



Commission on the 21ST Century Economy

Tax Base Broadening Options

Personal Income Tax
Sales and Use Tax



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Advantages of Base-Broadening

- Minimizes Economic Distortions
- Leads to Neutrality in Taxation
- Reduces Compliance Efforts
- May Lead to Greater Stability



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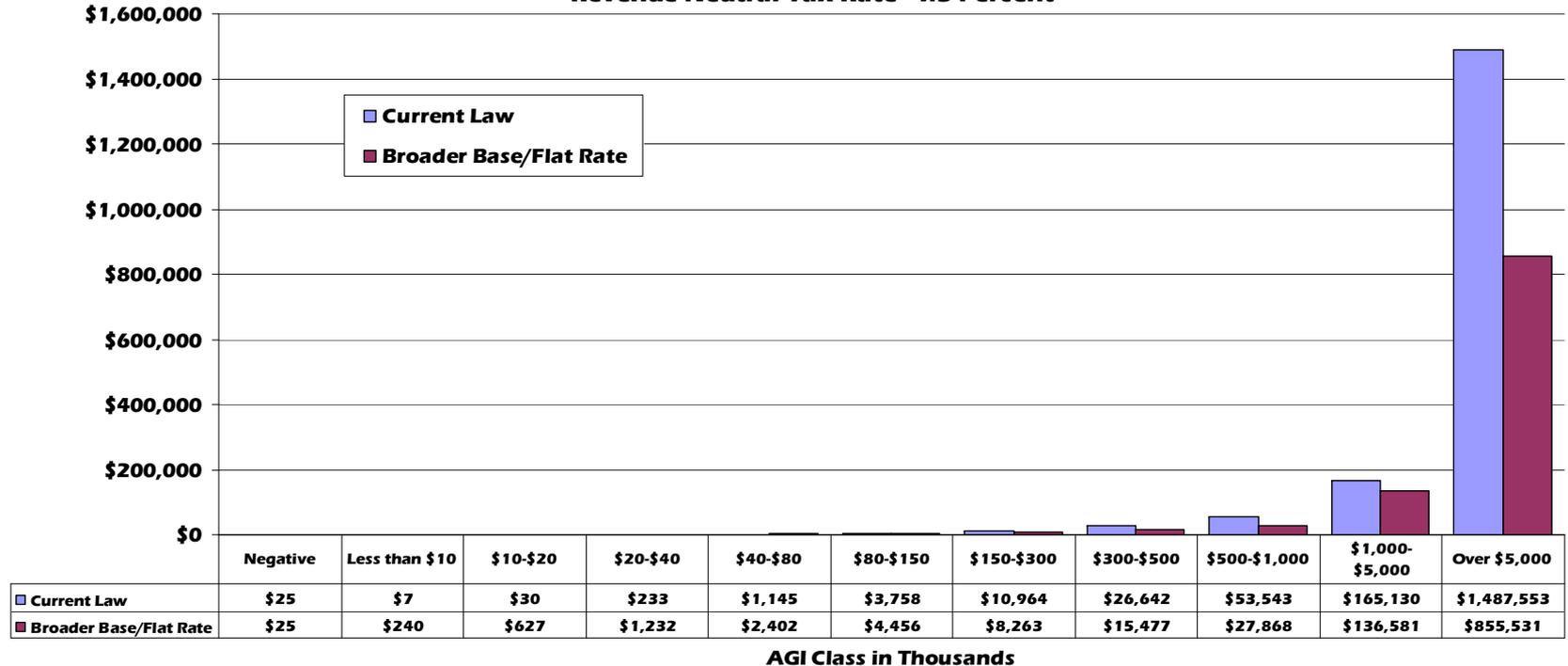
Personal Income Tax

- Start with adjusted gross income
 - Retain all “above-the-line” exclusions, including:
 - Employer contributions to pension plans
 - Employer contributions to health insurance
 - Other retirement savings, such as IRAs and 401(K)s
 - Eliminate all “below-the-line” deductions, including:
 - Home mortgage interest
 - Property tax
 - Charitable contributions
 - Medical expenses
 - Eliminate all credits



