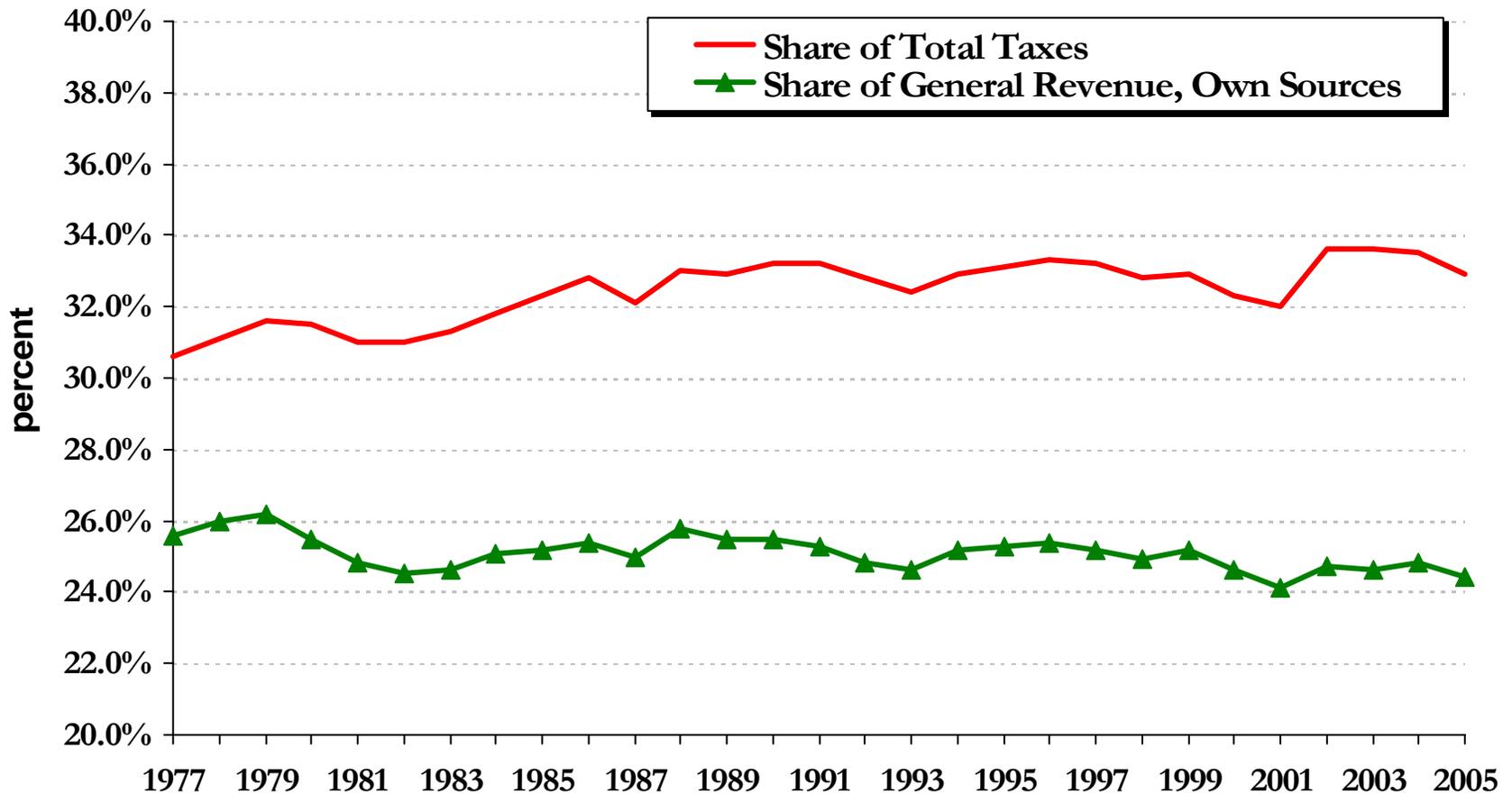

The Squeeze on the Sales Tax

Presented by
Matthew N. Murray
The University of Tennessee

