

The solution for Delaware has to be.....

- a. Equitable for all Citizens of Delaware in the spirit of collaboration
- b. Sustainable past the current budget crisis
- c. Responsible in that it moves us out of the current crisis rather than making it worse
- d. One that includes all Citizens of Delaware; state employees, private employees and Corporations

The Current Proposal includes...

- Cutting 8% from all state workers, whose average salary is \$44,000
- Raising the PIT for Taxable Income above \$60,000 from 5.95 to 6.95%
- Raising the Franchise Corporate Tax Cap from \$165,000 to \$180,000
- Increasing the multiplier in the Par Share method from \$250.00 per million to \$350.00 per million
- Cutting three in-service days for educators

Raising a total of...

- 8% Pay cut = \$91,000,000
- PIT increase of 1% = 30M in year 1 and 78M in year 2
- Increasing Franchise Tax Cap plus increasing multiplier raises 170M over two years
- Three In-Service Days for Educators cuts approximately 7.7M
- Total = 91M + 54M + 85M + 7.7 = 237.7M

A Look at the Numbers

- 30,000 state workers make up about 6.8% of Delaware's employable work force and are taking a 91M dollar cut
- Of the 750M shortfall, 331M of it comes from a reduction in spending (Governor's budget speech)
- That means 6.8% of work force is absorbing 27.5% of the reduction in spending (91M divided by 331M)

To make the burden equal....

State worker at 60,000	Who is asked to take an 8% cut	Loses \$4,800, which is the equivalent of a 13.7% PIT increase in the 25 – 60 K Bracket
A non state employee making \$60,000	Would have his PIT increased from 5.45% to 19.16%	In the 25,001 – 60,000 bracket

Potential Impact of 8% - 10% Loss to 30,000 Citizens

- Many of the 30,000 will be pushed below the poverty line, increasing the stress on state services
- As salaries decrease, PIT revenue also decreases
- Delaware further damages its reputation as a good place to come and work
- Teachers spend approximately \$500 a year, out of pocket, to improve their classrooms, to help a child with supplies who may not get any from home

The Impact on Small Business

- 30,000 people with less disposable income translates into losses for businesses up and down the state, increasing the risk of shrinking business revenue and employee layoffs
- In short, small businesses, who depend on people's discretionary income, will lose 91M dollars in revenue

Alternatives do Exist that....

- Spread the burden more evenly
- Take a look at tax codes to make them more progressive, equitable, and in line with the ideals of a democracy
- Show our commitment to a long term solution

Taking a Closer Look at PIT

- Current Proposal: 1% for 60K and above bracket raises approximately 30M in year 1 and 78 M in year 2, for a total of 108M

PIT Scenarios

Proposal	Brackets and Changes	FY 10	FY 11	Total	Average	Additional Revenues per year
Administration	+1% >60K	30M	78M	108M	54M	NA
Proposal A	+0.25 <60K +0.5 >60K +1.75 > 120K	51.6M	132.8M	184.4M	92.2M	38.2M
Proposal B	+0.5 <60K +0.75 > 60K +2 >120K	73.M	186.6M	259.9M	129.95M	75.95M
Proposal C	+0.25<60K +0.75>60K +1.75>120K	54.4M	139.9M	194.3M	97.15M	53.15M
Proposal D	+0.5<60K +1 >60K +2 >120K	76.1M	193.7M	269.8M	134.9M	80.9M
Proposal E	Unchanged <60 +0.5 >60K +2 >100K	45.8M	119.7M	165.5M	82.75M	28.75M
Proposal F	Unchanged <60 +1 > 60K +2 >100K	50.3M	131.1M	181.4M	90.7M	36.7M

Additional Tax Obligation Scenarios

AGI with standard (minimum) deduction taken	Current De State Tax Obligation	.25% increase across the board	.5% increase across the board
\$30,000.00	\$924.00	+ \$54.00	+ \$107.00
\$44,000.00	\$1,696.00	+ \$88.00	+ \$177.00
\$60,000	\$2584.00	+ \$128.00	+ \$257.00

Taking a Look at the Business World

- Generally speaking, Delaware has one of the most, if not the most, favorable legal setting in the world.
- Businesses enjoy legal protections and the knowledge that Chancery Court and the Secretary of State's Office work hard to protect this standing
- We are not looking at legal code or Chancery Court, because this is beyond the scope of this set of proposals
- We are asking that Corporations that enjoy Delaware's friendly laws contribute their fair share

A Snapshot of Delaware Businesses

- There are currently approximately 875,000 legal entities registered in Delaware.
- 10,500 are foreign and 864,500 are domestic (ie, incorporated in Delaware).
- Of those, there are 264,000 corporations (inclusive of closed corporations), 71,000 limited partnerships, 508,000 LLCs and 22,500 statutory trusts.