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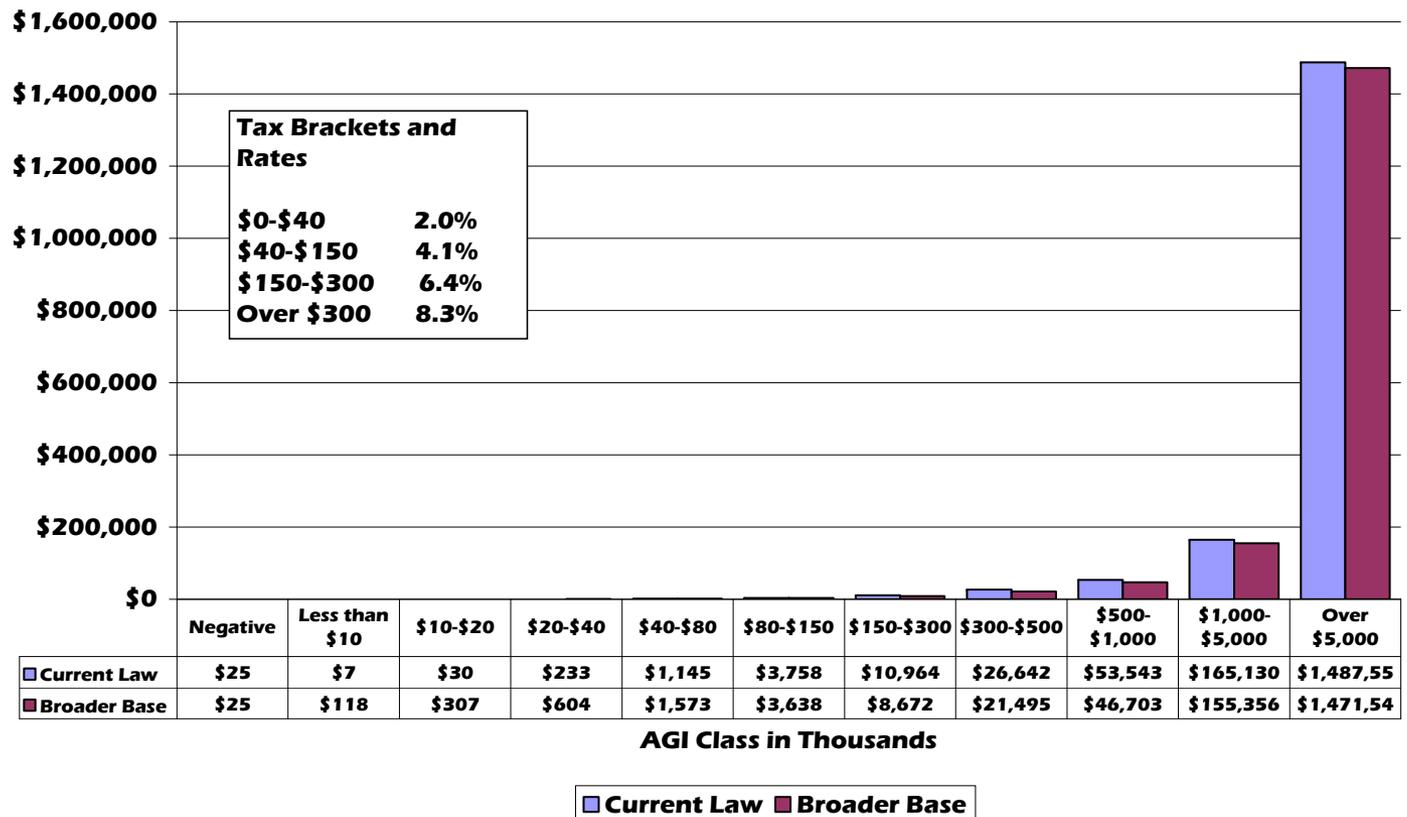
**Comparison of Tax Burden Per Return
Current Law and Broad Base/Flat Rate
Revenue-Neutral Tax Rate=4.3 Percent**





