

Sales Tax on Services

THEORY & CHALLENGES

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Presentation to
The Sales Tax Streamlining and Modernization
Commission (November 18, 2015)

Given that nearly all public finance experts agree that states should broadly tax goods *and* services,



Why do so few tax services today?

Examples of Failed Attempts to Tax Services

Florida

Broad services tax (1987) in effect for only 6 months

Massachusetts

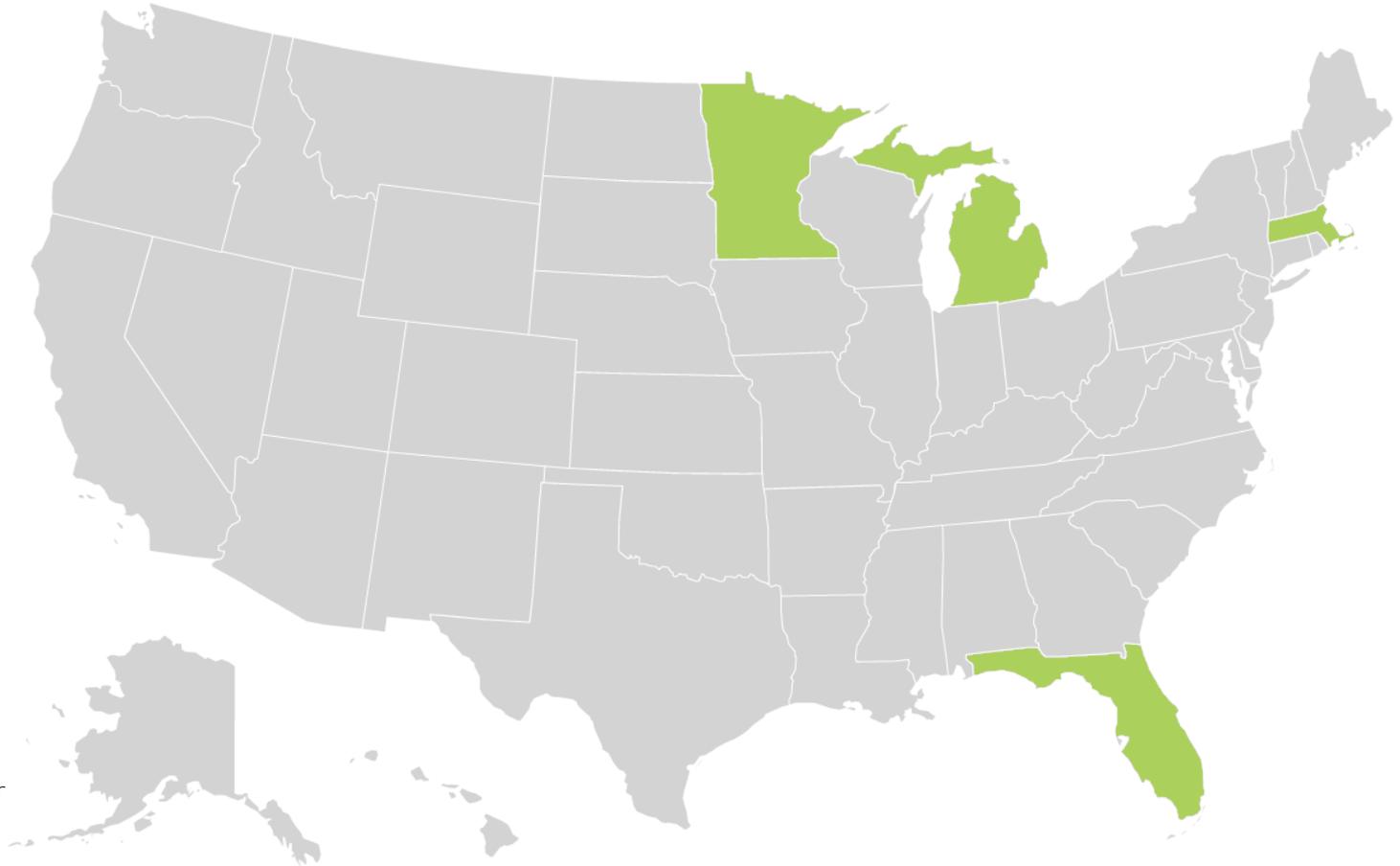
Computer services tax (2013) in effect for only 2 months

