

Sales Taxes in the District of Columbia

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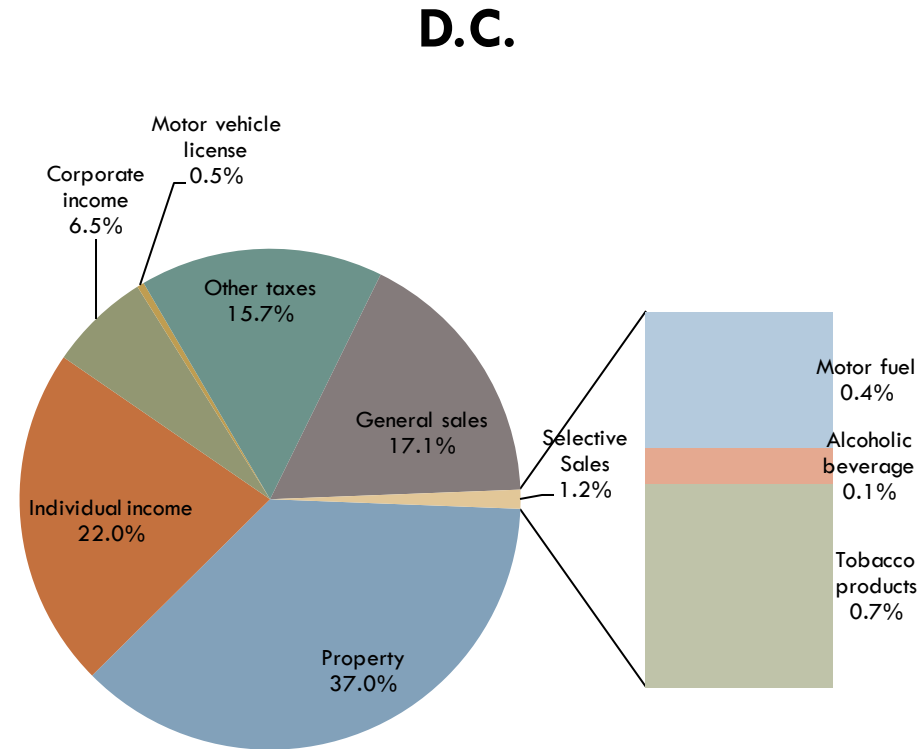
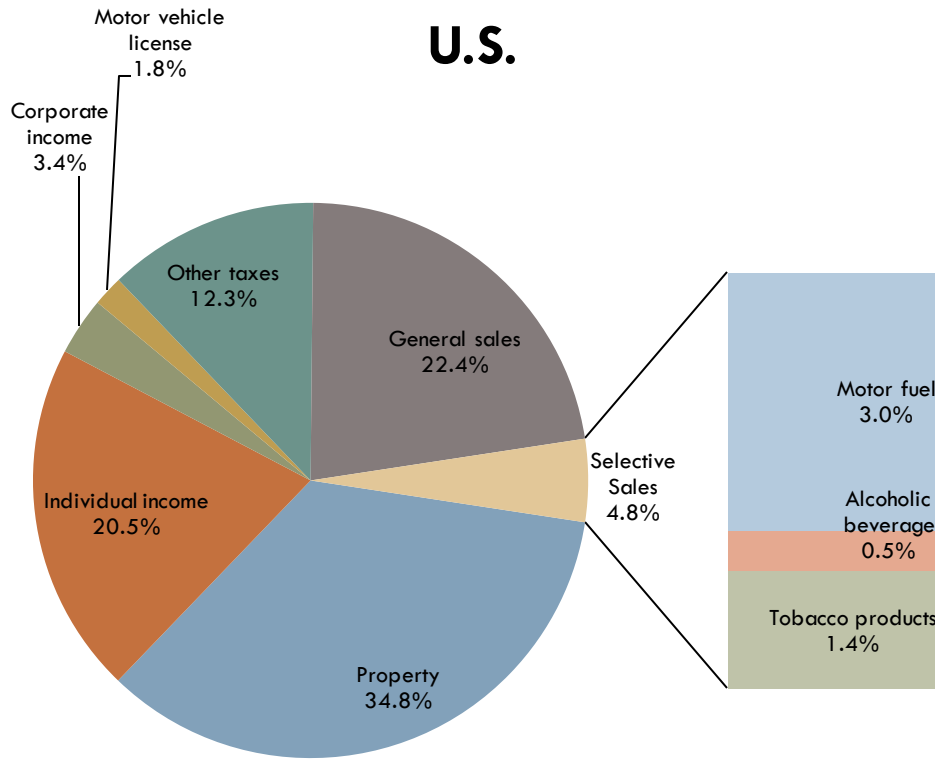
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DC Sales Tax Characteristics