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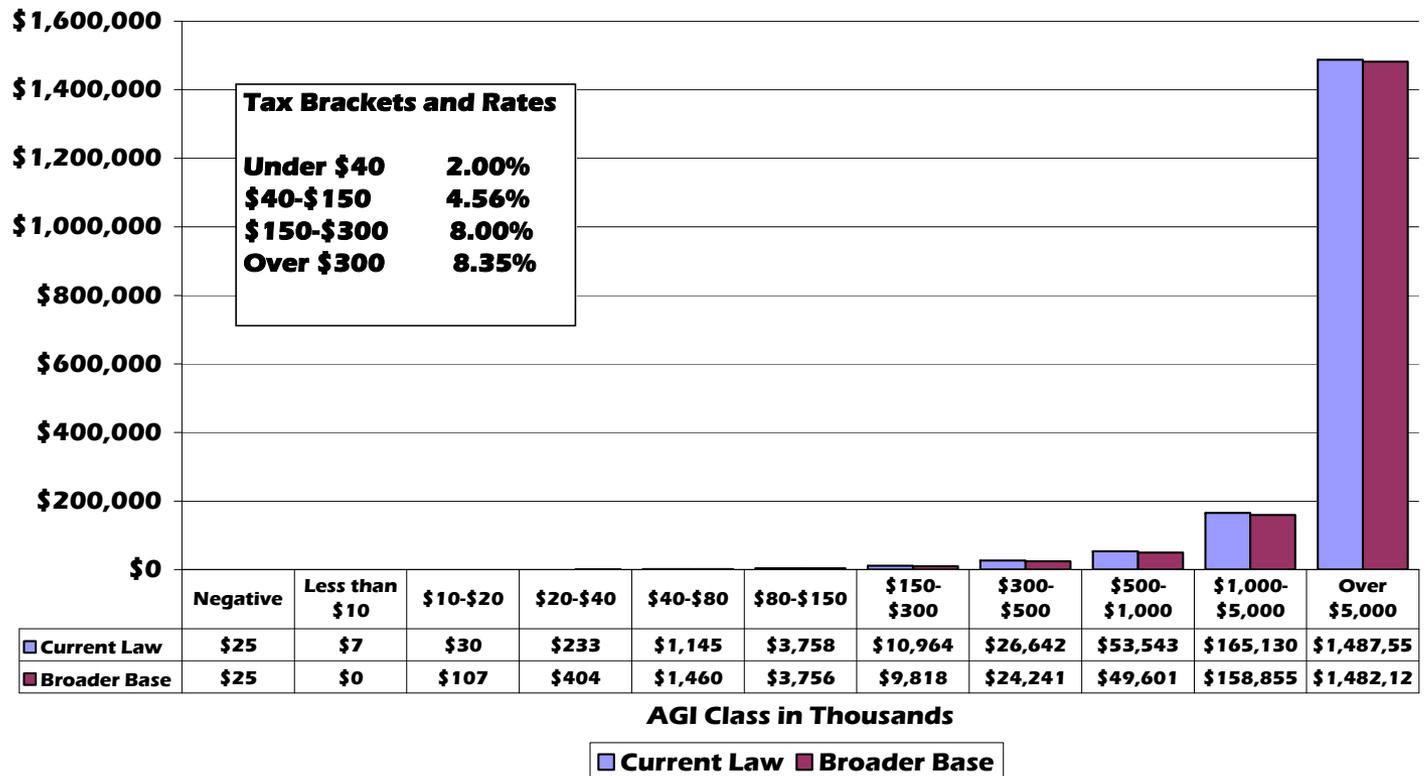
**Comparison of Tax Burden Per Return
Current Law and Broader Base/4-Rate Tax**





