothetical decedent resided at the time of death.
- The computed tax amounts do not take into account any discount available for "early" payment of the tax, such as Indiana's 5-percent discount for inheritance tax paid within nine months after the date of death.

The results of the sample computations are shown on the next page. All four of the hypothetical estates would be required to file an Indiana inheritance tax return, but if each hypothetical decedent died in 2009, only Estate W would be required to file a federal estate tax return.

In general, Indiana's inheritance tax system imposes higher effective rates on transfers to children (Class A transferees), more distant relatives (Class B), and non-relatives (Class C) than any other State that imposes an inheritance tax computed on a per-beneficiary basis according to transferee class. This can be seen by comparing the Indiana and Kentucky computations for Estates *X*, *Y*, and *Z*.

When children, grandchildren, or other Class A transferees are the major beneficiaries of an Indiana estate where there is no surviving spouse, unless the estate is larger than several hundred thousand dollars, the expense of preparing and filing the Indiana inheritance tax return will usually exceed the total net inheritance tax due on the return.

Hypothetical Estate	**Indiana Inheritance Tax**	**Kentucky Inheritance Tax**	**Illinois Estate Tax**	**Ohio Estate Tax**
Estate W: • $4 million gross estate • no surviving spouse • 4 children receive $500,000 each	total tax $ 50,000 (tax is $12,500 on each child's share)	total tax $ 0 (transfers to surviving spouse & children are totally exempt)	total tax $ 253,986	total tax $ 254,700
Estate X: • $3 million gross estate • surviving spouse receives $2 million • 4 children receive $250,000 each	total tax $ 15,000 (tax is $3,750 on each child's share)	total tax $ 0 (transfers to surviving spouse & children are totally exempt)	total tax $ 0	total tax $ 44,700
Estate Y: • $750,000 gross estate • no surviving spouse • 5 children receive $150,000 each	total tax $3,750 (tax is $750 on each child's share)	total tax $ 0 (transfers to surviving spouse & children are totally exempt)	total tax $ 0	total tax $ 27,200
Estate Z: • $300,000 gross estate • 2 siblings receive $100,000 each • 2 nephews (by blood) receive $25,000 each • 2 nieces by marriage receive $25,000 each	total tax $ 22,430 siblings: $6,965 ea nephews: $1,715 ea nieces: $2,490 ea	total tax $ 6,060 nephews: $1,160 each nieces: $1,870 each siblings: $0 tax each	total tax $ 0	total tax $ 0 (estate is less than $338,333 filing threshold in Ohio)

Indiana inheritance tax collections, by July-to-June fiscal year (from Indiana Department of Revenue annual report for the fiscal year ending June 30, 2010, p. 18):

July 2009 – June 2010:......................$ 133,171,100
2008 – 2009..185,661,300
2007 – 2008..165,518,700
2006 – 2007..150,322,200

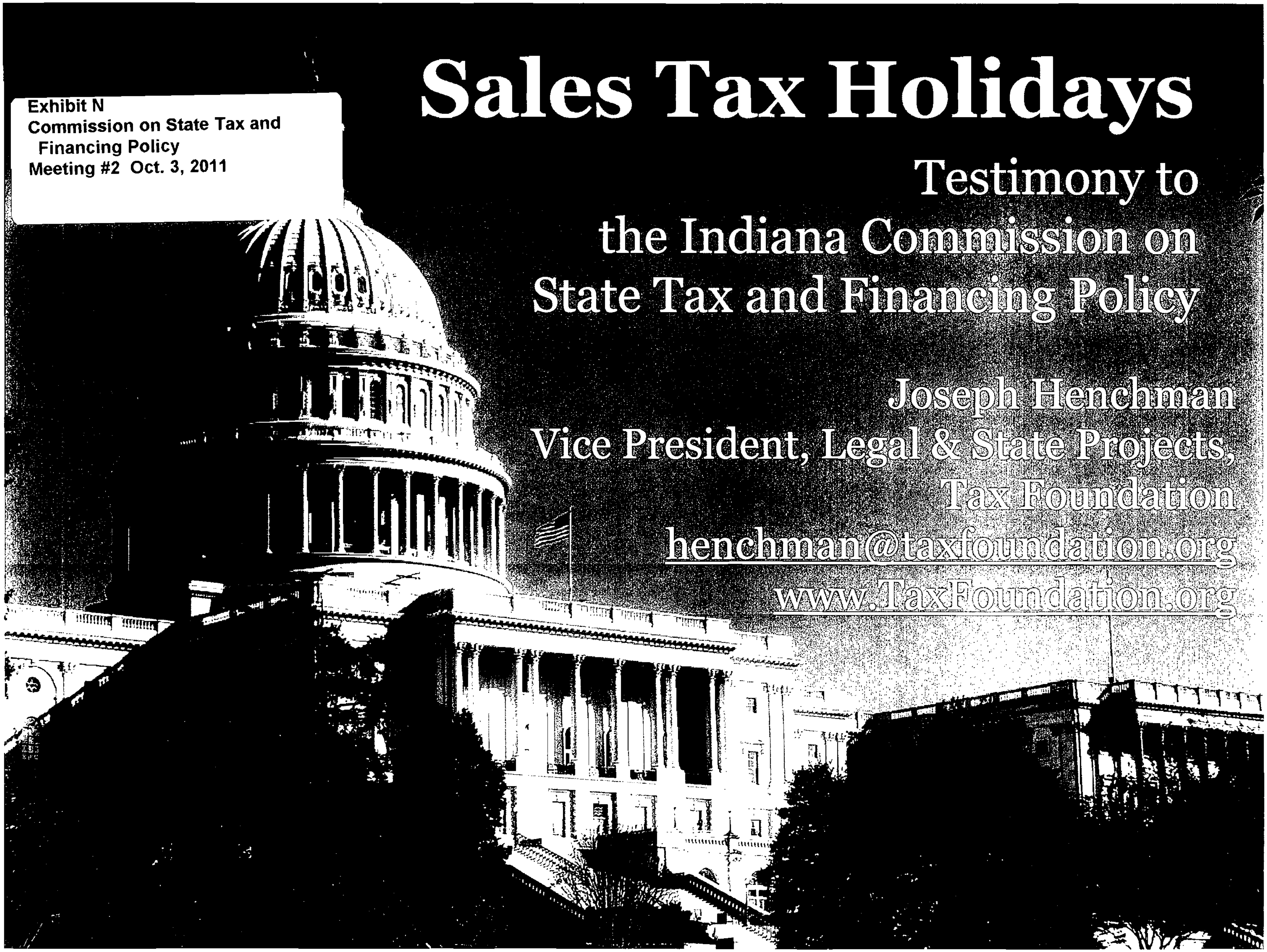
Full IDOR report for FYE 06-30-2010: http://www.in.gov/dor/reference/files/report10.pdf

---

Federal estate tax returns filed during *calendar* year 2009 (for estates of decedents dying in 2008 and very early in 2009), from IRS statistics
http://www.irs.gov/taxstats/indtaxstats/article/0,,id=210648,00.html

	Indiana	**United States Total**
Total number of Form 706 returns filed	316	33,515
Total number of returns showing net tax due	126	14,713
Total gross estate on all returns filed	$ 1,699,703,000	$ 194,574,699,000
Total deductions allowed on returns	733,311,000	90,497,430,000
Deductions claimed for state death taxes	63,995,000	2,949,148,000
Total net estate tax due on all taxable returns	196,117,000	20,643,664,000
Number of taxable returns with gross estate $\geq$ \$5 million	not available	4,296
Total gross estate for all taxable returns with gross estate $\geq$ \$5 million	not available	70,658,639
Total net estate tax due on all taxable returns with gross estate $\geq$ \$5 million	not available	16,906,612,000

Exhibit N
Commission on State Tax and
Financing Policy
Meeting #2 Oct. 3, 2011



Principles of Sound Tax Policy

Simplicity

Neutrality

Transparency

Stability

Since 1937
TAX FOUNDATION

TAX FOUNDATION

SPECIAL REPORT

July 2011
No. 193

Sales Tax Holidays: Politically Expedient but Poor Tax Policy

Mark Robyn
Staff Economist

[illegible]
Adjunct Scholar

Joseph Henchman
Vice President of Legal & State Projects

Executive Summary

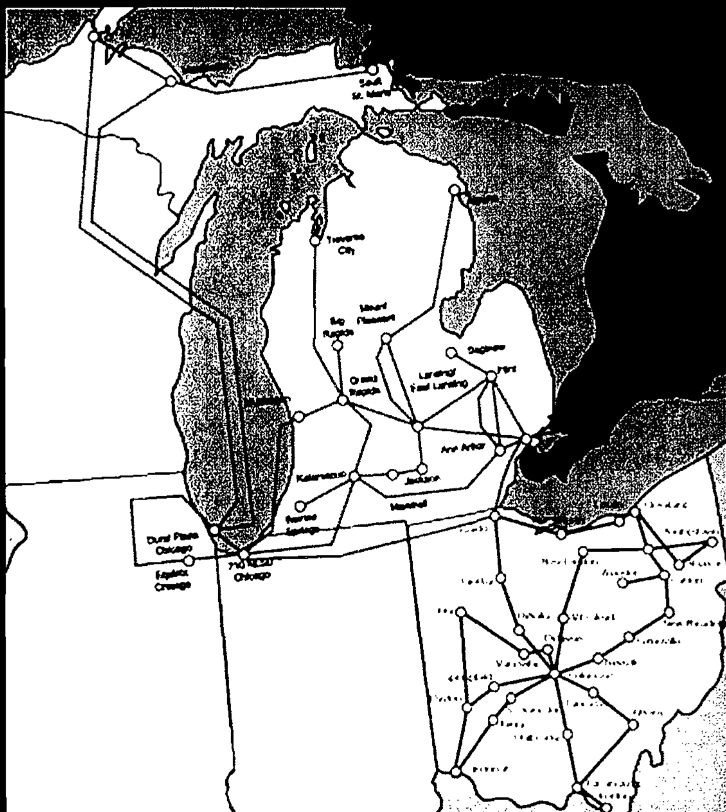
Sales tax holidays are periods of time when selected goods are exempted from state (and sometimes local) sales taxes. Such holidays have become an annual event in many states, with exemptions for such targeted products as back-to-school supplies, clothing, computers, hurricane preparedness supplies, products bearing the U.S. government's Energy Star label, and even guns. High-tax New York State sparked the trend in 1997 as a way to discourage border shopping. In 2011, 17 states will conduct sales tax holidays, down from a peak of 19 states in 2010 (see Table 1).

