National Retail Sales Tax Research

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Aaron, Henry J., William Gale, and James Sly. 1999. "The Rocky Road to Tax Reform." In *Setting National Priorities: The 2000 Election and Beyond*, ed. Henry J. Aaron and Robert D. Reischauer, pp. 211-266. Washington: Brookings Institution. Available here.

Makes the point that little in the way of compliance savings would accrue to taxpayers even if the IRS is eliminated under a NRST unless the states also abolished their income taxes and replaced them with sales taxes. Notes that some sort of income filing would still be necessary for people to qualify for the demogrant which the legislation would authorize paying in order to offset the regressivity of the tax. Also points out problems with business-to-business sales.

Altman, Daniel. 2004. "What If a Sales Tax Were the Only Tax?" *New York Times* (October 17).

Americans for Tax Reform. 1995. "Lugar's National Sales Tax a Profound Strategic Error, Says Key Grassroots Leader." Press Release (April 14).

Quotes Grover Norquist as saying, "Adopting the national sales tax is a profound strategic error that would destroy the Republican majority coalition of 1994 and reduce the party to permanent minority status."

Angell, Wayne. 1998. "Tax Americana: The 23 Percent Solution." *Washington Post* (February 1).

The author, a former Federal Reserve Board governor and chief economist at Bear Stearns, favors the national retail sales tax.

Armey, Dick. 1995. "Caveat Emptor: The Case Against the National Sales Tax." *Policy Review* (Summer): 31-35.

Argues that massive evasion under a NRST would inevitably require the tax to be collected at all stages of production and distribution. In other words, it would morph into a VAT, something sales tax supporters say they oppose. The author was House Majority Leader and had previously been a professor of economics at North Texas State University. See also Zodrow (1999).

Bartlett, Bruce. 1995. "Replacing Federal Taxes With a Sales Tax." *Tax Notes*, 68:8 (August 21): 997-1003.

Notes that states are likely to drop their own sales taxes if the federal government adopts a NRST and collect additional revenue through their income taxes. In any

event, unless the states are required to abolish their income taxes, taxpayers will still have to file returns just as they now do with the IRS, thus failing to achieve the NRST's principal goal. Also notes that the rebate mechanism proposed to relieve the regressivity of a NRST would constitute a major new entitlement program that would be subject to abuse by politicians and recipients.

(Under H.R. 25, the rebate would equal the tax rate times the poverty level income for a given family size, except that married couples would be treated as two single individuals. Thus every adult would be entitled to a check from the government equal to 23 percent of $9,573, the poverty level income for a single person in 2003, or $2,202 per year, payable monthly. This would cost approximately $500 billion per year annually just for the adult population of the United States.)

Barrett, William P. 1998. "Tax Torture, Local Style." *Forbes* (July 6): 80-81.

Notes that state and local tax enforcement is as oppressive as that of the IRS.

Brannon, Gerard M. 1997. "National Sales Tax: In Short, It Stinks." *Tax Notes*, 74:2 (January 27): 509.

"The national sales tax idea is one of the dumbest tax ideas now being bandied about." The author was formerly director of the Office of Tax Analysis at the Treasury Department. See Mastromarco (1997).

Brown, Harry Gunnison. 1959 (1939). "The Incidence of a General Output or a General Sales Tax." In *Readings in the Economics of Taxation*, ed. Richard A. Musgrave and Carl S. Shoup, pp. 330-339. Homewood, IL: Richard D. Irwin.

Since the general price level is determined by monetary policy, introduction of a general sales tax cannot raise retail prices. Therefore, the tax must force down wages and producer prices. If this adjustment does not take place quickly, it will reduce business activity and raise unemployment. "The rapid introduction of sales taxes certainly tends to bring business depression." (p. 338).

Buckley, John, and Diane Lim Rogers. 2004. "Is a National Retail Sales Tax In Our Future?" *Tax Notes*, 104:12 (September 13): 1277-87.

