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Broad services tax (2007) repealed in less than 24 hours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Tax on warehouse and storage services (2014) repealed prior to effective date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

1. Economic Theory
2. Politics
3. 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)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Input Services</td>
<td>32.3%</td>
</tr>
<tr>
<td>&quot;It Depends&quot;</td>
<td>21.0%</td>
</tr>
<tr>
<td>Consumer Services</td>
<td>46.6%</td>
</tr>
</tbody>
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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
Politics

- Very difficult to tax certain types of consumer services (such as healthcare, education, and housing).
Consumer Spending on Services in Louisiana (2013)

- Health Care, 28%
- Housing & Utilities, 25%
- Financial Services & Insurance, 13%
- Education Services
- Communication Services
- Professional Services
- Personal Care/Clothing Services
- Social Services/Religious Activities
- Household Maintenance
- Food Service & Accommodations, 12%
- Recreation Services, 6%
- Transportation Services, 4%
- Misc. Services, 12%
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
Sales Tax on Services

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