At first glance, sales tax holidays seem like great policy. They enjoy broad political support, with backers arguing that holidays are a highly visible form of tax cut and provide benefits to low-income consumers. Politicians and other supporters routinely claim that sales tax holidays improve sales for retailers, create jobs, and promote economic growth.

Key Findings

- *17 states will hold a sales tax holiday in 2011, down from a peak of 19 states in 2010.*
- *Sales tax holidays do not promote economic growth or significantly increase consumer purchases; the evidence shows that they simply shift the timing of purchases. Some retailers raise prices during the holiday, reducing consumer savings.*
- *Sales tax holidays create complexities for tax code compliance, efficient labor allocation, and inventory management. However, free advertising for what is effectively a paltry 4 to 7 percent sale leads many larger businesses to lobby for the holidays.*
- *Most sales tax holidays involve politicians picking products and industries to favor with exemptions, arbitrarily discriminating between products and across time, and distorting consumer decisions.*
- *While sales taxes are somewhat regressive, this is often exaggerated to sell the idea that sales tax holidays are an effective way of providing relief to the poor. To give a small amount of tax savings to low-income individuals, holidays give a large amount to others.*
- *Political gimmicks like sales tax holidays distract policymakers and taxpayers from genuine, permanent tax relief. If a state must offer a "holiday" from its tax system, it is a sign that the state's tax system is uncompetitive. If policymakers want to save money for consumers, then they should cut the sales tax rate year-round.*

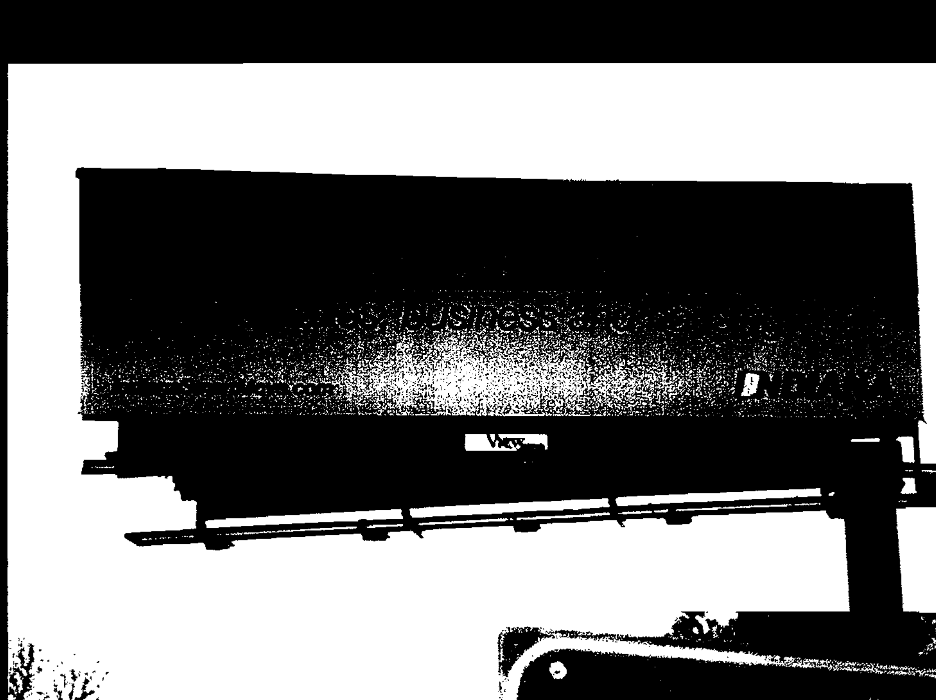
http://www.taxfoundation.org/news/show/26533.html