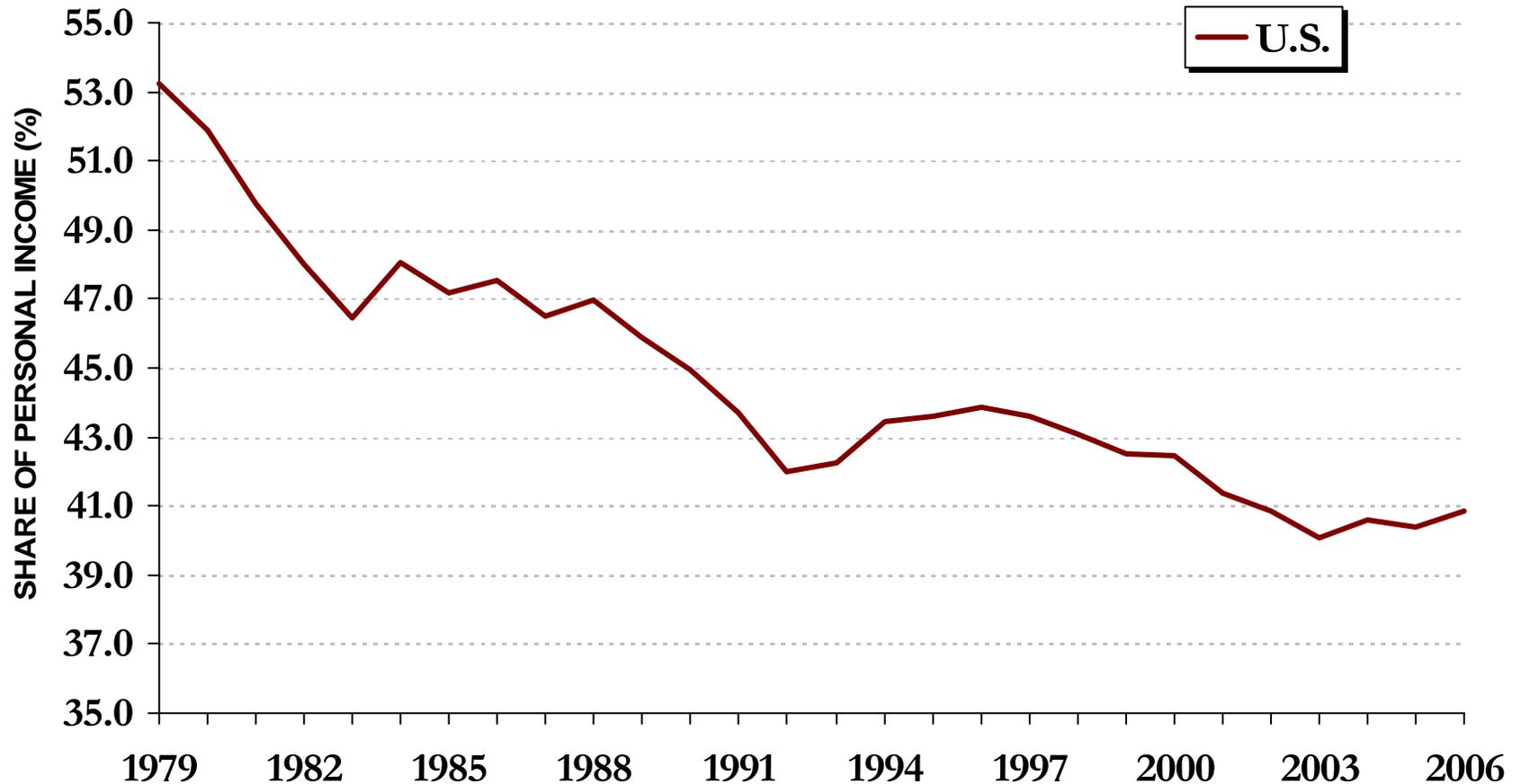
September 17, 2007

State General Sales Tax Collections 1977–2005