Bull, Nicholas, and Lawrence B. Lindsey. 1996. "Monetary Implications of Tax Reforms." *National Tax Journal*, 49:3 (September): 359-379. Available here.

Makes important points about the ability of the economy to adjust to a NRST and about the appropriate response of the monetary authorities. Lindsey was a governor of the Federal Reserve Board. See Johnston (1995)

Burton, David R., and Dan R. Mastromarco. 1996. "The National Sales Tax: Moving Beyond the Idea." *Tax Notes*, 71:9 (May 27): 1237-1247.

The authors are lawyers that were hired to lobby in favor of the NRST.

Burton, David R., and Dan R. Mastromarco. 1997. "Emancipating America From the Income Tax: How a National Sales Tax Would Work." Cato Institute Policy Analysis No. 272 (April 15). Available here.

Carlton, Dennis W. 1986. "The Rigidity of Prices." *American Economic Review*, 76:4 (September): 637-658.

A key assumption of sales tax supporters is that prices and wages will fall by the amount of the incomes taxes currently embedded in them. This article shows discusses the rigidity of prices, which casts serious doubt on the idea that prices and wages will fall quickly or easily if income taxes are abolished. See also Poterba, Rotemberg and Summers (1986).

Cline, Robert, John Mikesell, Tom Neubig, and Andrew Phillips. 2005. *Sales Taxation of Business Inputs.* Washington: Council on State Taxation. Available here.

Finds that in 2003, 43 percent of state and local sales taxes fell on business inputs, three times the amount of state corporate taxes collected. See also Ring (1989, 1999).

Cnossen, Sijbren. 1995. Statement. In *Replacing the Federal Income Tax*. U.S. House of Representatives, Committee on Ways and Means. 104th Congress, 1st session, Serial 104-28, pp. 306-315. Washington: U.S. Government Printing Office.

"RSTs actually in use (or previously levied in the Nordic countries and Switzerland) have never been able to integrate the taxation of services with the taxation of goods. The reason probably is that RSTs must rely on end-use exemptions to segregate business use from private use of services (which are more often of the mixed-use type than are goods). End-use exemptions are notoriously difficult to apply and monitor, because exempt services must be defined, identified by the retailer (impossible in many cases), and separately accounted for." (pp. 307-8)

The author is a professor of economics at Erasmus University, Rotterdam, the Netherlands.

Cnossen, Sijbren. 2002. "Evaluating the National Retail Sales Tax from a VAT Perspective." In *United States Tax Reform in the 21st Century*, ed. George Zodrow and Peter Mieszkowski, pp. 215-244. New York: Cambridge University Press.

Makes a strong argument that a VAT is preferable to a NRST at rates necessary to replace existing income taxes. Points out that many countries have considered adopting a NRST and have always chosen a VAT for administrative reasons. A key reason is the difficulty of exempting producers from the tax under a NRST, since retailers would be required to know the purpose for which a purchaser intended to use a product. Under a VAT, the burden is shifted to those claiming VAT credits, making enforcement easier.

Also makes the point that the VAT's multi-stage collection process is akin to tax withholding for the income tax. The NRST, by contrast, puts the entire burden of collection on retailers. Moreover, a VAT can exempt small retailers from collecting the tax at a low revenue cost, because most of the tax will still have been paid when retailers purchased goods for sale. A NRST could not allow any small business exemption.

"I conclude that VAT is inherently more robust than NRST. Inherent robustness is an important attribute in view of the high rate that would be required to serve the purposes of fundamental tax reform. VAT's technical superiority over NRST implies that it can be levied with fewer distortions than its rival and that it has greater revenue potential. By far the most important difference between the two taxes is that VAT does not have to make a distinction between consumer goods and producer goods." (p. 242)

Davis, Bob. 1997. "CATS Out of the Bag." *World Magazine*, 12:9 (May 31/June 7). Available here.

Discusses the role of the Church of Scientology in developing the national retail sales tax proposal. See also Starobin (1995).

Due, John F., and John L. Mikesell. 1994. *Sales Taxation*. 2nd ed. Washington: Urban Institute.