Summary of PIT and Franchise Tax Caps

- By only looking at PIT and corporate franchise tax cap increases, the 91M dollars can easily be replaced
- There are several other areas to look at as well, and they will be referred at the end of the presentation

Comparisons and Questions of Equity and Responsibility

Category of Citizen	Salary or Value	Amount being asked to contribute to state budget crisis	Contribution to Balanced Budget
State Employee	60,000	\$4,800 = 8% of gross salary	91M
Corporations that pay maximum Franchise tax, according to Delaware Revenue Projected, would have a minimum assets of \$660,000,000. Clearly, of the 1500 corporations that pay the maximum, the average is in the tens of billions and hundreds of billions	\$660,000,000	<p>Adm. Proposal raises cap to 180 = 0.0027% of affected corporation's minimum asset value</p> <p>Raising cap to 195K = 0.0054% of affected corporation's minimum asset value</p> <p>Raising cap to 210K = 0.0068% of affected corporation's minimum asset value</p> <p>Raising cap to 225K = 0.0080 of affected corporation's minimum asset value</p>	<p>170M, FY '10 and '11</p> <p>Additional 22.5M per year</p> <p>Additional 45M per year</p> <p>Additional 67.5M per year</p>

A Look at Franchise Tax Cap

- Currently at \$165,000, and according to the Delaware Revenue Projected Document, approximately 1500 corporations routinely max out
- According to the same document, these companies' minimum worth is \$660,000,000, and increase in value from there, possibly into the tens and hundreds of billions

Current Administration's Proposal

- The current proposal moves the franchise tax cap from \$165,000 to \$180,000, and raises the multiplier within the par value method from \$250 dollars per million to \$350.00 per million.

Raising the franchise tax cap....

- The three proposals below keep the administration's proposed increase on the multiplier as is and changes the proposed cap from 180K to.....
- 195 K and raises an additional 22.5M per year above the current proposal
- 210 K and raises an additional 45M per year above the current proposal
- 225 K and raises an additional 67.5M per year above the current proposal

Additional Revenue Streams

- a) Increase Minimum Tax on Corporations from \$75 to \$100.00
(Would affect approximately 237,600 companies ; 90% as mentioned in Delaware Revenue Projected Report) ...it was raised from 35 to 75 minimum January 1 2008)

Raising approximately 5.94M (25 x 237,600)

- b) Increase annual report filing fee from \$ 25.00 – \$40.00 for Corporations (About 264,000 traditional corporations in Delaware)

Raising approximately 3,96 M (15 x 264,000)

More Options

<p>Raise Filing Fees on Foreign Corporations from 100.00 to 250.00 would raise) fees on 10,555 companies that are incorporated OUTSIDE of Delaware but do business in Delaware</p>	<p><u>10,500 X 150 – 1.575M</u></p>
<p>Tax on LLC and LC is now at 250 and there are approximately 579,000 incorporated in DE. Governor proposes no change</p>	<p><u>Change Fee from 250 - 300 raises an additional 28.95M</u></p> <p>(50 x 525,000) Fees were raised from 200 – 250 as of 1/1/08 and some LLCs, LC and GP might need to be excluded from this based on value or other variables such as sometimes several are spinoffs from the same parent.</p>

