National Tax Recovery LLC

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STATE & LOCAL TAX NEWSLETTER

Programs & Services:

State & Local Tax Refund Program identifies and recovers overpaid state and local taxes paid directly to the State through use taxes or tax paid to vendors.

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Income Tax Advisory Service gives clients the proper knowledge and expertise needed to interpret the complex and ever changing IRS regulations and laws.

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Abolish the Corporate Income Tax

BOSTON — JOBS don't grow out of thin air, especially well-paying ones. They require, among other things, companies that are willing to operate where you live. Just ask the Seattle-based District 751 of the machinists' union, which was worried that Boeing will build its new 777X airliner someplace far away where it is cheaper to produce. Last month the union offered contract concessions, as its president explained, to ensure "the long-term success" of Boeing in Washington State. And, Boeing machinists approved a contract with concessions to keep assembly of the plane in the area.

In recent decades, American workers have suffered one body blow after another: the decline in manufacturing, foreign competition, outsourcing, the Great Recession and smart machines that replace people everywhere you look. Amazon and Google are in a horse race to see how many humans they can put out of work with self-guided delivery drones and driverless cars. You wonder who will be left with incomes to buy what these robots deliver.

What can workers do to mitigate their plight? One useful step would be to lobby to eliminate the corporate income tax.

That might sound like a giveaway to the rich. It's not. The rich, including Boeing's stockholders, can take their companies and run — and not just from Washington State to, say, North Carolina. To avoid our federal corporate tax, they can, and often do, move their operations and jobs abroad. Apple's tax return says it all: The company, according to one calculation, paid only 8.2 percent of its worldwide profits in United States corporate income taxes, thanks to piling up most of its profits and locating far too many of its operations overseas.

The United States may well have the highest effective marginal corporate income tax rate of any developed country. Jack Mintz, a public finance economist and director of the School of Public Policy at the University of Calgary, puts the rate close to 35 percent, which is also the statutory rate. Other economists, using different techniques, calculate the marginal rate to be as low as 23 percent. But both figures are miles above zero.

They are also miles above our 13 percent average corporate income tax rate — the ratio of corporate taxes to total corporate profits. The fact that the marginal tax rate, whether 23 percent, 35 percent or somewhere in between, is so much larger than the average rate suggests that a sizable share of corporate profits and production is ending up overseas and untaxed.

Making, rather than just stating, this case requires constructing a large-scale computer simulation model of the United States economy as it interacts over time with other nations' economies, and then seeing how the model reacts when you change the American corporate income tax. I've developed such a model with three colleagues through the Tax Analysis Center, a nonpartisan research group. Our findings make a very strong, worker-based case for corporate tax reform.

In the model, eliminating the United States' corporate income tax produces rapid and dramatic increases in American investment, output and real wages, making the tax cut self-financing to a significant extent. Somewhat smaller gains arise from revenue-neutral corporate tax base broadening, specifically cutting the corporate tax rate to 9 percent and eliminating all corporate tax loopholes. Both policies generate welfare gains for all generations in the United States, but particularly for young and future workers. Moreover, all Americans can benefit, though by less, if foreign countries also cut their corporate tax rates.

The size of the potential economic and welfare gains are stunningly large and don't reflect any extreme supply-side (a k a, voodoo economics) assumptions. Fully eliminating the corporate income tax and replacing any loss in revenues with somewhat higher personal income tax rates leads to a huge short-run inflow of capital, raising the United States' capital stock (machines and buildings) by 23 percent, output by 8 percent and the real wages of unskilled and skilled workers by 12 percent. Lowering the corporate rate tax to 9 percent while also closing loopholes is roughly revenue neutral and also produces very rapid increases in capital (by 17 percent), output (by 6 percent) and real wages (by 8 percent).

Eliminating the corporate tax and raising income tax rates or lowering the corporate tax rate and eliminating its loopholes are not the only options. Elsewhere, I have proposed eliminating the corporate income tax, but making shareholders pay income taxes on their companies' profits as they accrue. This leaves companies with no tax reason to avoid operating in the United States but ensures that shareholders, not wage earners, make up for any revenue losses through higher personal tax payments.

It's been a long time since the typical American worker received a raise in her real pay. In fact, average weekly earnings, exclusive of fringe benefits but adjusted for inflation, are 10 percent lower today than they were in 1966. This is America's nightmare, not its dream. Turning things around requires getting a lot of things right, starting, I'd argue, with corporate tax reform.