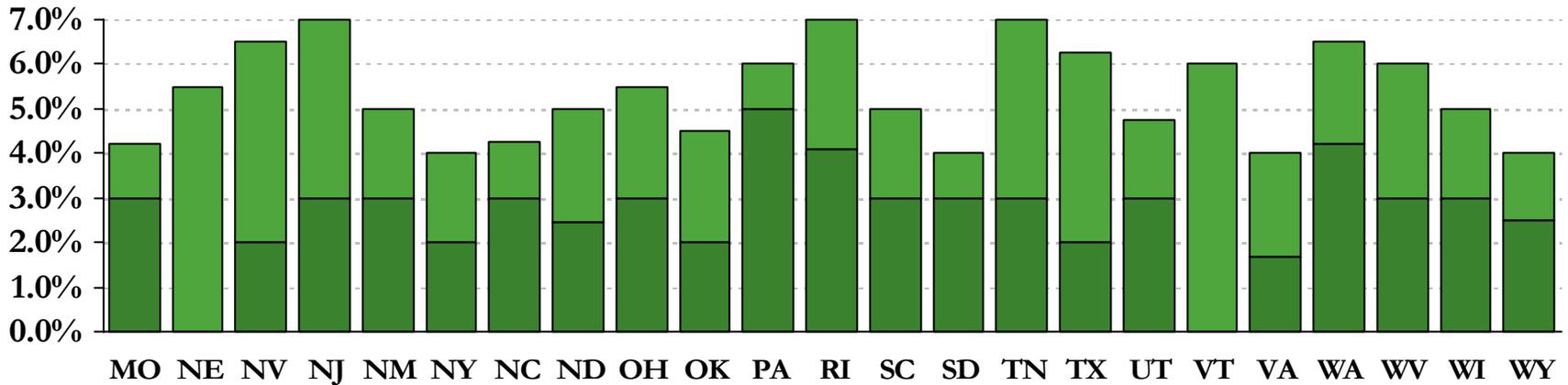
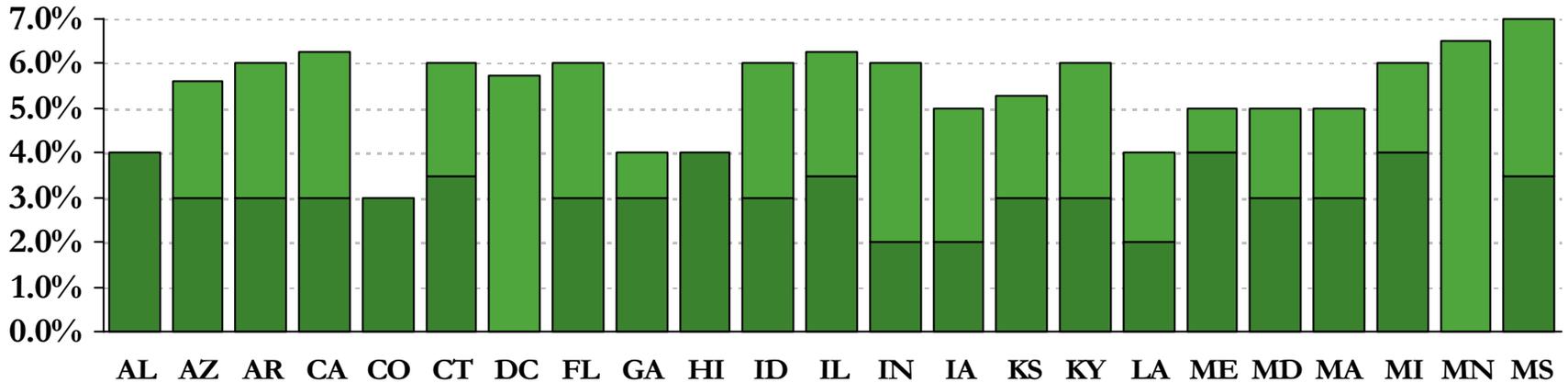


Source: U.S. Census Bureau.