Michigan

Broad services tax (2007) repealed in less than 24 hours

Minnesota

Tax on warehouse and storage services (2014) repealed prior to effective date



Increased Attention in Recent Years

2013

Louisiana

Gubernatorial
Proposal

Minnesota

Gubernatorial
Proposal

Nebraska

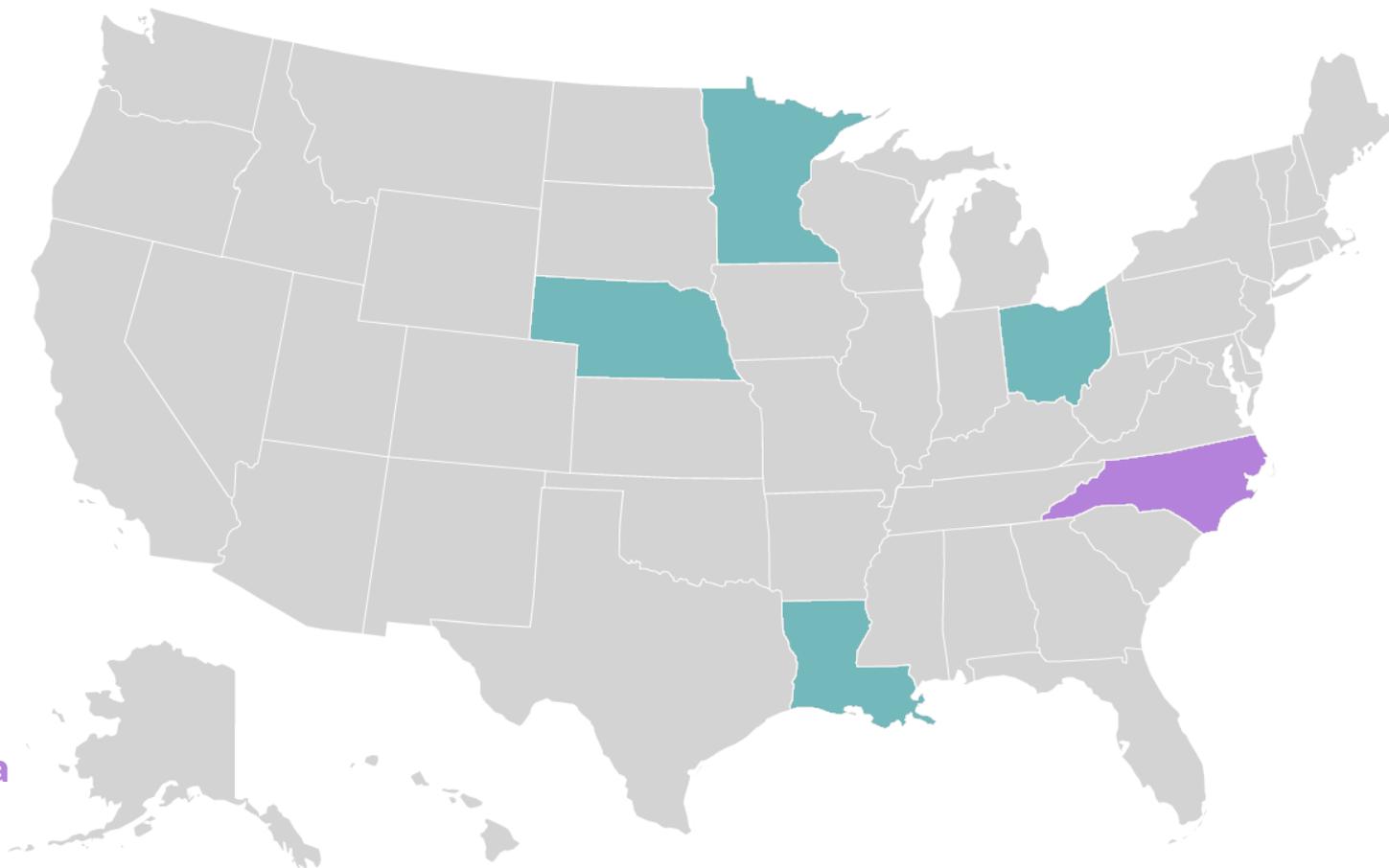
Gubernatorial
Proposal

Ohio

Gubernatorial
Proposal

North Carolina

Legislator
Proposal



Increased Attention in Recent Years

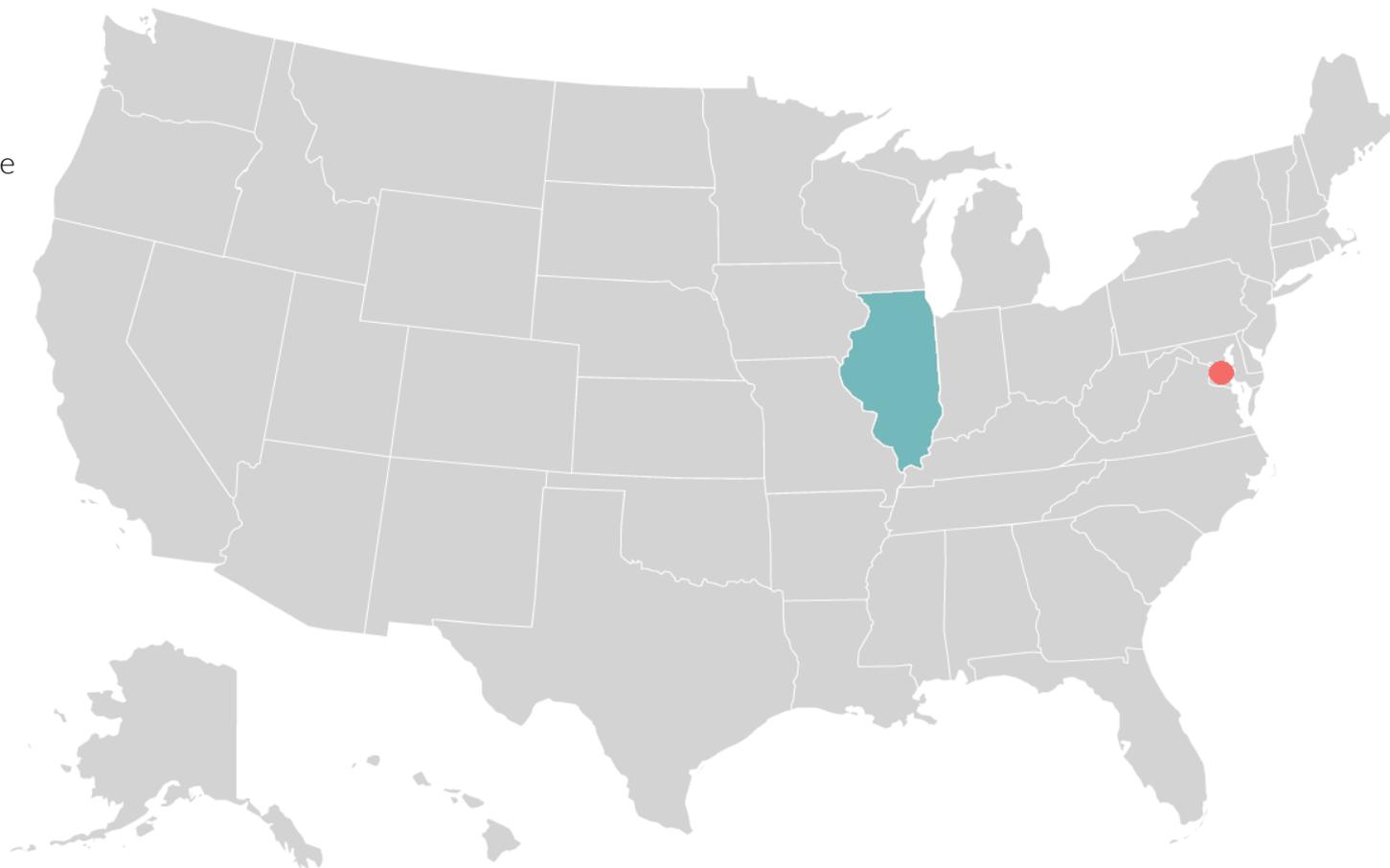
2014 – a few examples

D.C.