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- 17 percent of tax revenues, low on national standards

Figure 1: State and Local Tax Revenue Distribution, 2010



Source: U.S. Census Bureau

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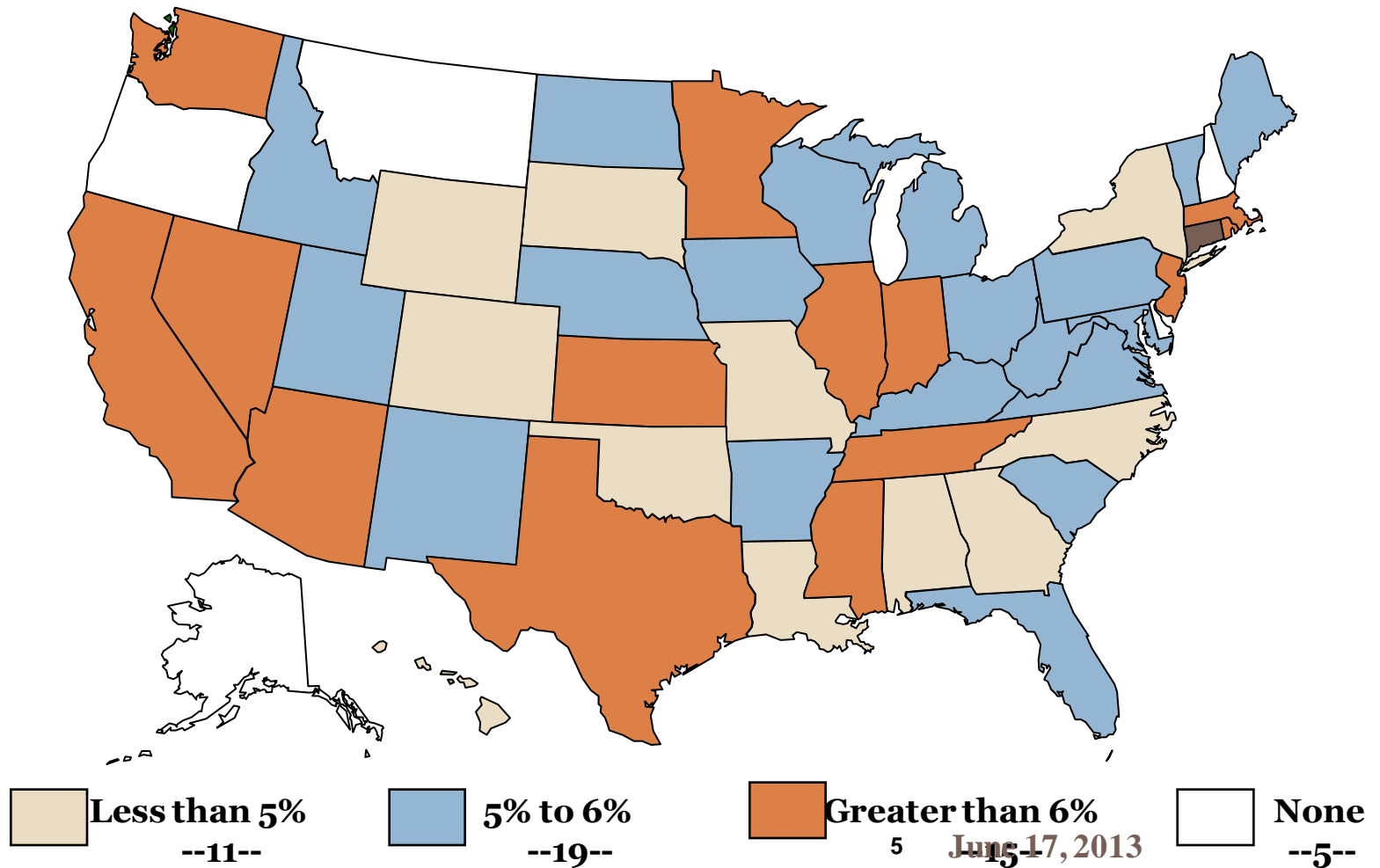
DC Sales Tax Characteristics

