ABOUT THE TAX FOUNDATION

we are independent nonprofit nonpartisan
we value tax systems that are

simple
neutral
transparent
stable
pro-growth

ABOUT THE TAX FOUNDATION
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But most sales taxes are narrow, outdated, & distortionary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.

Percent of Total Personal Consumption Expenditures


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)
Three flaws of sales taxes today:

Most sales taxes...

- Do not extend to services
- Exempt some purchases for political reasons
- Tax business inputs
Sales Tax Treatment of Groceries

State Sales Tax Bases: Exemption for Groceries
as of July 1, 2011
www.TaxFoundation.org

LEGEND
- Exempt
- Reduced Rate
- Taxable
- No Sales Tax

Source: Commerce Clearing House, Tax Foundation research.
## Sales Tax Treatment of Groceries, Candy, & Soda, 2015

<table>
<thead>
<tr>
<th>State</th>
<th>State General Sales Tax</th>
<th>Grocery Treatment</th>
<th>Candy Treated as Groceries?</th>
<th>Soda Treated as Groceries?</th>
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<td>Ala.</td>
<td>4.00%</td>
<td>Included in Base</td>
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<td>N.D.</td>
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<tr>
<td>Ohio</td>
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<td>No</td>
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</thead>
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<tr>
<td>Okla.</td>
<td>4.50%</td>
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<td>R.I.</td>
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<td>S.C.</td>
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<tr>
<td>S.D.</td>
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<td>Va. (b)</td>
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<td>D.C.</td>
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</table>

Facts & Figures 2015, Tax Foundation
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”? 

<table>
<thead>
<tr>
<th>Product</th>
<th>Tax Classification</th>
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<td>Twix®</td>
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<tr>
<td>Milky Way®</td>
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<tr>
<td>Milky Way Midnight®</td>
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<td>Kit-Kat®</td>
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<tr>
<td>Bakery on Main® Chocolate</td>
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<td>Almond Granola Bar:</td>
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<td>Gluten Free</td>
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<td></td>
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</tbody>
</table>

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.
Three flaws of sales taxes today:

Most sales taxes...

→ Do not extend to services
→ Exempt some purchases for political reasons
→ Tax business inputs
Avoiding Tax Pyramidning

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)