Sales Tax Base as a Percentage of Personal Income: 1979 to 2006



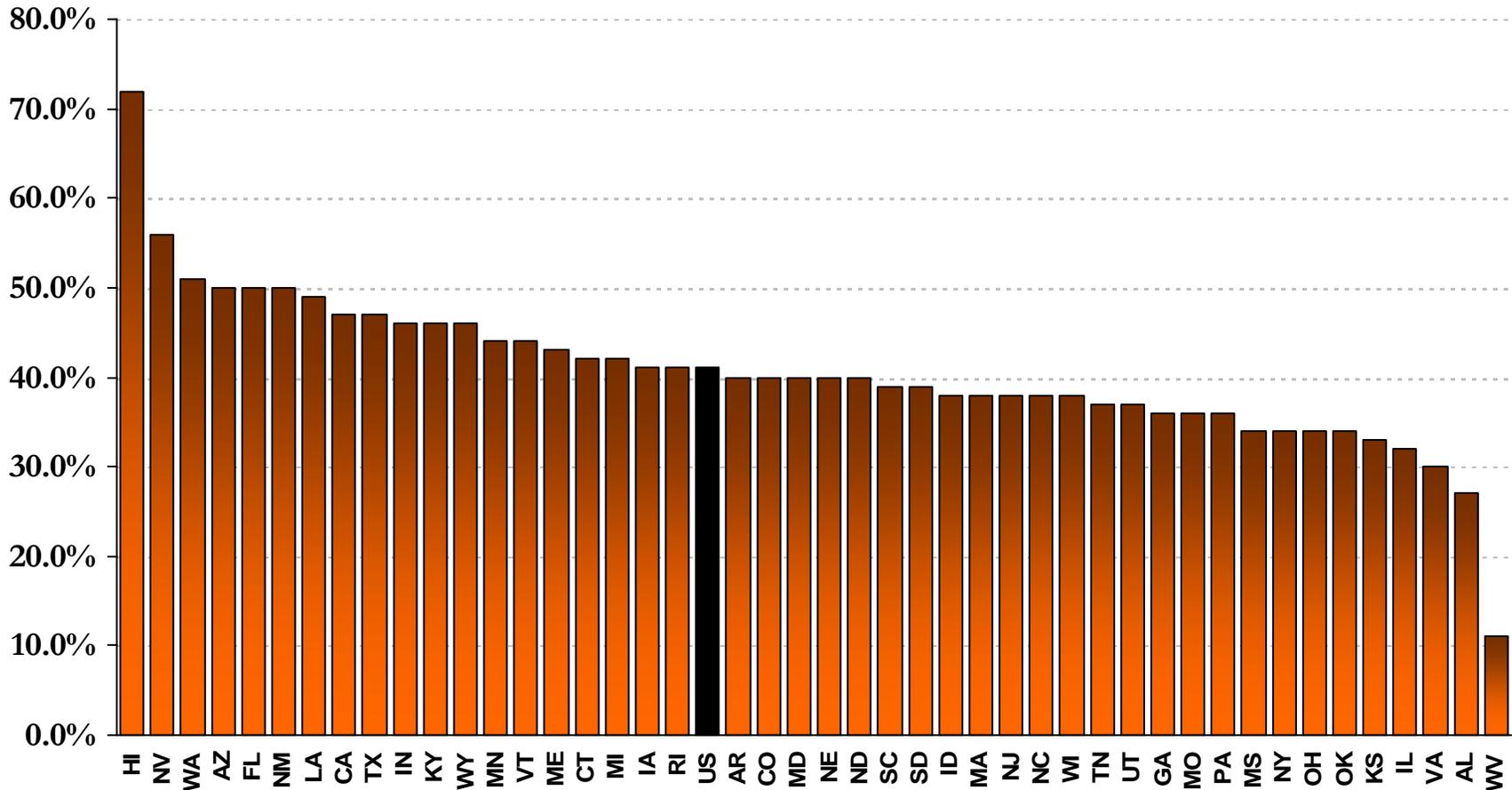
State Sales Tax Rates 1967 and 2007