Michigan & Ohio
1980: Automobiles

New York, 1997: Clothing

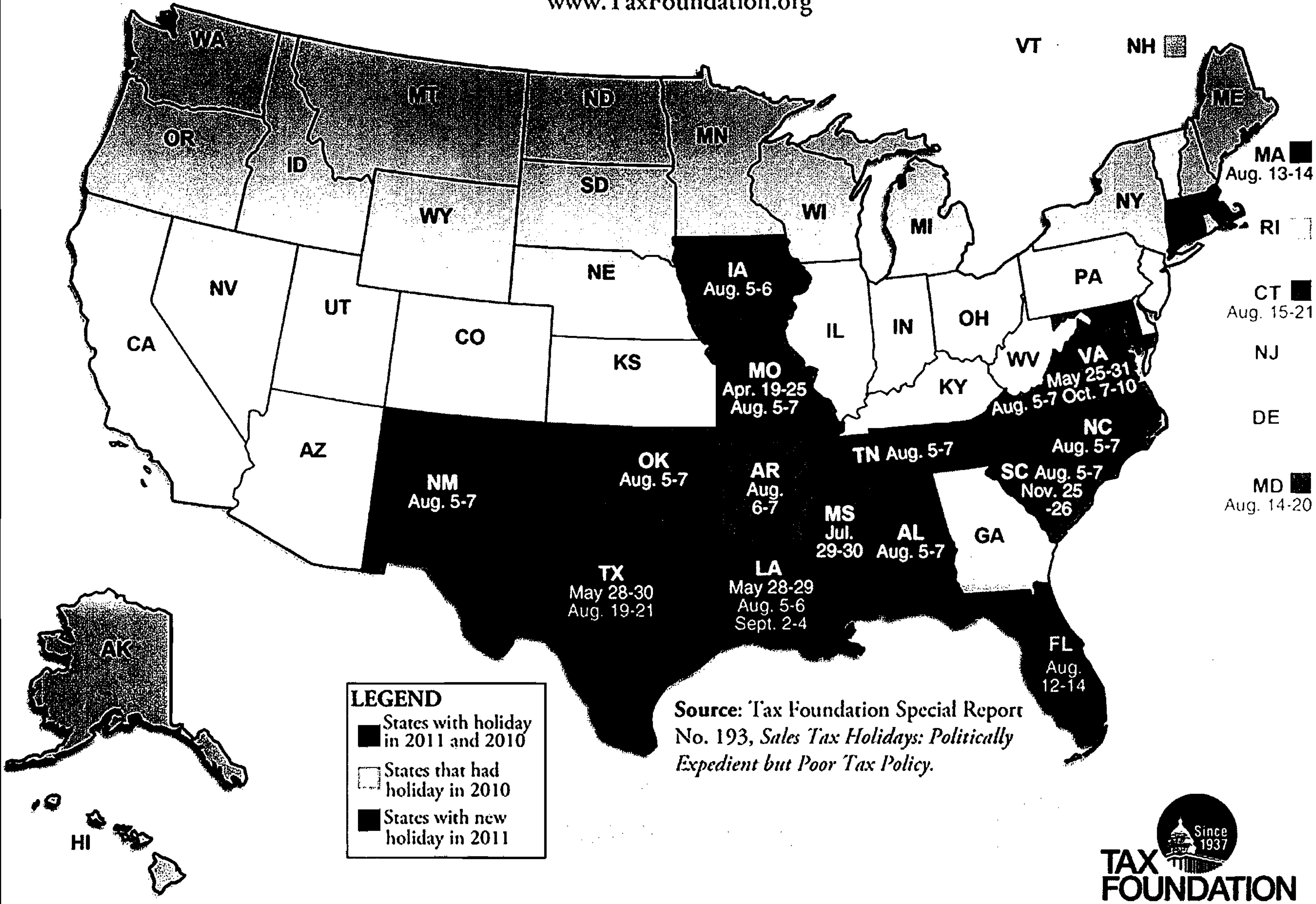
Real Motivation: Border Shopping



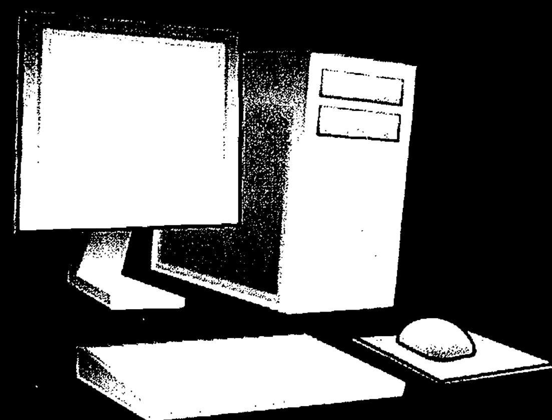
Sales Tax Holidays

occuring in 2011

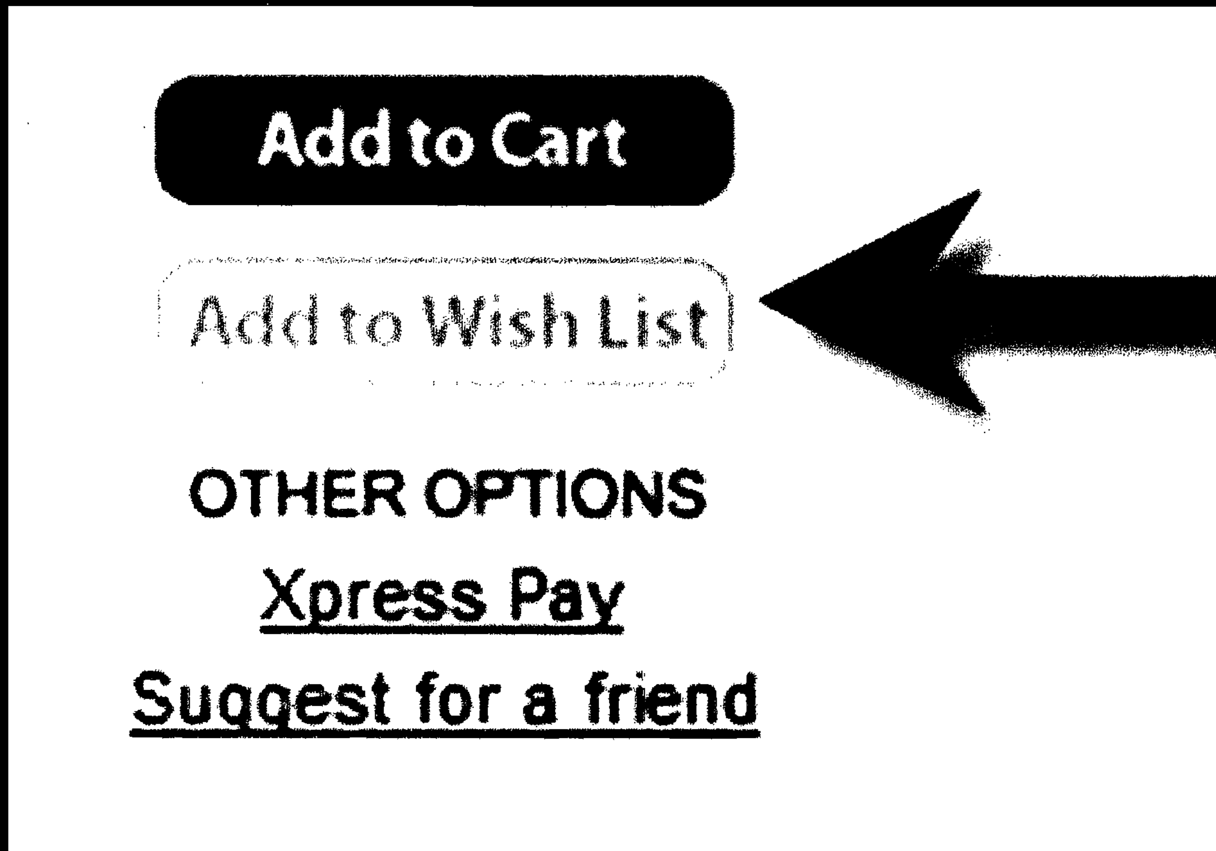
www.TaxFoundation.org



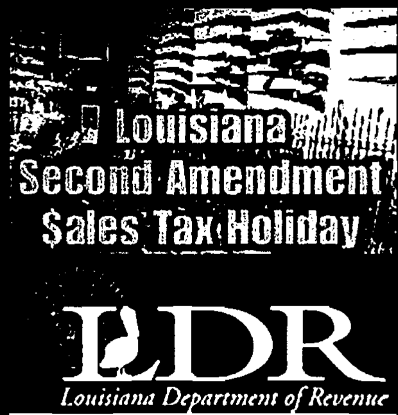
Narrow Categories: Confusing, Complex, Arbitrary

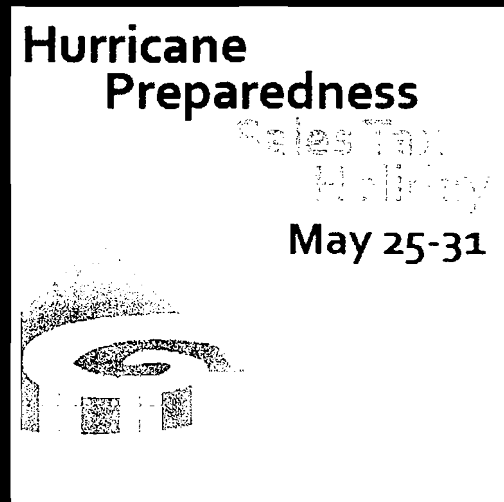


No Growth in Sales; Instead Shifted in Time

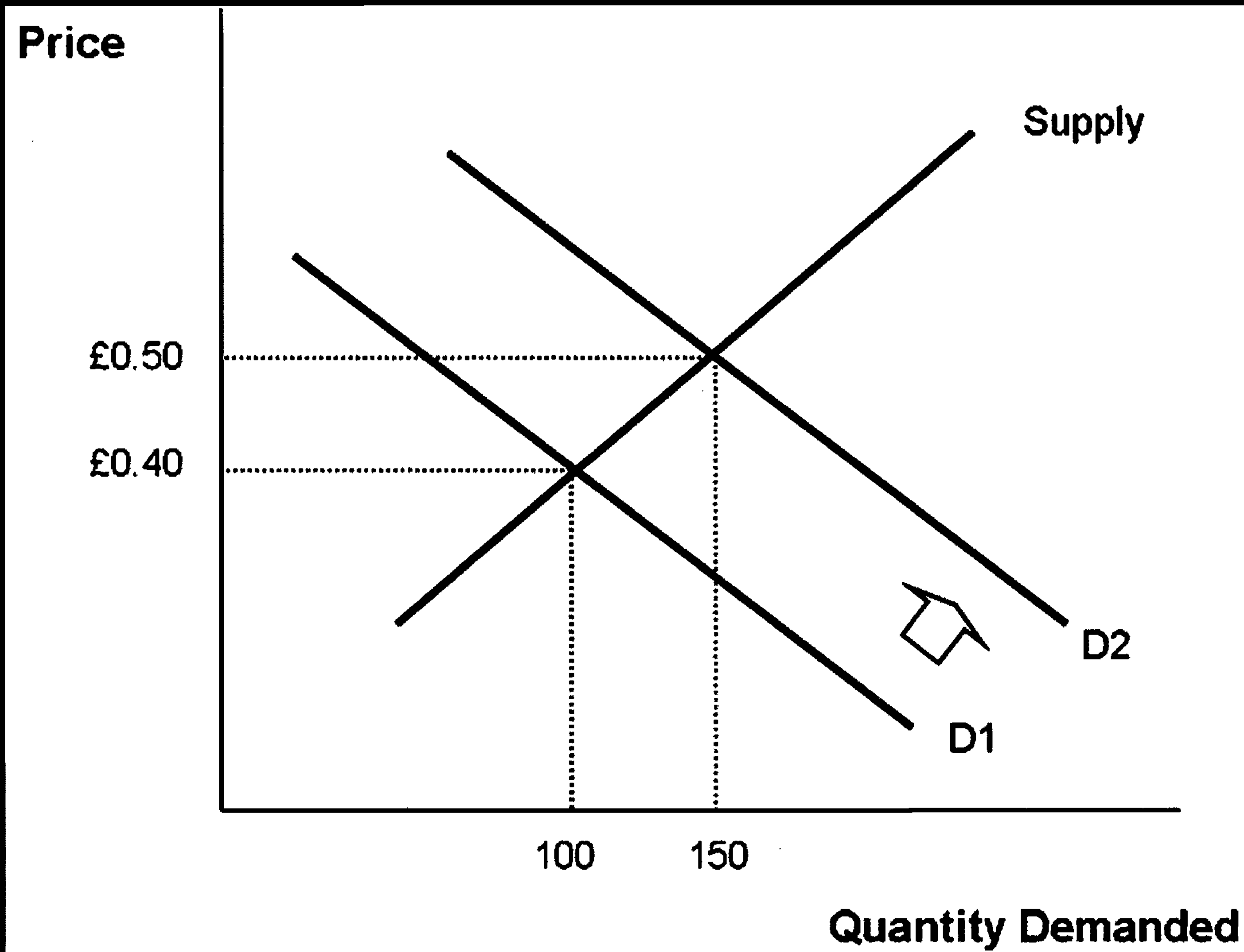


Free Advertising for a Paltry Sale

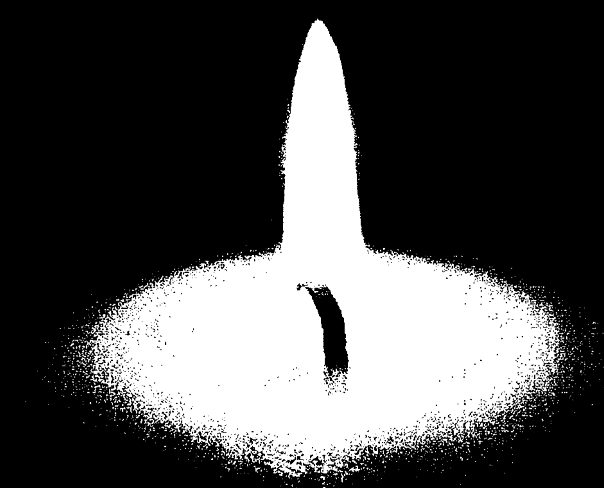




When Demand Spikes During Tax Holidays, Prices Go Up and Reduce Consumer Savings



Complex Rules Required



Discrimination Across Products and Across Time Violate Principles of Good Tax Policy

Real Tax Reform is Broad-Based and Year-Round

TAX FOUNDATION Since 1937

Sales Tax Holidays

- Held in 16 states in 2011, down from peak of 19 states in 2010
- Do not promote economic growth or increase purchases, but rather shift timing
- Create complexities for tax code compliance, efficient labor allocation, and inventory management
- Free government advertising for what is effectively a 4-7% off sale
- Involves policymakers picking products and services to favor with exemptions, arbitrarily discriminating between products and across time, and distorting consumer decisions
- Not effective way to provide tax relief to the poor
- Distraction from real tax reform, which should be year-round

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Exhibit O
Commission on State Tax and Financing Policy
Meeting #2 Oct. 3, 2011

Memorandum

To: Members, State Tax and Financing Policy Commission

From: Grant Monahan, President, Indiana Retail Council

Date: October 3, 2011

Re: A Sales Tax Holiday for the People of Indiana

Sales Tax Holidays have spurred consumer spending, created jobs and increased revenues in states across the country. Hoosiers deserve the same benefits.

In 2011 the shoppers in 20 states enjoyed some form of sales tax holiday. These ranged from 1 to 10 days, with varying items and price thresholds. What didn't vary was the consumer and excitement these sales tax holidays generated or the **direct tax relief** they provided -- especially targeted to benefit those from whom the sales tax takes the highest percentage of their disposable income.

Shoppers like these holidays – they vote early and often with their shopping dollars. Retailers overwhelmingly embrace these holidays as well because they produce solid sales gains – even among items that remain subject to tax. The result: Increased sales and economic activity.

State policies that boost retail benefit state revenues and help create jobs for the people of Indiana: Retail directly and indirectly supports **1 in 4 Indiana jobs** and is responsible directly and indirectly for **17% of Indiana's GDP**. Retail generates directly and indirectly 17% of labor income in Indiana and supports **856,530 Hoosier jobs.**

Many legislative leaders and retailers were convinced that legislative fiscal notes historically misstated the impact of these holidays because they were based on a formulaic calculation of tax rate multiplied by historical sales. They ignored the overall impact to the economy that results from the increased economic activity.

A recent study by an independent economic group confirmed their conviction. The study, by The Washington Economics Group in 2010, confirmed that Florida experienced an **increase in sales of $115 million** as a result of the holiday, producing **an additional $7 million in state revenues,** as well as additional revenues to local governments.

Sales Tax Holidays are a win-win-win – they create real benefits for the state, consumers and retailers alike. That's why Indiana retailers are working hard through the Indiana Retail Council to bring this exciting benefit to their customers. We ask for your support and look forward to working with you.

