

Sales Tax Exemptions



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JANUARY 22, 2018**

Why do we exempt certain sales?



- Limit the regressivity of the sales tax
 - Lower income taxpayers tend to spend a higher percentage of their income on goods
- Avoid potential tax pyramiding on intermediate inputs
 - Sales tax is charged to multiple layers in the production process so the final user pays the accumulation of taxes
- To encourage or discourage a certain type of behavior
- Note: much overlap between these groups

Limiting Regressivity



- Example exemptions include:
 - Groceries
 - Clothing and footwear
 - Medical products
 - Rentals of washing facilities
 - Energy purchases for a residence
- Even with these exemptions, sales taxes can still be regressive.
 - Achieving full and true progressivity would be a significant reduction in the tax base (ie, expensive).

Avoiding Tax Pyramiding



- Tax pyramiding avoided in large part by only taxing “final goods” but some purchases remain
- Example exemptions include:
 - Agricultural inputs/energy purchases (to an extent)
 - Fuels for railroads
 - Railroad rolling stock
 - Ferryboat parts
 - Sales of films to movie theaters
- Tax pyramiding could still be happening/unavoidable
 - Business buys nails from Home Depot and pays sales taxes...

Encouraging/discouraging behavior



- Example exemptions include
 - Newspapers
 - Admission fees to museums
 - Property incorporated into a net metering system
 - Purchase by and to a 501(c)(3) organization
 - Tracked vehicles
 - Agricultural exemptions
- Taxes can be used to discourage behavior
 - Sales tax on soda
 - Excise taxes on liquor and cigarettes