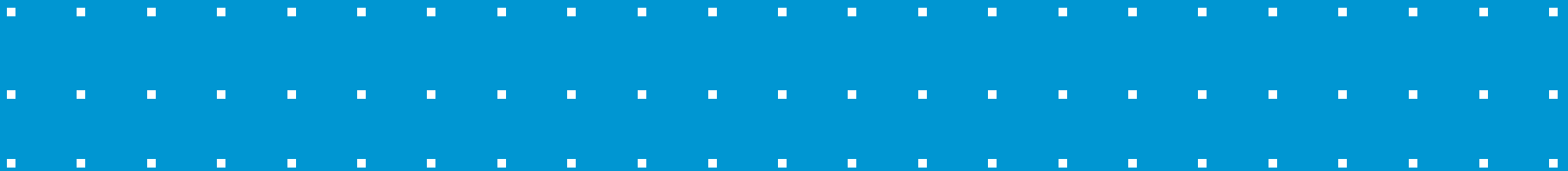




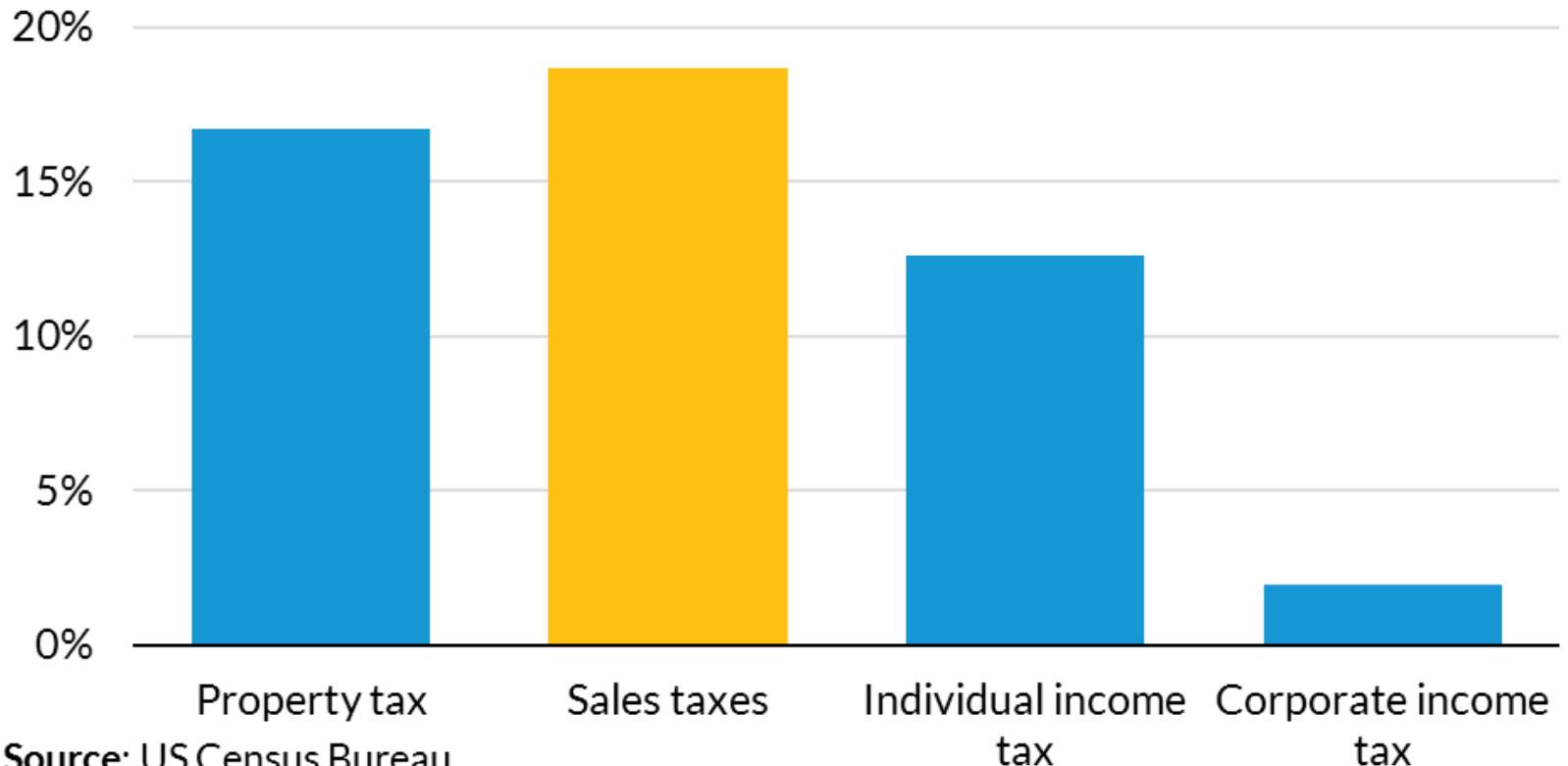
# Comments on Mikesell and Kioko “The Retail Sales Tax in a New Economy”

