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Gross Receipts Taxes: Lessons from Previous State Experiences

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Key Findings

- States have in some cases enacted gross receipts taxes as an immediate source of increased revenue, neglecting the well-known established economic consequences of gross receipts taxation.
- Four states—Indiana, New Jersey, Kentucky, and Michigan—each enacted gross receipts taxes, but repealed them after experiencing negative effects. New Jersey's and Kentucky's taxes lasted only several years.
- Enactment quickly results in economic problems, including reduced levels of transparency, competitiveness, neutrality, and fairness.
- Despite broad agreement that gross receipts taxes lead to many economic problems, some states have newly begun to consider them as a policy option.
- States exploring tax reform should follow the example of other states and exclude the gross receipts tax from their revenue toolkit.

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Introduction

Gross receipts taxes gained popularity in the United States during the late 1920s and early 1930s as state revenues decreased during the Great Depression. Often referred to as "turnover taxes," initial popular opinion held them to be a stable source of revenue with a broad base, low rate, and low administrative cost; they were thought to be a fair way to generate large amounts of revenue.[1]

However, the disadvantages of these taxes in practice were found to be much greater. Gross receipts taxes do not bear relation to the amount of government services used nor to the ability of a firm to pay. They force some industries to face high effective rates, lead to pyramiding and distorted incentives for firms, and reduce competitiveness, fairness, and transparency. Courts struck down many gross receipts taxes as unconstitutional, and most of the remainder faded from state tax policy by the 1960s.[2]

In the 2000s, states revisited gross receipts taxes as a way to generate revenue for their budgets, but quickly realized that these taxes were a mistake. New Jersey, Kentucky, and Michigan repealed their taxes shortly after enactment as the downsides of the tax type became clear. At the same time, Indiana repealed its decades-old gross receipts tax due to its poor structure.

The experience in all four states reveals how gross receipts taxes have a negative impact on the economy. Indiana demonstrates how gross receipts taxes are outmoded, can tax different industries at varying effective rates, and discourage business; New Jersey demonstrates how disproportionate and arbitrary the tax can be, which places an unfair burden on businesses; Kentucky's tax shows how some businesses are placed at a disadvantage compared to others and that investment levels dampen; and Michigan provides evidence that gross receipts taxes add layers of tax complexity that decrease competitiveness.

Unfortunately, states are revisiting this poor tax choice. In 2015, Nevada passed its Commerce Tax,[3] after another gross receipts proposal failed on the 2014 general election ballot.[4] Oregon is now considering Measure 97, which will appear on the state's November ballot.[5]

Policymakers considering tax reform should learn from these examples; gross receipts taxes should remain in the dustbin of failed tax policies, and they should not be viewed as a viable option for modern reform.

1 John L. Mikesell, "Gross Receipts Taxes in State Government Finances: A Review of Their History and Performance," Tax Foundation and Council on State Taxation, Background Paper No 53, January 2007, p.4.
2 Andrew Chamberlain, "Tax Pyramiding: The Economic Consequences of Gross Receipts Taxes," Tax Foundation Special Report No. 147 (Dec. 4, 2006).
3 Jared Walczak, "Nevada Approves New Tax on Business Gross Receipts," Tax Foundation, Fiscal Fact No 467, June 2015.
4 Id, 7.
5 Nicole Kaeding, "Oregon Initiative Petition 28: The Threat to Oregon's Tax Climate," Tax Foundation, Fiscal Fact No. 508, April 2016, 2.

