

CRAFTING GOOD SALES TAX POLICY

Louisiana Sales Tax Streamlining and Modernization Commission
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presented by

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ABOUT THE
TAX FOUNDATION

we are
independent
nonprofit
nonpartisan

ABOUT THE TAX FOUNDATION

we value tax
systems that are

simple
neutral
transparent
stable
pro-growth

**WHY DO WE HAVE
SALES TAXES**



Sales taxes tend to be:

- More **stable** than other taxes (if well-designed)
- **Transparent** (shows up on the receipt)
- **Reflects overall economy** (if broad-based)
- **A way for everyone to chip in**

But most sales taxes are

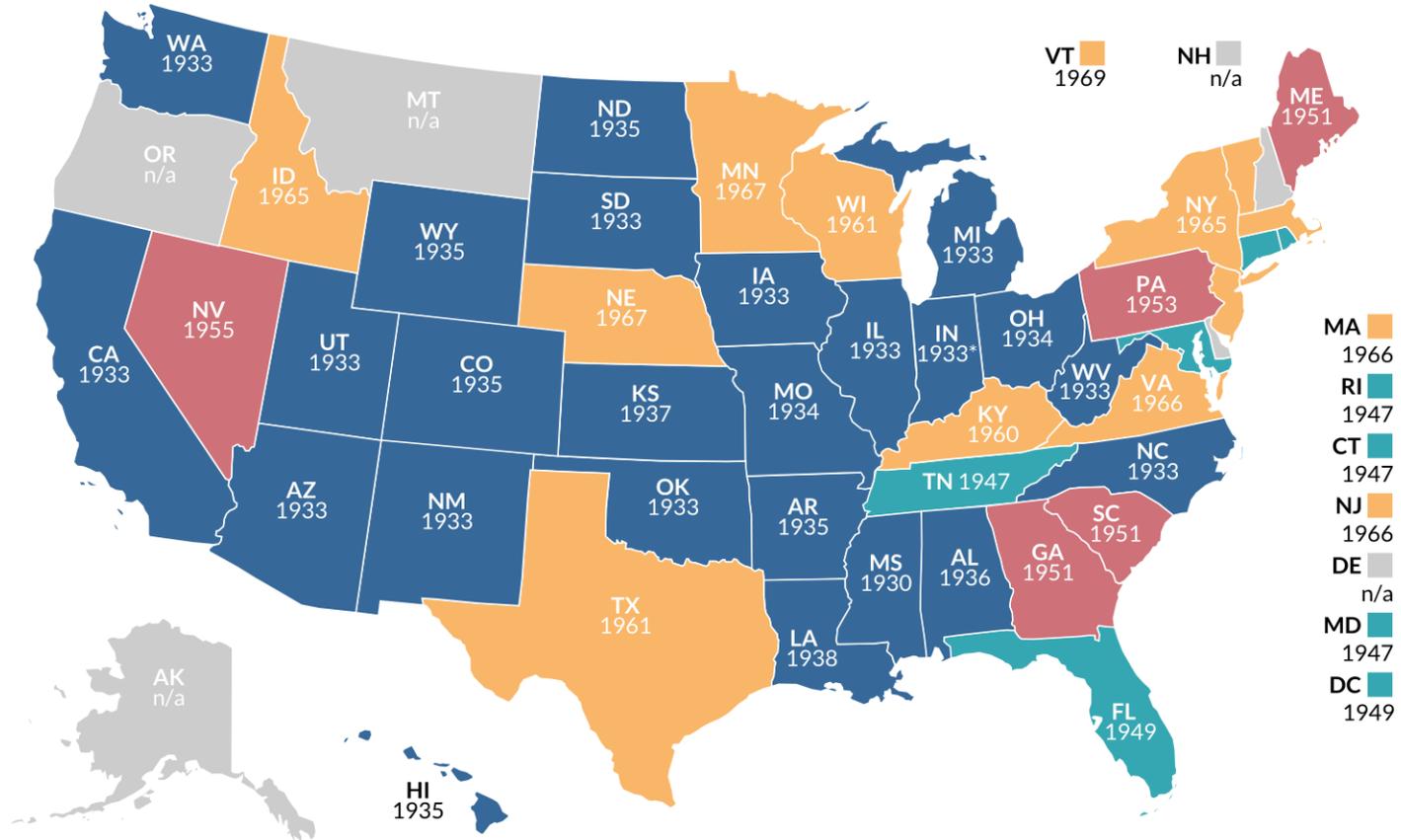
NARROW, OUTDATED, & DISTORTIONARY

Three flaws of sales taxes today:

Most sales taxes...