Tracy Gordon  
*Municipal Finance Conference*  
July 17, 2018



# Sales taxes are big

## Percentage of State and Local General Revenue, 2015



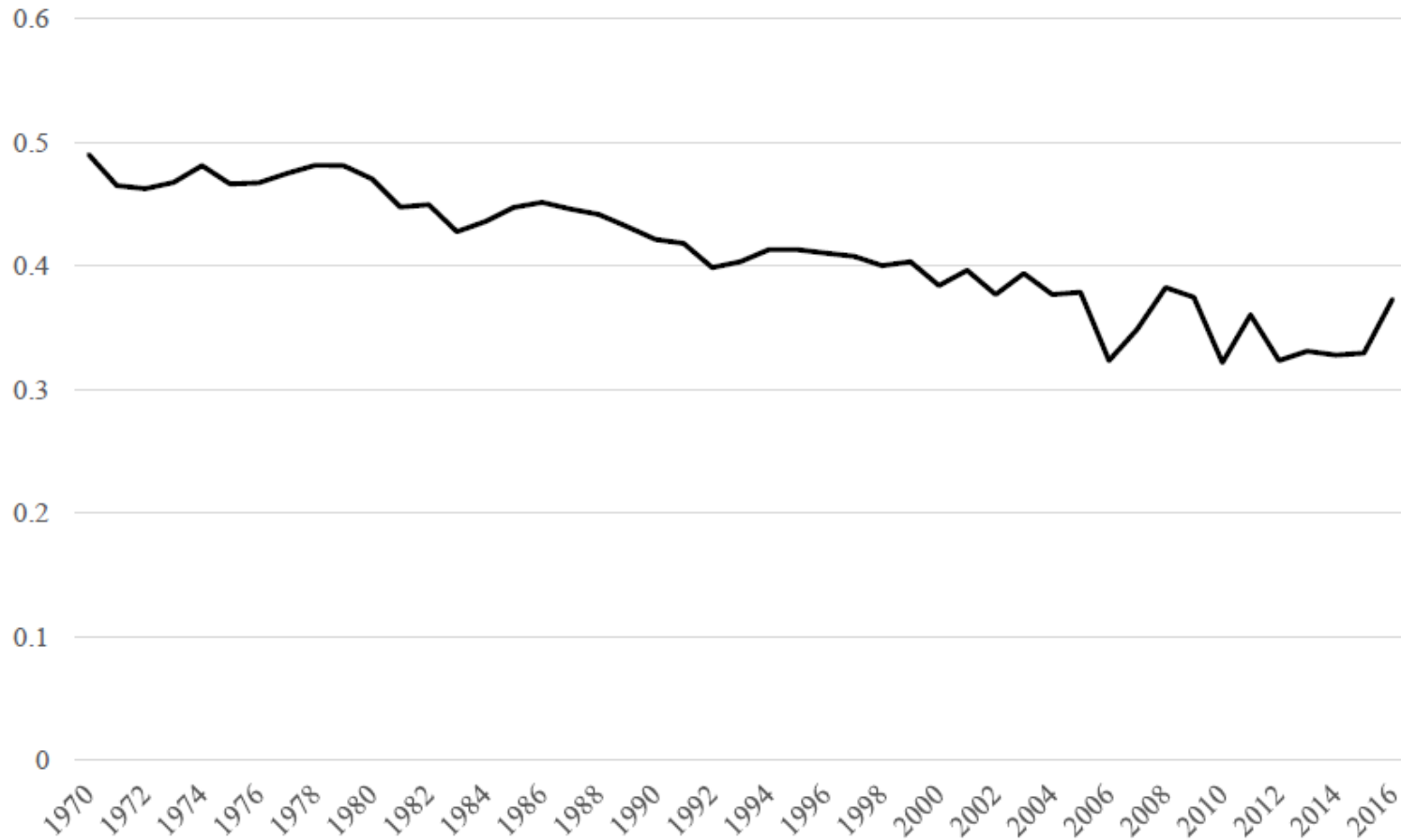
Source: US Census Bureau.