Selected Service Base
Expansion Enacted

Illinois

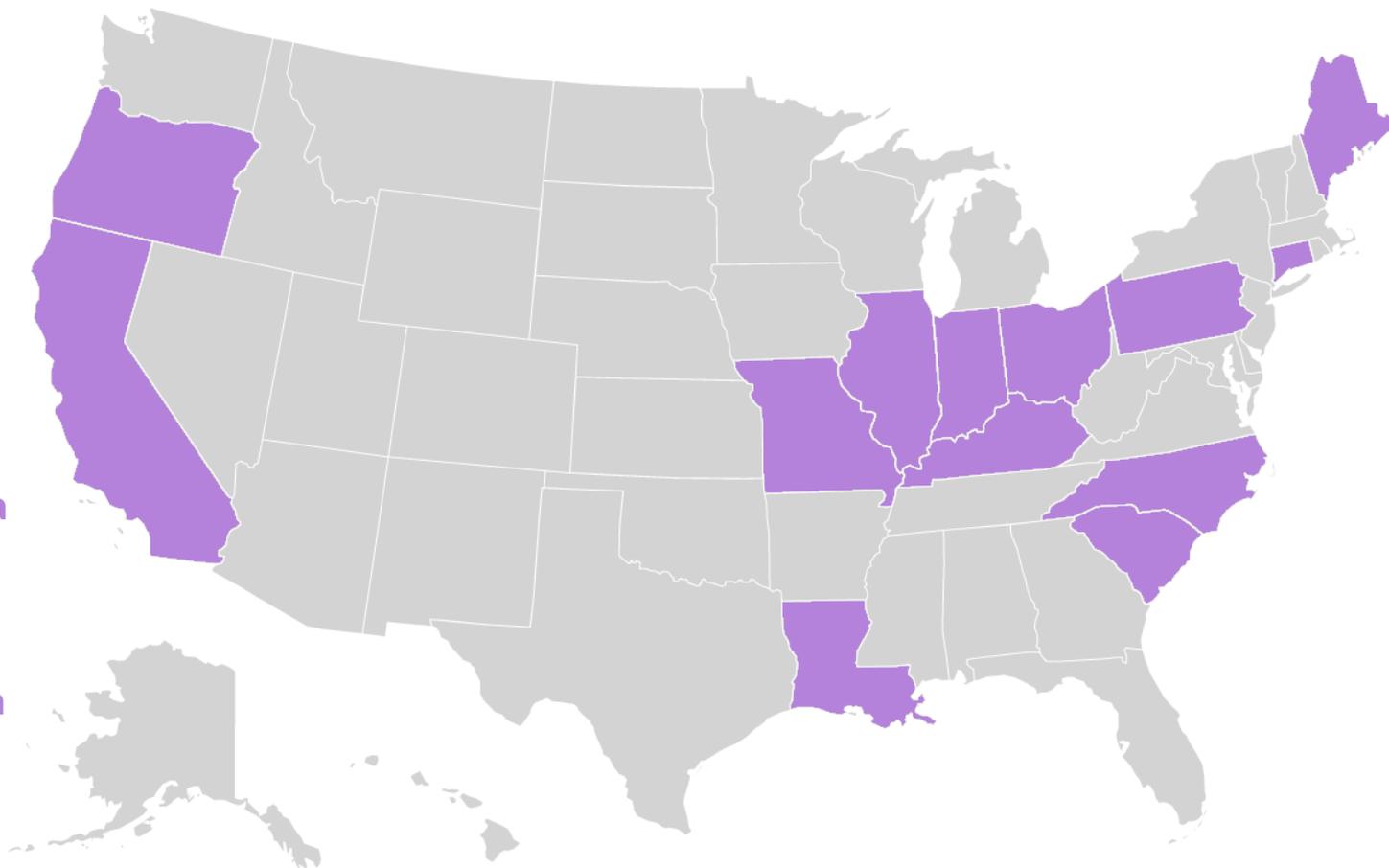
Gubernatorial
Proposal



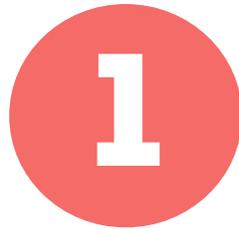
Increased Attention in Recent Years

2015 – proposals introduced

California
Connecticut
Illinois
Indiana
Kentucky
Louisiana
Maine
Missouri
North Carolina
Ohio
Oregon
Pennsylvania
South Carolina