- Do not extend to services
- Exempt some purchases for political reasons
- Tax business inputs

State Sales Taxes: Year of Adoption by State



Note: Indiana adopted a gross income tax in 1933, but in 1963 it enacted a 2% retail sales and use tax; the gross income tax is not strictly comparable to the retail sales tax. Data as of July 1, 2014. Published July 10, 2014.

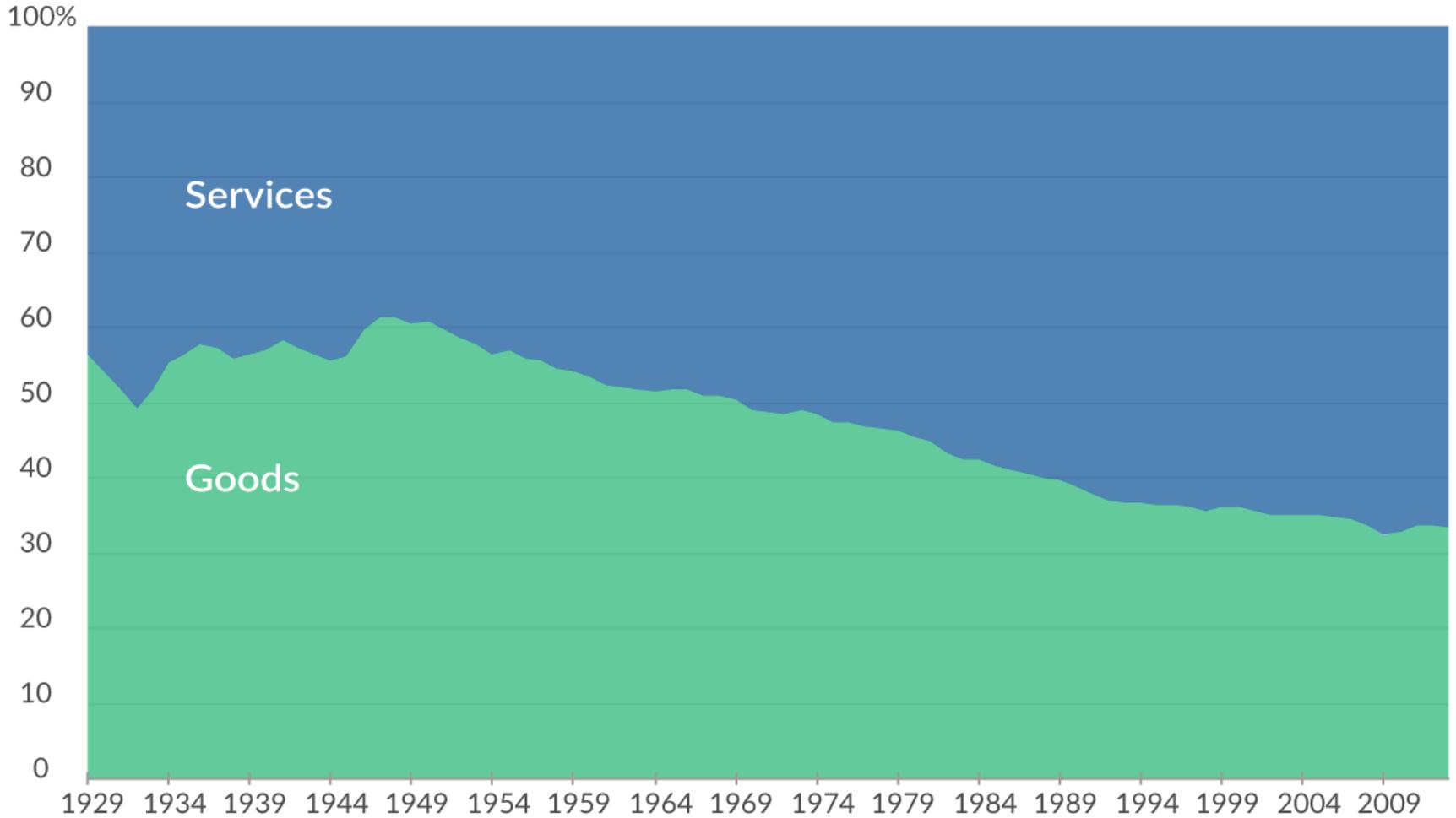
Source: *Significant Features of Fiscal Federalism: Budget Processes and Tax Systems*, Vol. 1, 1994.