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- 17 percent of tax revenues, low on national standards
- 6 percent tax rate
 - ▣ Same as national state median
 - ▣ Below national state and local median – 6.85 percent
 - ▣ Same as Maryland and Virginia

STATE SALES TAX RATES

as of Jan. 1, 2012



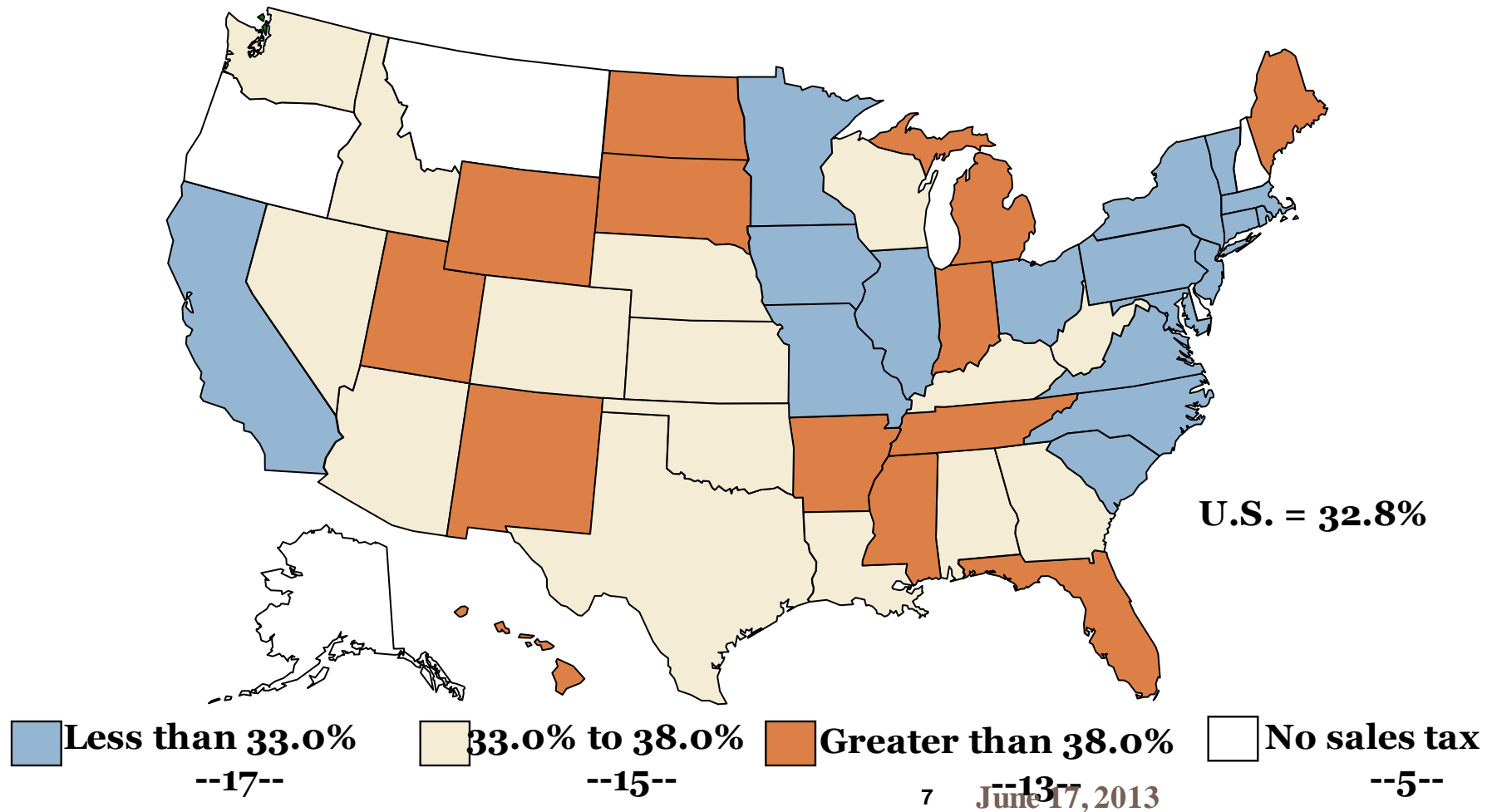
DC Sales Tax Characteristics

