

US States and the Sales Taxes

Presented to
Joint House and Senate Finance Committees
North Carolina Legislature

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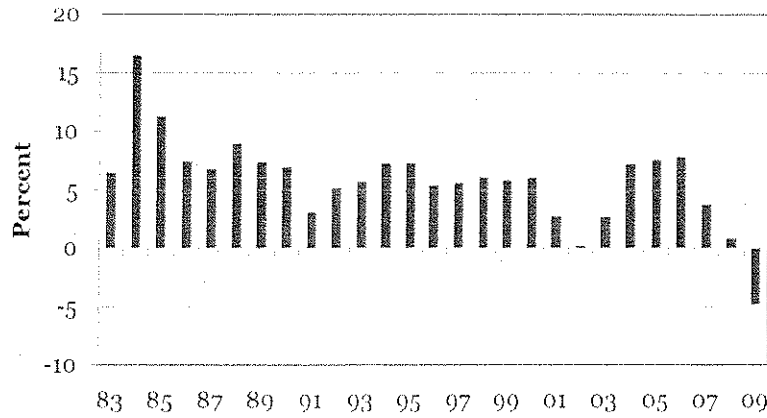
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Topics

- I. Importance of General Sales Tax
- II. Why Tax Sales?
- III. Defining the Sales Tax Base
- IV. Problems of Taxing Business
- V. Where is the Sales Tax Headed?

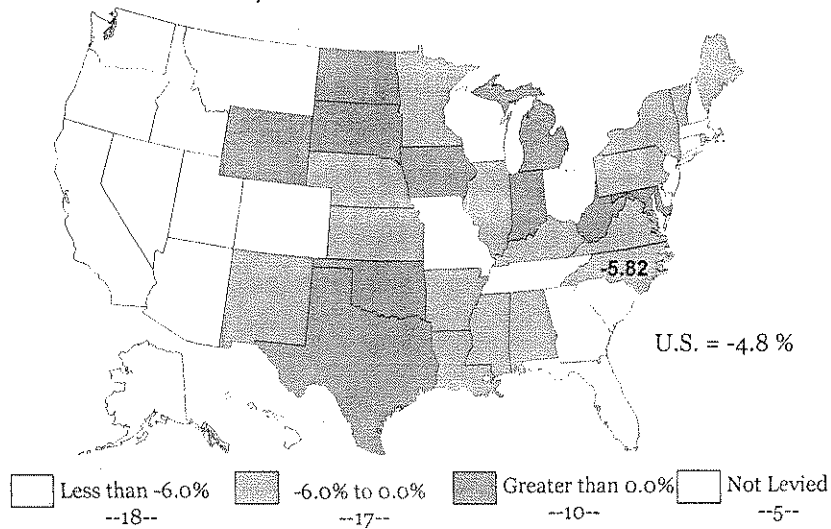
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GROWTH IN U.S. STATE GENERAL SALES TAX COLLECTIONS



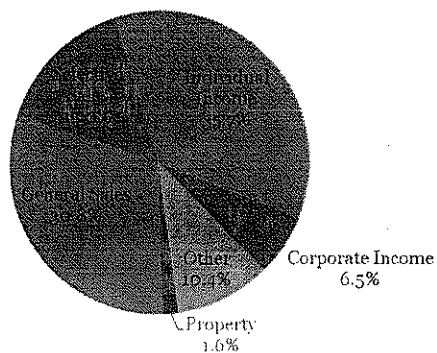
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PERCENT GROWTH IN STATE SALES TAX COLLECTIONS, FY 2008-2009