Table 1

Overview of Recently Repealed Gross Receipts Taxes

State	Description	Adopted	Repealed
Indiana	1933 to 1963, 0.25 percent tax on wholesaling, manufacturing, and agriculture and a 1.0 percent tax on other business and individual gross receipts. 1963 to 1985, levied against corporations only with rates varying from 0.3125 to 2.0 percent. 1986 to 2002, high rate of 1.2 percent and a low rate of 0.3 percent.	1933	2002
New Jersey	Alternative minimum assessment for business taxes. Rates ranged from 0.125 percent to 0.4 percent. Levied on companies with more than $2 million in gross receipts.	2002	2006
Kentucky	Alternative minimum calculation for corporate income of 9.5 cents per $100 in gross receipts or 75 cents per $100 in gross profits.	2005	2006
Michigan	Michigan Business Tax (MBT) levied against gross receipts less purchases from other firms at a 0.9 percent rate. MBT replaced the Single Business Tax, which was in effect from1976 to 2007 and contained features of gross receipts taxes and value-added taxes.	2008	2011

Source: Tax Foundation, Indiana Department of Revenue, Michigan Department of Treasury

Indiana

During the Great Depression, Indiana introduced one of the broadest gross receipts taxes ever levied in the United States. Indiana's version was a turnover tax plus a gross income tax; as passed in 1933, the bill levied a 0.25 percent tax on wholesaling, manufacturing, and agriculture and a 1.0 percent tax on other business and individual gross receipts.[6]

> The Indiana gross receipts tax applied to the receipts from the sale of all goods, processed and unprocessed, at all stages of production and distribution, extending from the extractive industries to retailing. The tax base also included proceeds from the sale of real estate, tangible and intangible personal property, and personal services (wages, salaries, fees, commissions, and bonuses), and interest, dividends, and rents.[7]

Soon after enactment, some industries, especially retailers, began to seek relief from the onerous tax. This jockeying for tax breaks resulted in rate reductions, deduction increases, or more favorable classifications:

> In 1937 retailers were granted a larger deduction and display advertisers were moved out of the 1 percent rate; and in 1941 the rate for retailers and dry cleaning and laundering establishments was cut to 0.5 percent. The 1957 revisions represented a further rate concession to retailers, cleaners, and laundries, but an increase of 50 percent in rates for everyone else.[8]

6 Arthur H. Northrup, "The Indiana Gross Income Tax," *Indiana Law Journal*, Vol. 25 No. 2, Winter 1950, 150.
7 James A Papke, "Indiana Tax Policy: Revision, Reform, Reconstruction," *National Tax Journal*, XVII No. 2, June 1964, 115.
8 William H. Andrews, "The Indiana Gross Income Tax—A Curious Hybrid," *National Tax Association*, Vol. 51 (1958), 140.

Many Hoosiers held the view that the gross receipts tax was tolerable because of its low rates,[9] a misconception that occurs when one only considers the statutory rate. In 1958, an analysis of the tax determined that when tax liability was measured against a firm's net income, the results were highly inequitable due to its non-neutrality. Effective rates ranged from 4 percent to more than 32 percent of net income,[10] and this phenomenon was not unique to Indiana's experience.

The report concluded that the gross receipts tax was "exceeding uneven and capricious" with unclear incidence, pyramiding, and an illogical rate structure.[11] Though the tax appeared statutorily reasonable, its real effects were arbitrarily severe on some industries and resulted in hidden and non-neutral tax burdens.

When the state needed to increase revenue in 1963, policymakers knew that broadly increasing tax rates would be unacceptable to Hoosiers.[12] Instead, the legislature separated the massively broad tax into three distinct taxes: a flat-rate personal income tax, a retail sales tax, and a flat-rate corporate net income tax to be applied as an alternative minimum to the gross receipts tax.[13] The legislation also increased gross receipts tax rates slightly, to 2.0 percent on service receipts and 0.5 percent on receipts from the intrastate sale of tangible property.[14]

James Papke, Fiscal Economist for Indiana's Commission on State Tax and Financing Policy, penned a critical review of the 1963 tax reorganization. He commended the legislature for lessening the state's dependence on the structurally deficient gross receipts tax, but adamantly called for its full repeal:

> [P]riority should be given to the repeal of the gross receipts tax. To quote Professor Seligman, "Taxes on output or gross receipts which make no allowance for the expenses constitute a rough and ready system, suitable only for the more primitive stages of economic life." And he concluded, "In a business community which is striving more and more to adjust its taxation to the ability of the individual such a reversion to bygone practices would seem to be unwise in the extreme..."[15]