Grant Thornton

2010 / 2011 Sales Tax Holidays

Jurisdiction	Note #	Type	Threshold	2010 # Days	2010 Begin	2010 End	2011 # Days	2011 Begin	2011 End
Alabama **(local tax may apply)**	1	Clothing/School	$ 100.00	3	8/6/10	8/8/10	3	8/5/11	8/7/11
Arkansas	12	Clothing	$ 99.99		N/A		2	8/6/11	8/7/11
Arkansas	12	Accessories	$ 49.99		N/A		2	8/6/11	8/7/11
Connecticut	3	Clothing/School	$ 299.99	7	8/15/10	8/21/10	7	8/21/11	8/27/11
Florida		Clothing/School	$ 50.00	3	8/13/10	8/15/10		See below	
Florida		Clothing/School	$ 75.00				3	8/12/11	8/14/11
Illinois **(local tax applies)**		Clothing/School	$ 99.99	10	8/6/10	8/15/10		Will not occur in 2011	
Iowa	2	Clothing/School	$ 99.99	2	8/6/10	8/7/10	2	8/5/11	8/6/11
Louisiana **(local tax applies)**	2	Everything	$ 2,500.00	2	8/6/10	8/7/10	2	8/5/11	8/6/11
Maryland	11	Clothing/School	$ 100.00	7	8/8/10	8/14/10	7	8/14/11	8/20/11
Massachusetts		Everything	$2,500.00	2	8/14/10	8/15/10	2	8/13/11	8/14/11
Mississippi	10	Clothing/School	$ 99.99	2	7/30/10	7/31/10	2	7/29/11	7/30/11
Missouri **(local tax may apply)**	1	Clothing/School	$ 100.00	3	8/6/10	8/8/10	3	8/5/11	8/7/11
New Mexico	1	Clothing/School	$ 99.99	3	8/6/10	8/8/10	3	8/5/11	8/7/11
North Carolina	1	Clothing/School	$ 100.00	3	8/6/10	8/8/10	3	8/5/11	8/7/11
Oklahoma	1	Clothing/School	$ 99.99	3	8/6/10	8/8/10	3	8/5/11	8/7/11
Puerto Rico	9	Clothing/School	$ 75.00	3	7/15/10	7/17/10	3	7/15/11	7/17/11
South Carolina	1	Clothing/School	No Limit	3	8/6/10	8/8/10	3	8/5/11	8/7/11
Tennessee	1	Clothing/School	$ 100.00	3	8/6/10	8/8/10	3	8/5/11	8/7/11
Texas	7	Clothing/School	$ 99.99	3	8/20/10	8/22/10	3	8/19/11	8/21/11
Vermont - One Time		Everything	$ 2,000.00	1	3/6/10	3/6/10		Requires Legislation	
Virginia	1	Clothing/School	$ 100.00	3	8/6/10	8/8/10	3	8/5/11	8/7/11

Notes:

1 Annually recurring – 1st Friday in August through following Sunday in August
2 Annually recurring – 1st Friday in August through the following Saturday in August
3 Annually recurring – 3rd Sunday in August through the following Saturday
7 Annually recurring – 3rd Friday in August through following Sunday in August
9 Annually recurring – July 15-17 or by dates from Secretary of Treasury Circular Letter issued by June 1st.
10 Annually recurring – Last Friday in July through the following Saturday.
11 Eff 2010: Annually recurring – 2nd Sunday in August through the following Saturday
12 Annually recurring - 1st weekend in August

Printed 8/1/11

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Exhibit P
Commission on State Tax and
Financing Policy
Meeting #2 Oct. 3, 2011

BACK TO SCHOOL SALES TAX HOLIDAYS

THE FLORIDA EXPERIENCE

October 3, 2011
Indianapolis, Indiana

BACK TO SCHOOL SALES TAX HOLIDAY
THE FLORIDA EXPERIENCE

- *BACKGROUND*
  - HISTORY OF THE BACK TO SCHOOL TAX HOLIDAY
    - IN EFFECT FROM 1998-2001 AND 2004-2007
    - SUSPENDED IN 2008 AND 2009
    - BACK FOR 2010 AND 2011
  - EXEMPTS APPAREL, SHOES, BAGS AND BOOKS COSTING $50 OR LESS PER ITEM AND SCHOOL SUPPLIES OF $10 OR LESS PER ITEM

BACK TO SCHOOL SALES TAX HOLIDAY THE FLORIDA EXPERIENCE

- *IMPETUS*
  - ENORMOUSLY POPULAR AMONG CONSUMERS AND RETAILERS
  - TAX RELIEF FOR FAMILIES
  - DIRECT, INEXPENSIVE AND VERY EFFICIENT ECONOMIC STIMULUS

BACK TO SCHOOL SALES TAX HOLIDAY THE FLORIDA EXPERIENCE

- *CONCERNS*
  - REDUCED SALES TAX COLLECTIONS
  - CONSUMERS SHIFT PURCHASES
  - FAVORS FAMILIES WITH CHILDREN OVER OTHER TAXPAYERS
  - POLITICAL “GIMMICK” NOT TRUE TAX “REFORM”

BACK TO SCHOOL SALES TAX HOLIDAY
THE FLORIDA EXPERIENCE

- *EVIDENCE IS SCANT*
  - A RELATIVELY RECENT DEVELOPMENT
  - NOT THE FOCUS OF ECONOMIC RESEARCH
  - TYPICALLY TOOLS TO ASSESS FISCAL IMPACTS ASSUME STATIC CONSUMER AND RETAILER BEHAVIOR WITH NO SPILLOVER EFFECTS

BACK TO SCHOOL SALES TAX HOLIDAY
THE FLORIDA EXPERIENCE

- *WHAT WE KNEW PRIOR TO THE WEG STUDY*
  - A LOWER LOCAL SALES TAX, RELATIVE TO SURROUNDING COMMUNITIES RESULTS IN INCREASED ECONOMIC SPENDING

BACK TO SCHOOL SALES TAX HOLIDAY THE FLORIDA EXPERIENCE

- *WHAT WE KNEW PRIOR TO THE WEG STUDY*
  - THE BENEFITS ARE SHARED DUE TO THE COMPETITIVE NATURE OF RETAILING
    - 80 PERCENT OF TAX RELIEF REMAINS WITH SHOPPERS
    - 20 PERCENT IS SHARED WITH MERCHANTS

BACK TO SCHOOL SALES TAX HOLIDAY THE FLORIDA EXPERIENCE

- *WHAT WE KNEW PRIOR TO THE WEG STUDY*
  - THE REDUCTION IN PRICE ELICITS GREATER AMOUNT OF GOODS PURCHASED—EXEMPT AND NON EXEMPT

BACK TO SCHOOL SALES TAX HOLIDAY
THE FLORIDA EXPERIENCE

- *WHAT WE KNEW PRIOR TO THE WEG STUDY*
  - SALES TAX HOLIDAYS INCREASE STORE TRAFFIC
  - MOST SHOPPERS VIEW THE HOLIDAY AS AN INCENTIVE TO GO SHOPPING

BACK TO SCHOOL SALES TAX HOLIDAY
THE FLORIDA EXPERIENCE

- *WHAT WE KNEW PRIOR TO THE WEG STUDY*
  - CONSUMERS RESPONSE GOES BEYOND WHAT COULD BE EXPECTED BY PRICE DISCOUNTS ALONE—MUCH LIKE "BLACK FRIDAY"
  - ECONOMISTS CALL THIS PHENOMENON "THE BANDWAGON EFFECT"

BACK TO SCHOOL SALES TAX HOLIDAY THE FLORIDA EXPERIENCE

- *WHAT WE KNEW PRIOR TO THE WEG STUDY*
  - RETAILERS OFTEN RESPOND TO THE HOLIDAY BY ADDING ADDITIONAL DISCOUNTS AND DISCOUNTING NON-EXEMPT MERCHANDISE TO TAKE ADVANTAGE OF INCREASED TRAFFIC.

BACK TO SCHOOL SALES TAX HOLIDAY THE FLORIDA EXPERIENCE

- *WHAT WE DID NOT KNOW PRIOR TO THE WEG STUDY*
  - ECONOMIC IMPACTS ON RETAILING SECTOR
  - ECONOMY-WIDE IMPACT OF THE HOLIDAY
  - TRUE FISCAL IMPACT INCLUDING IMPACTS BEYOND RETAILING
  - TIME SHIFTING EFFECTS

BACK TO SCHOOL SALES TAX HOLIDAY
THE FLORIDA EXPERIENCE

- *WHAT DID THE WEG STUDY FIND— SHORT TERM IMPACTS ON RETAILING*
  – INCREASED SALES IN STORES SELLING TAX EXEMPT MERCHANDISE BY $390 MILLION FOR THE MONTH OF THE HOLIDAY
  – INCREASES IN PAYROLL FOR ADDITIONAL WORKERS AND OVERTIME

BACK TO SCHOOL TAX HOLIDAY THE FLORIDA EXPERIENCE

- *WHAT DID THE WEG STUDY FIND SHORT-TIME RETAILING IMPACTS*
  - INCREASES IN OVERALL RETAIL TAX COLLECTIONS—ABOUT $30 MILLION FOR THE MONTH OF THE HOLIDAY
  - THIS INCREASE IS IN CONTRAST TO A $44 MILLION LOSS FORECASTED BY LEGISLATIVE STAFF
  - NO MEANINGFUL TIME SHIFTING EFFECTS

BACK TO SCHOOL SALES TAX HOLIDAY THE FLORIDA EXPERIENCE

- *WHAT DID THE WEG STUDY FIND*
  - STORE TRAFFIC INCREASED BY 37 PERCENT AS MEASURED BY TRANSACTION COUNT
  - SALES OF NONEXEMPT MERCHANDISE INCREASED BY 12.5 PERCENT
  - OVERALL MERCHANDISE SALES INCREASED BY 12.4 PERCENT

BACK TO SCHOOL SALES TAX HOLIDAY
THE FLORIDA EXPERIENCE

- WHAT DID THE WEG STUDY FIND ECONOMY-WIDE EFFECTS
  - DIRECT: *RELATED TO RETAILING AND TRANSPORT OF MERCHANDISE*
  - INDIRECT: *RELATED TO PRODUCTION OF INPUTS TO PRODUCE AND TRANSPORT MERCHANDISE*
  - INDUCED: *SECOND GENERATION EFFECTS OF SPENDING OF WAGES BY PERSONS EMPLOYED IN DIRECT AND INDIRECT ACTIVITIES*

BACK TO SCHOOL SALES TAX HOLIDAY
THE FLORIDA EXPERIENCE

- *A PREDICTIVE STUDY BASED ON 2009 DATA ESTIMATED THE FOLLOWING ECONOMY-WIDE EFFECTS**
  - LABOR INCOME INCREASES $628 MILLION
  - STATE GDP INCREASES $970 MILLION
  - FEDERAL TAXES INCREASE $169 MILLION
  - STATE/LOCAL TAXES INCREASE $118 MILLION

**Short, medium and long term*

weg The Washington Economics Group, Inc

QUESTIONS?