TAX POLICY NEWS

3 Ways To Still Avoid Sales Tax Online

1. Read the Website-Many websites make their sales tax policy clear. In some cases, you may have to wait until checkout to know if you'll pay tax. Some online sellers make deals to remit tax for sales in certain states. The website will tell you or will add the tax when you check out.
2. Try Smaller Websites and eBay Merchants-You might escape sales tax if you but from smaller merchants who don't collect tax on shipments to your state.
3. Some people still claim they "showroom" Amazon, getting to the merchant directly to try to bypass sales tax.

Just remember, avoiding the tax at checkout doesn't mean you've avoided it forever. You are liable for use tax if you bring the goods nto your state or have them shipped to you. States historically didn't enforce use tax except against businesses, but that's changing. Many state income tax forms now collect use tax, and remember, you sign tax returns under penalty of perjury.

"When one door of happiness closes, another opens, but often we look so long at the closed door that we do not see the one that has been opened for us."

—Helen Keller

State and Local Tax Policy news

Pumping out the Pennsylvania gas tax facts

How it works-

Most of a $2.3 billion in new travel supports a state supervision recently authorized comes from changes to Pennsylvania's gas taxes. Here's how they're changing:
How it worked
Pennsylvania had dual gas taxes that were distributed differently.
Flat tax:

- Paid by drivers during a pump.
- Assessed on any gallon of gas sold.
- Stayed during 12 cents.

Oil association authorization tax:

- Paid by gasoline companies during a indiscriminate turn though reflected in sell prices.
- Also assessed per gallon of gas sold.
- Varied any year formed on a normal indiscriminate cost of gas, that a state income dialect set annually.
- Calculated by augmenting a taxation rate (153.5 mills for regular, 208.5 mills for diesel) by price.
- The cost a taxation was formed on was capped during $1.25 per gallon. The cost is now some-more than $3 per gallon though taxation was still paid during a $1.25 top final year.
- Tax during finish of 2013 was 19.2 cents for unchanging and 26.1 cents for diesel. Here's a math for regular: 0.1535 (rate as decimal) x $1.25 (capped price) = $0.192.

How it changes-

The travel appropriation check brings dual vital changes to how state gas taxes are figured.
Cap lifted:

- The authorization taxation cost top is carried gradually over 5 years.
- The top increases to $1.87 in 2014, $2.49 in 2015 and is separated by 2017.

When a top is eliminated, a building cost is set during $2.99 to stop a vital cost dump from disrupting travel funds.

Move to one tax:

- The prosaic taxation was separated during start of 2014.
- The authorization taxation rate is increasing to make adult disproportion (217.5 mills for regular, 272.5 mills for diesel).

As a top is gradually lifted, a taxation rate decreases gradually. In 2018, it will be 192.5 mills for unchanging and 247.5 mills for diesel.

Quote of the Month:

"Success is walking from failure to failure with no loss of enthusiasm."

—Winston Churchill

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HOSPITALITY NEWS

HOTEL TAX NEWS:

Palo Alto pushes forward with hotel-tax increase

When Palo Alto began its daunting journey four years ago to upgrade the city's age-worn infrastructure, the city's revenues were plunging, the estimated price tag hovered at around $500 million and the endeavor looked at once like a pipe dream and a budget nightmare.

Since then, the city's revenues shot up, the project list was winnowed down and the once impossible task of bringing local streets, buildings and parks into shape suddenly began to look realistic. On Monday night, Palo Alto took another lengthy stride toward the finish line when the City Council unanimously agreed to put on the November ballot a measure that would raise the city's hotel-tax rate by 2 percent. If approved, the revenue would be leveraged to fund various bike projects, at least one new garage and replacement of two fire stations that were built more than half a century ago.

Even without the tax measure, which the council supported after extensive debate, the city's infrastructure landscape is already far brighter than it was in 2011, when a specially appointed Infrastructure Blue Ribbon Commission did a full-scale analysis of the city's needs and came up with a set of funding recommendations. These included a bond to pay for a new police building, raising the city's capital expenditures and increasing the sales tax. Since then, local sales- and hotel-tax revenues have rebounded in a big way, funding of street repairs has more than doubled and the city's once emaciated infrastructure reserve has swelled to about $8 million. The council had also determined that the most critical infrastructure project of all -- a new public-safety building -- can be pursued with existing funds, a factor that allows the city to use the bond-measure revenue for items that may be less urgent but more popular.

