

NATIONAL SALES TAX

Position

RILA opposes the adoption of a national retail sales tax. A national sales tax would drive up retail prices for consumers, have a devastating effect on the retail sector of the economy, and create excessive administrative burdens for retailers.

Recent Activity

In the 111th Congress, Rep. John Linder (R-GA) and Sen. Saxby Chambliss (R-GA) introduced the Fair Tax Act of 2009 (H.R. 25,¹ S. 296²), which would replace the federal income tax with a national sales tax. Neither of these proposals has received a hearing in this or recent Congresses, and it is unlikely that they will receive floor consideration given the congressional Democratic Majority's tax agenda, which does not yet include replacing the current tax system with a national retail sales tax.

On July 25, 2009, President Obama named former Federal Reserve Chairman Paul Volcker to head up the President's Economic Recovery Advisory Board (PERAB), part of the mandate of which is to review the current tax code, close loopholes, streamline the law, and generate revenue. The panel also includes Martin Feldstein, Laura D'Andrea Tyson, Roger Ferguson, and William Donaldson. While the panel has few constraints shaping its recommendations – namely, no tax increase in 2009 and 2010 and no tax increase on families earning less than \$250,000 a year – the serious deficit projections for the next ten years and ballooning national debt create significant pressure for the recommendations to raise substantial revenues, which could include proposals to supplement the current tax system, such as through a national sales tax. The panel is expected release recommendation by the end of 2009.

Following public remarks in September 2009 by Chairman Volcker on the potential for a value-added tax, House Speaker Pelosi also stated publicly that such a tax should be on the table to address the country's fiscal situation. In response, RILA wrote to the Speaker to express opposition to a value-added or national sales tax, noting its regressive nature and compliance burdens on retailers.³ RILA echoed similar concerns in a letter to the PERAB in December 2009, regarding tax reform.⁴

Action Needed

RILA urges Members of the Senate and House of Representatives not to cosponsor the Linder/Chambliss proposal and to oppose legislation advocating a national retail sales tax. Any tax-reform legislation considered by Congress should be developed with the full input of retailers, and RILA and its member companies stand ready to assist in that effort.

Background

Some policymakers, economists, and academicians support replacing the current income tax system with a national retail sales tax. They argue that a sales tax is fairer than the current income tax system and will give Americans more incentive to save, simplify federal taxation, reduce the cost of tax filing compliance, and lower the cost of goods and services.

Notwithstanding their arguments, a national retail sales tax raises a number of serious concerns, which undermine its viability:

- Experts believe Congress would need to impose a sales tax rate between 25 percent and 30 percent to offset the costs of moving from an income tax system to a consumption-based system. Such a tax would put the cost of many basic commodities and goods out of reach for millions of Americans.
- Sales taxes are generally regressive and particularly harm low- and middle-income consumers who spend a higher percentage of their income on basic necessities such as food, clothing, and household

products. While proponents of a national retail sales tax contend that rebates could be offered to mitigate its regressive nature, to be effective, such rebates would have to be made to the more than 300 million Americans each month, which would entail substantial administrative costs to the government and drive the tax rate even higher.

- Retail represents the third largest employer in the United States – behind only government and healthcare. In 2008, the retail industry saw \$3.96 trillion in annual sales and employed 15 million American workers. A national sales tax would significantly depress retail sales and have a devastating impact on this important sector of our national economy and the critical jobs it provides.
- Many national sales tax advocates wish to repeal the current income tax system to eliminate the possibility of layering a sales tax on top of the current federal income tax. Permanent repeal of the income tax would require an amendment to the U.S. Constitution. Given the difficulty and infrequency of constitutional amendments, the possibility of both a national sales tax existing on top of the current federal income tax is highly likely.
- State and local governments already apply sales taxes to many goods and services. A national sales tax would simply add to the tax burden consumers are already asked to shoulder by these jurisdictions.
- A national sales tax of any amount, whether in lieu of or in addition to a federal income tax, would create significant administrative burdens for RILA members that would be responsible for collecting and remitting the tax to the U.S. Treasury.

In confirmation of many of the foregoing fatal flaws, the President's Advisory Panel on Federal Tax Reform, formed by President Bush in January 2005 to make recommendations on fundamental reform of the tax system, rejected a national retail sales tax in its final report, stating that such tax system would result in a high tax rate, be difficult to administer, and burdensome for state taxing authorities.⁵

Contact

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Additional References

- RILA Issue Brief: Tax Reform
- RILA Issue Brief: International Tax Reform
- RILA Issue Brief: Streamlined Sales Tax

¹ Fair Tax Act of 2009, H.R. 25, 111th Cong., 1st Sess. (Jan. 6, 2009) – available at: http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h25ih.txt.pdf.

² Fair Tax Act of 2009, S. 296, 111th Cong., 1st Sess. (Jan. 22, 2009) – available at: http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:s296is.txt.pdf.

³ Letter from Katherine G. Lugar, Executive Vice President, Public Affairs, Retail Industry Leaders Association, to The Honorable Nancy Pelosi, Speaker, U.S. House of Representative (Oct. 6, 2009) – available at: <http://www.rila.org/news/Documents/Pelosi%20VAT%20letter%20FINAL.pdf>.

⁴ Letter from Katherine Lugar, Executive Vice President, Public Affairs, Retail Industry Leaders Association, to the Honorable Paul Volker, Chairman, President's Economic Recovery Advisory Board, regarding tax reform proposals (Dec. 31, 2009) – available at: <http://www.rila.org/governmentaffairs/Government%20Documents/PERABTaxReform123109.pdf>.

⁵ President's Advisory Panel on Federal Tax Reform, Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System (Nov. 1, 2005) – available at: <http://govinfo.library.unt.edu/taxreformpanel/>.