Gross Receipts Tax Overview

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By Andrew Schaufele
Bureau of Revenue Estimates

Gross Receipts Tax (GRT) Defined

- A tax on the total receipts of a firm
- The most basic form does not allow deductions for any type of expense or input, nor does it distinguish between receipt types
- Often presented as a tax on the privilege of doing business within the state or as a tax on business activity

Generally Accepted Pros of a GRT

- May decrease the number of tax planning options available to firms
- Generally easier to administer and comply
- Should provide a more stable revenue stream as receipts are inherently more stable than profits
- Applicable at a lower rate than most taxes because of the broad base

Generally Accepted Cons of a GRT

- Pyramiding tax- the effective tax rate will be greater than the nominal tax rate, with the difference dependent on the different stages of production
- Dependent upon the number of production stages, the effective rate will vary by economic sector
- Creates an incentive to vertically integrate
- Often become complex as lawmakers modify the tax to counteract divergent effective rates

Generally Accepted Cons of a GRT
(continued)

- May encourage firms to purchase input goods from out of state firms that are not subject to the tax
- Poses a significant burden on low margin firms
- Lack of transparency
- Usually, the increase in a good’s price is passed on to the final consumer

Brief History of the GRT in the United States

- First statewide GRT enacted in West Virginia, called “Business and Occupations Privilege Tax” in 1921
- Until 1929 states had largely relied on income and property taxes to fund operations
- However, both bases fell significantly with the onset of the great depression

Brief History of the GRT in the United States
(continued)

- Many states enacted a GRT
- While some were focused on certain industries others were broad based
- By the onset of WW II, many GRTs were deemed unconstitutional
- Following the war, lawmakers and scholars seemingly turned against the tax

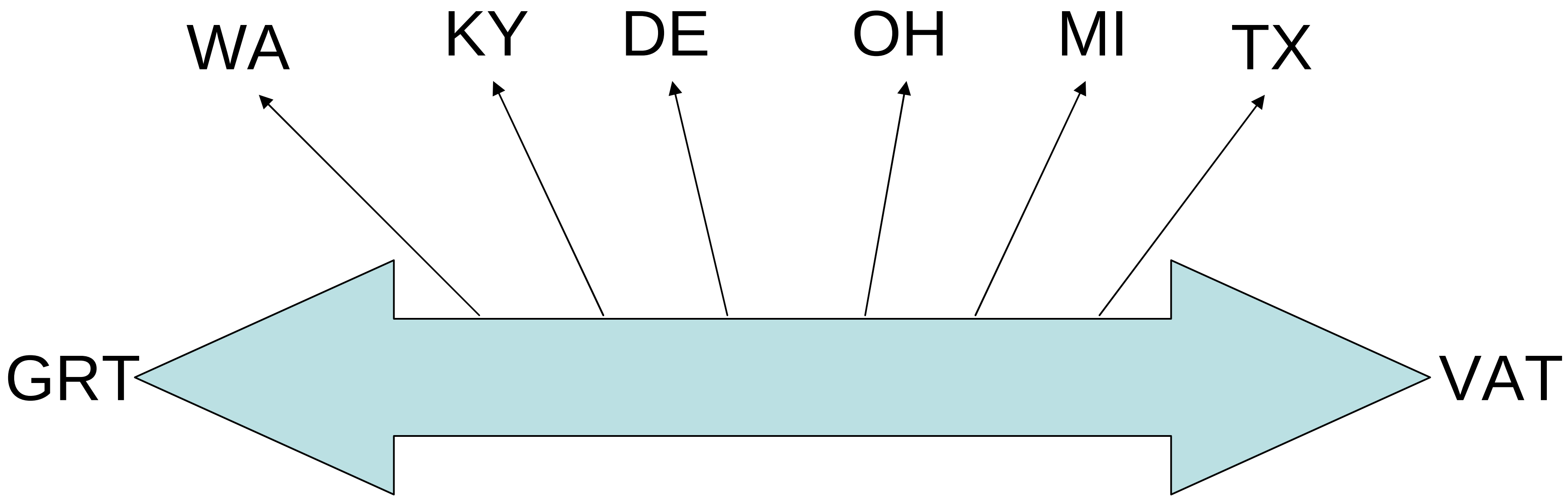
Brief History of the GRT in the United States
(continued)

- By 2002, Washington remained the only state with a GRT
- Recently there has been an upsurge in the number of taxes considered a GRT, though most are hybrids

GRT vs. Value Added Tax (VAT)

- VAT- In general, a tax on the value added by a business
- The most basic VAT base is simply revenue minus purchases of materials
  - Other hybrid VATs may include deductions for depreciation and/or capital expenditures
- The VAT is almost always listed on an invoice passed on to the buyer and previous tax paid is deductible to the current seller