Larry Klein, chair of the council's Infrastructure Committee, was one of several council members to point to the differences between 2011 and today. "The city's financial position is better, we've got a surplus and, in addition, we have Stanford money," Klein said, referring to the $14.9 million the city is set to receive for infrastructure as part of a development agreement that allowed a dramatic expansion of the Stanford University Medical Center.

Though council members all agreed to put the hotel-tax increase on the ballot, they had an extensive debate over whether to pursue a 2 or 3 percent increase to the city's existing rate of 12 percent. Ultimately, the smaller increase prevailed by a single vote, with Klein joining Vice Mayor Liz Kniss and council members Marc Berman, Pat Burt and Karen Holman in supporting it. Klein was the most ambivalent of the bunch, having changed his preferred increase from 2 to 3 percent at last month's Infrastructure Committee meeting before reverting to the more modest number.

The funds, coupled with construction of several new hotels that are expected to come online this year, are expected to bring in $4.6 million in additional annual revenue, which would be leveraged to get $64.4 million for infrastructure projects. Though the exact projects to be funded are yet to be determined, the menu of options includes a bike bridge over U.S. Highway 101, various new bike boulevards, new garages in downtown and possibly on California Avenue and replacement of fire stations near Rinconada and Mitchell Parks.

Of the four council members who supported a 3 percent hotel-tax increase, Councilman Greg Scharff offered the most passionate argument. When combined with expected revenue from new hotels, the 3 percent hike could be leveraged to obtain about $75 million in funding. The city, Scharff said, has gone from a situation where making a dent in the infrastructure backlog seemed "virtually impossible" to one where the city can actually take care of almost all of its infrastructure needs. By approving it, the council would be sending the community a strong message that it plans to do just that. He also cited the rising construction costs, as evidenced by the steadily growing budget for the streetscape project on California Avenue, which is set to commence this month.

"We're within grasp of getting this done," Scharff said, referring to the closing of the infrastructure backlog. "If we go down to 2 percent, we put that at risk."

Five of his colleagues disagreed and said they weren't comfortable with making Palo Alto's hotel-tax rate one of the highest in the state. While San Francisco and Oakland have hotel-tax rates of 14 percent, most of Palo Alto's neighbors have lower rates. Mountain View has a rate of 10 percent, while Menlo Park, East Palo Alto and Redwood City all have 12 percent. Burt said going to 15 percent would make the city too much of an outlier. Holman said the move would help perpetuate an image of Palo Alto as a place that's a little too precious and make it seem like the city is bragging about how special it is.

"I don't think this reflects well on the image of Palo Alto," Holman said.

Vice Mayor Liz Kniss agreed and also urged against making the city's rate so far above those of its neighbors.

"There are times when we think we're just so special," Kniss said. "And I think that diminishes who we are and I think in many ways it makes us look almost as if we're somewhat callous in how we go about treating people who are visiting us either as tourists or for business."

Kniss initially supported Councilman Marc Berman's plan to explore raising the city's sales tax by 1/8 cents instead of going forward with the hotel-tax increase. That proposal quickly fizzled when all seven of their colleagues voted against it.

Berman said he agreed with the goal of fixing up the infrastructure and the council's list of priority projects, but advocated more research on the sales tax. The city's polling of the two items showed that the hotel-tax would be far more popular (support level for a measure to raise hotel taxes by 2 percent was as high as 77 percent) than the sales tax (where support ranged between 51 and 57 percent, depending on how the question was framed). The polling, however, was focused on a 1/4 cent increase and indicated that support could go rise to above 60 percent if the city pursued a 1/8-cent hike.

Berman argued that because the polls didn't really concentrate on the smaller increase, the city should study this option further. He said the city "going in the right direction" with its list of projects, but was less certain than his colleagues about whether the hotel tax is the way to go. Council members are all marching toward the same goal line, he said, though he wasn't sure "if we're calling the right play."

After his idea to explore the sales-tax increase was rejected, he proposed revising the recommendation from the Infrastructure Committee from a 3 percent hotel-tax increase to a 2 percent increase. After the council voted 5 to 4 to support the smaller bump, members unanimously approved moving forward with the ballot measure. The council also directed its Infrastructure Committee to revisit the list of projects and adjust it based on the revenues the city is expected to get from the increase in the hotel-tax rate.