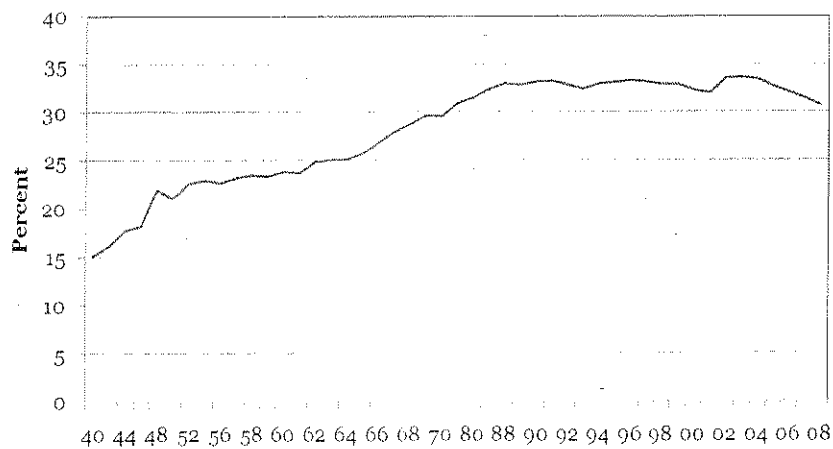
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PERCENTAGE DISTRIBUTION OF U.S. TAX COLLECTIONS, 2008

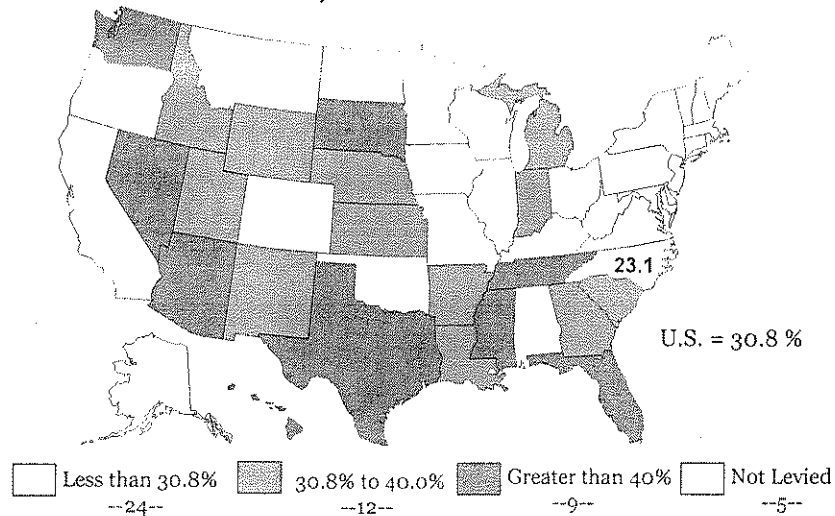


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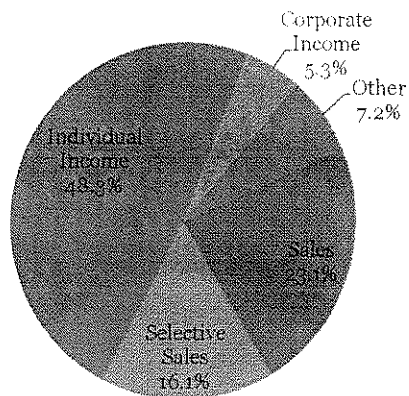
GENERAL SALES TAX AS A PERCENT OF TOTAL TAXES, Selected Years