Factors Limiting Ability to Expand Base to Services



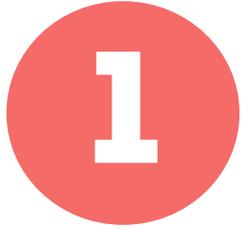
Economic Theory



Politics



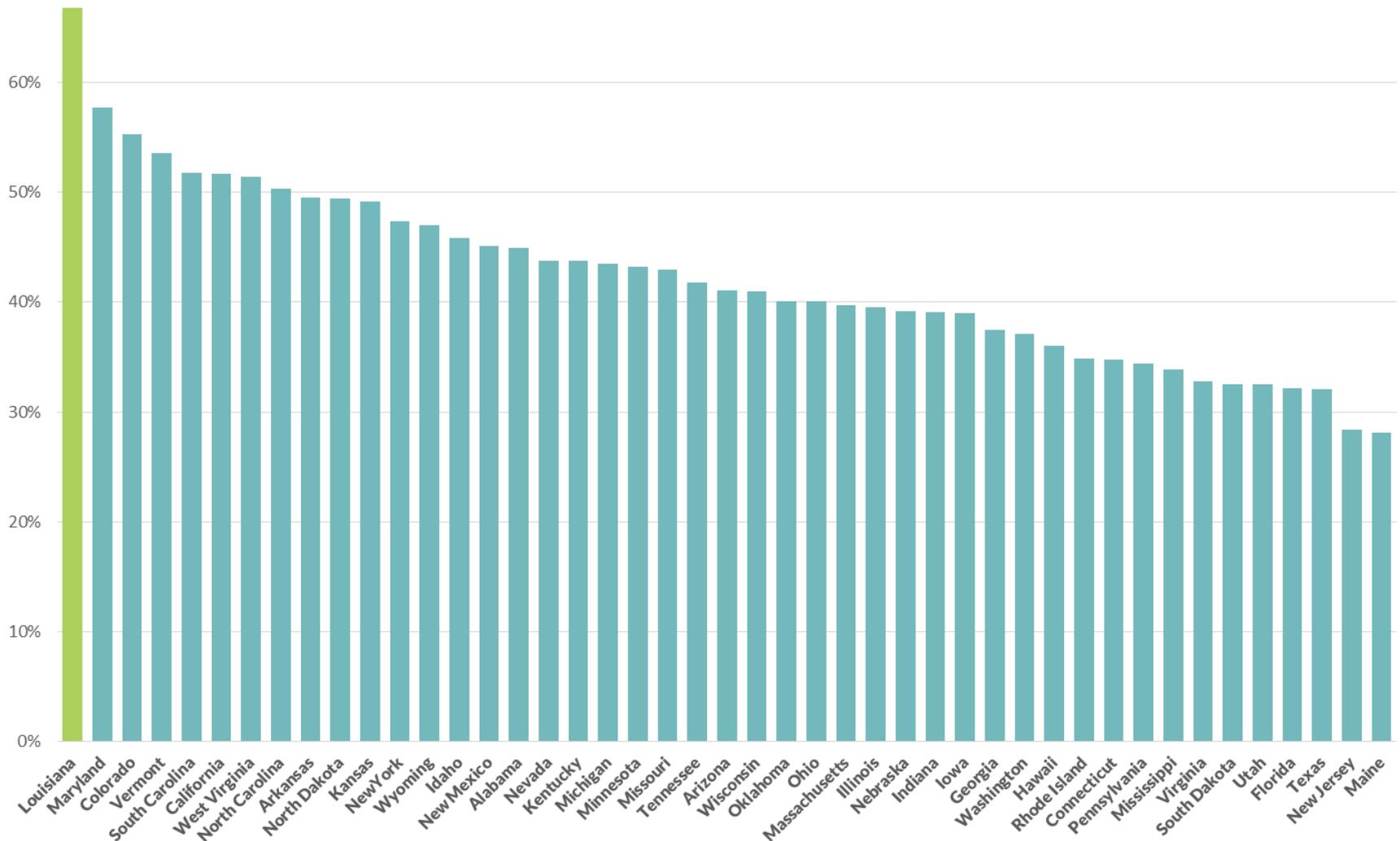
Administrative Complexity



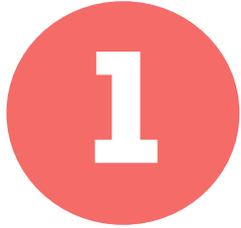
Economic Theory

- Business inputs should be exempt, but Louisiana currently receives a significant share of its sales tax revenue from business inputs.

Business Share of State and Local Sales Taxes (2010)



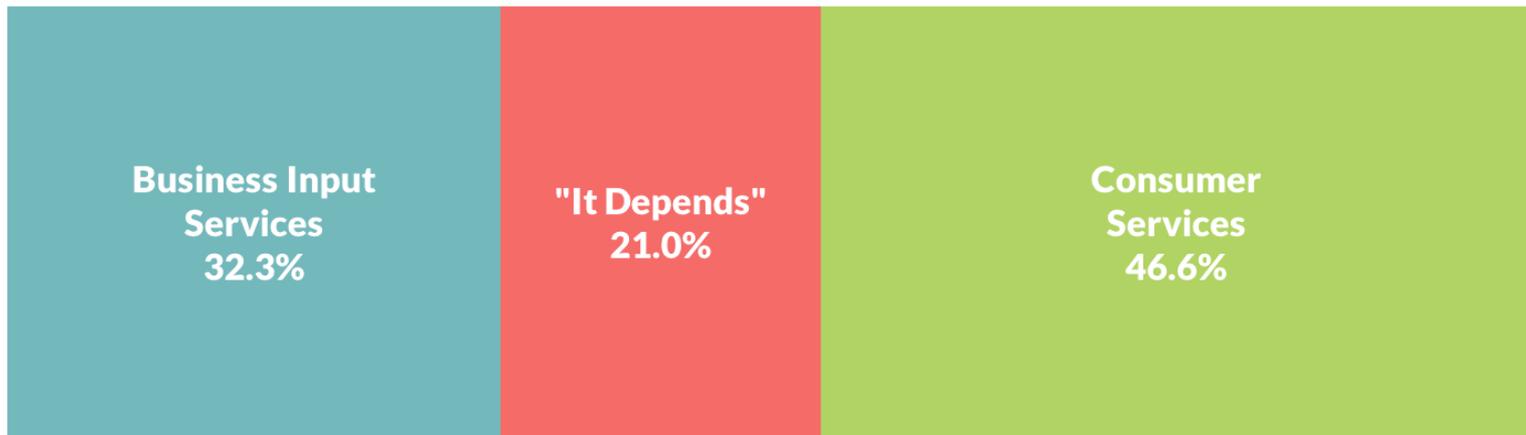
Source: Professor John Mikesell, Indiana University.



Economic Theory

- Business inputs should be exempt, but Louisiana currently receives a significant share of its sales tax revenue from business inputs.
- Significant share of the potential services tax base is business inputs.

Louisiana's Potential Services Tax Base (Oct. 2015)



Source: MultiState Associates classification of data provided to the Sales Tax Streamlining and Modernization Committee by the Louisiana Department of Revenue (October 2015).



Economic Theory

- Business inputs should be exempt, but Louisiana currently receives a significant share of its sales tax revenue from business inputs.
- Significant share of the potential services tax base is business inputs.
- Taxing mobile services can lead businesses and consumers to seek alternatives.