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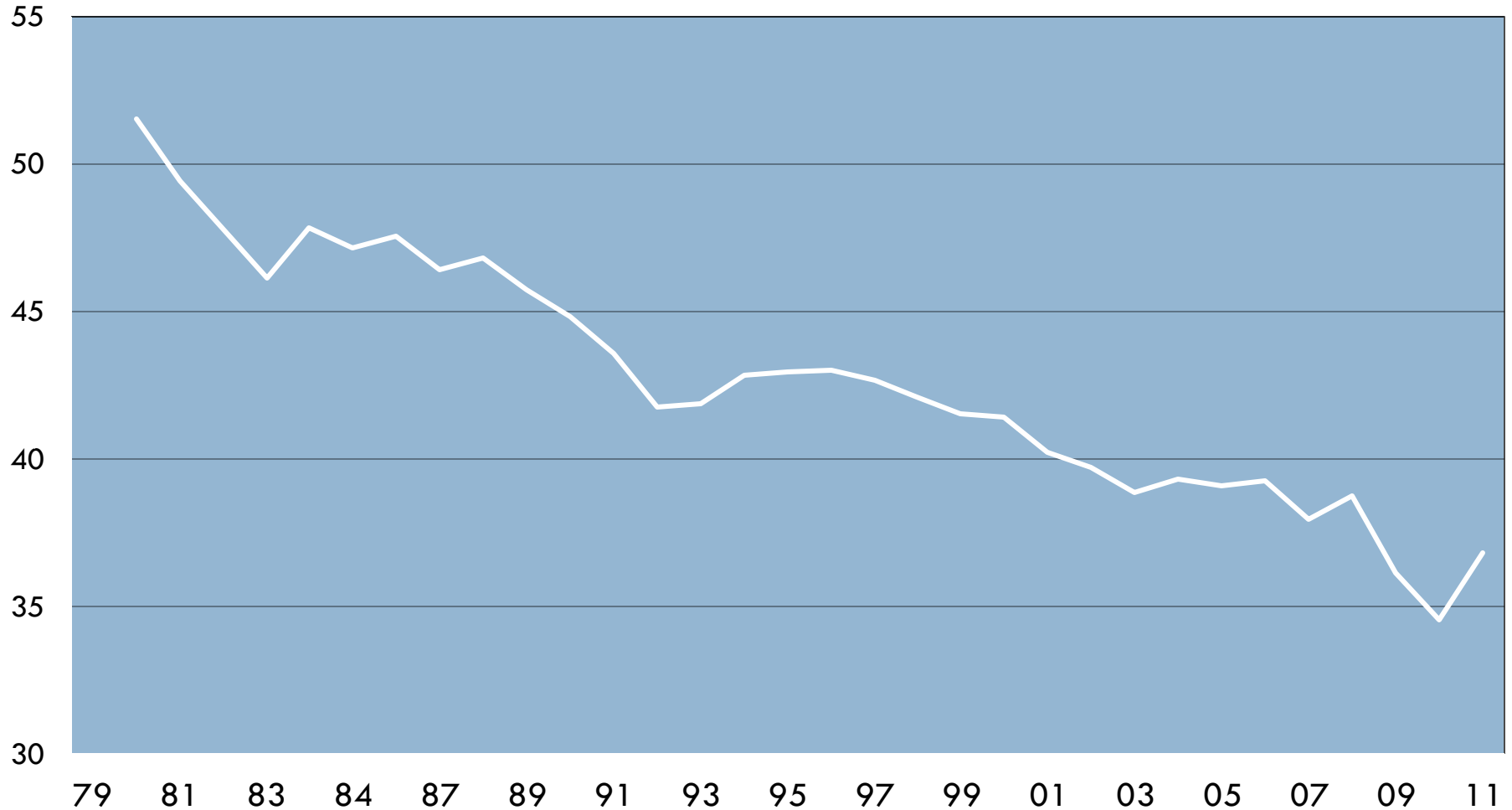
- 17 percent of tax revenues
- 6 percent tax rate
 - ▣ Same as national state median
 - ▣ Below national state and local median - 6.85 percent
 - ▣ Same as Maryland and Virginia
- Tax base slightly above national average, 34.4 percent of personal income
 - ▣ Exempt food and non-prescription drugs
 - ▣ Tax 73 services
 - ▣ Much broader base than Maryland and Virginia