Detailed examination of state sales tax practices.

Feenberg, Daniel R., Andrew W. Mitrusi, and James M. Poterba. 1997. "Distributional Effects of Adopting a National Retail Sales Tax." In *Tax Policy and the Economy*, vol. 11, ed. James M. Poterba, pp. 49-89. Cambridge: MIT Press. Available here.

Fleischman, Gary M. 1998. "Nat'l Sales Tax & Residential Real Estate: Worse Than You Think." *Tax Notes*, 79:10 (June 8): 1359-1361.

Notes that the national retail sales tax would apply to new home sales and discusses the implications. The author is a professor of accounting at the University of Tennessee.

Fox, William F., and Matthew Murray. 1988. "Economic Aspects of Taxing Services." *National Tax Journal*, 41:1 (March): 19-35. Available here.

Francis, James, Edgar A. Fresen, and Charles E. Rockwood. 1989. "Estimating the Revenue from a Sales Tax on Services." *Tax Notes*, 43:4 (April 24): 485-490.

Gale, William G. 1998. "Don't Buy the Sales Tax." Brookings Policy Brief No. 31 (March). Available here.

> Argues that many of the benefits claimed by sales tax supporters could be obtained through judicious reform of the income tax.

Gale, William G. 1999. "The Required Tax Rate in a National Retail Sales Tax." *National Tax Journal*, 52:3 (September): 443-457. Available here.

> Finds that the NRST would require a tax-inclusive rate of 35 percent and a tax-exclusive rate of 53 percent assuming no evasion or base erosion. Using more realistic assumptions raises the tax-inclusive rate to 50 percent and the tax-exclusive rate to 100 percent.

Gale, William G. 2004. "A Note on the Required Tax Rate in a National Retail Sales Tax: Preliminary Estimates for 2005-2014." Brookings Institution (August 12). Available here.

> Updates Gale (1999). Finds that a tax-inclusive rate of 37.8 percent would be needed to replace all federal taxes, rather than the 23 percent rate proposed by NRST supporters. The tax-exclusive rate would have to be 60.7 percent based on 2003 data, when federal revenues were at a historical low.

Gale, William G. 2005. "The National Retail Sales Tax: What Would the Rate Have to Be?" Brookings Institution (April). Available here.

Gale, William G., and Janet Holtzblatt. 2002. "The Role of Administrative Issues in Tax Reform: Simplicity, Compliance, and Administration." In *United States Tax Reform in the 21st Century*, ed. George R. Zodrow and Peter Mieszkowski, pp. 179-214. New York: Cambridge University Press. Available here.

> Notes that there is a vast amount of complexity involved in the NRST plan to redress its regressivity by sending every household a demogrant based on its size and income. Also notes that there will be many new opportunities for evasion under a NRST that could considerably reduce its revenue yield. Concludes that a NRST high enough to replace existing federal taxes is unworkable.

Gale, William G., Evan F. Koenig, Diane Lim Rogers, and John Sabelhaus. 1998. "Taxing Government in a National Retail Sales Tax." *Tax Notes*, 81:1 (October 5): 97-109. Available here.

The NRST would apply not just to private consumption, but federal, state and local government consumption as well, as well as on services provided by government. (See sections 703 and 704 of H.R. 25.) Although this increases the sales tax base by about 40 percent, it simply raises the cost of government by exactly the amount of the tax raised. If real government spending is held constant, spending would have to rise by about 17 percent, thus raising the required sales tax rate by 10 to 12 percentage points on a tax-inclusive basis; i.e., from 23 percent to between 32.5 percent and 34.9 percent.

GAO. 1998. *Potential Impact of Alternative Taxes on Taxpayers and Administrators.* GAO/GGD-98-37. Washington: U.S. General Accounting Office. Available here.

