

Taxing Business Inputs

How bad is it and things to consider

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The Perfect Tax System

- Tax principles. In a perfect world ...
- **Balancing ...**

Balancing (Revenue, tax competition ...)

- Revenue
 - Taxing business
 - Taxing business profits
 - Will a tax on a business input come out of profits or cascade?
- Tax Competition
 - Will a tax on a business input preclude an industry in the state?

Balancing (... cascading(1) ...)

- Pyramids and Cascading: Not everything is taxed at the consumer level
 - Will a tax on a business input be taxed at a final consumer?
 - Is the taxed business purchase actually an input or is it final personal?

Balancing (... cascading(2) ...)

- Pyramids and Cascades – Distortion and economic efficiency
 - Does taxing additional business inputs create greater distortion or level the playing field?
 - Would exempting completely create distortion at household level?
 - Is the business input used widely enough and consistently enough that any distortion is minimized?
 - Is a business input close enough to the consumer that it doesn't significantly pyramid?
 - In choosing whether to, and which, business inputs to exempt/tax are there ways to minimize distortion?
 - How much of a risk is there of inefficient vertical integration?
 - State uniformity

Balancing (... cheating and administration ...)

- Cheating and Administration
 - Long ago (the statue of limitations has passed) in a place far away
 - How much cheating and how difficult is administration from a business exemption?

Balancing (... revenue.)

- Revenue
 - Erosion
 - Will a business exemption increase or decrease volatility?
 - Offsetting harms

Conclusion

- To conclude ...
 - Balancing
 - Taxing business inputs has not pushed the Earth off its axis
 - In comprehensive tax reform: taxing business inputs should be on the agenda (along with all the stuff I want on the agenda)