State Sales Taxes: Year of Adoption by State



Percent of Total Personal Consumption Expenditures

Goods vs. Services, U.S. (1929-2013)



Source: Bureau of Economic Analysis, *National Income and Product Accounts (Personal Income and Outlays)*.

Why does it matter?

- The less we tax, the higher the rate
- Rates can only go so high before you get leakage (online or cross border shopping)

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Most sales taxes...

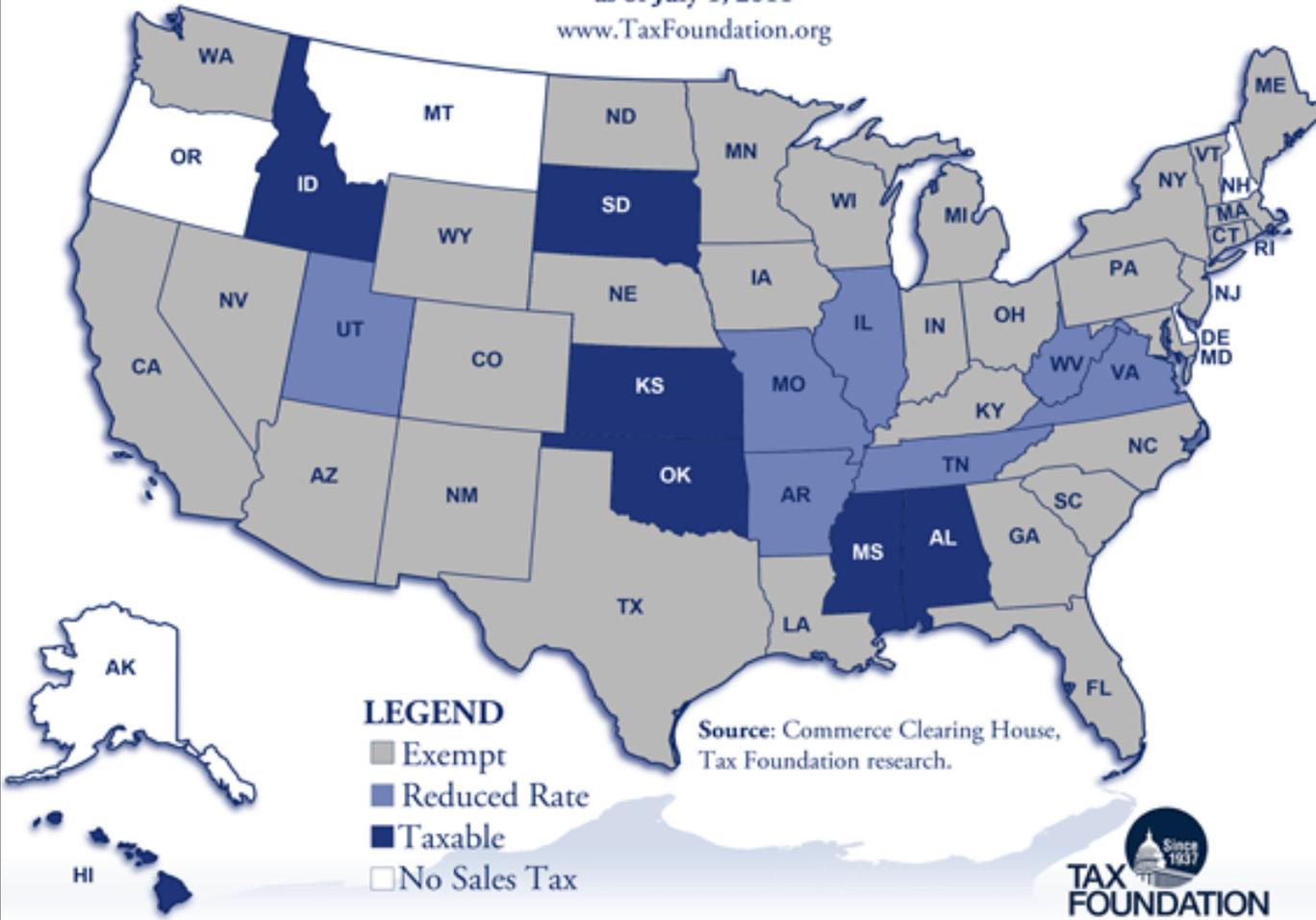
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Sales Tax Treatment of Groceries