Though the state lessened its dependence on the gross receipts tax, it was still in effect in 1996. The Indiana Chamber of Commerce released a 1996 Economic Blueprint to outline a path for improved economic growth in the state. The plan made note of public frustration with the state's "unusual tax provisions":

9 Report of the Tax Study Commission, State of Indiana, 1952, 157.
10 Howard Hamilton, "Recent Developments in the Indiana Gross Income Tax," *National Tax Journal*, Vol. 11, No. 3 (September 1958), 274.
11 Id, 274-275.
12 Report of the Tax Study Commission, State of Indiana, 1952, 157.
13 James A Papke, "Indiana Tax Policy: Revision, Reform, Reconstruction," *National Tax Journal*, XVII No. 2, June 1964, 113.
14 Charles F. Bonser, "The Indiana Business Tax Roadblock," *Indiana Law Journal*, Vol. 45 No. 3, Spring 1970, 367.
15 James A Papke, "Indiana Tax Policy: Revision, Reform, Reconstruction," *National Tax Journal*, XVII No. 2, June 1964, 132.

> For Indiana's economy to be competitive with other regions, the state needs a tax environment that effectively balances the state's revenue needs against the requirements of the state's industries for an enhanced competitive environment. A pro-competitive tax structure needs to go beyond simply lower tax rates to a tax system that is neutral, equitable, transparent, stable, diverse, efficient, pro-investment, and simple. To create a pro-competitive system that is more neutral and efficient than current policies, Indiana needs to take a comprehensive approach toward tax reform.[16]

To answer that call, Lt. Governor Joe Kernan unveiled a comprehensive tax overhaul plan in October 2001. Called the "21st Century Tax Plan," the proposal would eliminate the gross receipts tax and simplify the corporate structure into a single corporate income tax.

> The plan, which he developed with a group of bi-partisan fiscal and tax experts, was an effort to…create a tax system that would not only preserve the state's traditional manufacturing and agricultural base, but also grow the technology jobs of the future.[17]

Lt. Gov. Kernan said the proposal would help the state become more competitive for businesses: "while the economy is unsure at this point… I think that makes it even more imperative to be doing the things that will guarantee our competitiveness."[18]

Indiana State Senator Glenn Howard, writing in the Indianapolis Recorder, derided the state's tax system as being unfit for the modern business climate and voiced his support for the lieutenant governor's plan:

> We are also the only Midwestern state with a tax on gross receipts. We need to eliminate these outdated taxes and send a clear signal that we are serious about continuing to bring new jobs to Indiana and helping our existing companies. Lt. Gov. Joe Kernan recently brought his 21st Century Tax Plan before the General Assembly. This plan replaces our outmoded business taxes and relies more on fairer income and franchise taxes.[19]

Indiana State Representative Peggy Welch, a member of the state's Ways and Means Committee, also favored the plan. She pushed to eliminate the gross receipts tax because of its negative effects on the state's industry, arguing, "[W]e must improve Indiana's ability to attract new and better jobs to the state."[20]

16 "Blueprint for Economic Growth for Indiana" DRI/McGraw-Hill for Indiana Chamber of Commerce, March 1996, iv.
17 Indiana Governor History, "Joseph E. Kernan," http://in.gov/governorhistory/2332.htm.
18 WIBC Indianapolis, "Tax Restructuring Unveiled This Week," 93.1FM WIBC, Oct. 15, 2001.
19 Glenn Howard, "Tax Restructuring Is Good For Jobs And Good For Business," *Indianapolis Recorder*, Feb. 1, 2002, 11.
20 Peggy Welch, "Proposed 21st Century Tax Plan," 1. http://www.peggywelch.com/pdfs/welchpre2002.pdf.

