

**Presentation to
Sales Tax Streamlining and Modernization Commission
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Some Basic Features of the Sales Tax

- Major source of state (33%) and local revenues (30%)
- Applies to the sale or use of any transfer of tangible personal property *unless specifically excluded or exempted by state law*
- *Exclusion and Exemption are legal terms—have same economic affect*
- Applies to services only if the services are *specifically included in the law*
- Local sales taxes add much complexity:
 - 183 different tax rates among local governments
 - 341 sales tax jurisdictions
 - Tax Bases differ between state and locals and across locals
 - Local rates range from 3% to 7% (in addition to 4% state rate)
 - Cameron is only parish with no sales tax

Why are sales tax preferences in the code?

- Defining consumption or transactions more accurately
- Defining tax bases more appropriately
- Enhancing fairness
- Stimulating economic development
- Aligning Louisiana tax practices with other states
- Recognizing and working with political constituents

What are some costs of the preferences?

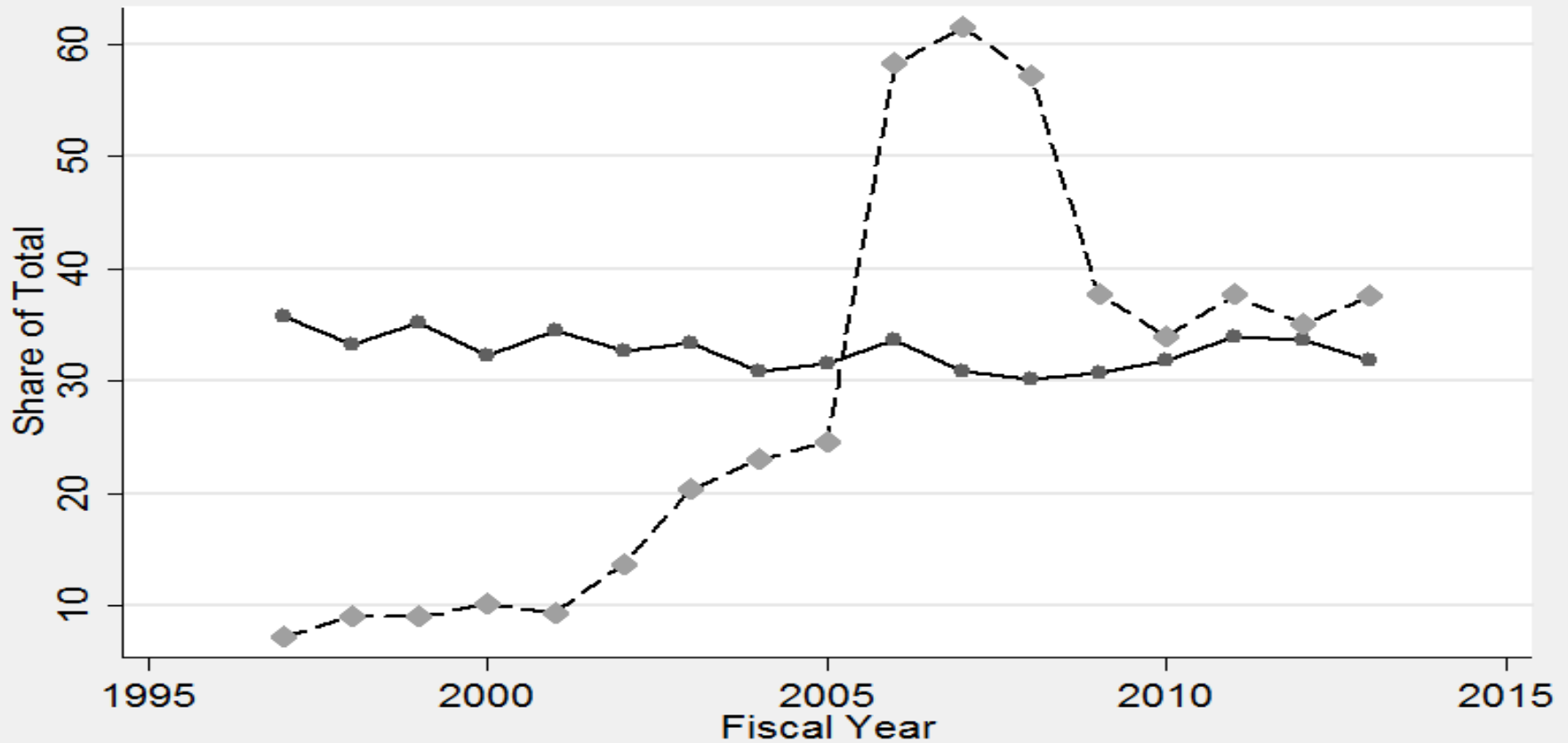
- Reduced tax revenues by reducing tax base
- Higher tax rates on the tax bases that remain to generate revenues
- Distortions, both within Louisiana and across state borders
- Unequal treatment of similarly situated individuals and businesses
- Greater burden on tax administration due to complexity

