© 2019 Tax Analysts. All rights reserved. Tax Analysts does not claim copyright in any public domain or third party content.

deduction and eliminate a drafting error on mortgage interest deductions.

The legislation is expected to reduce general fund revenue by $574 million in fiscal 2020, according to the Department of Taxation's fiscal impact statement.

H.B. 2355, sponsored by House Appropriations Committee Chair Chris Jones (R), would "advance Virginia's conformity date to the Internal Revenue Code from February 9, 2018 to December 31, 2018," and allow the state to fully conform to the Tax Cuts and Jobs Act, according to the tax department's fiscal impact statement.

The bill would increase revenues by $611 million in fiscal 2020, according to the statement. Revenue from conformity to the TCJA's individual income tax provisions — estimated to be around $575 million, according to the release — would be directed to a taxpayer relief fund. ■

WASHINGTON

Bill Proposes Surcharge For Excessive CEO Pay

by Paul Jones

New legislation would impose a tax surcharge on corporations that provide "excessive executive compensation" to fund the state's long-dormant working families tax exemption.

H.B. 1778, introduced January 29, would impose on businesses a surcharge equal to 10 percent of their business and occupation (B&O) tax payments due if their CEO's pay is at least 50 times greater than their median employee wage. The surcharge would increase to 25 percent if the executive pay ratio is equal to or greater than 150 to 1.

The ratios are the same pay comparison that some businesses are required to report to the SEC under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. According to the bill, the surcharge would be imposed the year after the business's executive pay ratio met or exceeded the statutory trigger. Subsidiaries would be required to pay the surcharge if their parent companies were subject to it.

> ***'It's not surprising to find bills floating out there to resuscitate' the working families tax exemption, Sjoblom said.***

The bill also provides that if a company required to report its executive pay ratio to the SEC didn't disclose it to the state, the 25 percent surcharge would automatically apply.

Revenue from the tax would fund the working families tax exemption, which was created in 2008 but has never been funded. The exemption is similar to an earned income tax credit, but is set up as a sales and use tax refund because the state has no income tax.

The legislation's sponsors, Democratic Reps. Beth Doglio and Debra Entenman, said it was designed to combat excessive corporate executive compensation that fuels income inequality. "The legislature finds that the wages of workers continue to stagnate while chief executive officer . . . pay continues to grow rapidly," they wrote in

For more *State Tax Notes* content, please visit www.taxnotes.com.

the bill's findings. "In the past decade, average pay for CEOs in the Pacific Northwest has climbed five times faster than it has for workers. This pay gap contributes to the increasing income inequality in the United States and further consolidation of wealth with the top one percent."

Another bill, H.B. 1681, introduced January 28 by Doglio, Entenman, and others, is nearly identical to H.B. 1778, but would impose only a 10 percent B&O tax surcharge on corporations with executive pay ratios of 50 to 1 or more. Entenman on January 23 also introduced H.B. 1527, which would amend the working families tax exemption and recast it as a credit.

Kriss Sjoblom of the Washington Research Council said the recession in 2008 and the state's long-running effort to adequately fund education following the court order in *McCleary v. State of Washington* had prevented the state from putting money toward the working families tax exemption.

But with the school funding issue now resolved, there is renewed interest in funding the exemption. "It's not surprising to find bills floating out there to resuscitate it . . . the original sponsors of the credit are coming out with a proposal to revive the actual details," Sjoblom said.

Kelli Smith of the Washington State Budget and Policy Center said her group, a supporter of H.B. 1527, is hopeful that the legislation will succeed. She said it would capture a significant population — families, young adults, caregivers, immigrants, and others — who would benefit from a state tax credit.

"So far this seems to be the one that's got the most momentum," she told *Tax Notes* January 30. "We have 35 sponsors."

Portland, Oregon, approved a corporate inequality surtax in 2016. Too, California lawmakers in 2018 considered legislation (S.B. 1398) that proposed to tax businesses at different rates based on their executive compensation/median employee compensation ratio, but it failed to pass. ■

WISCONSIN

Governor Campaigns for Middle-Income Tax Cuts

by Aaron Davis

New Gov. Tony Evers (D) has reaffirmed his campaign promise of cutting taxes for middle-income families and offsetting the cost by capping a corporate tax credit.

In his first State of the State address on January 22, Evers said he will seek a 10 percent tax cut on individual income up to $100,000 and on combined family income up to $150,000. The tax break is estimated to cost the general fund $340 million per year.

"But we're not going to do it by spending money we don't have or that might not be there in two years," Evers said. "I don't make promises I can't keep, and I'm not going to propose things that we can't pay for."

> ***'I don't make promises I can't keep, and I'm not going to propose things that we can't pay for,' Evers said.***

The revenue decrease would be offset by capping the manufacturing and agriculture tax credit, which is a 7.5 percent income tax credit for companies that derive income from manufacturing and agriculture properties in the state. The credit has no ceiling; Evers proposed an annual credit cap of $300,000 per recipient. According to Evers, 80 percent of those receiving the credit have incomes over $1 million.

On his gubernatorial campaign website, Evers indicated that his tax cut would also be funded by cutting wasteful spending, ending duplicative programs, and phasing out more of former Gov. Scott Walker's "millionaire and corporate welfare giveaway."

The biennial budget signed by Walker in 2017 eliminated the alternative minimum tax as of January 1, 2019. The forestry mill tax, which brought in around $180 million over two years, was also eliminated. The anticipated $60 million that the state was to receive in remote sales tax revenues was redirected in a last-minute special session toward reducing income taxes.

© 2019 Tax Analysts. All rights reserved. Tax Analysts does not claim copyright in any public domain or third party content.

For more *State Tax Notes* content, please visit www.taxnotes.com.