The Indiana General Assembly passed the 21st Century Tax Plan in June 2002. The Agriculture Economics Department of Purdue University authored a report praising Indiana's sweeping tax changes. "We've been working on this one for almost 30 years…Now the gross income tax has been repealed… Without the gross tax, though, this is an overall tax cut for businesses. Indiana now resembles most other states, with a single corporate net income tax."[21]

Indiana Senate Finance Chairman Larry Borst called the reform a rare opportunity to shape the state's future by making the tax code friendlier to business.[22] In that spirit, Jim Wheeler, executive director of an association of Indiana's high-tech companies, noted that Indiana made more progress to become business-friendly from 2002 to 2004 than in the previous 10 years.[23]

Indiana's experience shows that gross receipts taxes do not belong in the modern revenue toolkit. Despite rate tinkering and special provisions, the tax still led to pyramiding, inequity, and complexity. Moving from an antiquated tax toward a simpler, more transparent structure allowed the state to remove barriers and thereby restore capacity for firms and individuals to compete on a level playing field.

New Jersey

New Jersey's gross receipts tax originated for the reason that other states considered it—a need for increased revenue. To reverse the trend in declining Corporate Business Tax (CBT) revenues—a tax on corporate net income—in 2002, New Jersey adopted a host of major tax changes.

One of those changes included a new Alternative Minimum Assessment (AMA) based on gross receipts or gross profits (gross receipts less cost of goods sold) designed to automatically sunset four years after enactment. The tax restructuring created a Corporation Business Tax Study Commission to evaluate changes made by the new law and it broadened what types of business were classified as corporations.

The AMA levied tax rates ranging from 0.125 percent to 0.4 percent on companies with more than $2 million in gross receipts; it exempted S corporations, investment companies, professional organizations, and cooperatives. Corporations could elect to use either the gross receipts calculation or the gross profits calculation—intended to equitably reflect business activity—but were locked in to their election for five years.[24]

Gross receipts taxes fall disproportionately on industries that are less vertically integrated as there are more opportunities for the tax to be levied across the production cycle.[25] This

21 Purdue Department of Economics, "Indiana's 2002 Tax Restructuring: An Outline," AgEcon Purdue, August 2002.
22 WIBC Indianapolis, "Two-and-a-Half Billion Tax Restructuring Passes Indiana Senate Today,"93.1FM WIBC, Feb. 28, 2002.
23 John W. McCurry, "Indiana Targets Tech Sectors," Site Selection Online, 2004.
24 Charles Costenbader, Michael Guariglia, Margaret Wilson, "New Jersey," *State and Local Tax Lawyer*, Vol. 8 (2003), 445.
25 John L. Mikesell, "Gross Receipts Taxes in State Government Finances: A Review of Their History and Performance," Tax Foundation and Council on State Taxation, Background Paper No. 53, January 2007, 9.

greater burden bears little relationship to the amount of government services used by the business or to the ability to pay the tax—it follows that this distorts organizational incentives for businesses. Shortly after AMA enactment, an analysis published in the New York Law Journal called the tax “particularly onerous to businesses with high volume and low profit margins” and said it could potentially encourage migration across the border to New York.[26]

In a May 2003 testimony before this commission, Arthur J. Maurice, First Vice President of the New Jersey Business and Industry Association, explained some of the distortions caused by the AMA:

> We feel the AMA [is] terrible tax policy [that] nebulizes low-profit margin firms, service companies, start-ups, firms with extraordinary and unexpected expenses, doing all this by taxing gross revenues without allowance for customary cost of doing business. It is unfair and confiscatory, but unfortunately, it is the backbone… All that New Jersey employers ask is that state business tax policy be predictable, applied fairly across all firms, and encourage business growth and expansion by taxing profits in good years and understanding that employers’ business taxes should be reduced. The AMA failed on all counts.[27]

In a similar fashion, the commission’s final report, released in June 2004, noted the many problems with New Jersey’s gross receipts tax. The negative elements included unfairness perceived by in-state and out-of-state corporations, the burden of paying taxes even when a business is not profitable, the lack of relationship to the corporation’s business activities in the state, and the confiscatory nature of the AMA tax rate schedules.