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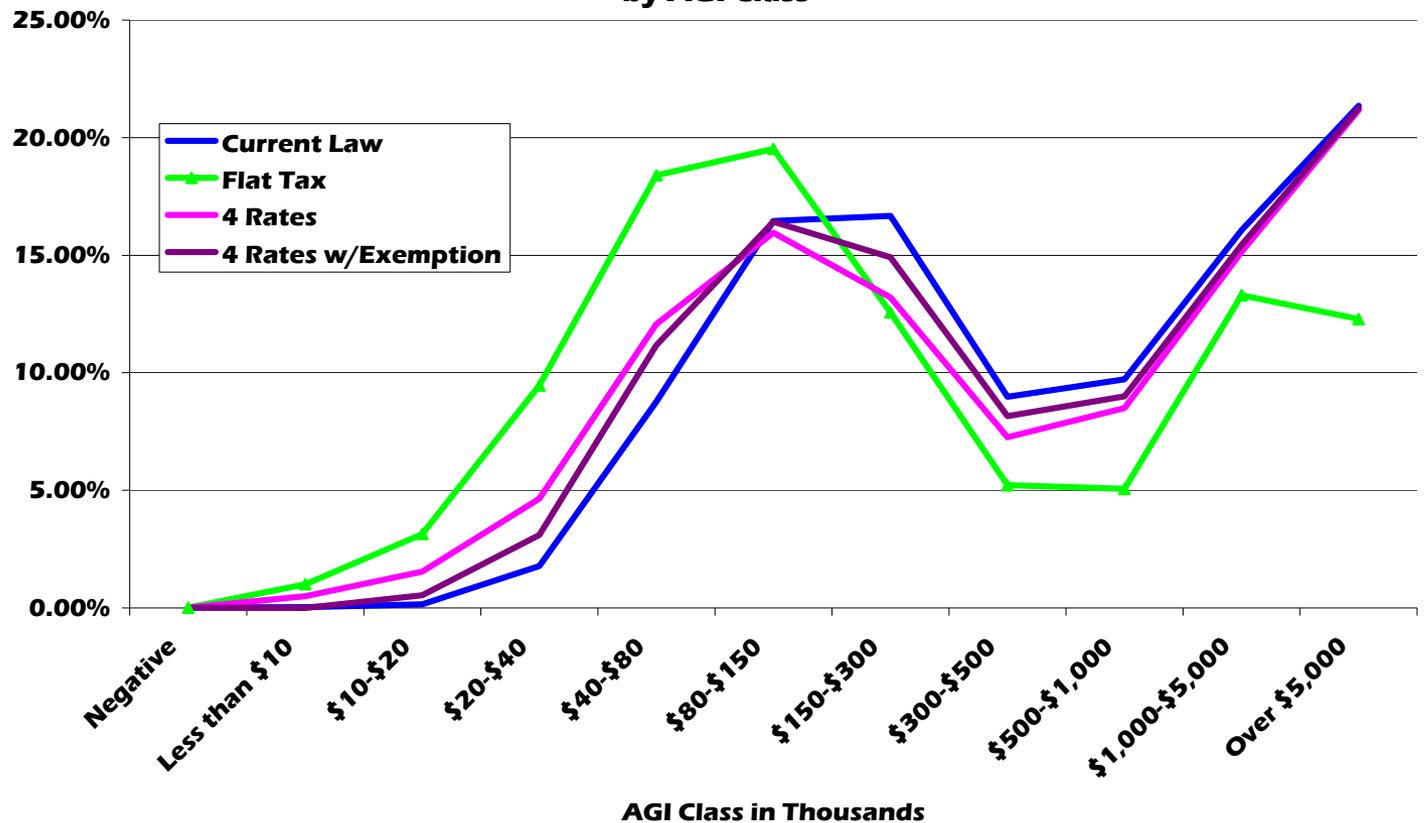
Comparison of Tax Burden Per Return Current Law and Broader Base/4-Rate Tax With \$200 Per Return Exemption





