Sales Taxes in the District of Columbia

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June 17, 2013
DC Sales Tax Characteristics

- 17 percent of tax revenues, low on national standards
Figure 1: State and Local Tax Revenue Distribution, 2010

Source: U.S. Census Bureau

June 17, 2013
DC Sales Tax Characteristics

- 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

Less than 5%
---11---
5% to 6%
---19---
Greater than 6%
---5---
None
---5---

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DC Sales Tax Characteristics

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

Greater than 38.0% --13--
Less than 33.0% --17--
33.0% to 38.0% --15--
Greater than 38.0% --13--
No sales tax --5--

U.S. = 32.8%

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Sales tax bases declining nationally

- Policy choices
- Growing role of services
- Rising remote sales
## PERSONAL CONSUMPTION EXPENDITURES
### 1979 and 2011

<table>
<thead>
<tr>
<th>Category</th>
<th>1979 Percent</th>
<th>2011 Percent</th>
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</thead>
<tbody>
<tr>
<td>Total Expenditure</td>
<td>100.0</td>
<td>100.0</td>
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<tr>
<td>Durable Goods</td>
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<td></td>
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<tr>
<td>Autos</td>
<td>5.9</td>
<td>3.5</td>
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<tr>
<td>Furn &amp; Household</td>
<td>5.2</td>
<td>2.4</td>
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<tr>
<td>Other Durables</td>
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<td>1.7</td>
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<tr>
<td>Nondurable Goods</td>
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<td></td>
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<tr>
<td>Food and Beverage</td>
<td>20.3</td>
<td>7.5</td>
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<td>Other Nondurables</td>
<td>18.8</td>
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<tr>
<td>Services</td>
<td>47.4</td>
<td>66.0</td>
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ESTIMATED TOTAL E-COMMERCE SALES

Total Business to Consumer (B2C)
Total Business to Business (B2B)

*Sales-taxing states only.
Sales Tax as a Consumption Tax

- 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
Other Goals

- **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**
Policy Options for the base

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

- 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
Taxation of remote sales

- 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

- 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
Federal legislation

- 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.
Excise Taxes

- 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

D.C. $5.37
MD $4.41
VA $20.56
WV $2.82

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Excise Taxes

- 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

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