Estimated Revenue Losses Due to Exemptions/Exclusions/Credits, by Tax

Exemptions are not unique to sales tax

TAX	Estimated Revenue Loss, FY 2015	% of Total Loss due to Exemptions/Exclusions/Credits
Sales Tax	\$2,762,795,080	37.5%
Personal Income Tax	\$2,014,728,476	27.3%
Tax Incentives and Exemption Contracts	\$332,307,728	4.5%
Corporate Franchise Tax	\$20,612,677	0.3%
Corporation Income Tax	\$1,559,318,002	21.2%
Liquors – Alcoholic Beverage Taxes	\$2,835,000	0.04%
Natural Resources – Severance Tax	\$481,587,738	6.5%
Petroleum Products Tax	\$112,740,000	1.5%
Tobacco Tax	\$76,950,000	1.0%
Public Utilities and Carriers Tax	\$3,200,000	0.04%
Hazardous Waste Disposal Tax	\$16,000	0.00%
Total: Revenue Loss	\$7,367,108,701	100.00%

Sales Tax Revenues as Share of Total Revenues and Sales Tax Revenue Loss as Share of Total Loss

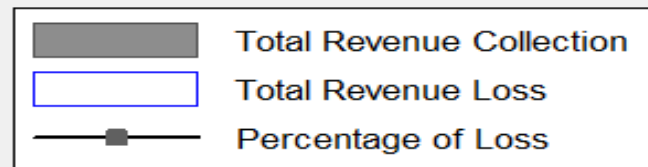
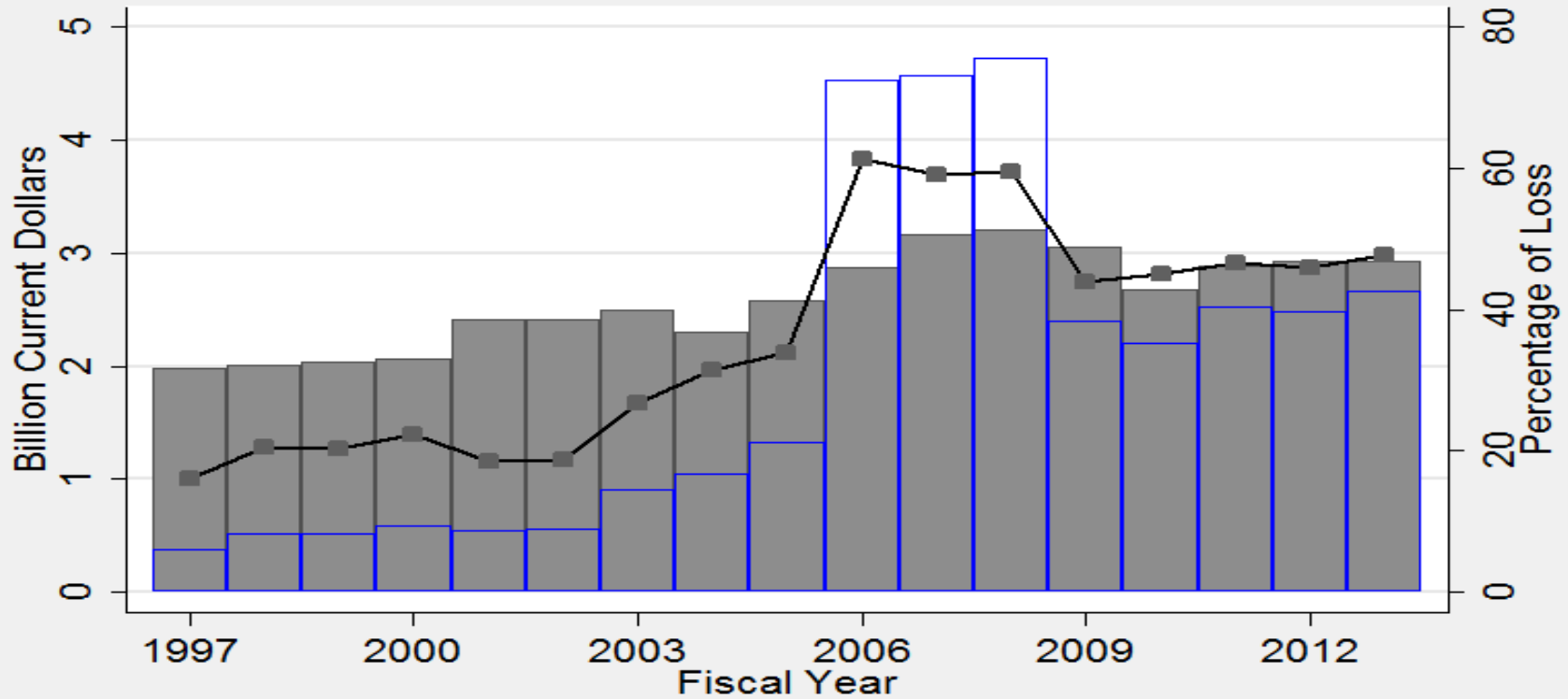