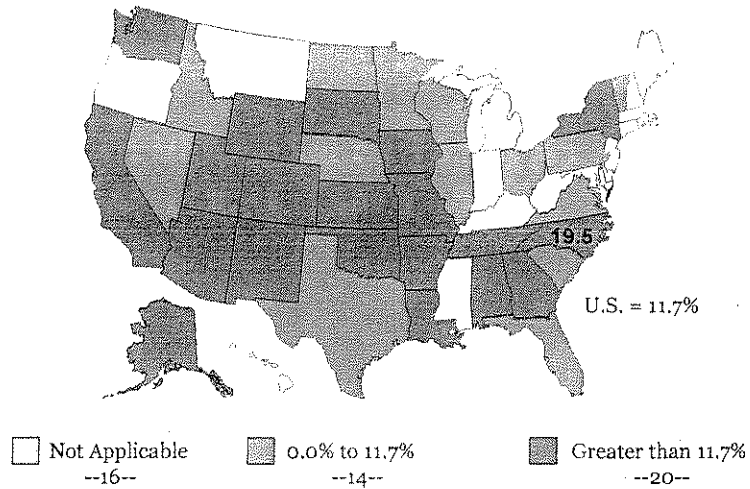
STATE GENERAL SALES TAXES AS A PERCENT OF TOTAL TAXES, 2008



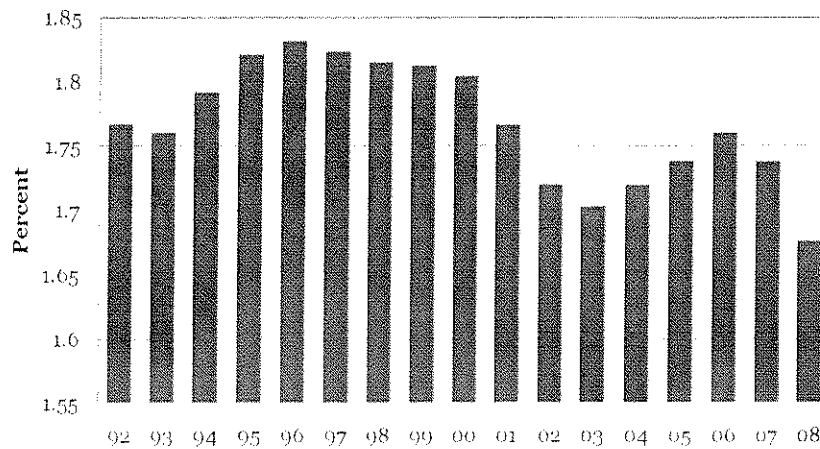
Percentage Distribution of North Carolina Tax Collections, 2008