Note: Sales taxes include selective sales taxes (e.g., cigarette taxes).

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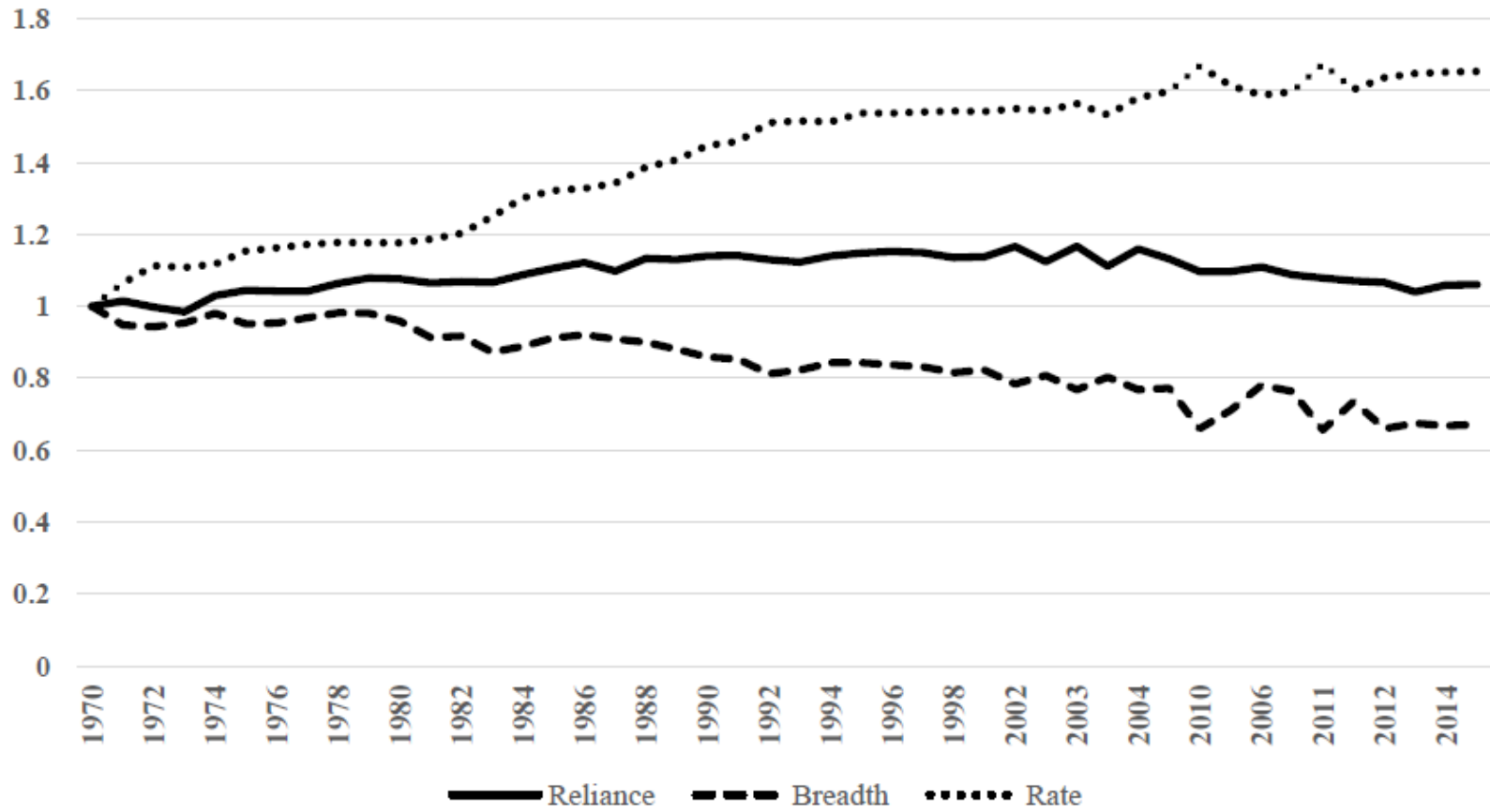
# But disappearing