Horacio Soberon-Ferrer, PhD

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THANK YOU!

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Exhibit Q
Commission on State Tax and
Financing Policy
Meeting #2 Oct. 3, 2011

THE 2010 BACK TO SCHOOL SALES TAX HOLIDAY ECONOMIC IMPACT ANALYSIS

Submitted to:

The Florida Retail Foundation

Submitted By:

The Washington Economics Group, Inc.

February 10, 2011

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List of Tables

I. Executive Summary

- This analysis compares the 2010 sales tax holiday with the findings of The Washington Economics Group's (WEG) 2009 study on the expected impact on Florida state revenues from a 10-day sales tax holiday.

- After a two-year hiatus, a limited sales tax holiday was authorized by the Florida Legislature in 2010. Unlike previous similar sales tax holidays, which spanned for nine-to-ten days and included two weekends, the 2010 sales tax holiday was limited to a single three-day period covering one weekend in August 2010.

- This study analyzes presently-available data which shows that the 2010 three-day sales tax holiday that ran from August 13 through August 15, 2010 resulted in an increase of tax revenues to the state of $7 million based on increased sales of taxable items of $115 million. These increased tax revenues reflect only the immediate effects of the sales tax holiday. As these additional consumer expenditures work their way through the economy, additional positive effects are expected. These results are in contrast with state estimates that the tax holiday would have cost the state between $24 and $44 million in lost tax revenue.

- The results of this study are in keeping with the 2009 WEG study which concluded that a sales tax holiday would result in increased sales tax revenue to the state.

- This analysis also quantifies the impact of the sales tax holiday on gross and taxable sales. To this end, it compares sales figures collected by the Florida Department of Revenue for the year 2009 when there was not a holiday, and the year 2010 when the sales tax holiday took place. In particular, this analysis studied sales figures for the months of May, June, July and August of 2009 and 2010. In addition, this summary also presents evidence collected from a representative sample of major retailers in Florida. The following is a list of the findings:

    - Both total gross and total taxable sales increased on a month-to-month basis between August 2009 and August 2010. (Table ES-1.)

Table ES-1. Change in Sales – All Goods August 2009 and August 2010 ($ Million)

All Goods	August 2009	August 2010	Change	Percent Change
Gross	$59,453	$61,731	$2,278	+3.83%
Taxable	$22,078	$22,222	$144	+0.70%

Source: The Washington Economics Group (WEG) with Florida Department of Revenue data.

- In particular, gross and taxable sales of goods directly or partially impacted by the sales tax holiday, such as apparel, shoes and other consumer goods showed more significant increases. (Table ES-2.)

Table ES-2. Change in Sales – Only Categories of Goods Impacted Tax Holiday August 2009 and August 2010 ($ Million)

All Goods	*August 2009*	*August 2010*	*Change*	*Percent Change*
Gross	$16,764	$17,154	$390	+2.30%
Taxable	$6,722	$6,837	$115	+1.70%

Source: The Washington Economics Group (WEG) with Florida Department of Revenue data.

- Eighty (80) percent of the growth in total taxable sales was related to items directly or partially impacted by the sales tax holiday. **It is significant that the holiday was restricted to a single weekend; otherwise the impact would have been larger.**

- Contrary to conventional wisdom, a tax holiday resulted in higher tax collections. Taxable sales of items related to the 2010 tax holiday grew by $115 million.

- Overall, total sales, during the month of August of 2010, for goods impacted by the tax holiday were $293 million larger than they would have been. This estimate is based on the average rate of sales growth that occurred for the months of May, June and July of 2010 relative to 2009 as the benchmark. (Table ES-3.)

Table ES-3. Change in Projected Sales – Projection Based on the Average Change for the Months of May, June and July 2010 Relative to 2009 ($ Million)

(1)	Total Gross Sales August 2009	$16,764,598,825
(2)	Growth factor based on May-July 2010/2009	100.578%
(3) = (1) X (2)	Estimate of Expected Gross Sales August 2010, Based on May-July Trend—*what it would be if no tax holiday*	$16,861,528,373
(4)	Actual Gross Sales August 2010	$17,154,413,632
(5) = (4) – (1)	Difference of Actual Minus Expected Gross Sales August 2010—*Attributable to tax holiday*	$292,885,258

Source: The Washington Economics Group (WEG) with Florida Department of Revenue data.

- The data strongly suggests that while consumers may time-shift purchases of some items to take advantage of the sales tax holiday, they do not shift their overall level of spending. Gross sales of items sold by establishments that sell goods that are directly or partially impacted by the sales tax holiday, showed a total increase of $2.9 billion during the months of July, August, September and October. Taxable sales, reported by these same establishments also showed an increase of $911 million for these four months of 2010.

- WEG conducted a survey of the experiences of five major retailers in Florida during the 2010 sales tax holiday weekend (Table 5A on page 10.) The analysis of the responses concluded the following:

  - Sales of taxable and non-taxable goods increased significantly when comparing the sales tax holiday weekend of August 13 through 15, 2010 with the same dates of a year earlier and with the prior week in 2010. Sales of all goods grew by about 50 percent and sales of non-exempt goods grew by 35 percent.

  - The tax holiday significantly increases traffic, as measured by transaction count, and sales of non-exempt merchandise. On average, the transaction count increased by 37 percent and 39 percent during the tax holiday when compared with the prior year and week respectively.

  - Major retailers added labor to deal with higher sales levels during the tax holiday. **On average, they added 8,300 payroll hours over the three-day event.**

  - The major retailers surveyed also indicated that the increases in sales were not just a time-shift response by consumers. On average, sales of all merchandise increased by 7.6 percent for the entire month of August of 2010 when compared with August of 2009. Also, sales of non-exempt items increased by an average of 12.4 percent.

II. Impact of the 2010 Back to School Sales Tax Holiday

A. Background

After a two-year hiatus, a Back to School sales tax holiday was authorized by the Florida Legislature during its 2010 session. Unlike previous, similar sales tax holidays, which spanned for nine-to-ten days and included two weekends, the 2010 sales tax holiday was limited to a single three-day period covering the weekend of August 13^{th} through 15^{th}, 2010.

The objective of this study is to document the impacts of the August 2010 Back to School three-day sales tax holiday. It also provides a follow up to the October 2009 study *An Analysis of the Costs and Benefits of a Sales Tax Holiday in Florida*, conducted by The Washington Economics Group (WEG) for the Florida Retail Federation. The 2009 study concluded that a two-week Back to School sales tax holiday would:

1. Increase gross retail sales by about 8 percent on a statewide basis, with smaller counties experiencing increases of about 5 percent and larger counties experiencing increases of about 9 percent.
2. Increase workforce utilization and Labor Income.
3. Increase overall tax collections.

An increase in retail sales and the increase in the use of labor used to handle the retail sales increase are a short-term immediate effect of the tax holiday. These short-term effects, in turn, lead to other medium and long-term effects as consumer expenditures work their way through the entire economy.

For example, when consumers spend money on apparel, there are *direct* economic impacts on the retail industry, on apparel distribution and apparel manufacturing. These are called *direct effects*. Apparel distribution and manufacturing in turn consume other inputs such as fuel, transportation stock and textiles. These impacts are called *indirect* effects. Finally, as workers in the *directly* and *indirectly* impacted industries spend their earnings they create demand for other goods. These last impacts are called *induced* effects. Thus, policies such as tax holidays that increase consumer demand have the potential to create highly-positive economy-wide implications in terms of employment, tax revenues and income. The 2009 WEG study used an econometric approach that allowed it to measure all these economic impacts.

The particular focus of this follow-up study is to measure the short term impacts of the sales tax holiday on retail activity and employment.

B. Data

To assess the impacts of the sales tax holiday on retail activity and sales, WEG utilized two complimentary approaches.

1. The sales data from the Florida Department of Revenue to compare data from 2009, used as the no-sales-tax-holiday baseline, and data from 2010; and

2. The data collected directly from major retailers through a non-scientific survey to gage customer-traffic increases and changes in employment.

The Department of Revenue data utilized in this analysis was the Validated Florida Sales Tax Return Receipts Monthly Statistics by Business by County posted by the Florida Department of Revenue. The data contain monthly totals for gross sales and taxable sales by county and by kind code from January 2002 to December 2010.

Kind codes are used to classify the main, but not the only, line of business of a particular establishment. Currently, there are 85 kind codes in use. These kind codes range from Food & Beverage Stores and General Miscellaneous Merchandise Stores to Veterinary Services or Commercial Fishing. There are also a Miscellaneous and an "Other" for kind codes that have fewer than 4 businesses reporting.

Kind codes are applied to the store, not the product. For example, a large grocery store might have a deli, a florist, a general merchandise section and a book-magazine section. If the store is classified as a "food and beverage store," then all sales from these individual sections would be included as "food and beverage store." In other words, the sale of any particular item could be classified as being any of the kind codes, based on the store that sold the item. Businesses self-report their kind code. These codes were developed by the State of Florida and are broader than either the North American Industry Classification System (NAICS) or the Standard Industrial Classification (SIC) codes.

Of the 85 kind codes, WEG classified 6 codes as having a direct connection to the sales tax holiday because they tend to sell the items that the sales tax holiday exempts. These 6 kind codes are:

1. Apparel & Accessory Stores;
2. Shoe Stores;
3. General Miscellaneous Merchandise Stores;
4. Store & Office Equipment, Office Supplies;
5. Book Stores; and
6. Schools, Colleges & Educational Services.

