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OVERVIEW OF GROSS RECEIPTS TAX
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WHAT IS A GROSS RECEIPTS TAX?

A Gross Receipts Tax (GRT) is a tax on the gross revenue of a company regardless of the source of revenue — as compared to the income tax, which applies to gross receipts minus expenses. Typically, a gross receipts tax will apply to all business sales resulting from changes of ownership with few or no deductions for expenses. Gross receipts taxes are often compared to an expanded sales tax, which applies not only to the final sale but to all transactions including intermediate business-to-business purchases of supplies, raw materials, services and equipment.

WHAT ARE THE MAJOR CONCERNS WITH A GROSS RECEIPTS TAX?

Research by the Council on State Taxation (COST), the Institute on Taxation and Economic Policy (ITEP) and the Tax Foundation raise significant concerns with the Gross Receipts Tax, noting it violates a number of tax policy principles such as transparency, fairness and competitiveness.

- It taxes the first dollar of receipts or revenue without regard to profitability or ability to pay.
- It is a tax on business inputs, which leads to increased costs of production because it is applied multiple times on the final product and is hidden from the consumer in the price of goods and services due to "pyramiding". As a result, the GRT is actually a tax that is wider than the economy itself. In addition, similar to a sales tax, it is regressive, requiring disproportionately more from low-income consumers.
- Few or no deductions are allowed, and there is the potential for double taxation against businesses organized as pass-throughs entities, such as LLCs or sole proprietorships, that also remain subject to the individual income tax.
- Effective tax rates vary by industry sector and individual business types. Businesses engaged in high-volume, low-profit sectors are adversely affected, as are start-up companies that generally lose money in the initial years of operation. Some states have tried to address this economic imbalance with separate rates for each industry, which can be an unfair and politicized process.
- Companies with longer production chains are exposed to a higher tax burden. It encourages vertical integration, so that large companies minimize external transactions and decrease their purchase of materials or services from smaller companies. It also can discriminate against service companies and suppliers in-state where the tax is levied, pushing companies to find vendors outside the state.

WHAT DO PROPONENTS ARGUE ARE THE BENEFITS OF A GROSS RECEIPTS TAX?

The Gross Receipts Tax is widely recognized by experts and economists as poor tax policy. That said, proponents will argue that the tax leads to a more stable and steadier flow of revenue for the government because it is a broadly-based tax. The rate itself tends to be lower than a corporate income tax, and the structure itself is simpler and more efficient for both the state and the taxpayer without the utilization of deductions and credits.

WHICH STATES HAVE A GROSS RECEIPTS TAX?

The Gross Receipts Tax has largely been abandoned by developed countries and the United States since the Great Depression, when this was a revenue source states chose during a time of deficit. Of note, four states have recently repealed their Gross Receipts Tax: Indiana, Kentucky, Michigan and New Jersey. The latter three states repealed it only a few years after enacting it due to the significant and immediate negative impact on their economies. In fact, the Tax Foundation cites two recent studies that actually link the repeal of gross receipts taxes with increased production efficiency and growth in GDP per capita.

Today, only five states have a form of the Gross Receipts Tax statewide:

- **Delaware** has a Manufacturers and Merchants License Tax ranging from .0996% to .7468% in addition to the corporate income tax.
- **Nevada** has a relatively new Commerce Tax with 26 industry classifications and rates ranging from .051% to .331%.
- **Ohio** has a .26% Commercial Activities Tax in lieu of a corporate income tax and tangible personal property tax for business (see below for details).
- **Texas** has a Margin Tax in lieu of income tax, but does maintain partial deductions for both compensation expenses and cost of goods sold that makes the Margin Tax more closely resemble an income tax. Texas applies the tax to LLCs and S Corporations and has two rates: .375% on retail and wholesale and .75% on all other industries. In 2016, Texas reduced the top rate from .95% to .75% and is deliberating a phase-out in the current legislative session.
- **Washington** has over 30 different industry classifications and rates in a Business and Occupation Tax ranging from .13% to 3.3%, which is in lieu of a corporate income tax and applies to LLCs and S Corporations.

In Louisiana, the Governor's administration has publicly stated he is seeking to model Ohio's "Commercial Activity Tax," which was enacted as part of a restructuring of the entire tax system in 2005 and phased in over five years. The rate is .26% and applies to all businesses, including sole proprietorships, LLCs and S Corporations with receipts above $150,000 annually. It is a minimum tax based on the amount of taxable gross receipts and those with more than $1 million annually must pay quarterly. There is a long list of receipts that are and are not included, but essentially, Ohio's taxable gross receipts includes sales of property (including intellectual property), performance of services, and rents. According to the Tax Foundation, Ohio ranks #45 for the business tax climate in part because the gross receipts tax does not offer full deductions for either the cost of goods sold or employee compensation.