The report also discussed that the alternative tax base of the AMA did not necessarily relate to the taxpayer’s ability to fairly bear that tax burden, and that there was disparate treatment among companies engaged in selling tangible property and those that provided services or rentals, or financed transactions.

The Commission, by a majority vote, recommended that the “the legislature not reimpose or extend the AMA.”[28] The AMA was allowed to sunset beginning in July 2006.

An Economic Growth Strategy released by Governor Jon Corzine in 2007 revealed lingering pessimism regarding New Jersey’s business climate. The strategy emphasized the need to prioritize improvements and stabilizations of the tax structure for growth to occur:

> Governor Corzine began to address the state’s tax structure in the recently enacted budget. It is the first budget in over six years to include a net reduction

26 Glenn Newman, “Did New Jersey Turn New York Into a Tax Haven?” *New York Law Journal*, Aug. 12, 2002.
27 James B. Evans, Jr. “State of New Jersey Corporation Business Tax Study Commission,” Dec. 29, 2003, 10.
28 New Jersey Corporation Business Tax Study Commission, “Final Report,” New Jersey Corporation Business Tax Study Commission, June 29, 2004, 22.

> in business taxes. New Jersey's businesses are expected to realize a reduction in taxes through…the elimination of alternative minimum assessments…[29]

John Galandak, President of the Commerce and Industry Association of New Jersey, testified before the Senate Budget and Appropriations Committee on the New Jersey Budget for fiscal year 2007. He explained how the scheduled sunset of the gross receipts tax improved the business outlook:

> We were also pleased by the Governor's decision to continue the scheduled sunsetting of the Alternative Minimum Tax Assessment, as well as the reinstatement of Net Operating Losses. Both are onerous provisions of the 2002 Corporate Business Tax increases…by removing these barriers, our corporate business tax structure will be more in line with those other states. In time, we believe the removal of these tax barriers will lead to long-term economic growth and increased revenue for our state. [30]

Instead of successfully increasing revenue in an economically neutral way, after only four years, New Jersey concluded that its gross receipts tax reduced equity, transparency, and stability. Businesses were burdened with large, onerous tax liability which impeded their ability to compete. The Commission recommended allowing the tax to sunset as a way to restore some transparency and stability to the state's tax climate—which aligns with prior accounts of gross receipts taxes.

Kentucky

In 2004, Kentucky Governor Ernie Fletcher unveiled what he billed as a tax modernization plan, which eventually gained legislative approval in 2005. One component of the plan—the Alternative Minimum Calculation (AMC)—introduced a gross receipts tax on Kentucky businesses.

The AMC taxed 9.5 cents per $100 of gross receipts or 75 cents per $100 of gross profits; taxpayers selected the lesser of the two methods to calculate their alternative minimum. Taxpayers would then pay the greater of the state corporate income tax, the AMC, or $175. The AMC exempted investment companies, sole proprietorships, partnerships, and some limited liability corporations, and allowed for cost of goods sold subtractions.

Under a gross receipts tax, low-margin firms are at a great disadvantage compared to high-margin firms. This is inequitable, and it reduces the chance of survival for sensitive firms. One Kentucky tax attorney firm warned that businesses should expect costs to increase:

29 "An Economic Growth Strategy for the State of New Jersey," Office of Governor Jon S. Corzine, 2007, 5. https://dspace.njstatelib.org/xmlui/bitstream/handle/10929/22392/e192006.pdf?sequence=1&isAllowed=y.