In addition to the 6 direct connection codes, 14 kind codes were classified as having a partial connection to the sales tax holiday. Although sales tax holiday items are not the main items these stores sell, these companies tend to sell some sales tax holiday products. These 14 types of stores are:

1. Food & Beverage Stores;
2. Used Merchandise Stores, Second-Hand Stores, Antique Shops;
3. Sewing, Needlework & Piece Goods Stores;
4. Radio, Television, Consumer Electronics, Computers, Music Stores;
5. Itinerant Vendors, Peddlers, Direct Selling Establishments;
6. Camera & Photographic Supply Stores;
7. Shoe Repair Shops, Shoe-shine Parlors & Hat Cleaning Shops;
8. Gifts, Cards, Novelty, Hobby, Crafts & Toy Stores;
9. Newsstands & News Dealers;
10. Pawn Shops;
11. Communication, Telephone, Telegraph, Radio & Television Stations;
12. Graphic Arts, Printing, Publishing, Engraving, Binding, Blueprinting;
13. Packaging Materials, Paper, Box, Bag Dealers;
14. Advertising.

The other 65 kind codes are classified as having an indirect connection to the sales tax holiday. These companies tend to not sell sales tax holiday-exempt products.

It is also important to note that actual total gross sales could be considerably higher than reported. Only businesses with taxable sales are required to report. Many businesses do not have taxable sales, and are exempt from reporting. For example, most grocery items are not taxed. If a store only sold these products, they would not have any taxable sales, and would be exempt from reporting.

The reporting month for the data is the month that the sales tax was submitted to the state. In Florida, there is a one-month lag between the time a customer purchases an item (and pays the sales tax), and when the business remits the sales tax to the state. Therefore, sales activities that occurred in August are reported as tax collections in September.

In addition to the monthly sales data reported to the Florida Department of Revenue, WEG conducted a survey of retail activity from five major retailers that have statewide coverage. The data collected was specific to the months of August 2009 and 2010. Specifically, retailers provided data on changes in tax exempt and non-exempt sales, customer traffic and added payroll hours.

C. Methodology

To assess the impact of the sales tax holiday on sales, WEG carried out the following:

1. Compared total gross and taxable sales from the month of August 2009, when there was no such holiday, with August 2010.

2. Conducted two comparisons, one for all 85 kind codes and another for the 20 kind codes that are directly or partially related to the goods that are impacted on the short-term by the sales tax holiday. Based on the 2009 study, WEG expected to find significant increases in sales.

3. Compared actual sales to a projection of sales based on the average sales growth of the three months preceding the sales tax holiday to address the possibility that changes in the level of sales would be a reflection of changes in the general economic condition of the state.

4. Compared total sales for the months of June though November 2010 with the corresponding months of 2009, to address the concern that "the increased economic activity during the few days of the holiday period is due mostly to a shift in the timing of purchases"[1] so that "consumers will postpone purchases that they would have made in July or early August, and that they would speed up purchases that they would have made in September or October."[2] This comparison is also adjusted to reflect the effect of wider economic trends on the expected level of sales.

5. Tabulated data obtained though a non-scientific survey of major retailers was utilized. **The survey asked retailers to compare sales, traffic and employment for the period of the sales tax holiday with the prior week, the same days of the prior year and the entire month of the prior year.**

D. Results

Table 1 below shows that total gross and taxable sales increased in August 2010 relative to August 2009. This is for all kind codes reported to the Florida Department of Revenue.

Table 1. Change in Sales – All Goods August 2009 and August 2010 ($Million)

All Goods	*August 2009*	*August 2010*	*Change*	*Percent Change*
Gross	$59,453	$61,731	$2,278	+3.83%
Taxable	$22,078	$22,222	$144	+0.70%

Source: The Washington Economics Group (WEG) with Florida Department of Revenue data.

[1] Sales Tax Holidays 2010: Politically Expedient but Poor Tax Policy. The Tax Foundation, by TF Staff, July 26, 2010.
[2] Robyn, Mark, Florida's State Tax Holiday and Film Tax Credit Proposals will not Deliver on Exaggerated Promises, The Tax Foundation, February 17, 2010.

Further, Table 2 shows that gross and taxable sales by stores with kind codes that suggest a direct or partial short-term impact by the sales tax holiday, such as apparel, shoes and other consumer also showed significant increases. It is interesting to note that of the $144 million increase in sales for all kind codes, $115 million, or 80 percent, is attributable to business reporting under the 20 Kind codes that suggest a direct or partial sales tax holiday impact. **It is significant that the 2010 sales tax holiday was restricted to a single weekend, otherwise the impact would have been larger.**

Table 2. Change in Sales – Only Categories of Goods Impacted Tax Holiday August 2009 and August 2010 ($ Million)

All Goods	*August 2009*	*August 2010*	*Change*	*Percent Change*
Gross	$16,764	$17,154	$390	+2.30%
Taxable	$6,722	$6,837	$115	+1.70%

Source: The Washington Economics Group (WEG) with Florida Department of Revenue data.

Also, contrary to conventional wisdom, the tax holiday resulted in higher tax collections. Taxable sales by retailers reporting kind codes related to the 2010 Tax Holiday grew by $115 million.

To estimate August 2010 sales by retailers selling tax holiday-related items to that if there had been no tax holiday, WEG calculated the rate of growth in sales for the months of May, June and July 2010 relative to the corresponding months in 2009. Then, WEG applied this rate of growth to the August 2009 sales to obtain an estimate of the expected value of August 2010 sales in the absence of a tax holiday. The detail of the calculations is shown in Table 3 below.

Table 3. Change in Projected Sales – Projection Based on the Average Change for the Months of May, June and July 2010 Relative to 2009 ($ Million)

(1)	Total Gross Sales August 2009	$16,764,598,825
(2)	Growth factor based on May-July 2010/2009	100.578%
(3) = (1) X (2)	Estimate of Expected Gross Sales August 2010, Based on May-July Trend—*what it would be if no tax holiday*	$16,861,528,373
(4)	Actual Gross Sales August 2010	$17,154,413,632
(5) = (4) – (1)	Difference of Actual Minus Expected Gross Sales August 2010—*Attributable to tax holiday*	$292,885,258

Source: The Washington Economics Group (WEG) with Florida Department of Revenue data.

As shown in Table 2 on page 8, overall gross sales by retailers selling goods impacted by the tax holiday, increased $390 million. This amount is in line with the 2009 WEG study's econometric model finding of a $926 million impact for a two-week holiday. Further, Table 3 on page 8 suggests that, of the $390 million increase, $293 million could be attributed to the sales tax holiday. This is a significant finding.

To address concerns that sales tax holidays merely shift consumer expenditures, the comparison was made among July, August, September and October 2009 total gross sales for the kind codes that are directly or partially impacted by the tax holiday, with actual and adjusted sales estimates for the same months of 2010. The adjusted sales estimate is derived by applying the growth factor observed for the months of May, June and July 2010, relative to the same months in 2009. Table 4 shows these comparisons.

Table 4. Actual and Projected Sales August-October 2010 – Projection Based on the Average Change for the Months of May, June and July 2010 Relative to 2009 ($ Million)

(1)	Total Gross Sales July-October 2009	$86,981,059,925
(2)	Growth factor based on May-July 2010/2009	100.578%
(3) = (1) X (2)	Estimate of Expected Gross Sales July-October 2010, Based on May-July Trend—*what it would be if no tax holiday occurred*	$87,483,966,970
(4)	Actual Gross Sales May-July 2010	$89,878,175,310
(5) = (4) – (1)	Difference between Actual and Expected Gross Sales August 2010—*No evidence of sales shifting.*	$2,394,208,340
(6) = (4) - (3)	Difference between Actual Gross Sales 2010 and Actual Gross Sales 2009	$2,897,115,385
(7) = (5) / (6)	Percent of growth ***unexplained*** by sales-shifting—Possibly due to tax holiday	82.6%

Source: The Washington Economics Group (WEG) with Florida Department of Revenue data.

Table 4 suggests that while there may be some time-shifting of purchases, it certainly is not a major factor. **If time-shifting of purchases was a major factor, the total sales for the months surrounding the sales tax holiday would show decreases, after adjusting for expected sales growth due to other circumstances, such as economic conditions.**

However, the data does not support the time-shifting hypothesis. Gross sales for the months of July, August, September and October 2009 were close to $87 million. Also, gross sales growth for the months leading up to the tax holiday, relative to the same months in 2009 was .578 percent. Applying this rate of growth to the four vicinity months of 2009 give us the estimate, or projection, of gross sales for the four vicinity months of 2010. This estimate is $87,484 million, which is $2,394 million lower than the actual reported value. This is incompatible with time-shifting. Had there been time-shifting, this difference would have been closer to zero.

In fact, 82.6 percent of the 2010 over 2009 growth for the four tax holiday vicinity months, can't be explained simply by assuming the growth trend observed for the three months leading to the tax holiday.

To document the impact of the sales tax holiday on labor use and customer traffic, WEG's survey of the experiences of five major retailers in Florida during the 2010 sales tax holiday weekend concluded the following:

- Sales of taxable and non-taxable goods increased significantly when comparing the sales tax holiday weekend of August 13 through 15, 2010 with the same dates of a year earlier and with the prior week in 2010. Sales of all goods grew by about 50 percent and sales of non-exempt goods grew by 35 percent.

- The tax holiday significantly increases traffic, as measured by transaction count, and sales of non-exempt merchandise. On average, the transaction count increased by 37 percent and 39 percent during the tax holiday when compared with the prior year and week respectively.

- Major retailers added labor to deal with higher sales levels during the tax holiday. **On average, they added 8,300 payroll hours over the three-day event.**

- As displayed in Table 5 on the next page, the major retailers surveyed also indicated that the increases in sales were not just a time-shift response by consumers. On average, sales of all merchandise increased by 7.6 percent for the entire month of August of 2010 when compared with August of 2009. Also, sales of non-exempt items increased by an average of 12.4 percent.

- While at the retailer level, the impact of the sales tax holiday is highly concentrated, the effects carry for the entire month. Large retailers reported increases in sales for the entire month of August 2010 that were on average 7.6 percent larger than the comparable store sales in August of 2009 (Table 6 on the next page.)

- It is significant that retailers report that the sales tax holiday had a large impact on non-tax exempt items. Large retailers reported that for August 2010, sales of non-exempt items experienced an increase of 12.4 percent (Table 6 on the next page.)