Figure 3. Mean State Sales Tax Breadth (Base Relative to Personal Income), 1970 - 2016



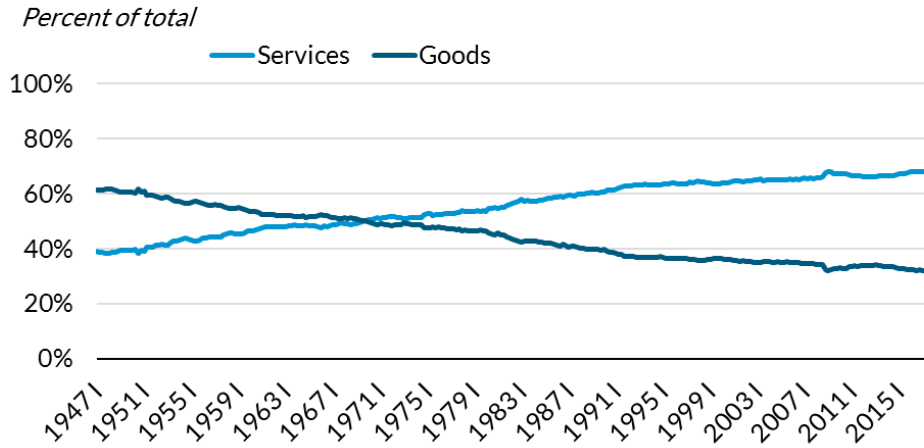
# Narrower bases lead to higher rates

Figure 4. Retail Sales Tax Reliance, Breadth, and Effective Rate, State Aggregate Relative to 1970, 1970 - 2015



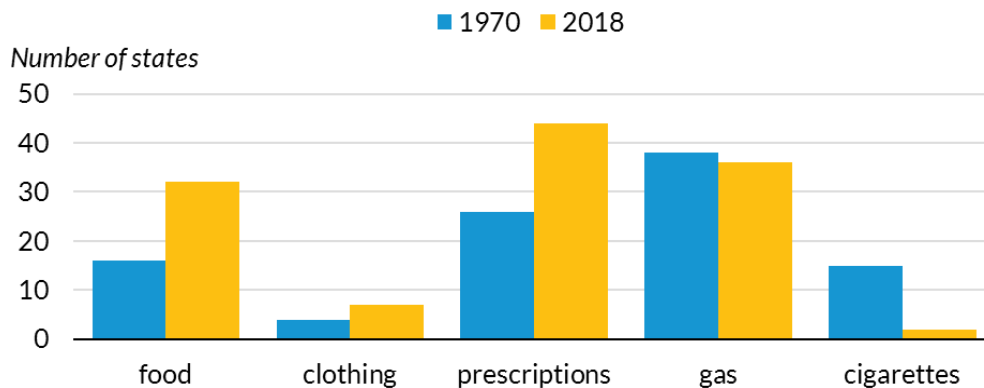
# The culprits are many – some old and some new

## Personal Consumption Expenditures



Source: US Bureau of Economic Analysis, National Income and Product Accounts via the Federal Reserve Bank of St. Louis

## Sales Tax Exemptions



Source: Kioko and Mikesell Table 2.

