Business Law & Taxes

What is a State Gross Receipts Tax?

Gross Receipts Tax Compared to VAT Tax

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By Jean Murray
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What is a Gross Receipts Tax?

A **gross receipts tax** is a state tax on the gross receipts (sales) of a business; usually a state will impose a gross receipts tax instead of a corporate income tax or sales tax. Sometimes referred to as a gross excise tax, this tax is usually passed through to the consumer.

Gross receipts taxes may look like sales taxes, but they **tax the sellers**, not the retail buyers. These taxes are imposed at several levels, between businesses, including purchases of raw materials, supplies, and transportation.

The Tax Foundation says that these taxes

> *create an extra layer of taxation at each stage of production that sales and other taxes do not–something economists call "tax pyramiding."*

How is Gross Receipts Tax Different From a VAT Tax?

A VAT tax (value-added tax) is a tax imposed on all the steps in the process of making, distributing and selling a product. The consumer pays the VAT tax, but the businesses along the way can get their portion of the tax refunded. So, the VAT tax, unlike the gross receipts tax, isn't really a tax on businesses, but on consumers.

How does Gross Receipts Tax Differ from Income Taxes or Franchise Taxes?

Some states tax income of businesses, but in most cases the income is net income (sales minus expenses), while the gross receipts tax doesn't deduct expenses. Other states have franchise taxes, which are like income taxes.

How Does a Gross Receipts Tax Work?

Each state that has a gross receipts tax decides individually what receipts are included or not included in this tax.

Here are some examples from each of the states that has a gross receipts tax or similar tax.

Delaware's Division of Revenue imposes a gross receipts tax on the "total receipts of a business received from goods sold and services rendered in the State. There are no deductions for the cost of goods or property sold, labor costs, interest expense, discount paid, delivery costs, state or federal taxes, or any other expenses allowed."

Ohio has a Commercial Activity Tax which is basically a gross receipts tax on all businesses. There is an annual minimum tax, based on the amount of taxable gross receipts. There is a long, detailed list of receipts are and aren't included, but basically taxable gross receipts includes sales of property (including intellectual property), performance of services, and rents.

Hawaii has a General Revenue Tax on business activities. Businesses may collect GET tax from consumers, but the businesses are specifically prohibited from charging consumers more than the business pays in GET tax.

New Mexico's Gross Receipts tax is imposed on receipts from selling, leasing or licensing property, granting a right to use a franchise, performing services, and selling research and development services.

Washington has a Business and Occupational Tax on business gross income. Gross income is the"income earned by the business for products sold or services rendered," including retail sales. "There are no deductions allowed for costs of doing business, materials used, labor or delivery expenses, or taxes."

Pennsylvania's Gross Receipts Tax is imposed on electric companies, telecommunications companies, transportation companies, private bankers, and managed care organizations.

Alabama and **Florida** impose gross receipts taxes on utilities only.

Some states allow some deductions from the gross receipts tax and some types of businesses may be exempt from these taxes. Check your state's department of revenue for more information about your state.

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