—■— Sales Revenue (Share of Total Revenue)
- -◆- - Sales Loss (Share of Total Loss)

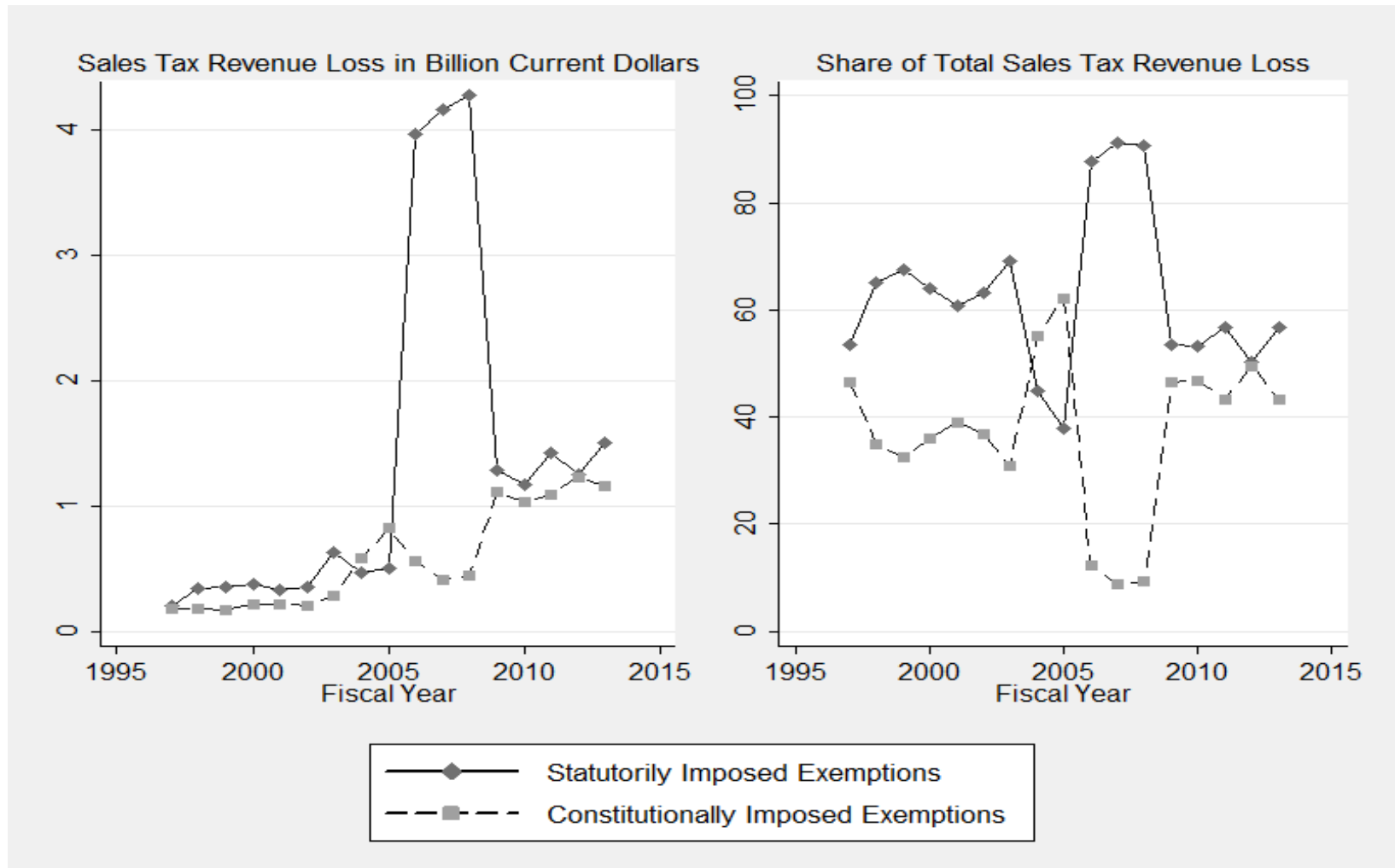
Changes in State Sales Tax Base, 1999 through 2013