The “Fuzzy” Line Between GRTs and VATs



Washington

Name	Business and Occupation Tax (B&O)
Tax Base	+ Total revenue sourced in Washington - Allowable deductions x Tax rate - Credits = Net tax due
Tax Rate	0.471% for retailing 0.484% for extracting, manufacturing, and wholesaling 1.5% for services and other activities
Revenue Deductions	Bad debts, cash and trade discounts, casual sales, advancements/reimbursements, various others
Taxable Entities	All
Excluded Activities	Farming, sales or rental of real estate, credit unions, various others
Threshold Exemptions	None
Combined/Separate Entity	Separate Entity
Waters Edge	NA
Apportionment	None
Corp Inc Tax Also	No

Kentucky

Name	Limited Liability Entity Tax (LLET)
Tax Base	Least of the two following calculations: 1a. Gross receipts > $3,000,000 but < $6,000,000 1b. Gross receipts >= $6,000,000 2a. Gross profits > $3,000,000 but < $6,000,000 2b. Gross profits >= $6,000,000
Tax Rate	1a: (Gross receipts x 0.095%) – ($2,850 x (($6,000,000 – Gross receipts)/$3,000,000)) 1b: Gross receipts x 0.095% 2a: (Gross profits x 0.75%) – ($22,500 x (($6,000,000 – Gross profits)/$3,000,000)) 2b: Gross profits x 0.75% Take the greater of option 1 or 2
Revenue Deductions	Subtract returns and allowances for gross receipts Subtract COGS from gross receipts for gross profits
Taxable Entities	All except sole proprietors, general partnerships, REITs, regulated investment companies, some others
Excluded Activities	Financial institutions, insurance companies, and alcohol production facilities
Threshold Exemptions	If gross receipts from everywhere are <= $3,000,000 then pay $175 min tax
Combined/Separate Entity	Nexus consolidated return
Waters Edge	Yes
Apportionment	Only receipts sourced in Kentucky
Corp Inc Tax Also	Yes

Delaware

Name	Gross Receipts Tax
Tax Base	+ Total revenue sourced in Delaware - $960,000 (exclusion for all business types except manufacturer which is $12,000,000) x Tax rate - Credits = Net tax due
Tax Rate	Varies widely across industry types From 0.096% for commercial feed/farm equipment to 8.0% for hotel/motel providers However, most are under 1.0%
Revenue Deductions	None except for the $960,000 or $12,000,000 exclusion
Taxable Entities	All with a business license or occupancy in Delaware
Excluded Activities	Banks/Trusts pay a separate franchise tax
Threshold Exemptions	None
Combined/Separate Entity	Separate Entity
Waters Edge	NA
Apportionment	None
Corp Inc Tax Also	Yes

Ohio

Name	Commercial Activity Tax (CAT)
Tax Base	+ Total revenue sourced in Ohio - $1,000,000 x Tax rate - Credits = Net tax due
Tax Rate	0.26% (was slowly phased in with 0.26% effective after April 1, 2009)
Revenue Deductions	Bad debts, returns and allowances, various others
Taxable Entities	All
Excluded Activities	Financial institutions, insurance companies, dealers in intangibles, qualified distribution centers, various others
Threshold Exemptions	If gross receipts are <= $150,000 then no CAT If gross receipts are > $150,000 and <= $1,000,000 then pay $150 If gross receipts are > $1,000,000 then follow tax base calculation
Combined/Separate Entity	Separate Entity
Waters Edge	NA
Apportionment	None
Corp Inc Tax Also	No

Michigan

Name	Modified Gross Receipts Tax
Tax Base	+ Total revenue - Purchases from other firms x Apportionment factor - Up to 65% of old tax system business loss carry forward x Tax rate - Credits = Net tax due
Tax Rate	0.8%
Revenue Deductions	60% of bad debts, 60% of foreign royalties and dividends, 60% of various others
Taxable Entities	All
Excluded Activities	Financial institutions and insurance companies
Threshold Exemptions	$350,000 in Michigan sourced gross receipts
Combined/Separate Entity	Combined
Waters Edge	Yes
Apportionment	Single sales factor
Corp Inc Tax Also	Yes, and a 21.99% surtax on total of gross receipts and income tax liabilities aggregated

Texas

Name	Texas Margin Tax
Tax Base	+ Total revenue - Greatest of COGS, compensation, or 30% of total revenue x Apportionment factor - Allowable deductions x Tax rate - Credits = Net tax due
Tax Rate	0.5% for wholesalers and retailers 1.0% for all others
Revenue Deductions	Revenue deductions include bad debts, foreign royalties and dividends, various others Allowable deductions include amortization of certain solar energy equipment used in Texas
Taxable Entities	All excluding sole proprietors, general partnerships, and certain PTEs
Excluded Activities	None
Threshold Exemptions	If tax due is < $1,000 or Annualized receipts are <= $434,782
Combined/Separate Entity	Combined
Waters Edge	Yes
Apportionment	Single sales factor
Corp Inc Tax Also	No

Delaware GRT vs Maryland SUT

- Delaware GRT collections totaled $484,515,000 in 2008
- Delaware's population was 873,090 in 2008
- Which equals a $554.90 liability per capita

- The 2008 Maryland SUT tax liability per capita was $687.64
- Maryland would have to lower the SUT rate to 4.84% to equal a $554.90 liability per capita