REDUCE OR ELIMINATE INDUSTRY-SPECIFIC TAXES

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TOPLINE: Governments should rely less on taxes that are narrowly targeted at specific industries or products and should favor broad-based taxes instead.

BACKGROUND: Taxes are a necessary evil. But they should be imposed in the least destructive way possible while still allowing governments to collect the limited revenues that are needed to fund activities within government's proper scope. Taxes are least destructive when they apply evenly across the economy and are most destructive when they are designed to pick winners and losers.

The federal government primarily relies on revenues from income taxes and payroll taxes. State and local governments rely most on property, income, and sales taxes, each of which *can* apply to a broad base. But some state governments impose dozens of narrow industry- or product-specific taxes that raise minimal revenue but that distort markets, raise prices, and kill jobs in the affected industries.

Action Items (States and Congress):

- Most **taxes specific to energy production, chemicals and other heavy industries should be eliminated** or reduced. That includes severance taxes on oil, gas, and coal extraction, taxes on lumber products, and telecommunications taxes.
- **Taxes specific to transportation, tourism, telecommunications, and travel should be eliminated or reduced**, including taxes on cars, aircraft, boats, hotels, rental cars, rideshares, airfare, and entertainment, unless they are in lieu of and comparable to the general sales tax.
- **Taxes on firearms and ammunition should be eliminated**.
- At the federal level, **product- and industry-specific tariffs on friendly nations and excise taxes should be reduced or eliminated.**

What About Sin Taxes? Many governments impose "sin taxes" on everything ranging from marijuana, liquor, and gambling to sugary drinks and tanning beds. States have a role in restricting things that are harmful and inconsistent with a virtuous society—prohibiting marijuana and drug use is one example. But taxes on things like sugary drinks reflect a nanny-state mentality. For truly harmful things, there is a better case for restricting them than taxing them, as taxes only reduce use by adding a different harm (a financial penalty on users).

How It Would Make Life More Affordable:

- It would reduce distortionary taxes on business inputs, which would help lower the price of products downstream.
  - For example, cutting taxes on transportation and energy production reduces the cost of transported goods and energy-intensive products.
- Making companies compete on a level playing field reduces wasteful investment.

BOTTOMLINE: The total tax burden is lightest with a broad tax base and low tax rates.