State Sales Tax Bases: Exemption for Groceries

as of July 1, 2011

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Sales Tax Treatment of Groceries, Candy, & Soda, 2015

State	State General Sales Tax	Grocery Treatment	Candy Treated as Groceries?	Soda Treated as Groceries?
Ala.	4.00%	Included in Base	Yes	Yes
Alaska (a)	--	--	--	--
Ariz.	5.60%	Exempt	Yes	Yes
Ark.	6.50%	1.50%	Yes	Yes
Calif. (b)	7.50%	Exempt	Yes	No
Colo.	2.90%	Exempt	No	No
Conn.	6.35%	Exempt	No	No
Del. (a)	--	--	--	--
Fla.	6.00%	Exempt	No	No
Ga.	4.00%	Exempt	Yes	Yes
Hawaii	4.00%	Included in Base	Yes	Yes
Idaho	6.00%	Included in Base	Yes	Yes
Ill.	6.25%	1.00%	No	No
Ind.	7.00%	Exempt	No	No
Iowa	6.00%	Exempt	No	No
Kans.	6.15%	Included in Base	Yes	Yes
Ky.	6.00%	Exempt	No	No
La.	4.00%	Exempt	Yes	Yes
Maine	5.50%	Exempt	No	No
Md.	6.00%	Exempt	No	No
Mass.	6.25%	Exempt	Yes	Yes
Mich.	6.00%	Exempt	Yes	Yes
Minn.	6.88%	Exempt	No	No
Miss.	7.00%	Included in Base	Yes	Yes
Mo.	4.23%	1.23%	Yes	Yes
Mont. (a)	--	--	--	--
Nebr.	5.50%	Exempt	Yes	Yes
Nev.	6.85%	Exempt	Yes	Yes
N.H. (a)	--	--	--	--
N.J.	7.00%	Exempt	No	No
N.M.	5.13%	Exempt	Yes	Yes
N.Y.	4.00%	Exempt	No	No
N.C.	4.75%	Exempt	No	No
N.D.	5.00%	Exempt	No	No
Ohio	5.75%	Exempt	Yes	No

State	State General Sales Tax	Grocery Treatment	Candy Treated as Groceries?	Soda Treated as Groceries?
Okla.	4.50%	Included in Base	Yes	Yes
Ore. (a)	--	--	--	--
Pa.	6.00%	Exempt	Yes	No
R.I.	7.00%	Exempt	No	No
S.C.	6.00%	Exempt	Yes	Yes
S.D.	4.00%	Included in Base	Yes	Yes
Tenn.	7.00%	5.00%	Yes	Yes
Tex.	6.25%	Exempt	No	No
Utah (b)	5.70%	1.75%	Yes	Yes
Vt.	6.00%	Exempt	Yes	Yes
Va. (b)	5.30%	2.50%	Yes	Yes
Wash.	6.50%	Exempt	Yes	No
W.Va.	6.00%	Exempt	No	No
Wis.	5.00%	Exempt	No	No
Wyo.	4.00%	Exempt	Yes	Yes
D.C.	5.75%	Exempt	Yes	No

So, what is “candy”?

“Any preparation of sugar, honey, or other natural or artificial sweeteners in combination with chocolate, fruits, nuts or other ingredients or flavorings in the form of bars, drops, or pieces. 'Candy' does not include any preparation containing flour or requiring refrigeration.”

So, what is “candy”?

Which Treats Are Considered “Candy” for Tax Purposes?

Product	Tax Classification
Twix®	Not taxable
Milky Way®	Not taxable
Milky Way Midnight®	Taxable
Kit-Kat®	Not taxable
Bakery on Main® Chocolate Almond Granola Bar: Gluten Free	Taxable

Note: These are the author’s interpretations of Streamlined Sales Tax Project (SSTP) state statutes and proposals. States may interpret their laws differently in practice.