Louisiana's Close Proximity to Houston

Distance: 253 miles

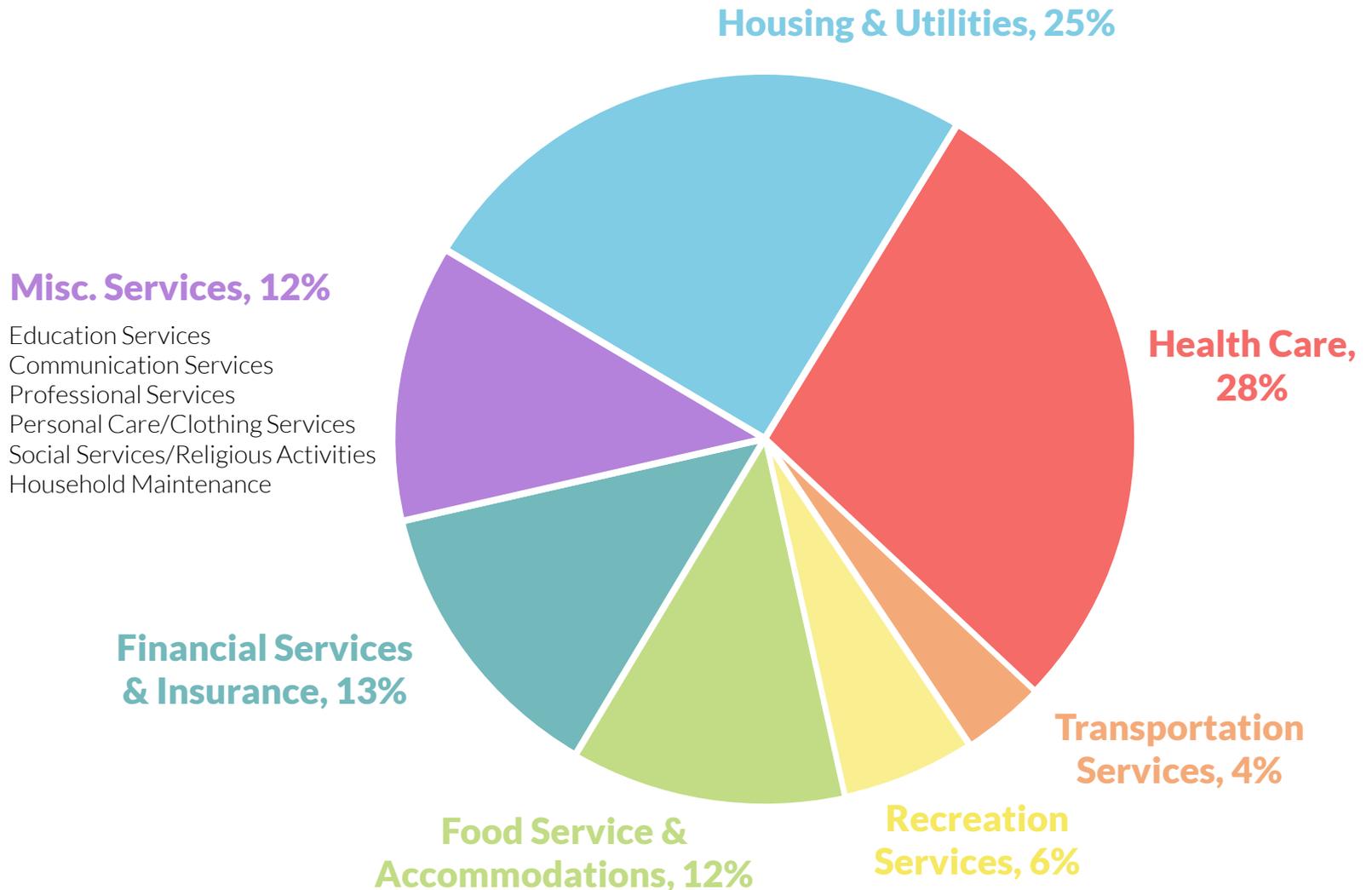


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Politics

- Very difficult to tax certain types of consumer services (such as healthcare, education, and housing).

Consumer Spending on Services in Louisiana (2013)



2

Politics

- Very difficult to tax certain types of consumer services (such as healthcare, education, and housing).
- Misinformation regarding the current tax base (business exemptions are often referred to as “preferences” and “incentives”).



Administrative Complexity

- Certain types of services are inherently mobile and sourcing them can be difficult.

Options to Modernize



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