30 Testimony on New Jersey Budget Fiscal Year 2007 (2006), 1. http://www.njleg.state.nj.us/legislativepub/budget2007/testimony/04032006/Galandak_J.pdf

> This taxing regime means that even unprofitable businesses, or start-up ventures which typically have losses in early years, may be subject to taxation. The alternative minimum tax may also cause entity level taxes to increase for businesses with high volumes of receipts and low margins.[31]

Greg Harkenrider, the Chief State Forecaster in the State Budget Director's Office, reported in 2006 that the AMC hurt small business, damaged start-ups, and slowed investment.[32] That same year, the Kentucky legislature repealed the AMC for small businesses. It completely exempted small businesses—gross receipts or gross profits under $3 million—from the AMC, and provided partial relief to businesses with gross receipts or gross profits between $3 million and $6 million.

A special session held in 2006 resulted in complete elimination of the Alternative Minimum Calculation, and the creation of a new Limited Liability Entity Tax (LLET) applicable beginning in the 2007 tax year.

Since 2007, businesses have paid the 6 percent corporate income tax and the LLET. The LLET is the lesser of a gross receipts or gross profits calculation with a minimum liability of $175. Any LLET liability paid in excess of the $175 minimum is credited against a business's CIT liability.

The offsetting credit allowed under the current structure diminishes the harsh economic effects caused by more traditional gross receipts taxes. Ideally, Kentucky should continue moving toward a simpler, growth-friendly tax code and completely repeal what remains of its gross receipts tax.

Michigan

Michigan enacted a Single Business Tax (SBT) in 1976 to replace its seven separate business taxes, including its corporate income tax. The SBT was a modified value-added tax (VAT) on labor, capital, and profit for businesses with gross receipts exceeding $350,000.

In response to voter-initiated legislation, the Michigan legislature approved a repeal of the SBT for subsequent tax years in August 2006. The law included language that urged legislators to "adopt a tax that is less burdensome and less costly to employers, more equitable, and more conducive to job creation and investment."[33]

Lawmakers began crafting replacement tax policy, and in July 2007 Michigan Governor Jennifer Granholm signed the Michigan Business Tax (MBT) into law.

31 "Kentucky Overhauls its Tax Code," Frost Brown Todd LLC, March 23, 2005.
32 Greg Harkenrider, "The Reformation of Kentucky Tax Reform," Office of State Budget Director Commonwealth of Kentucky, July 27, 2006, 3. http://www.taxadmin.org/assets/docs/Meetings/06rev_est/harkenrider1.pdf.
33 "Outline of the Michigan Tax System," Citizens Research Council of Michigan, January 2007, 11.

Under the MBT, business tax liability was comprised of three parts: an income tax of 4.95 percent, a modified gross receipts tax of 0.8 percent, and a 21.99 percent surcharge imposed on tax liability. Each of these taxes applied to companies with gross receipts exceeding $350,000. The law also created a series of new tax credits and increased the tax rate on insurance company premiums.[34]

Michigan's primary goals for its tax reform were twofold: increase business tax competitiveness, and generate additional revenue.[35] As history would inform, tax complexity and inequity increased instead. From enactment in 2007 to December 2011, legislators introduced 339 bills to make technical fixes to the new tax as well as provide industry-specific MBT credits.[36]

Much of the legislation attempted to address economic problems created by a gross receipts tax—problems like disparate tax treatment, large increases in tax burdens, and errors with implementation or definitions. In an effort to fix these problems, much of the legislation created a patchwork of carve-outs that failed to correct the driving structural issues of the tax:

> In addition to the purely technical matters, legislative attention also addressed issues that may or may not have been fully contemplated during the development of the new tax. In a number of instances these were dealt with on a case-by-case basis, rather than universally, resulting in specific modifications to the tax law. Examples include tax treatment of certain types of business firms, tax accounting practices, and the interaction with tax laws in other countries. In select cases, tax law modifications were designed explicitly to provide taxpayer relief to certain entities – generally in the form of modifications to the base(s) of one or both of the component taxes that make up the MBT. For example, the definition of "gross receipts" (2008 PA 433) was modified in various ways, narrowing the tax base substantially.[37]

The Michigan Chamber of Commerce surveyed nearly 700 businesses in 2008; 77 percent of businesses reported a higher tax burden under the MBT, and one-third reported an increase of more than 100 percent.[38] Tax burden increases reduce a business's ability to compete with out-of-state businesses that are not subject to the tax, and they can reduce investment by increasing business costs. These factors do not contribute to long-term economic growth or development.