Note: Figure omits states that tax categories at reduced rates.



## But all is not lost

### Bad

- Too narrow – excludes too many services
- Too broad – includes too many B2B transactions
- Exclusive basis may make it more salient to politicians
- Longstanding uncertainty re: remote, informal sales
- Technology: zappers, phantomware, ...

### Good

- DC and other jurisdictions have shown expansion is fraught but not impossible
- Wayfair decision clears up ambiguity re: state ability to enforce sales tax collection from remote sellers without in-state physical presence
- Technology: cashless economy could help enforce sales tax collections

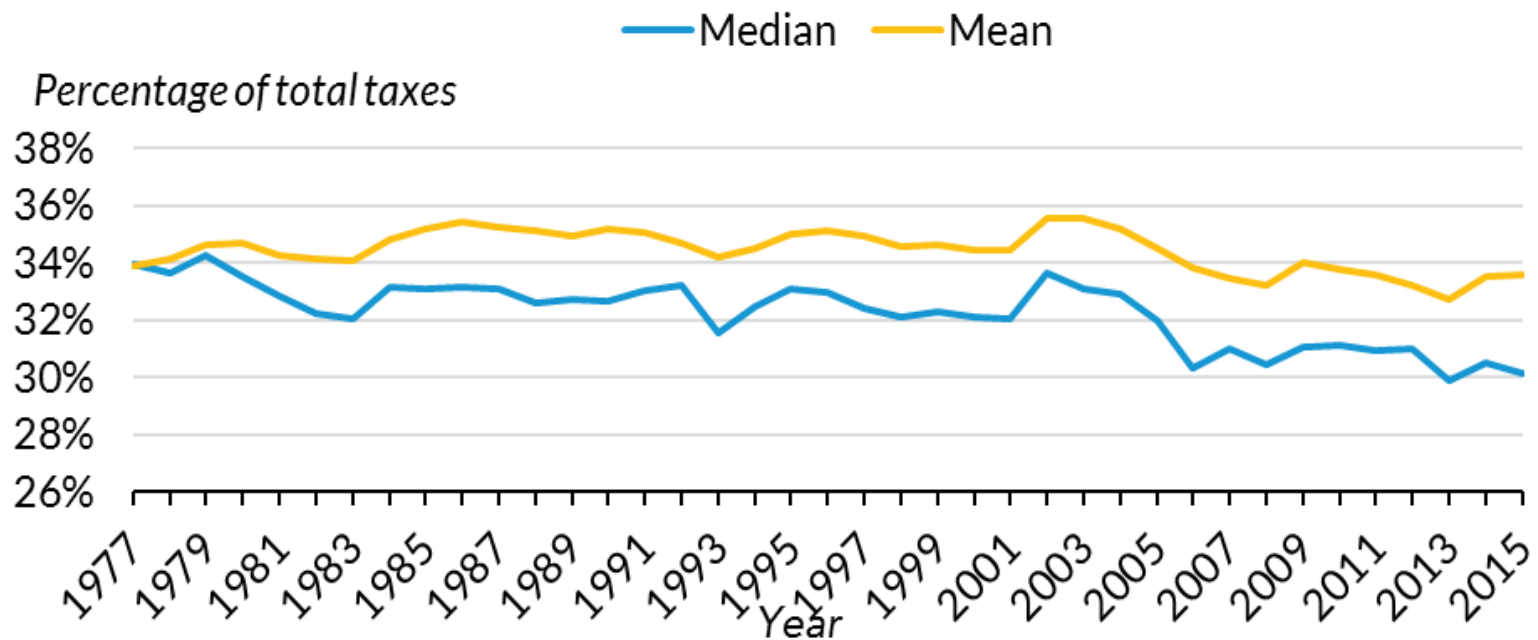
**Alternate paper title: “The new economy is not necessarily all gloom and doom for the sales tax” (p. 20)**

# Overall

- Kioko & Mikesell do masterful job exploring strengths and weaknesses of US retail sales tax, how it compares to other consumption taxes (such as VAT), and how many weaknesses derive from original design circa Great Depression
- Some questions:
  1. Is the sales tax really all that?
  2. What about equity?
  3. Could we have your data please?
  4. What's next?