RETAILER	Change in Sales-All Merchandise Same Period Last Year	Traffic Change from Same Period Last Year	Sales Non-exempt Same Period Last Year	Traffic Change from Week Ago*	Added Payroll Work-Hours
Retailer #1	+49%	+43%	+49%	+36%	+10,000
Retailer #2A	+80%	+52%	+54%	+34%	+11,449
Retailer #2B	+56%	+52%	+30%	+34%	+3,991
Retailer #3	+16%	+8.6%	+9.2%	n/a	n/a
Retailer #4	+63%	+46.5%	+63%	+62%	+8,000
Retailer #5A	+38%	+18%	+15%	+30%	+20%
Retailer #5B	+44%	n/a	+24%	n/a	+25%
Average	**+50%**	**+37%**	**+35%**	**+40%**	**+8,360**

Table 5. Effect of Back to School Sales Tax Holiday August 13-15, 2010 – Major Florida Retailers

*The number of transactions is used as the proxy measure for store traffic.
Source: The Washington Economics Group (WEG) with Florida Department of Revenue data.

Table 6. Effect of Back to School Sales Tax Holiday August 2010 and August 2009 – Major Florida Retailers

RETAILER	Change in Sales-All Merchandise August 2010/2009	Sales Non-exempt August 2010/2009
Retailer #1	+3.2%	N.A
Retailer #2	+6.7%	+13.2%
Retailer #3	+9.9%	+10.7%
Retailer #4	+8.6%	+3.9%
Retailer #5	+9.4%	+N.A
Average	**7.6%**	**+12.41%**

The impacts documented in this study are all short-term impacts that could be observed within three months of the sales tax holiday. The sales tax holiday has significant medium-term impacts because the additional retail demand creates the need for additional production of goods since inventories are depleted. In addition, the money spent on additional wages will also find its way back into the economy.

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Exhibit R
Commission on State Tax and Financing Policy
Meeting #2 Oct. 3, 2011

MEMORANDUM

To: Commission on State Tax and Financing Policy

From: Diana Agidi

Re: Issues Relating to Sales Tax Holidays

Date: October 3, 2011

This memorandum and attachments provide an overview of sales tax holidays held by states in recent years. The memorandum also provides a discussion of the few research studies that have been completed in recent years on the impact of sales tax holidays.

Sales Tax Holidays in Other States: A sales tax holiday is a temporary elimination of the sales tax, typically limited to purchases of specified goods. Sales tax holidays also tend to be limited in duration (a week or less) and limited on the dollar amount of purchases that can be made tax free. Seventeen states will hold sales tax holidays by the end of 2011, slightly down from a high of 19 states in 2010.

The table below provides a history of the states that have held sales tax holidays since 2000. Also attached to this memorandum are tables produced by the Federation of Tax Administrators that provide more detailed information about the sales tax holidays held by states from 2009 to 2011.

Historical Summary of States with a Sales Tax Holiday

2000 7 (CT, FL, IA, NY, PA, SC, TX)

2001 7+DC (CT, DC, FL, IA, MD, PA, SC, TX)

2002 8+DC (CT, DC, GA, IA, NC, PA, SC, TX, WV)

2003 9 (CT, GA, IA, NY, NC, SC, TX, VT, WV)

2004 12+DC (CT, DC, FL, GA, IA, MA, MO, NY, NC, SC, TX, VT, WV)

2005 12+DC (CT, DC, FL, GA, IA, LA, MA, MO, NM, NY, NC, SC, TX)

2006 15+DC (AL, CT, DC, FL, GA, IA, MD, MA, MO, NM, NY, NC, SC, TN, TX, VA)

2007 15+DC (AL, CT, DC, FL, GA, IA, LA, MA, MO, NM, NC, OK, SC, TN, TX, VA)

2008 16+DC (AL, CT, DC, GA, IA, LA, MA, MO, NM, NC, OK, SC, TN, TX, VT, VA, WV)

2009 16 (AL, CT, GA, IA, LA, MS, MO, NM, NC, OK, SC, TN, TX, VT, VA, WV)

2010 19 (AL, CT, FL, IL, IA, LA, MD, MA, MS, MO, NM, NC, OK, SC, TN, TX, VT, VA, WV)

2011 17 (AL, AR, CT, FL, IA, LA, MD, MA, MS, MO, NM, NC, OK, SC, TN, TX, VA)

Source: Tax Foundation; Federation of Tax Administrators; state websites.

Research on Sales Tax Holidays: Economic theory suggests that sales tax holidays should change consumers' incentives regarding which goods to purchase and when and where to make these purchases. Along these lines, the research suggests that sales tax holidays affect consumer and retailer behavior as follows.

1. Shift in Timing of Purchases: Economic theory suggests that if consumers are aware that tax rates are lower or eliminated for one weekend in the future, they may delay or accelerate their purchases to coincide with the sales tax holiday. Hence rather than stimulating new sales, sales tax holidays simply shift the timing of sales. Two studies highlighted below indicate that significant shifting of purchases does occur in the presence of sales tax holidays. It is important to note that LSA's estimate of the revenue impact of sales tax holidays is based on the primary assumption that up to seven days of purchases could be shifted to the sales tax holiday period.

Cole (2009) compared state sales tax collections in months with a sales tax holiday to state sales tax collections in months without a sales tax holiday on a state by state basis and found that timing shifts by consumers account for 37% to 90% of the increase in purchases in the states with a sales tax holiday, while the remaining increase could be attributable to other factors. The study controlled for other variables that affect sales tax collections (e.g., the month of the year, the state sales tax rate, and variables correlated with the business cycle) in order to isolate the impact of sales tax holidays.

Marwell and McGranahan (2010) examined the effect of sales tax holidays on household consumption patterns from 1997 to 2008 and found that there was no statistically significant change in consumption for the lowest income (less than $30,000) households during sales tax holidays. For the middle ($30,000 to $70,000) and high income group (greater than $70,000), they found significant increases in the number of clothing and school supplies purchased. Middle income households increased the quantity of clothing purchased during sales tax holidays by 54% relative to what these households spent on an average day. Similarly, high income households increased the number of clothing items purchased by 48% relative to what these households spent on an average day.

*2. **Retailers' reaction to sales tax holidays***: Research suggests that retailers do not fully pass along the tax savings from sales tax holidays to consumers, absorbing a portion into profits instead.

Harper et al (2003) examined retail clothing price data on similar items from retailers operating in both Pensacola, Florida, and nearby Mobile, Alabama, around the 2001 sales tax holiday in Florida. They sampled prices of bundles of goods exempt from the sales tax before and during the 2001 Florida sales tax holiday and compared the price dynamics for these same bundles to those in the neighboring Mobile, Alabama which did not have a sales tax holiday. They found that about 80 percent of the tax relief from the sales tax holiday was realized by consumers while 20 percent was claimed by retailers.

*3. **Shift from taxable goods to non-taxable goods***: Since goods of the same type are taxed at different rates during the tax holiday depending on their pre-tax prices (almost all states have a price cap on eligible sales tax holiday items), consumers have an incentive to purchase the good that is tax-exempt and shift away from goods they may otherwise purchase that aren't covered by the sales tax holiday.

Marwell and McGranahan (2010) found that sales tax holidays are more likely to reduce consumption of non-exempt items since consumers shift their purchases from taxable to non-taxable goods. This makes sense as economic theory suggests that consumers devote an amount of money for consumption every day, hence consumers that spend money purchasing items that are exempt from sales tax may subsequently have less money to purchase items that are not.

*4. **Sales tax holidays and cross border sales***: Sales tax holidays create different tax rates between adjacent jurisdictions, thereby providing consumers with an incentive to travel to the jurisdiction with the lower tax rate to make their purchases. Cole (2009) acknowledged that sales tax holidays affect cross border shopping but LSA found no empirical research addressing the extent to which sales tax holidays affect cross border shopping. Consequently, LSA is unable to account for this in estimating the fiscal impact of sales tax holidays.

Sources

Cole, Adam J. *Sales Tax Holidays: Timing Behavior and Tax Incidence*, Ph.D dissertation, University of Michigan, 2009.

Buschman, Robert. *Sales Tax and Revenue Effects in Georgia*. Fiscal Research Center, March 2011.

Harper, Richard K., Richard R. Hawkins, Gregory S. Martin, and Richard Sjolander (2003). *"Price Effects around a Sales Tax Holiday: An Exploratory Study."Public Budgeting & Finance* 23 (4): 108-13.

Marwell, Nathan, McGranaham, Leslie. *The Effects of Sales Tax Holidays on Household Consumption Patterns*. The Federal Reserve Bank of Chicago, 2010.

2009 State Sales Tax Holidays

Alabama	3	clothing - $100 computers - $750 school supplies - $50 books - $30	2006	August 7-9	http://www.revenue.alabama.gov/
Connecticut	7	clothing and footwear - $300	2001	August 16-22	http://www.ct.gov/
District of Columbia	9	clothing - $100 school supplies - $100	2004	August 1-9	http://otr.cfo.dc.gov/otr/ **Repealed**
District of Columbia	17	clothing - $100	2004	Nov. 27 - Dec. 6	http://otr.cfo.dc.gov/otr/
Georgia	4	school supplies - $20 clothing - $100 computer - $1,500	2004	July 30 - Aug. 2	
Georgia		energy and water efficient products - $1,500	2006	October 1-4	
Iowa	2	clothing - $100	2000	August 7-8	http://www.iowaccess.org/tax/
Louisiana	2	all TPP - $2,500	2007	August 7-8	http://www.revenue.louisiana.gov/
Louisiana	2	hurricane preparedness items - $1,500	2008	May 30-31	http://www.revenue.louisiana.gov/
Louisiana	3	firearms, ammunition and hunting supplies	2009	September 4-6	http://www.revenue.louisiana.gov/
Mississippi	2	clothing & footwear - $100	2009	July 31- August 1	
Missouri	7	energy star products - $1,500	2009	April 19-25	http://www.dor.mo.gov/tax/
Missouri	3	clothing - $100 computers - $3,500 school supplies - $50	2004	August 7-9	http://www.dor.mo.gov/tax/
New Mexico	3	clothing - $100 computers - $1,000 school supplies - $15	2005	August 7-9	http://www.state.nm.us/tax/
North Carolina	3	clothing - $100 school supplies - $100 instructional material - $300 computers - $3,500 other comp. - $250 sports equip - $50	2001	August 7-9	http://www.dornc.com/
North Carolina	3	energy star products	2009	November 6-8	http://www.dornc.com/
Oklahoma	3	clothing - $100	2007	August 7-9	http://www.tax.ok.gov/
South Carolina	3	clothing school supplies computers other	2000	August 7-9	http://www.sctax.org/

South Carolina	31	energy star products	2009	October 1-31**	**Ruled unconstitutional by State Supreme Court, May 4**
South Carolina	2	handguns, rifles, shotguns	2008	November 27-28	http://www.sctax.org/
Tennessee	3	clothing - $100 school supplies - $100 computers - $1,500	2006	August 7-9	http://tn.gov/revenue/
Texas	3	clothing, backpacks and school supplies- $100	1999	August 21-23	http://www.window.state.tx.us/
Texas	3	energy star products air conditioners - $6,000; other - $2,000	2008	May 23-25	http://www.window.state.tx.us/
Vermont	1	Personal Purchase - $2,000	2008	August 22	http://www.state.vt.us/tax/2009sth.shtml
Virginia	7	hurricane preparedness items - $60 generators - $1,000	2008	May 25-31	http://www.tax.virginia.gov/
Virginia	3	clothing - $100 school supplies - $20	2006	August 7-9	http://www.tax.virginia.gov/
Virginia	4	energy star products - $2,500	2006	October 9-12	http://www.tax.virginia.gov/
West Virginia	7	energy star products - $5,000	2008	September 1 - November 30	http://www.wvtax.gov/

(updated September 2, 2009)

* dates are for calendar year 2009, as of March 19, 2009. Some state have not published 2009 information on their website; old information may be provided in the links for these states.
** Holiday will only be allowed in years where the South Carolina Board of Economic Advisors certifies sufficient revenue growth.

