Plymouth Institute for Free Enterprise

Cut Harmful State Taxes

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TOPLINE: State lawmakers should reduce reliance on taxes with narrow or poorly defined tax bases and should avoid imposing too many taxes.

BACKGROUND: Nationally, about 85% of all state and local tax revenue is collected from four broad-based taxes: property taxes, sales taxes, individual income taxes, and corporate income taxes. Some smaller, but notable, state and local taxes include gross receipts taxes, business franchise taxes, death taxes, capital stock taxes, severance taxes, real estate transfer taxes, and various selective excise taxes.

Minor Taxes, Major Harm: Many minor taxes are disproportionately harmful. Gross receipts taxes and business franchise taxes can be especially burdensome for new companies with small profit margins. Death taxes, capital stock taxes, and tangible personal property taxes discourage intergenerational wealth and capital formation. Steep severance taxes hamstring energy developers. Real estate transfer taxes reduce the turnover and new supply of housing. And while there is a place in our federalist system for states choosing to have "sin taxes" on things like alcohol, tobacco, and gambling, excise taxes on specific products should be used sparingly, unless they function like user fees.

Action Items (States):

- **Repeal the following taxes**: gross receipts taxes, business franchise taxes, death taxes (including estate, gift, and inheritance taxes), capital stock taxes, tangible personal property taxes, and real estate transfer taxes (except processing fees).
- **Reduce severance taxes and avoid applying them based on the value of production** (to avoid increasing when oil prices are surging and supply is needed).
- **Use excise taxes sparingly**. Eliminate excise taxes on tourism (e.g., lodging, rental cars), entertainment (other than sin taxes), meals, tires, firearms, bags, etc.
- **Cut income taxes**. Of the four major state taxes, corporate and personal income taxes are the most economically destructive.
- **Offset lost revenue with reductions in spending and/or a broadened sales tax base** that includes all consumer goods *and services*.

How It Would Make Life More Affordable:

- Cutting taxes on specific products and industries (like severance taxes, real estate transfer taxes, and excise taxes) would reduce costs to consumers and would lead to a less distortive tax system.
- Reducing poorly designed taxes on owners of businesses and capital would allow more entrepreneurship and reduce the cost of producing and bringing goods and services to consumers.

BOTTOMLINE: Taxes should be limited, clear, and applied evenly across the economy, but all too often state lawmakers pick economic winners and losers with tax policy.