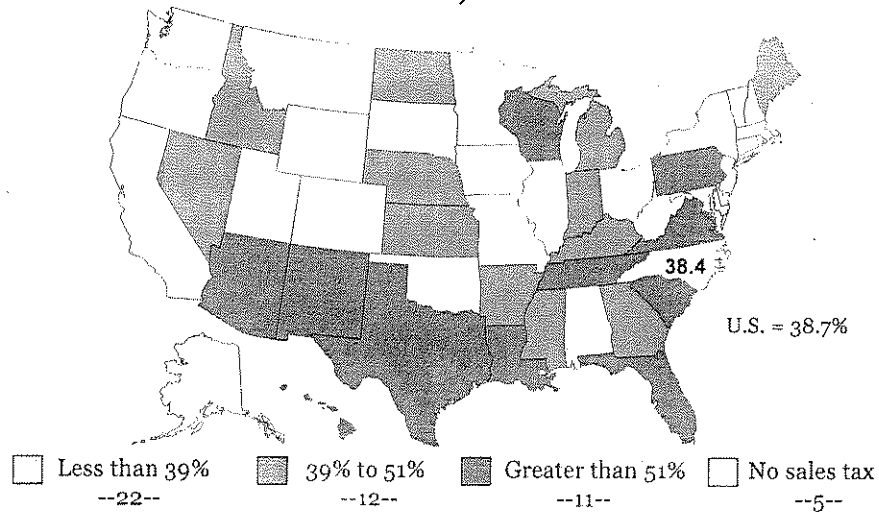
LOCAL GENERAL SALES TAXES AS A PERCENT OF TOTAL LOCAL TAXES, 2007



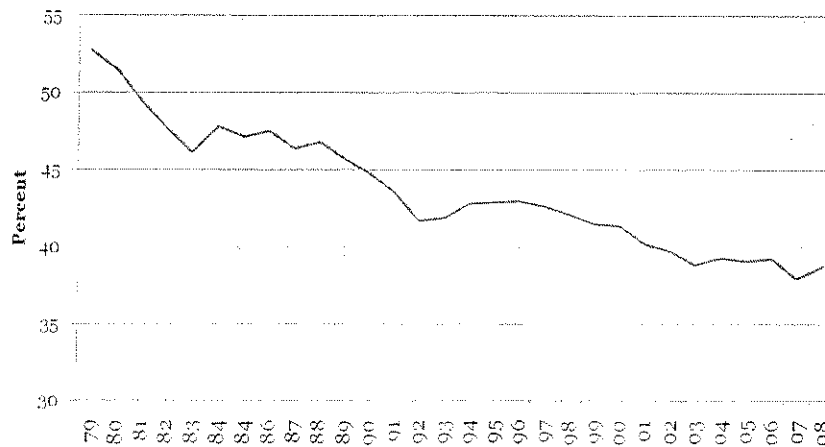
STATE GENERAL SALES TAX COLLECTIONS AS A PERCENT OF GDP



STATE SALES TAX BASE AS A PERCENT OF PERSONAL INCOME, 2008



U.S. SALES TAX BASE AS A PERCENT OF PERSONAL INCOME, 1979-2008



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CAUSES OF CHANGE IN THE SALES TAX

- Legislated Exemptions
 - Fairness - Food, Clothing
 - Economic Development - Holidays, Location
- Changes in Consumption Patterns

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PERSONAL CONSUMPTION EXPENDITURES 1979 and 2007

	1979 <u>Percent</u>	2007 <u>Percent</u>
Total Expenditure	100.0	100.0
Durable Goods	13.4	11.2
Autos	5.9	4.5
Furn & Household	5.2	4.3
Other Durables	2.4	2.3
Nondurable Goods	39.1	29.2
Food and Beverage	20.3	13.7
Other Nondurables	18.8	15.2
Services	47.4	59.7

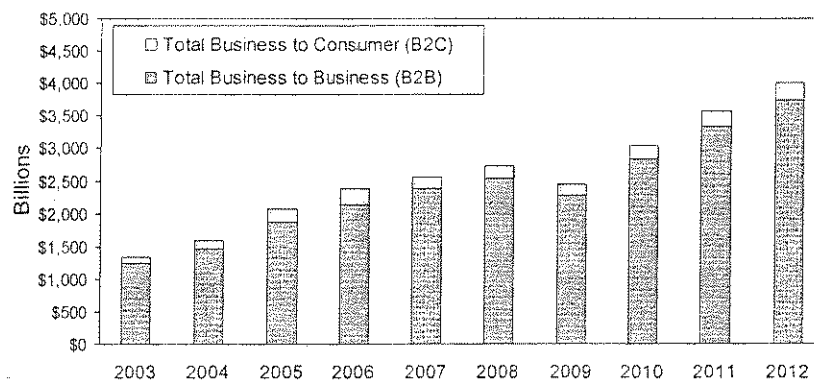
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CAUSES OF CHANGE IN THE SALES TAX

- Legislated Exemptions
 - Fairness - Food, Clothing
 - Economic Development - Holidays, Location
- Changes in Consumption Patterns
- Cross Border Shopping
 - Mail Order
 - Driving Next Door
 - E-Commerce

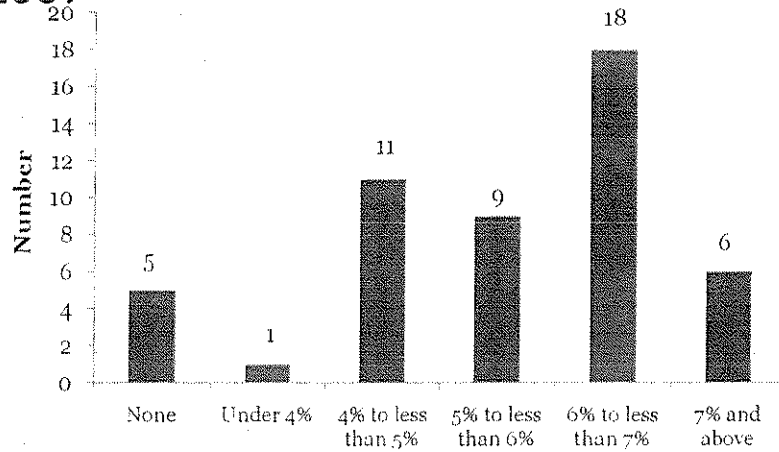
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ESTIMATED TOTAL E-COMMERCE SALES