If you have any questions, please direct your inquiry to Ronald Alt.

2010 State Sales Tax Holidays

Alabama	3	clothing - $100 computers - $750 school supplies - $50 books - $30	2006	August 6-8	http://www.revenue.alabama.gov/
Connecticut	7	clothing and footwear - $300	2001	August 15-21	http://www.ct.gov/
Florida	3	clothing & Books- $50 school supplies - $10	2010+	August 13-15	http://dor.myflorida.com/
Illinois	10	clothing, footwear & school supplies - $100	2010	August 6-15	http://www.revenue.state.il.us
Iowa	2	clothing - $100	2000	August 6-7	http://www.iowaccess.org/tax/
Louisiana	2	all TPP - $2,500	2007	August 6-7	http://www.revenue.louisiana.gov/
Louisiana	2	hurricane preparedness items - $1,500	2008	May 29-30	http://www.revenue.louisiana.gov/
Louisiana	3	firearms, ammunition and hunting supplies	2009	September 3-5	http://www.revenue.louisiana.gov/
Maryland	7	clothing & footwear - $100	2010	August 8-14	http://www.comp.state.md.us/
Maryland	3	energy star products	2011	Feb. 19-21, 2011	http://www.comp.state.md.us/
Massachussets	2	TPP - $2,500	2008	August 14-15	-has not been signed by governor.
Mississippi	2	clothing & footwear - $100	2009	July 30-31	http://www.dor.ms.gov/
Missouri	7	energy star products - $1,500	2009	April 19-25	http://www.dor.mo.gov/tax/
Missouri	3	clothing - $100 computers - $3,500 school supplies - $50	2004	August 6-8	http://www.dor.mo.gov/tax/
New Mexico	3	clothing - $100 computers - $1,000 school supplies - $15	2005	August 6-8	http://www.tax.newmexico.gov/
North Carolina	3	clothing - $100 school supplies - $100 instructional material - $300 computers - $3,500 other comp. - $250 sports equip - $50	2001	August 6-8	http://www.dornc.com/
North Carolina	3	energy star products	2009	November 5-7	http://www.dornc.com/
Oklahoma	3	clothing - $100	2007	August 6-8	http://www.tax.ok.gov/
South Carolina	3	clothing school supplies computers other	2000	August 6-8	http://www.sctax.org/ -list of qualifying products -FAQ
South Carolina	2	guns, rifles & handguns	2008	November 26-27	http://www.sctax.org/
Tennessee	3	clothing - $100 school supplies - $100 computers - $1,500	2006	August 6-8	http://tn.gov/revenue/

Texas	3	clothing, backpacks and school supplies- $100	1999	August 20-22	http://www.window.state.tx.us/
Texas	3	energy star products air conditioners - $6,000; other - $2,000	2008	May 29-31	http://www.window.state.tx.us/
Vermont	1	Personal Purchase - $2,000	2008	March 6	http://www.state.vt.us/tax/
Virginia	7	hurricane preparedness items - $60 generators - $1,000	2008	May 25-31	http://www.tax.virginia.gov/
Virginia	3	clothing - $100 school supplies - $20	2006	August 6-8	http://www.tax.virginia.gov/
Virginia	4	energy star products - $2,500	2006	October 8-11	http://www.tax.virginia.gov/
West Virginia	90	energy star products - $5,000	2008	September 1 - November 30	http://www.wvtax.gov/

(updated August 3, 2010)

* dates are for calendar year 2010, as of August 3, 2010. Some state have not published 2010 information on their website; old information may be provided in the links for these states.
** Holiday will only be allowed in years where the South Carolina Board of Economic Advisors certifies sufficient revenue growth.
+ Florida first held a sales tax holiday for school supplies in 2007. This was not re-enacted in 2008-09.

If you have any questions, please direct your inquiry to Ronald Alt.

2011 State Sales Tax Holidays

Alabama	3	clothing - $100 computers - $750 school supplies - $50 books - $30	2006	August 5-7	http://www.revenue.alabama.gov/
Arkansas	2	clothing - $100 school supplies	2011	August 6-7	http://www.dfa.arkansas.gov
Connecticut	7	clothing and footwear - $300	2001	August 21-27	http://www.ct.gov/
Florida	3	school supplies - $15 books, clothing - $75	2010+	August 12-14	http://dor.myflorida.com/
Iowa	2	clothing - $100	2000	August 5-6	http://www.iowaccess.org/tax/
Louisiana	2	all TPP - $2,500	2007	August 5-6	http://www.revenue.louisiana.gov/
Louisiana	2	hurricane preparedness items - $1,500	2008	May 28-29	http://www.revenue.louisiana.gov/
Louisiana	3	firearms, ammunition and hunting supplies	2009	September 2-4	http://www.revenue.louisiana.gov/
Maryland	7	clothing & footwear - $100	2010	August 14-20	http://www.comp.state.md.us/
Maryland	3	energy star products	2011	Feb. 19-21, 2011	http://www.comp.state.md.us/
Massachusetts	2	all TPP - $2,500	2008	August 13-14	http://www.mass.gov/
Mississippi	2	clothing & footwear - $100	2009	July 29-30	http://www.dor.ms.gov/
Missouri	7	energy star products - $1,500	2009	April 19-25	http://www.dor.mo.gov/tax/
Missouri	3	clothing - $100 computers - $3,500 school supplies - $50	2004	August 5-7	http://www.dor.mo.gov/tax/
New Mexico	3	clothing - $100 computers - $1,000 school supplies - $15	2005	August 5-7	http://www.tax.newmexico.gov/
North Carolina	3	clothing - $100 school supplies - $100 instructional material - $300 computers - $3,500 other comp. - $250 sports equip - $50	2001	August 5-7	http://www.dornc.com/
North Carolina	3	energy star products	2009	November 4-6	http://www.dornc.com/
Oklahoma	3	clothing - $100	2007	August 5-7	http://www.tax.ok.gov/
South Carolina	3	clothing school supplies computers other	2000	August 5-7	http://www.sctax.org/
Tennessee	3	clothing - $100 school supplies - $100 computers - $1,500	2006	August 5-7	http://tn.gov/revenue/
Texas	3	clothing, backpacks and school supplies- $100	1999	August 19-21	http://www.window.state.tx.us/

Texas	3	energy star products air conditioners - $6,000; other - $2,000	2008	May 28-30	http://www.window.state.tx.us/
Virginia	7	hurricane preparedness items - $60 generators - $1,000	2008	May 25-31	http://www.tax.virginia.gov/
Virginia	3	clothing - $100 school supplies - $20	2006	August 5-7	http://www.tax.virginia.gov/
Virginia	4	energy star products - $2,500	2006	October 7-10	http://www.tax.virginia.gov/

(updated August 22, 2011)

+ Florida first held a sales tax holiday for school supplies in 2007. This was not re-enacted in 2008-09.

Note, if your state is not listed, legislation has not been approved authorizing a sales tax holiday. Contact your state legislator for more information.
If you have any corrections, please direct your inquiry to **Ronald Alt**.

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Exhibit S
Commission on State Tax and Financing Policy
Meeting #2 Oct. 3, 2011

September 20, 2011

To: Members of the Commission on State Tax and Financing Policy

From: Legislative Services Agency

RE: Sales Tax Holidays - Streamlined Sales and Use Tax Agreement

This memorandum is to provide background information concerning the requirements applicable to sales tax holidays in Indiana under the Streamlined Sales and Use Tax Agreement ("SSUTA"). Indiana is a member state under the SSUTA.

SSUTA Section 322:

Part A permits a member state to allow for temporary exemption periods, commonly referred to as sales tax holidays. If a temporary exemption period is provided Section 322 requires the member state to do the following:

1. Apply an exemption ONLY to items specifically defined in Part II or Part III(B) of the Library of Definitions.
2. Provide notice of the exemption period at least sixty days' prior to the first day of the calendar quarter in which the exemption period will begin.
3. Not apply an entity or use based exemption to items (however, a member state may limit a product based exemption to items purchased for personal or non-business use).
4. Not require a seller to obtain an exemption certificate or other certification from a purchaser for items to be exempted.

Part B of SSUTA Section 322 provides that a member state may establish a sales tax holiday that utilizes price thresholds. However, the exempt items may include only items priced below the threshold and a member state may not exempt only a portion of the price of an individual item.

SSUTA Section 328: The Department of State Revenue must give notice in the taxability matrix of the products for which a tax exemption is provided.

SSUTA Library of Definitions (Library of Definitions - Part II and Part III): These definitions cover what tangible personal property may be exempted during a sales tax holiday. These products are the following:

Clothing
Clothing accessories or equipment
Essential clothing
Fur clothing
Protective equipment
Sport or recreational equipment
Computer

Computer software
Prewritten computer software
Computer software maintenance contract
Digital products
Food and food products
Health care products
Telecommunication Products
Disaster Preparedness Supply
Disaster Preparedness General Supply
Disaster Preparedness Safety Supply
Disaster Preparedness Food-Related Supply
Disaster Preparedness Fastening Supply
Energy Star Qualified Product
School supply
School art supply
School instructional material
School computer supply

The SSUTA provisions mentioned above are available from Committee staff.

Please let us know if you have any questions or need additional information.