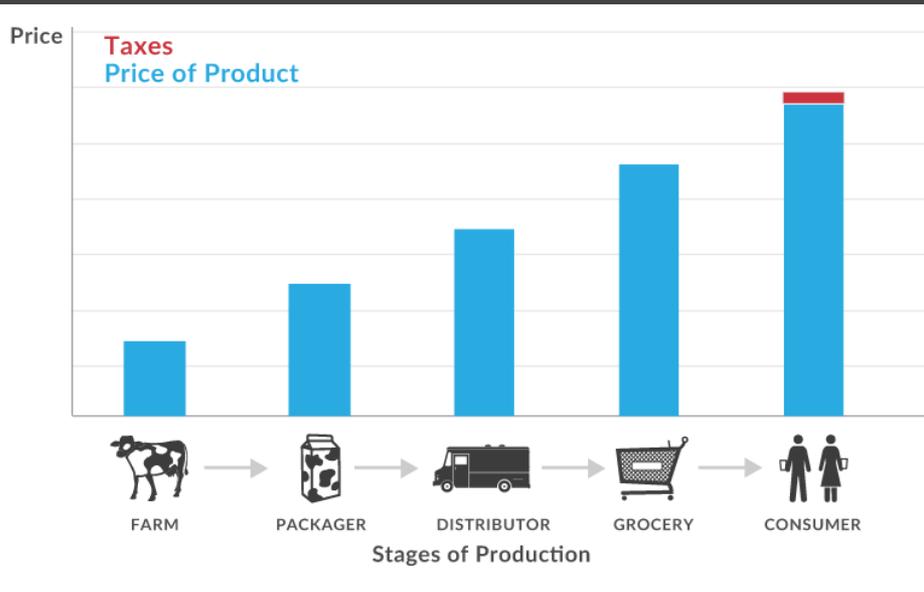
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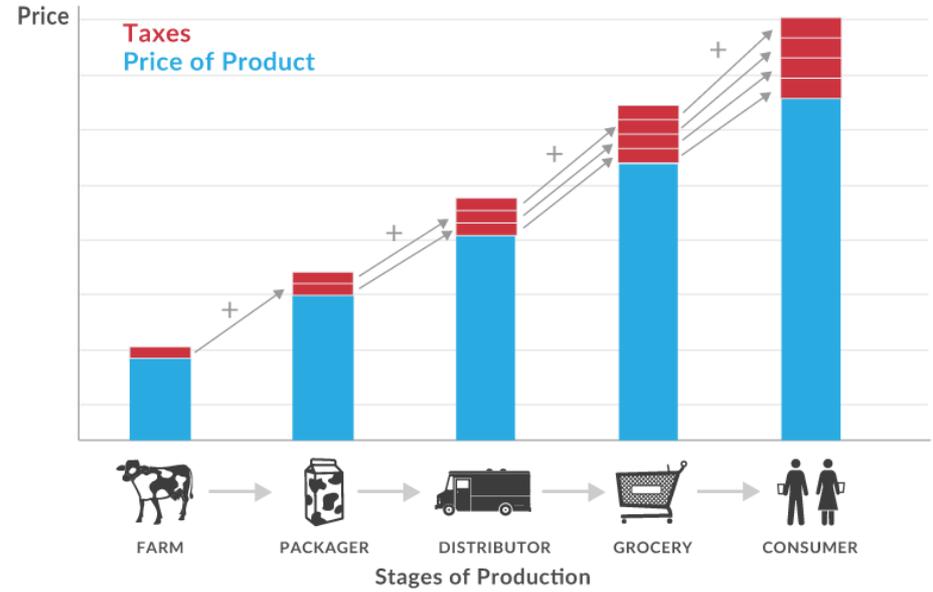
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Avoiding Tax Pyramiding

Proper Sales Tax



Improper Sales Tax



Avoiding Tax Pyramiding

Pyramiding taxes:

- **Are nontransparent (hide true cost)**
- **Distort behavior (promote unnecessary vertical integration)**



TO CONCLUDE,
A “right-sized”
sales tax...

SHOULD TAX

goods & services purchased
by final consumers

SHOULD NOT TAX

business input goods & services
(used in production)

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