Fiscal Year	Number of Sales Tax Exemptions	Change in Number of Sales Tax Exemptions
1999	143	
2000	145	2
2001	146	1
2002	156	10
2003	156	0
2004	163	7
2005	162	-1
2006	162	0
2007	177	15
2008	177	0
2009	188	11
2010	188	0
2011	191	3
2012	191	0
2013	192	1

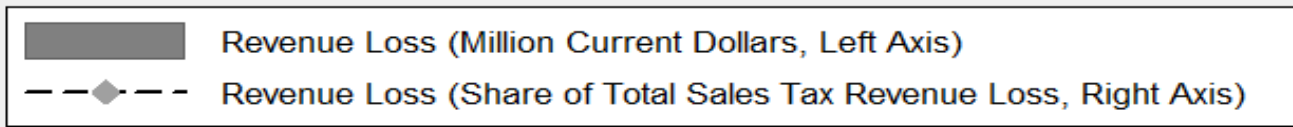
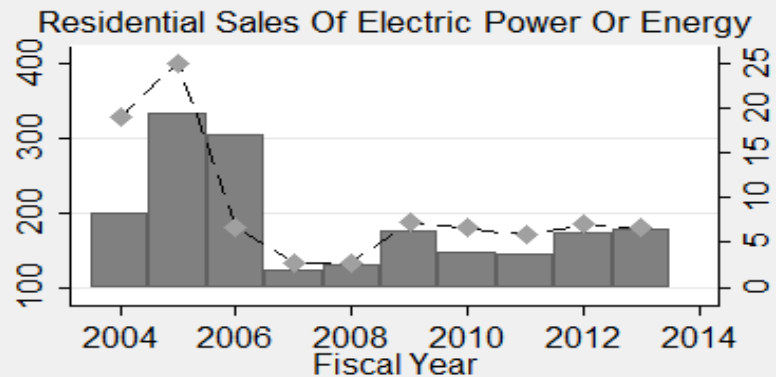
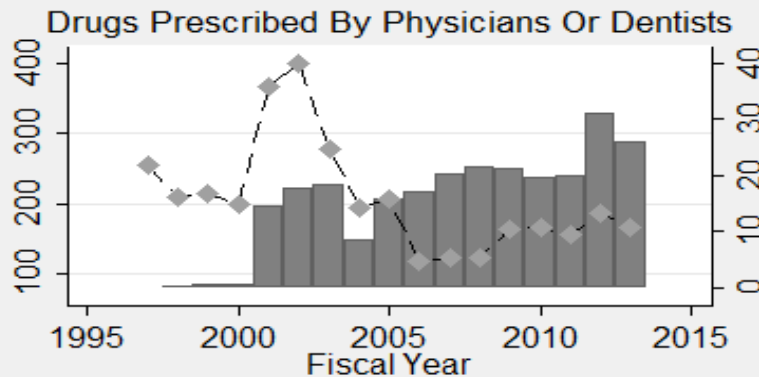
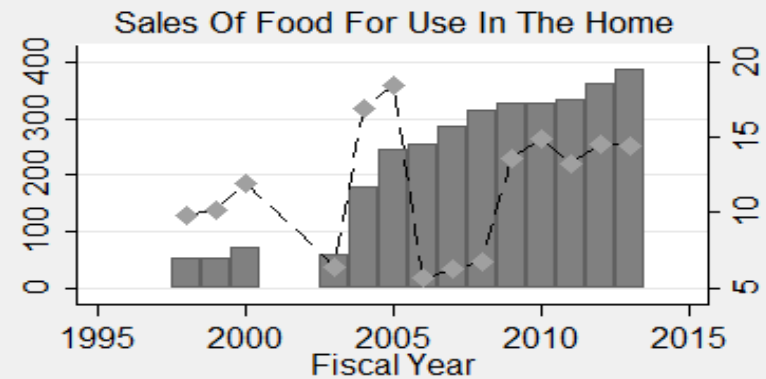
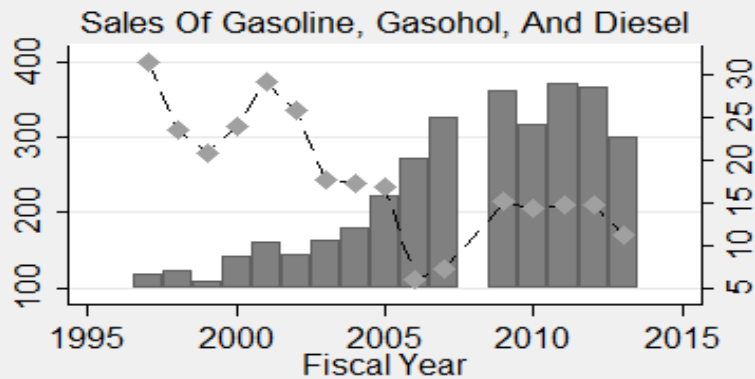
Sales Tax Revenues and Sales Tax Revenue Loss Due to Exemptions/Exclusions