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STATE SALES TAX BASE AS A PERCENT OF PERSONAL INCOME, 2010



U.S. SALES TAX BASE AS A PERCENT OF PERSONAL INCOME, 1979-2011



Sales tax bases declining nationally

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- Policy choices
- Growing role of services
- Rising remote sales

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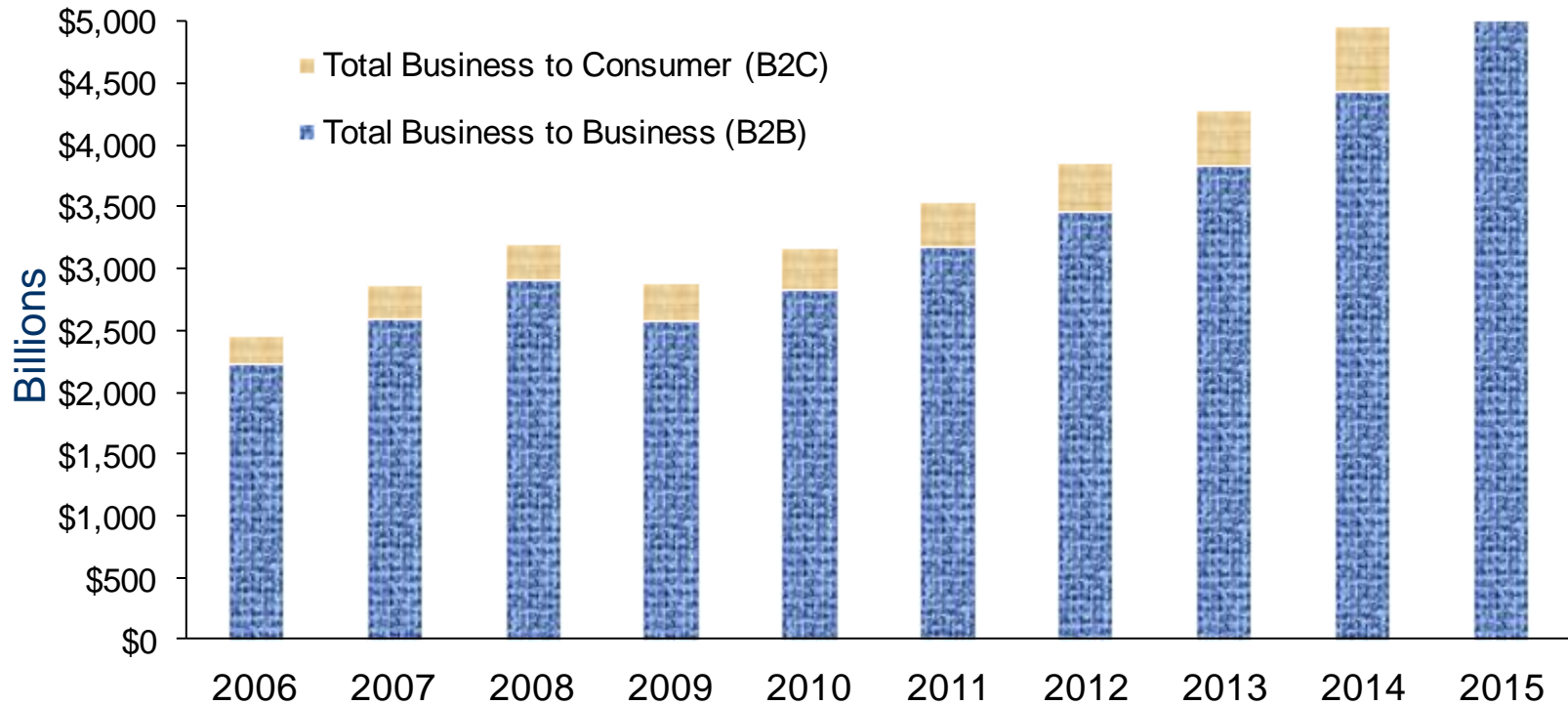
PERSONAL CONSUMPTION EXPENDITURES