Sates without sales tax: Alaska, Delaware, Montana and New Hampshire.

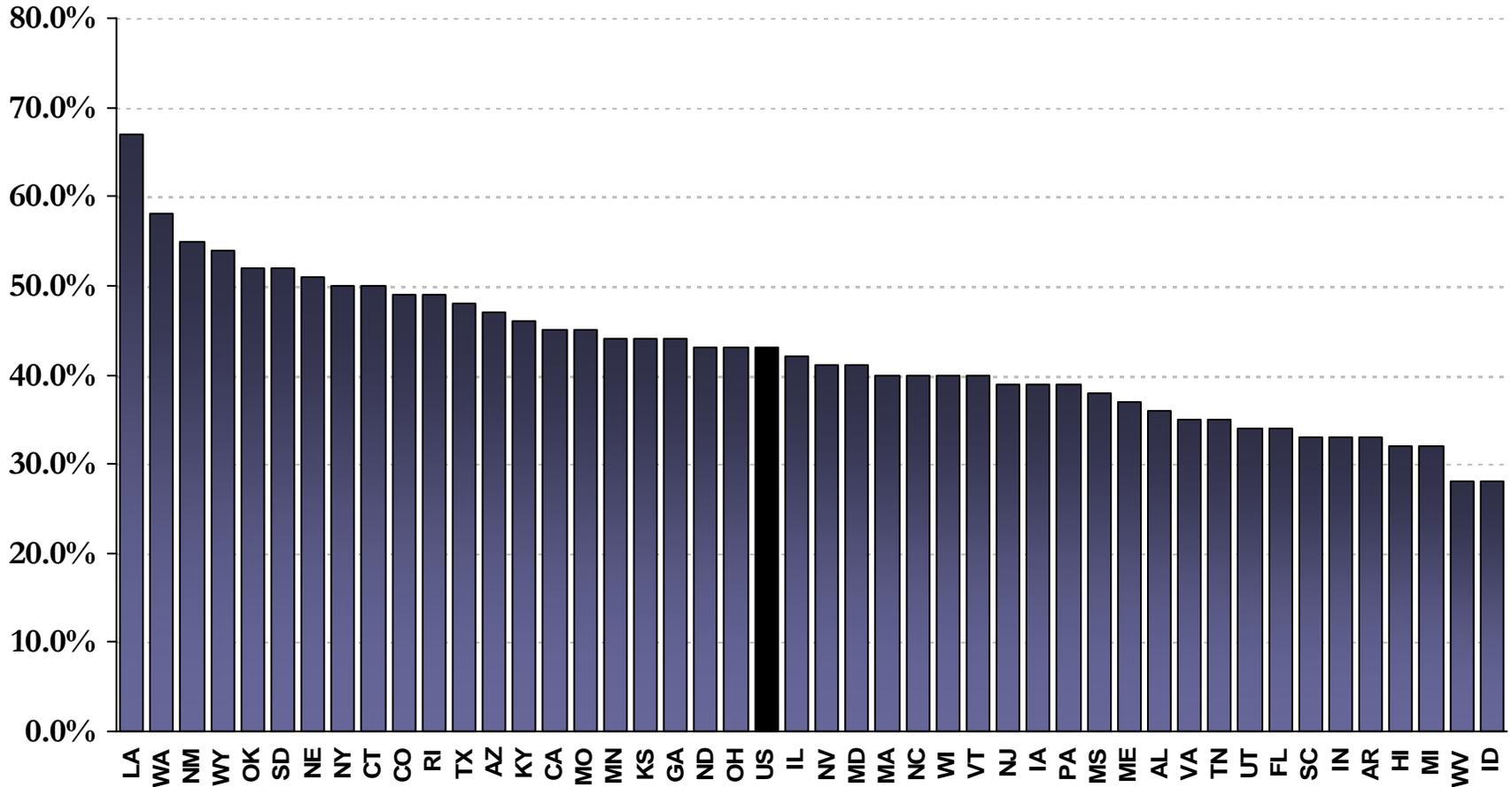
Source: CCH, Inc.