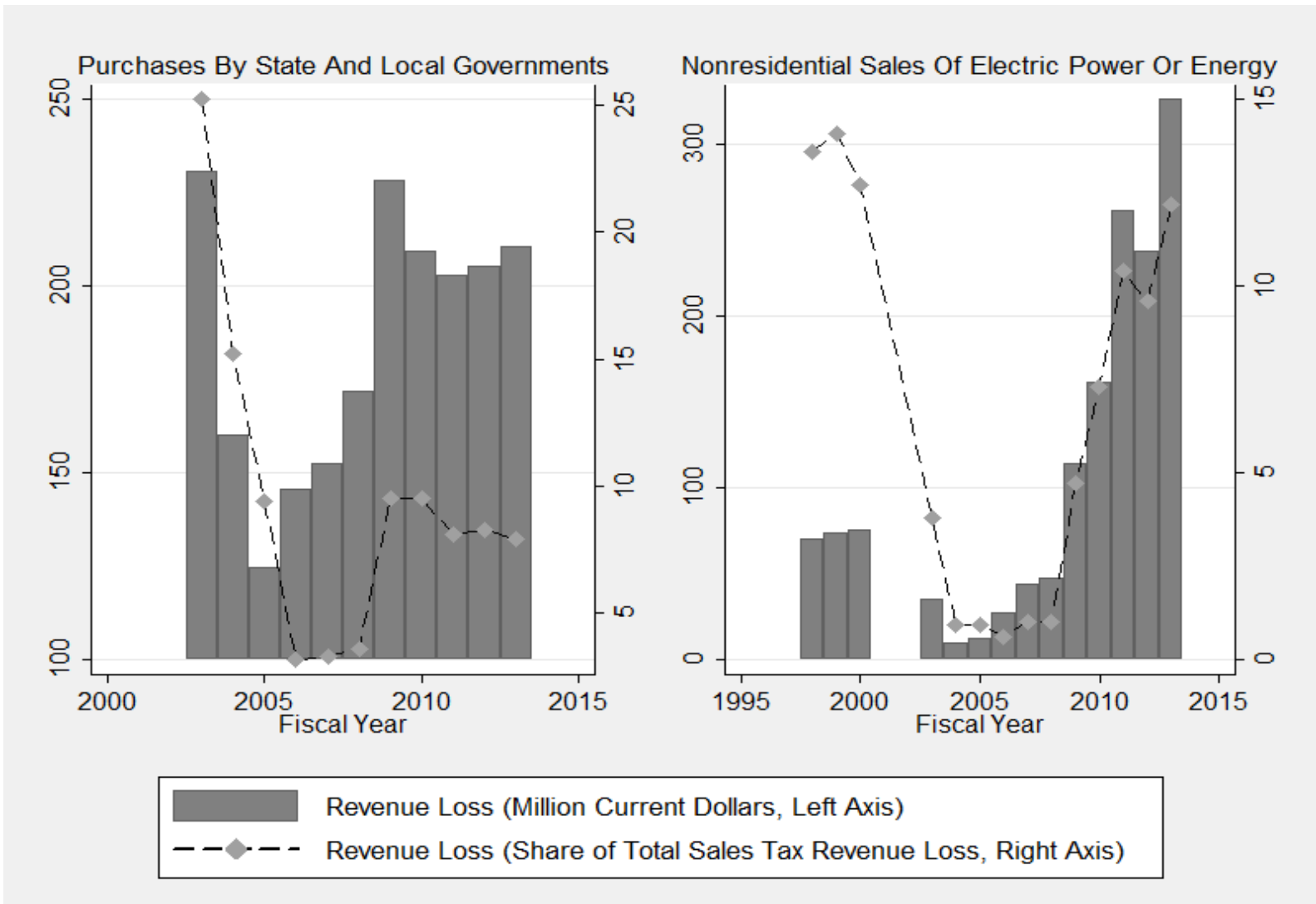
Constitutionally Imposed and Statutorily Imposed Sales Tax Exemptions