# Variation in state reliance

## General Sales and Gross Receipts Taxes



Source: State and Local Finance Initiative Data Query System. Accessed July 10, 2018.

Note: Includes all states with a broad-based general sales tax; excludes Alaska, Delaware, Montana, New Hampshire, and Oregon.

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# Going back to history, decline in state property tax preceded Great Depression housing bust

Figure 1. National Shares of State Tax Revenue from Property, General Sales, and Individual Income, 1902 - 1950



# Could be because of comparative advantage

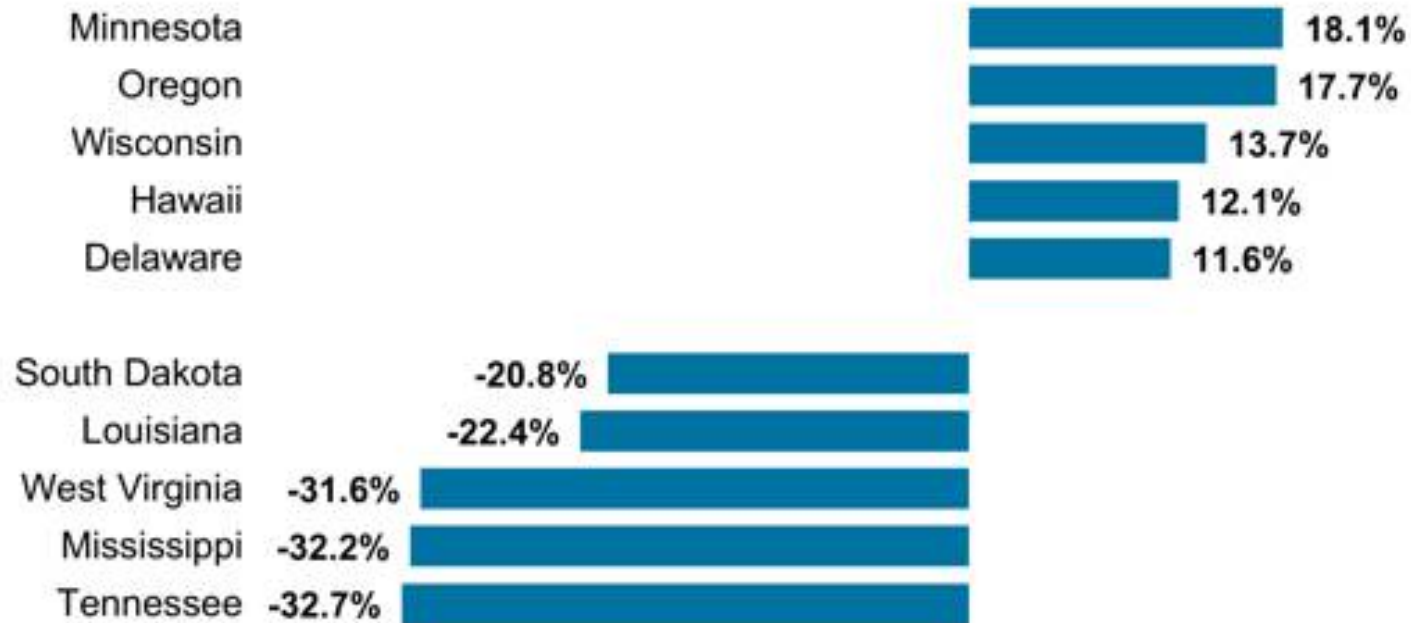
| <b>Table 4: State and Local Revenue Sources, 1902 to 1932 (millions of \$)</b> |                       |                              |                              |   |   |
|--|-----------------------|------------------------------|------------------------------|---|---|
| <b>State Government</b>  |                       |                              |                              |   |   |
|  | <b>Total Revenues</b> | <b>Property Taxes</b>        | <b>Motor Fuel Sales</b>      | <b>Motor Vehicle Licenses</b>   | <b>Percent of State Revenue Growth Explained by Auto Revenues</b> |
|  | <b>(1)</b>            | <b>(2)</b>                   | <b>(3)</b>                   | <b>(4)</b>  | <b>(5)</b>  |
| 1902   | 192                   | 82                           | 0                            | 0   |   |
| 1913   | 376                   | 140                          | 0                            | 5   | 2.72%   |
| 1922   | 1,360                 | 348                          | 13                           | 152   | 16.26%  |
| 1927   | 2,152                 | 370                          | 259                          | 301   | 49.87%  |
| 1932   | 2,541                 | 328                          | 527                          | 335   | 77.63%  |
| <b>Local Government</b>  |                       |                              |                              |   |   |
|  | <b>Total Revenues</b> | <b>Property Tax Revenues</b> | <b>State Grants to Local</b> | <b>Percent of Local Revenue Change Explained by Property Tax Revenues</b> |   |
|  | <b>(6)</b>            | <b>(7)</b>                   | <b>(8)</b>                   | <b>(9)</b>  |   |
| 1902   | 914                   | 624                          | 52                           |   |   |
| 1913   | 1,755                 | 1,192                        | 91                           | 67.54%  |   |
| 1922   | 4,148                 | 2,973                        | 312                          | 74.43%  |   |
| 1927   | 6,333                 | 4,360                        | 596                          | 63.48%  |   |
| 1932   | 6,192                 | 4,159                        | 801                          | 142.55%   |   |

