Commission on the 21ST Century Economy

Description of Tax Plan

The following is a description of the major components of the proposed tax plan, with the initial year of implementation in 2012.

Personal Income Tax

The personal income tax (PIT) would significantly change in structure and the state's reliance on this revenue source would diminish substantially. Under the proposal, the number of tax brackets would be reduced from six to two; credits would be eliminated (except for the other states' tax credit); deductions would be dramatically curtailed. After a phase-in period based on reductions in the current law PIT, the new PIT structure beginning in year three of the plan would be as follows:

- Tax rate of 2.75% for income up to $56,000 for joint filers ($28,000 single filers) and 6.50% for incomes above that amount.
- Standard deduction of $45,000 for joint filers ($22,500 single filers).
- Itemized deductions limited to mortgage interest, property taxes and charitable contributions.

Corporation Tax

The corporation tax on businesses would be eliminated in 2012, the first year of the tax plan.

Sales and Use Tax

The state portion of the sales and use tax (SUT) would be phased-out beginning in the initial year of the tax plan. The SUT would be reduced by 1% during each of the five-years of the plan's phase-in period. Annual reductions would be contingent on the revenues generated by the newly imposed business net receipts tax as described below. To the extent that revenue from the new tax fell short of estimates, the precise reduction in the SUT rate would be adjusted.

Business Net Receipts Tax

A business net receipts tax (BNRT) would be imposed on all businesses deemed to be doing business in the state. Doing business would constitute not only physical presence in the state but also economic presence. The tax would be based on net receipts, calculated by subtracting purchases from the gross receipts of the firm. It would apply to all forms of business including C corporations, pass-through entities and sole proprietorships. The BNRT would apply all sectors of the economy. The tax would be phased-in over a five year period as other taxes were eliminated and phased-out.

Rainy Day Reserve Fund

The annual transfer of 3 percent would continue under this proposal. New reserve requirements would increase the target for the reserve fund to 12.5 percent of state revenues, up from 5 percent of revenues. Unanticipated or one-time revenues and receipts would be dedicated to building up the reserve. The circumstances under which revenue transfers to the reserve fund could be suspended would be severely restricted. In addition, there would be more stringent controls on the circumstances for the withdrawals of moneys from the reserve fund as well as the purposes for which the money could be used.