Major Constitutionally Imposed Exemptions



Other Major Exemptions



Main Lessons

- The exemptions generate large revenue losses.
 - Large revenue losses are from food for consumption at home, prescription drugs, purchases made with food stamps and WIC vouchers, electricity for residential and industrial use, purchase of machinery, governmental purchases, and gasoline, special fuels, and gasohol.
 - But there are many exemptions for which there is no tangible record of what the state is giving up in revenue
- Their number has increased over time.
- They often have been introduced with no consistent or compelling economic rationale.
- Adding state exemptions complicate the state and local administration of the sale tax collections
- Other states have streamlined their sales taxes to position themselves for future taxation of remote sales.

A Checklist:

Considerations for Policy Action

- Is the proposed exemption constitutional?
- Is it needed to better define the tax base?
- Is it essential for distributional fairness?
- Is it needed to align the Louisiana tax with those of other states?
- Is it needed to align the Louisiana state sales tax base with the local bases or does it create differences?
- Is its revenue loss justified by its overall benefits?

A Coming Issue: Taxation of Services

- From an efficiency point of view, personal services should be subject to sales tax.
- There is room for expansion in the taxation of personal services, including those delivered digitally.
- Taxing services may make the overall sales tax less regressive.
- Some business services could also be subject to tax—just as businesses face some taxes on tangible personal property.
- Interstate services and professional services pose problems of efficiency and complexity.

Another Coming Issue: A Common State and Local Sales Tax Base

- We have information on state sales tax exclusions and exemptions
- We do not have complete information on local sales tax exemptions
- We do not have complete information on number of state exemptions incorporated by localities in their tax base
- Essential to gather such information if we are truly trying to Streamline and Modernize the sales tax base in Louisiana.

Finding the Solution

- Exemptions have been created over many years—they are not brand new
- Exemptions have been accelerating in number though
- Making the sales tax base “right” will take a number of years
 - Developing the “correct” state sales tax base in coordination with local governments
 - Connecting exemptions to purposes of fairness, economic development, and interstate competition
 - Keep asking question: is it better to keep the sales tax rate low as opposed to diminishing the tax base

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**We Appreciate your invitation
and your attention.**

Any Questions?

LSU

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