*Source: U.S. Department of Commerce Historical Statistics of The United States.*

# Food exemptions go against textbook tax policy, but may have other desirable features

## State Taxes and Inequality

Where state taxes most enhance or offset the income-equalizing effects of federal taxes. A positive percentage shows how much states add to inequality-reducing effects; a negative percentage is the extent to which state taxes undo them.



Source: "The Role of Taxes in Mitigating Income Inequality Across the U.S." | WSJ.com

## Paper includes some implicit normative judgments re: sales taxes

- Authors note actual vs. potential consumption (Haig-Simons) solves problem of identifying ability to pay
- But clearly consumption varies across income levels and over the life-cycle
- Rebates may be more efficient but politically unlikely
  - K&M note five states (Hawaii, Idaho, Kansas, Oklahoma, and Maine) offer credit on a sliding scale with respect to income
  - But that's one fewer state than in 1971 (Colorado, Hawaii, Indiana, Nebraska, Massachusetts, and Vermont)
- Best = enemy of the good?

## Re: data, adjustments make a big difference to totals

- K&M note Census data suffer from Type I and II errors
  - Include local taxes in state totals
  - Exclude consumption arbitrarily captured in separate taxes (e.g., motor vehicles)
  - Include other taxes that are not retail sales taxes (e.g., Washington business and occupation tax)
- Problem is replicability. How to recreate apart from “WWJMD”?

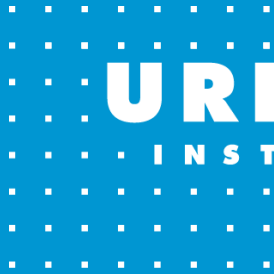
## Elephant in the room: Wayfair

- Court gave states broad (but not unlimited) authority
- Overturning *Quill* and *National Bellas Hess* restored test from a prior ruling (*Complete Auto Transit, Inc. v. Brady*)
- State laws will be valid and enforceable if they:
  1. Apply to activity with substantial nexus in the state (such as a company with many sales in the state)
  2. Are fairly apportioned
  3. Don't discriminate against interstate commerce
  4. Are fairly related to the services the state provides

# Open questions post-Wayfair

- Should tax be collected based on location of seller or buyer?
- What's location (billing or shipping address)?
- Should small firms be exempt?
- What's a small firm?
- Is retroactivity really out?
- WWCD? (C= Congress)

**Bottom line:** States are about to make a whole lot of decisions to address sales taxes in 21<sup>st</sup> economy. When they do, it would be nice if they also cleaned up messes left over from the 20<sup>th</sup> century



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Thank you