1979 and 2011

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	<u>1979</u> <u>Percent</u>	<u>2011</u> <u>Percent</u>
Total Expenditure	100.0	100.0
Durable Goods	13.4	10.8
Autos	5.9	3.5
Furn & Household	5.2	2.4
Other Durables	2.4	1.7
Nondurable Goods	39.1	23.2
Food and Beverage	20.3	7.5
Other Nondurables	18.8	8.4
Services	47.4	66.0

ESTIMATED TOTAL E-COMMERCE SALES



***Sales-taxing states only.**

Sales Tax as a Consumption Tax

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- Seeking to use exemptions and exclusions to transfer from tax on transactions to tax on consumption
- All household purchases, regardless
 - ▣ What is purchased
 - ▣ The vendor
 - ▣ How acquired
- No tax on business to business transactions
- Advantages
 - ▣ Low tax rate
 - ▣ Tax burden spread evenly
 - ▣ Doesn't alter consumption decisions

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Other Goals

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- Fairness
 - Tax regressive against current income
 - Less regressive against lifetime income
 - But, fairness for the system or each tax
 - Hard to target with the sales tax
- Economic Efficiency
- Compliance costs

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Policy Options for the base

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- Reforms focused on the base
- Expand taxation of consumer goods
 - ▣ Food
 - ▣ Non-prescription drugs
- Limit taxation of business purchases

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Policy Options for the base

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- Tax more services
 - Construction contractors
 - Carpentry and other construction related services
 - Storage of household goods Mini-storage
 - Water for consumption at home
 - Barber and beautician services
 - Carpet and upholstery cleaning
 - Health clubs and tanning studios
 - Carwashes
 - Bowling alleys and billiard parlors
- Professional services

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Taxation of remote sales

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- Quill v. North Dakota
- Weak use tax compliance
- Consumers very responsive to the no tax option
- Alters business behavior

State efforts to collect on remote sales

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- Working together- SSUTA
- Expand nexus definition
 - ▣ Ownership affiliate nexus
 - ▣ Attributional nexus
 - ▣ Amazon laws
- Enhance use tax collection – line on income tax return
- Reporting requirements
- Support federal legislation

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Federal legislation

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- Marketplace Fairness Act of 2013
- Passed the Senate
- \$1.0 million small seller exception – much less than \$35 million for D.C.
- Simplifications:
 - ▣ providing firms with advance notification of sales tax rate changes
 - ▣ using a single tax collection agency for both state and local sales taxes
 - ▣ creating a uniform sales tax base for the entire state
 - ▣ using destination sourcing
 - ▣ providing free sales tax compliance software
 - ▣ relieving remote sellers of any liability associated with incorrect compliance because of errors made by a certified software provider.