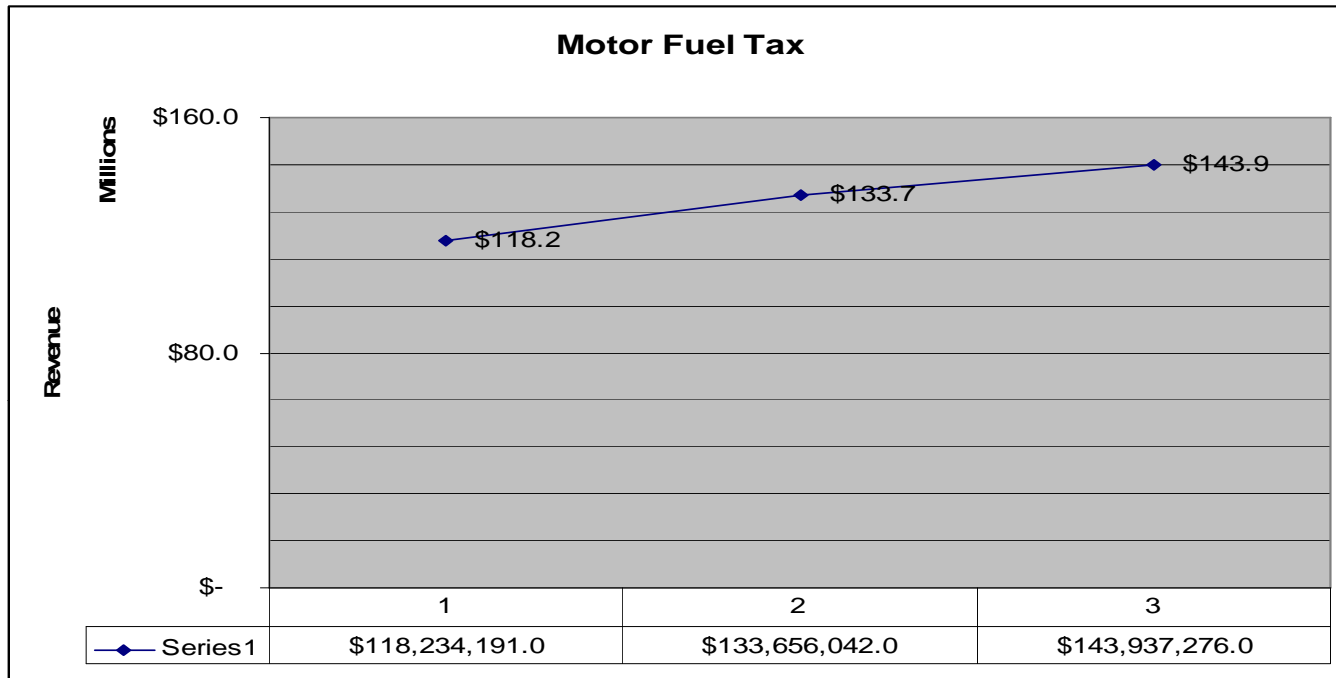
Statutory trusts and Rainy Day...

<p>Untapped Resource in Statutory Trusts; They pay nothing now and they are, quite often, a vehicle for sheltering all kinds of assets. Since this has no fee attached to it, does it make sense to put a number to it? Even a 200 dollar fee would raise some money</p>	<p><u>200 x 10,500 = 2.1M</u></p>
<p>Use of Rainy Day Fund. With a 186M dollar fund, it is incomprehensible why some of this could not be used to close the gap. The purpose of a rainy day fund is to help avoid across the board cuts such as these that threaten then integrity of a entire state. What does it look like if we refuse to use our RDFund but back a plan that is irresponsible and inequitable?</p>	<p><u>Even using 25% gives 46.5M Dollars</u></p>

Tax on Inherited Wealth (On Estates Valued over 4M)

<p>Reintroducing Estate Tax</p> <p>According to the Delaware Revenue Projected Document, it would raise anywhere from 35M to 45M once reinstated. Perhaps 40M would be a safe number to use and would be of no use this fiscal year as folks are given nine months to file the estate papers</p>	<p><u>Additional Revenue</u></p> <p><u>40M</u></p>
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Gasoline Tax



Assumptions: 3 Yr Average of gallons sold in FY06, FY07, FY08 = 514,061,700 gallons

1. Identifies current rate \$.23 by 514,061,700 gallons = \$118.2 ml in revenues.
2. Assumes a gas tax rate of \$.26 by 514,061,700 gallons = \$133.6 ml in revenues.
*generates an additional \$15.4 in revenues.
3. Assumes a gas tax rate of \$.28 by 514,061,700 gallons = \$143.9 ml in revenues.
*generating an additional \$25.7 ml in revenues.

Furlough Days for Other State employees

- Furlough days for non public school related employees saves about a million dollars per day
- Some state workers, such as those who work as correctional officers, are unable to take furlough days

Summary

Category	New Revenue Proposal	Admin. Proposal
PIT Scenarios (Range of lowest to highest)	82.75M – 134.9M	54M average
Franchise Cap....195K-225K keeping admin. proposed increase on multiplier from 250 – 350 per millions	107.5M – 152.5M	85M average
Minimum Fees on Corp	5.94M	0
Filing fees for Corp	3.96M	0
LLC Tax	28.95M	0
Foreign Corp Tax	1.575M	0
Statutory Trust	2.1M	0
Rainy Day Fund	46.5M	0
Inherited Wealth Tax	40M	0
Gasoline Tax	15.4M – 25.7 M	0
Salary Cut to State Workers	0	91M
Cut three In-service Days for Educators	7.7M	7.7M
3 Furlough days for other state workers	Approximately 3M (Rough Estimate)	0
Total revenues	345.375M - 452.825M	237M
The new revenue column adds an additional 108.375 5M – 215.875M of revenue		

Additional Furlough Days

- For your consideration, every furlough day, excluding education and 24/7 State of Delaware employees, equals approximately \$1 million dollars of revenue saved per each furlough day.

Sources

- The numbers for this presentation come primarily from three sources
 - PIT Numbers through John Kowlko's office, from the Budget office
 - Number of Delaware businesses, through Bill Oberle's office, again from the Budget office
 - Delaware Revenue Projected Document, December 2007