



# Invest in DC

## EXPANDING DC'S SALES TAX BASE RAISES REVENUE, INCREASES TAX FAIRNESS

Expanding DC's sales tax to cover a wider array of consumer purchases should be considered as part of the city's effort to address its budget shortfall. Broadening the sales tax would raise revenues in addition to improving the District's tax system.

In the District, as in many states, the sales tax applies primarily to goods but not to most services. For example, if you buy a piece of exercise equipment, you will be charged the DC sales tax. If your neighbor buys a health club membership, she will not pay sales tax.

Why is this the case? States' sales taxes were created decades ago, at a time when the sale of goods dominated the economy. But we now have a service-oriented economy, with services accounting for nearly half of household consumption. The District and most states have expanded their sales taxes to cover selected services in response to this trend, but DC still excludes a large number of services from its sales tax.

Beyond raising revenue, expanding the sales tax base makes sense for these reasons.

- **Improving Tax Fairness:** If a sales tax is intended to tax what households consume, it does not make sense to differentiate between goods and services — especially when they perform the same function. It doesn't make sense that buying diapers is subject to sales tax while paying for a diaper service is not.
- **Increasing Revenue Adequacy:** DC's sales tax cannot remain healthy if it is tied mainly to goods while consumption of services continues to rise. Expanding the sales tax base can help ensure that sales tax collections will grow at a stable rate and keep up with the DC economy.

The amount of revenue DC could raise by expanding the sales tax base would vary depending on how many services are taxed. Just taxing seven services — pet grooming, health clubs, packing and crating, armored car, private investigation and security services, and performing arts — would raise \$14 million.

The sales tax is a regressive tax, meaning that low-income DC residents pay a larger share of their income in sales tax than higher income DC residents. This effect can be mitigated by expanding the sales tax to items that are largely consumed by higher-income residents, such as theater tickets and day spa services.

Expanding the sales tax base to more broadly cover retail sales is recommended by fiscal policy experts generally, and was recommended specifically for the District by contributors to the 1998 DC Tax Revision Commission. While broadening the sales tax raises concern that consumers will start making purchases outside of the District, researchers suggest that this effect can be minimized by applying the sales tax to smaller and more localized purchases and avoiding applying the tax to big-ticket purchases. For example, it is unlikely that a DC resident would give up their local health club membership and travel for miles to a non-DC club just to avoid a few dollars a month in sales taxes.

## Suggested Services to Include in Sales Tax Expansion

Admission to cultural events

Art conservation/restoration services to individuals

Art/antique collecting advisory and brokerage services

Carpet and upholstery cleaning

Chimney cleaning services

Closet/storage design consulting services

Commissions on auction purchases/sales (brokerage service)

Custom processing (on customers property)

Dating services

Day Spa Services

Diaper service

Fur storage

General house cleaning services

Health clubs, tanning parlors, reducing salons

Household errand/"personal shopper"/gift consulting/management consulting services

Installation charges - other than seller of goods

Interstate air courier (billed in-state)

Kennels

Magazine

Marine towing service (incl. tugboats)

Massage services

Membership fees in private clubs.

Packing and crating

Personal instruction (dance, golf, tennis, etc.)

Pet Grooming

Private investigation (detective) services

Swimming pool/hot tub cleaning and maintenance services

Taxidermy

Vehicle Security Monitoring Services