Analytics

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RE: A Gross Tax

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Delaware is one of just five states that levies a gross receipts tax (GRT). A GRT is an excise tax on the gross revenues of a company regardless of whether that company has profits or losses.

Public finance economists view the GRT as inefficient and unsound. It double or triple taxes business-to-business sales within a state. It punishes firms with low profit margins and high production volumes and discourages start-ups which typically post losses in their early years. And the multiple rates applied to different industries opens the door to political shenanigans.

Delaware's GRT began in 1975 and has the distinction of topping all other states with 54 different rates by industry. Rates range from 0.0945% to 15.5%. Delaware allows for no deductions for cost of goods sold or worker compensation.

The Delaware GRT is a hodge-podge of rates and exclusions, obviously the result of political maneuvering. For example, interactive fantasy sports operators pay a $50,000 annual license fee and a quarterly gross receipts tax rate of 15.5%. Manufacturers are taxed at 0.1260% with the exception of automobile and clean energy technology device manufacturers who are taxed at 0.0945%. Sales of petroleum produces are taxed at 0.3983% for wholesalers and another 0.7468% for retailers. Draypersons (movers) are not required to pay GRT.

Alice in Wonderland.

And Delaware has tried to use the GRT to smooth out revenue effects stemming from the business cycle. In 2006 the state lowered the GRT by 20%. Following the recession, the state raised the GRT 25% in 2009 and 8% more in 2010. From 2009 to 2019 total Delaware occupational license and GRT receipts climbed 58%.

With 54 different rates it is almost impossible to estimate the economic impact of the GRT by industry (e.g., retail). What is obvious is that complying with the convoluted tax rate and fee structure of Delaware's GRT is a cost imposed on Delaware businesses.

Delaware has one of the highest state Corporate Income Taxes in the nation and the GRT adds insult to injury.

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