Business Share of Total State & Local General Sales Tax Collections: 1989



Source: Ring, R., "Consumers' Share and Producers' Share of the General Sales Tax," *National Tax Journal*, Vol. 52, 1999, pp. 79-90.

Business Share of Total State & Local General Sales Tax Collections: 2003



Source: Ernst & Young, 50-State Tax Model for 2003.

Challenges to Expanding the Scope of Business Exemptions

This would be good policy, but...

Perceptions of corporate welfare

Perception of diminished capacity to export taxes

Practical problem of shoring up revenue losses

Political opposition from those who would bear the new burden

Things We Don't Know

- Little evidence on pyramiding
- Excess burdens
- Effects on investment, job creation, etc.
- Vertical integration
- Direct burden is not final incidence: Who bears the burden of the sales tax on business inputs?
 - Immobile land and labor?
 - Mobile business capital?

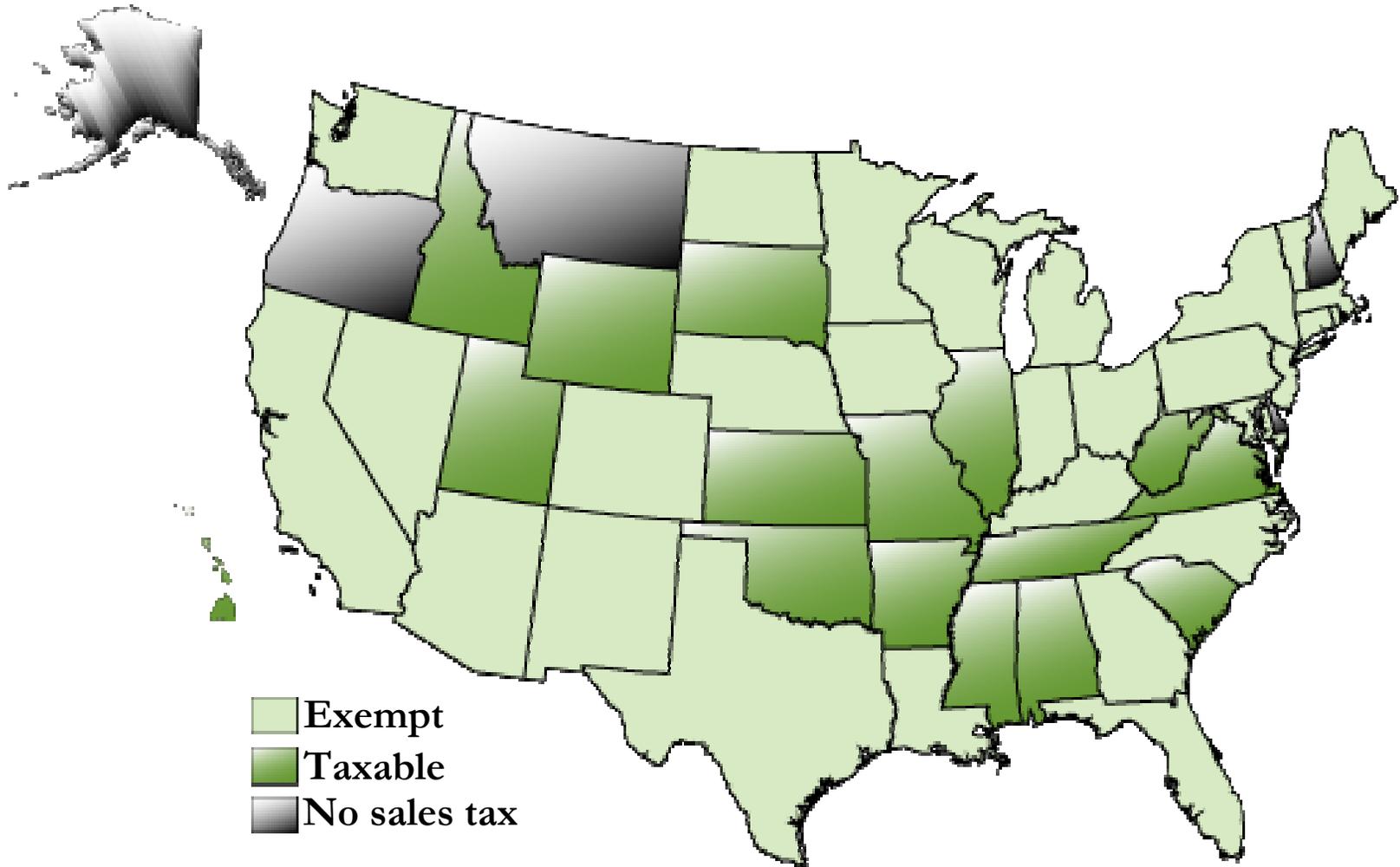
2007 State Sales Tax Holidays

State	Days	Items Included - Maximum Cost	1st Year	2007 dates
Alabama	3	clothing - \$100 computers - \$750 school supplies - \$50 books - \$30	2006	Aug 3-5
Connecticut	7	clothing - \$300	2001	Aug 19-25
Connecticut	389	weatherization products		June 1, 2006 - June 30, 2007
Dist of Columbia	9	clothing - \$100 school supplies - \$100	2004	Aug 4-12
Dist of Columbia	9	clothing - \$100	2004	Nov. 23 - Dec. 2
Florida	10	clothing - \$50 school supplies - \$10	2007	Aug 4-13
Florida	12	hurricane supplies & equipmt	2007	June 1-12
Georgia	4	clothing - \$100 school supplies - \$20 computers - \$1,500 energy efficient products - \$1,500	2005	Aug 2-5
Georgia	4	energy efficient products - \$1,500	2005	Oct 4-7
Iowa	2	clothing - \$100	2000	Aug 3-4
Louisiana	10	all TPP - \$2,500	2007	Aug 3-4
Massachussetts	2	all TPP - \$2,500	2007	Aug 11-12

State	Days	Items Included - Maximum Cost	1st Year	2007 dates
Missouri	3	clothing - \$100 computers - \$3500 school supplies - \$50	2006	Aug 3-5
New Mexico	3	clothing - \$100 computers - \$1,000 school supplies - \$15	2005	Aug 3-5
North Carolina	3	clothing - \$100 school supplies - \$100 computers - \$3,500 other comp. - \$250 sports equip - \$50	2001	Aug 3-5
Oklahoma	3	clothing - \$100	2007	Aug 3-5
South Carolina	3	clothing school supplies computers	2000	Aug 3-5
Tennessee	3	clothing - \$100 school supplies - \$100 computers - \$1,500	2006	Apr 27-29
Tennessee	3	clothing - \$100 school supplies - \$100 computers - \$1,500	2006	Aug 3-5
Texas	3	clothing & backpacks - \$100	1999	Aug 17-19
Virginia	3	clothing - \$100 school supplies - \$20	2006	Aug 3-5
Virginia	4	energy efficient products - \$2,500	2006	Oct 5-8