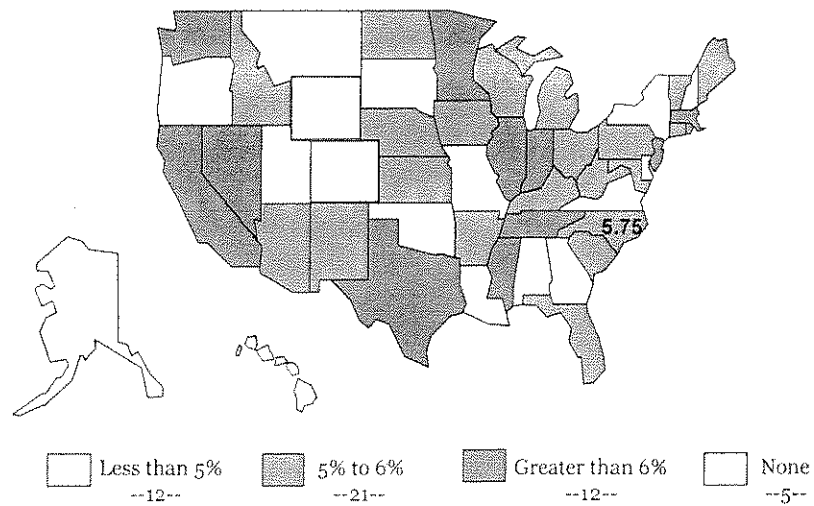


*Sales-taxing states only.

STATE GENERAL SALES TAX RATES, 2009

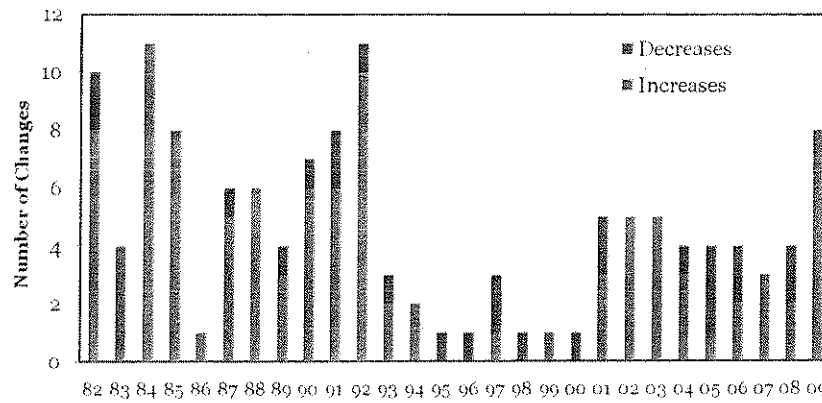


STATE SALES TAX RATES, 2009



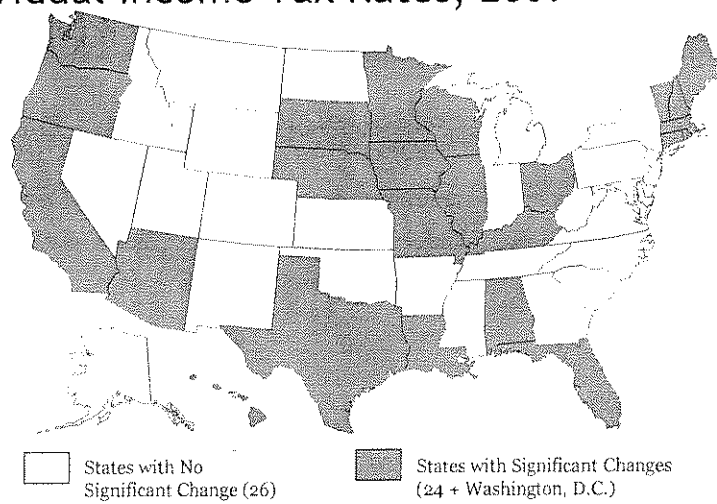
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NUMBER OF SALES TAX RATE CHANGES



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States with Significant Changes in Individual Income Tax Rates, 2009



WHY TAX SALES?

