Generally Accepted Pros and Cons Of A Gross Receipts Tax

Pros

- May decrease the number of tax planning options available to firms
- Generally easier to administer and comply with
- Should provide a more stable revenue source as receipts are inherently more stable than profits
- Applicable at a lower rate than most taxes because of the broad base
- Some of the contrary arguments to the gross receipts tax may be mitigated by allowing for deductions (COGS or standardized), and/or credits for low/no income firms, and/or separate rates

Cons

- Considered a pyramiding tax – the effective rate will be greater than the nominal tax rate, with the difference dependent on the different stages of production
- The effective rate will vary by economic sector, dependent on the number of production stages
- May encourage firms to purchase input goods from out of state firms that are not subject to the tax, or vertical integration
- Often becomes complex as lawmakers modify the tax to counteract divergent effective rates
- Imposes a significant burden on low margin firms
- Lack of transparency