The business community criticized the MBT early on, and the tax was met with many calls for repeal and replacement.[39] Governor Rick Snyder made MBT replacement a cornerstone of his gubernatorial campaign, and called for a flat 6 percent corporate income tax in its place.[40]

34 Michigan Department of Treasury, "Michigan Business Tax (MBT) Details," http://www.michigan.gov/taxes/0,4676,7-238-43519_46621-169398--,00.html
35 "Outline of the Michigan Tax System," Citizens Research Council of Michigan, January 2011, i.
36 Ibid.
37 Ibid.
38 "Sen. Green co-sponsors repeal of Michigan Business Tax," State Senator Mike Green, February 10, 2011.
39 "Outline of the Michigan Tax System," Citizens Research Council of Michigan, March 2012,
40 Ibid.

The legislature began working on Gov. Snyder's tax reform proposals in 2011. State Senator Mike Green, who co-sponsored the repeal measure, said the MBT burdened Michigan job creators with higher taxes and discouraged potential employers from relocating to the state.[41]

"Our number one priority must be to make Michigan a good place to do business and attract good-paying jobs," said Green, "Repealing the MBT... it's a bold first step in the reforms we need to reinvent Michigan."[42]

According to Lt. Governor Brian Calley, the tax reform would allow small and medium-sized firms to view Michigan as a good place to grow and would recognize their job-creating capacity.[43]

In 2011, Gov. Snyder signed the bill to eliminate the Michigan Business Tax, saying the four-year-old MBT, the "dumbest tax in the United States," "simply had to go away" because it killed Michigan jobs.[44]

> The current tax system is riddled with inequities that are hostile to job growth. Eliminating these longstanding barriers will level the playing field for taxpayers, encourage entrepreneurship and spur more investment in Michigan. Working in conjunction with other reforms such as a balanced state budget and refocused economic development strategies, the overhaul of our tax structure lets job providers nationwide know that Michigan is the place to be.[45]

Despite lawmakers' best intentions to fix the MBT, the distortions it created were the inherent result of its structure. Michigan serves as a textbook example of the futility in attempting to reform a gross receipts tax into something neutral, equitable, and pro-growth—experience demonstrates that it is not possible. The state moved from its flawed system, and instead turned towards sound tax policy that would encourage investment and growth in the state.

Conclusion

The examination of the experiences in Indiana, New Jersey, Kentucky, and Michigan with gross receipts taxes demonstrates that these types of taxes violate principles of sound tax policy. They are not neutral, competitive, fair, transparent, nor equitable.

Each time they are enacted, gross receipts taxes create economic problems that cripple growth, conceal true tax burdens, and breed inefficiency—despite legislators' best proposals to eliminate problems.

41 "Sen. Green co-sponsors repeal of Michigan Business Tax," State Senator Mike Green, Feb. 10, 2011
42 Ibid.
43 Peter Luke, "Gov. Rick Snyder Signs Michigan Business/income Tax Overhaul into Law," Bridge Magazine, May 25, 2011.
44 Governor Rick Snyder, "The Comeback State: Michigan's Reinvention," CNBC, July 1, 2013. Peter Luke, "Gov. Rick Snyder Signs Michigan Business/income Tax Overhaul into Law," Bridge Magazine, May 25, 2011.
45 "Snyder Signs Tax Reform Bills to Fuel State's Turnaround," May 25, 2011. http://www.michigan.gov/snyder/0,1607,7-277-57577-256823--,00.html.

These contemporary examples prove again what has long been acknowledged by lawmakers, scholars, and economists—gross receipts taxes are not fit for the modern economy; they should take their place in history books, not in state tax policy.