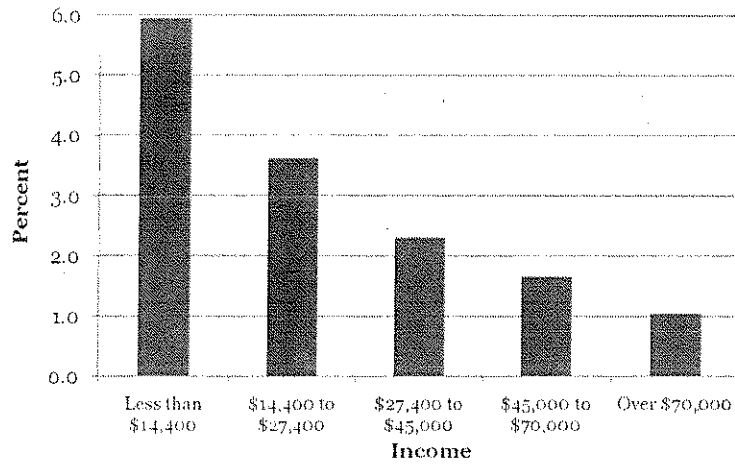
- Conceptual Basis Lies in Taxing Consumption
- Is the Sales Tax a Consumption Tax?
- Alternative Ways to Tax Consumption
 - Value added
 - Consumable income

DEFINING THE SALES TAX BASE

- Tax on Consumption
- Other Goals

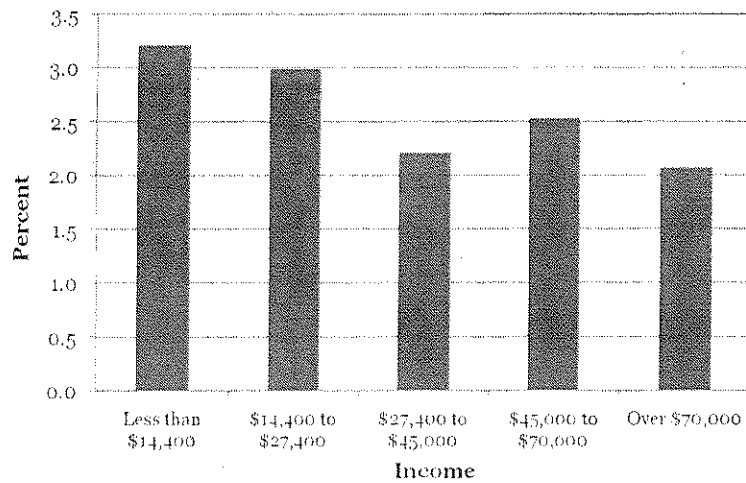
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HAWAII STATE SALES TAX COLLECTIONS AS PERCENT OF CURRENT INCOME



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HAWAII STATE SALES TAX COLLECTIONS PERCENT OF LIFETIME INCOME



TAX ON CONSUMPTION

- All household purchases
- All purchases regardless of how obtained
- All purchases regardless of the income used
- All purchases regardless of the vendor
- No business purchases

PROBLEMS OF TAXING BUSINESS

- Not a consumption tax
- Vertical integration
- Hurts equity
- Economic Development

WHERE IS THE SALES TAX HEADED

- Pressure for Rate Increases
- Base Changes
 - Business purchases
 - Services
 - Consumer goods
 - Interstate transactions
- Federal Efforts to Tax Sales