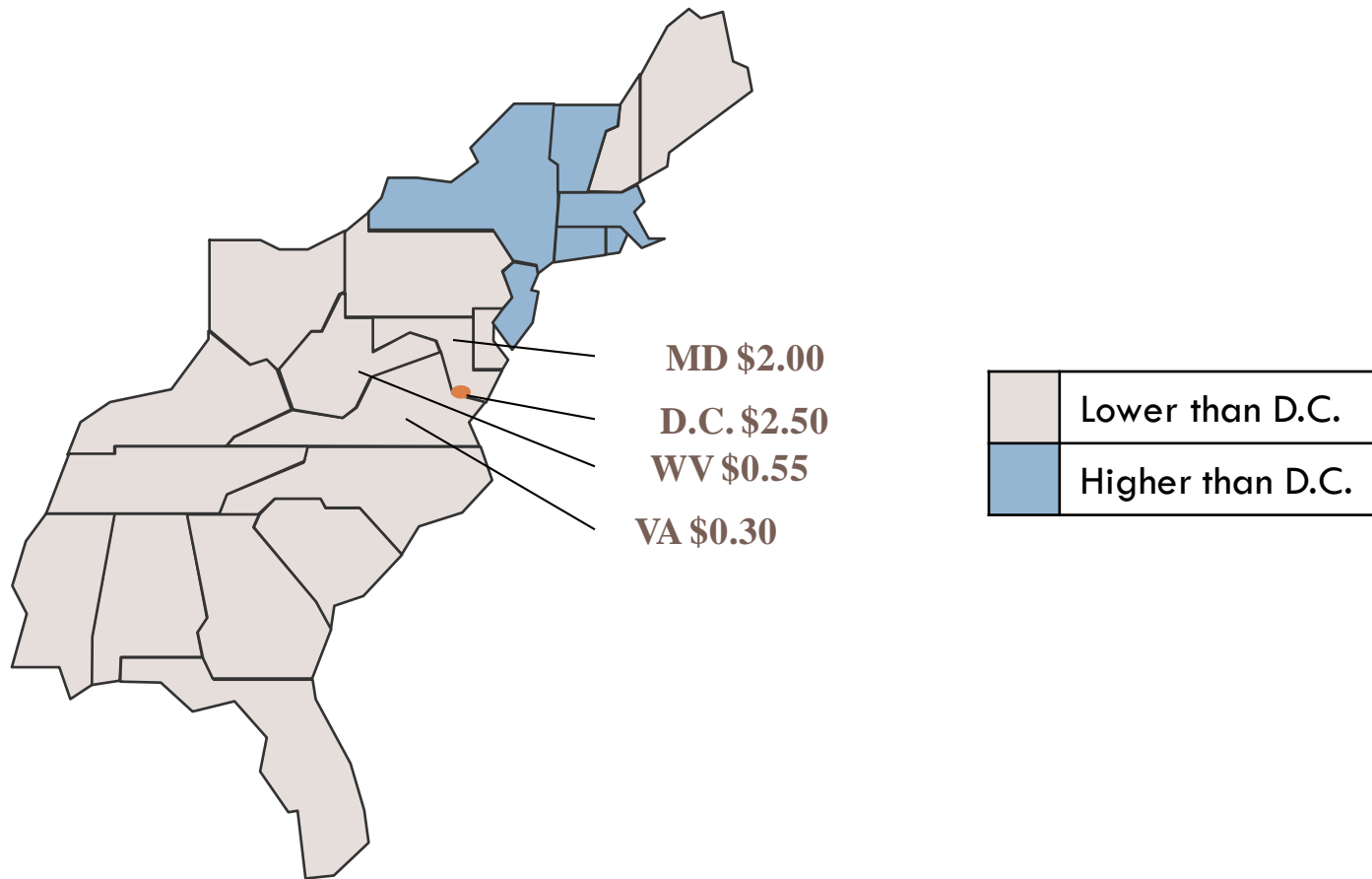
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Excise Taxes

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- Tobacco
- Alcohol
- Motor fuel
- Specific and ad valorem
 - ▣ Specific component generally low in D.C.
 - ▣ Specific component has little elasticity and volatility
 - ▣ Ad valorem component adds elasticity and volatility