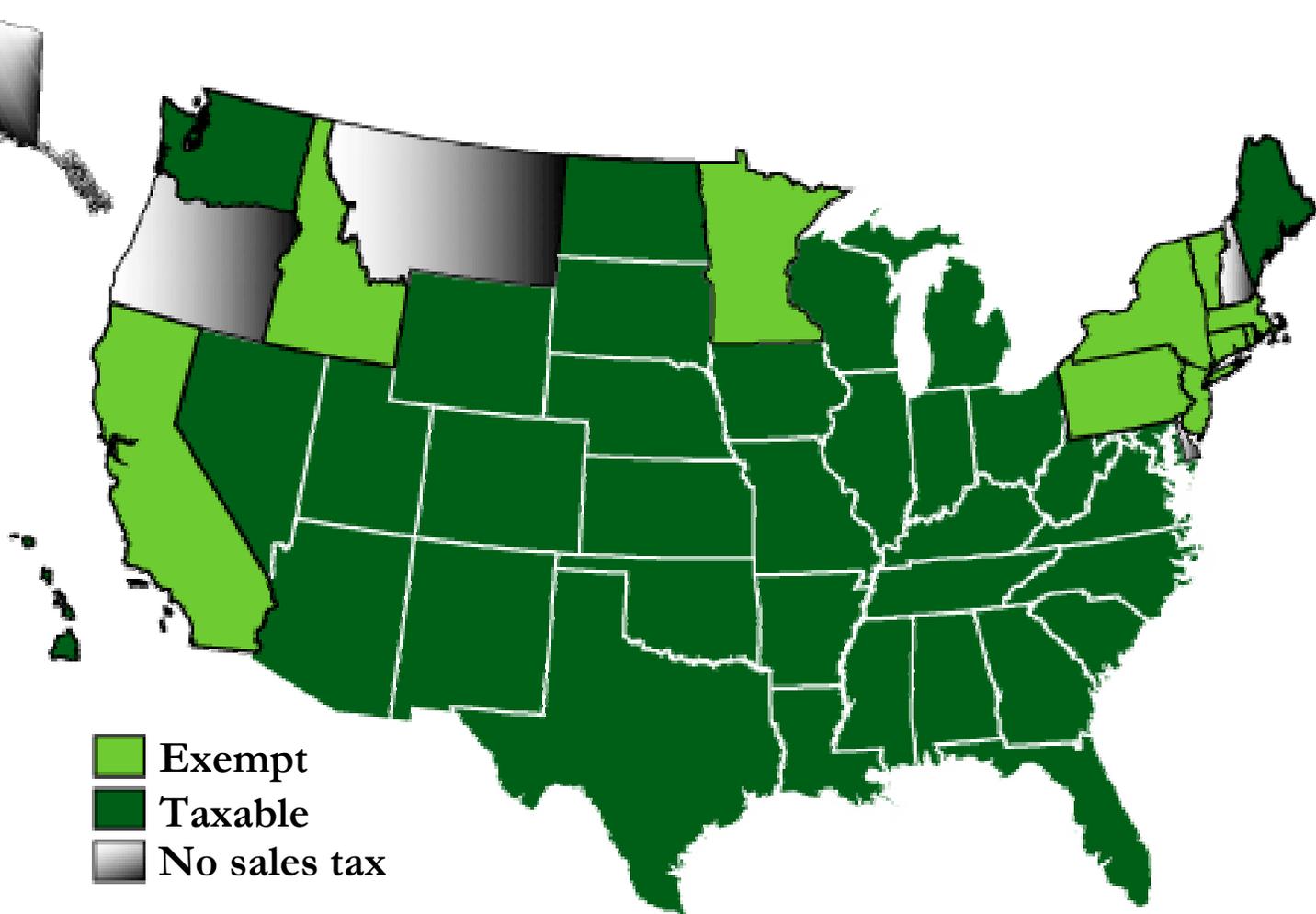
Source: Federation of Tax Administrators <http://www.taxadmin.org/fta/rate/sales_holiday.html>.

Sales Tax on Groceries: 2007



Source: CCH, Inc.