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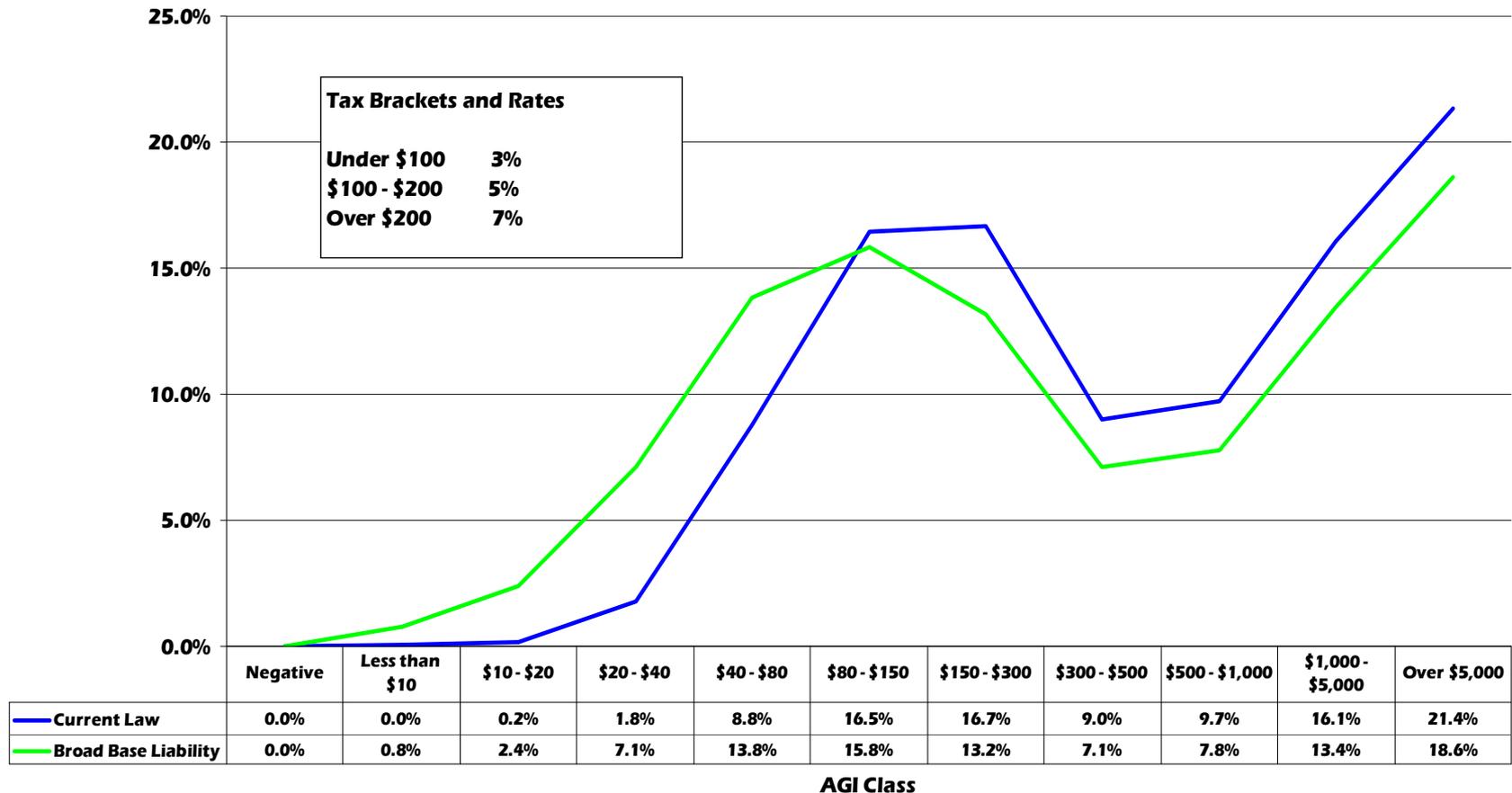
**Comparison of Share of Total Tax Burden
Current Law and Broad Base Alternatives
by AGI Class**





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Comparison of Share of Total Tax Burden
Current Law and Broader Base/3-Rate Alternative





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Sales and Use Tax

- A Limited Transactions Tax
- Not a Broad-Based Consumption Tax
 - Base is Tangible Personal Property
 - Services are Not Taxed
 - Business Inputs are Taxed
 - Taxes Too Much and Too Little



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Sales and Use Tax

- Tangible Personal Property Base is Narrowed by Exemptions and Exclusions
- Sales and Use Tax Expenditures Carve-Out Approximately \$9 Billion in Potential Revenues
- Largest Tax Expenditures Relate to Necessities Such as Food, Utilities and Medications
- Smaller Tax Expenditures are Designed for Administrative Ease or Equity



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Largest Sales Tax Expenditures

Food Related Products

- Food Products \$4,092 million
- Candy and Snacks \$392 million

Health Related

- Prescription Medicines \$1,733 million



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Largest Sales Tax Expenditures

Housing Related

- Gas, Electricity,
Water and Steam \$2,215 million

Industry Specific

- Farm Equipment \$114 million
- Common Carrier Fuel \$102 million
- Other \$245 million



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Expanded Sales Tax Base-TEPs

2007-08 General Fund Revenue **\$26.6 billion**

Current

Base \$532 billion
Rate 5.00%

Expanded-TEPs

Additional Base \$178 billion
Expanded Base \$710 billion
Revenue Neutral Rate 3.75%



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Expanded Sales Tax Base-Services

- Expanding the sales tax to a broad array of services could as much as double the base of the tax.
- For example, including personal services and entertainment could expand the base in excess of \$50 billion.
- This could generate an additional \$2.5 billion of General Fund taxes or allow a 0.4% reduction in the rate.
- Numerous issues arise in expanding the sales tax to services—of political, and administrative nature.



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Sales Tax Base-Business Purchases

- Sales Taxes are Currently Levied on Purchases of Tangible Personal Property
- Extending the Sales Tax Base to Services Would Also Capture Additional Business Purchases
- Business Purchases of Tangible Personal Property are Considered to be 30% to 40% of the Base.
- Business Purchases are Significant Components of Legal, Accounting and Financial Services.