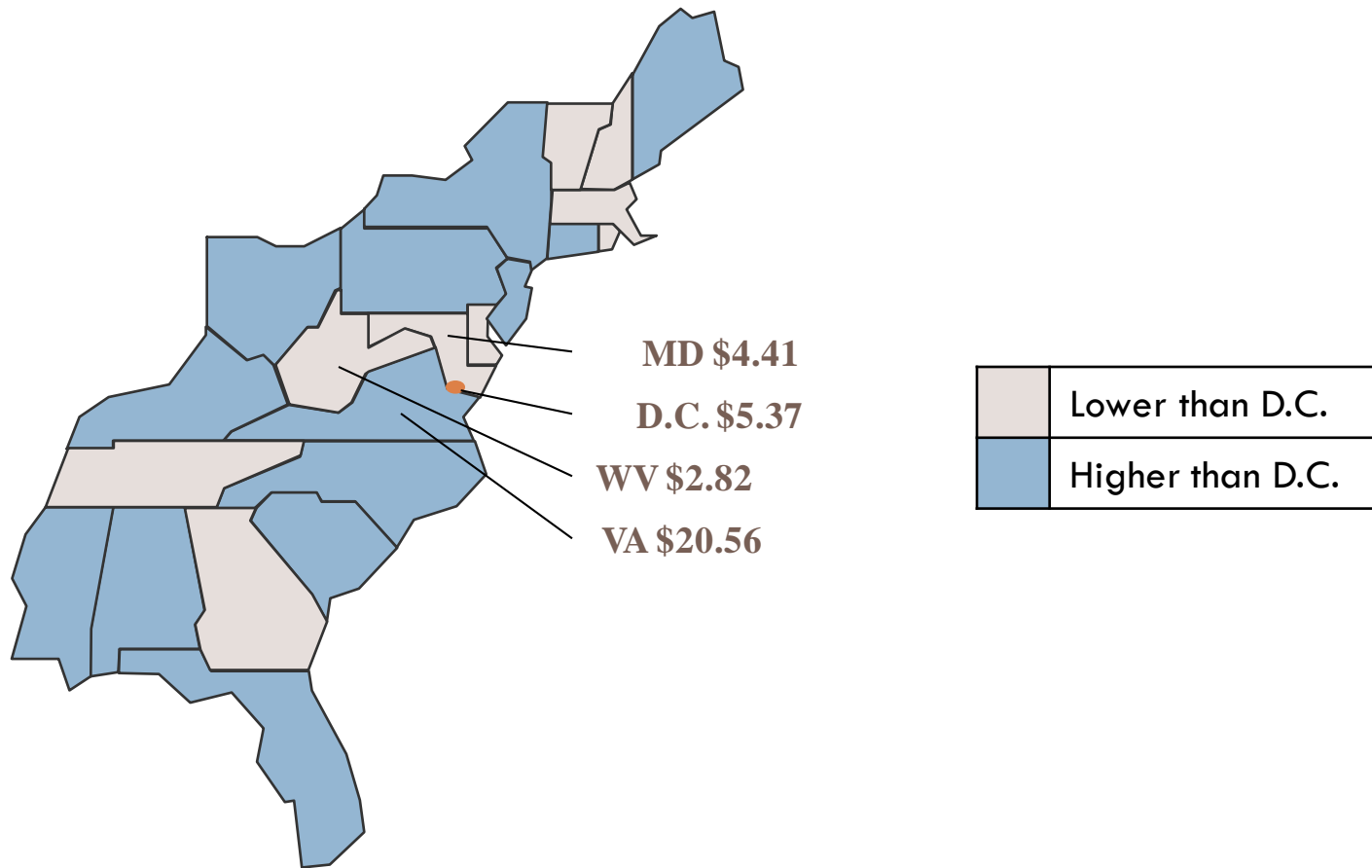
Figure 3: State Cigarette Excise Tax Rates, as of Jan. 1, 2013 (Dollars per 20-pack)



Source: The Tax Foundation

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Figure 4: State Spirits Excise Tax Rates, as of Jan. 1, 2013 (Dollars per Gallon)



Source: The Tax Foundation

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Excise Taxes

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- Specific component raises relatively low share of revenues
- Likely to have little influence on consumption in the District – casual smuggling
- Likely to result in substantial tax exporting

Motor fuel tax

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- 23.5 cents per gallon, a little above median
- Add elasticity, like MD and VA?
- Will make the structure more volatile