Sales Tax on Clothing: 2007



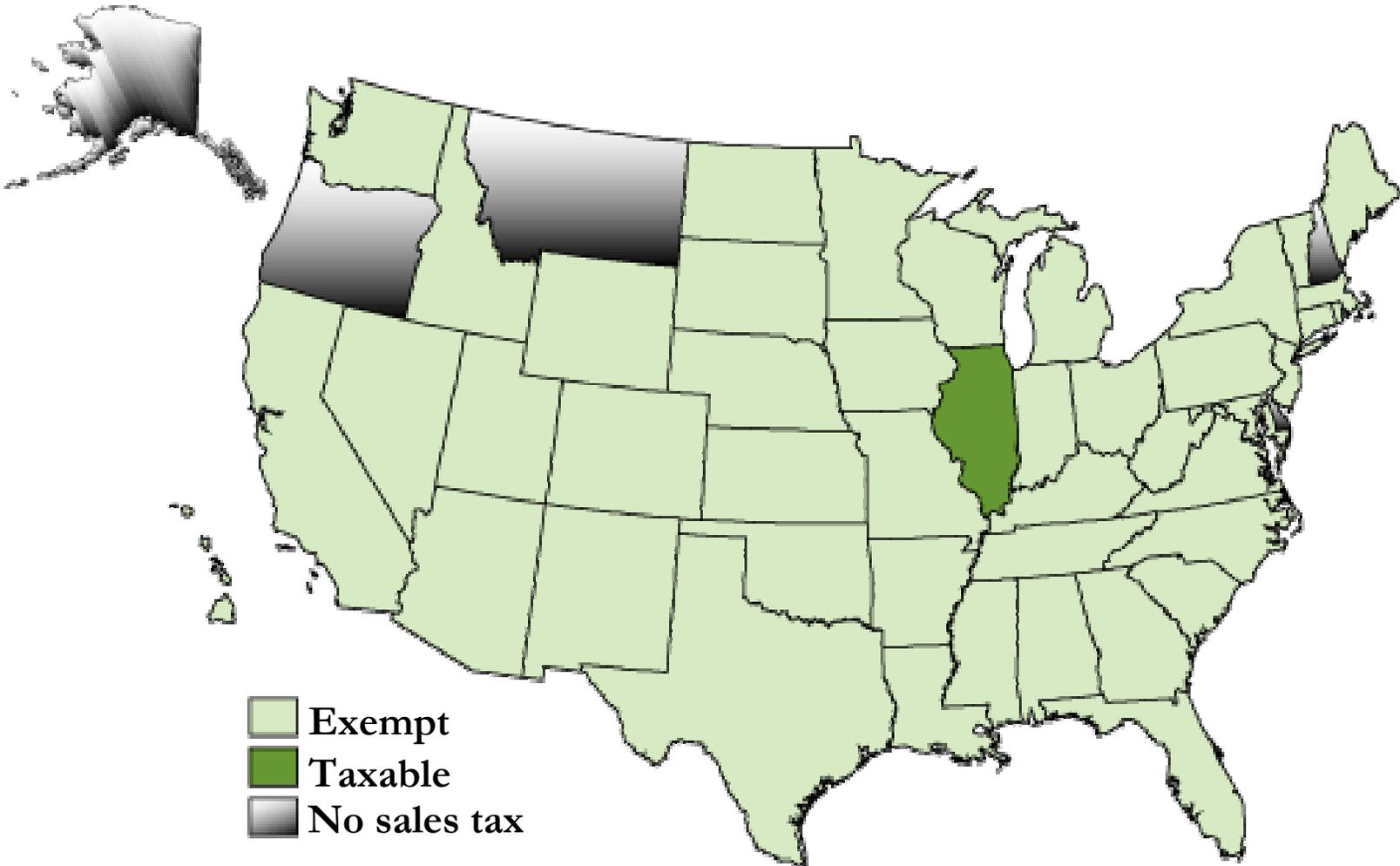
Source: CCH, Inc.

Sales Tax on Clothing: 2007

CA	Exempt: new children's clothing sold to nonprofits; used clothing sold by thrifts to benefit chronically ill
CT	Exempt: clothing & footwear items less than \$50 each; employee safety apparel and bike helmets
ID	Exempt: clothing, footwear purchased by nonsale clothiers to be given to needy
MA	Exempt: clothing & footwear items less than \$175 each Taxable: athletic, protective use clothing
NJ	Exempt: clothing, footwear Taxable: athletic clothing
NY	Exempt: clothing & footwear items less than \$110 each
PA	Exempt: clothing, footwear Taxable: accessories, fur items, formal wear, athletic clothing
RI	Exempt: clothing, footwear Taxable: athletic or protective clothing
VT	Exempt: clothing & footwear items less than \$110 each and steel or Kevlar footwear Taxable: athletic or protective clothing is taxable

Source: CCH, Inc.

Sales Tax on Prescription Drugs: 2007



Source: CCH, Inc.

Some Options for Expanding the Consumer Sales Tax Base

- Health services
- Education services
- Residential construction services
- Personal services
- Amusement and recreation services
- SSTP-expands the *effective* base by expanding the scope of the use tax

Challenges to Expanding the Consumer Base

- General concerns over fairness
 - Sales tax is a poor mechanism to promote fairness
- Should human capital investments be taxed?
- Revenue yield for many personal and amusement services is modest
- Administration/compliance
 - Construction, personal and amusement services will be prone to noncompliance

Optimal tax theory: if you cannot tax output, it *may* be appropriate to tax inputs