Points out that the federal government would still have to collect data on individual incomes in order to calculate a rebate based on income and family size. Also discusses the compliance burden on businesses and the likelihood that evasion will increase. "Based on our, Treasury, and academic analyses, it appears that a relatively high national RST rate would tend to increase evasion incentives and associated administrative difficulties beyond those arising under state RSTs." (p. 121)

Graeser, Laird, and Allen Maury. 1992. "Sales Tax on Services: State Trends." In *Sales Taxation: Critical Issues in Policy and Administration*, ed. William F. Fox, pp. 77-102. Westport, CT: Praeger.

Hall, Arthur P. 1996. "Analysis and Summary of the National Retail Sales Tax Act of 1996." Tax Foundation Special Report No. 57 (March).

Hall Robert E. 2004. Statement before the House Budget Committee. (October 6). Available here.

"In a VAT, *every* business pays the tax on all of its sales, whether to other businesses or to final customers. If the customer is a business, the customer deducts the purchase, so there is no double taxation. A seller does not need to keep track of whether its customers are businesses or final customers. Under a sales tax, the seller does need to make that distinction. Customers masquerade as reselling businesses when they are actually final customers. Sales taxes are notoriously leaky and cannot sustain tax rates much above 10 percent. The case against a sales tax is practical."

Hellerstein, Walter. 1988. "Florida's Sales Tax on Services." *National Tax Journal*, 41:1 (March): 1-18. Available here.

Discusses a 1987 effort by the state of Florida to broaden taxation of services and the political outcry that led to its repeal. The author is a professor of law at the University of Georgia.

Hellerstein, Walter. 1992. "Sales Taxation of Services: An Overview of the Critical Issues." In *Sales Taxation: Critical Issues in Policy and Administration*, ed. William F. Fox, pp. 41-50. Westport, CT: Praeger.

House Ways and Means Committee, Democratic Staff. 2004. *The Republican National Retail Sales Tax Plan: The Price Is Too High* (September 23, 2004). Available here.

Hultberg, Nelson. 1996. *Why We Must Abolish the Income Tax and the IRS: A Special Report on the National Sales Tax*. Dallas: AFR Publications.

> A self-published book by a self-described freelance writer, the author strongly supports a NRST on libertarian grounds, especially the abolition of the IRS. He accuses those favoring the flat tax as Big Government supporters. His references show no evidence of familiarity with even the most basic literature on public finance.

Johnston, David Cay. 1995. "A Fed Governor Sees Danger in Shift to a National Sales Tax." *New York Times* (September 7).

> Quotes Federal Reserve Board Governor Lawrence Lindsey as warning that imposition of a national sales tax would lead to a buying spree before the tax took effect, with a collapse of sales afterward. See Bull & Lindsey (1996).

Joint Committee on Taxation. 1995. *Description and Analysis of Proposals to Replace the Federal Income Tax*. Joint Committee Print. Washington: U.S. Government Printing Office. Available here.

> Notes that having the states collect a NRST would reduce the homogeneity of the federal tax system because all states are unlikely to collect the tax with the same vigor and may interpret federal law differently. (p. 49)

Joint Committee on Taxation. 2000. "Budget Neutral Tax Rate for H.R. 2525." Memorandum from Lindy Paull to John Buckley (April 7).

> Estimates that a tax-inclusive rate of 36 percent for a NRST would be needed to replace all federal revenues (in contrast to the sponsor's estimate of 23 percent), and that a tax-exclusive rate of 57 percent would be necessary.

Jorgenson, Dale W. 2000. "Efficient Taxation of Income." *Harvard Magazine* (March-April): 31-33.

Jorgenson, Dale W. 2002. Statement before the Subcommittee on Select Revenue Measures, Committee on Ways and Means, U.S. House of Representatives. (May 9). Available here.

Estimates that a sales tax rate of 28.5 percent would be needed just to equal current corporate and individual income tax revenues, keeping the payroll tax as is.

Jorgenson, Dale W., and Kun-Young Yun. 2001. *Lifting the Burden: Tax Reform, the Cost of Capital, and U.S. Economic Growth*. Cambridge: MIT Press.

Koenig, Evan F. 1999. "Achieving 'Program Neutrality' Under a National Retail Sales Tax." *National Tax Journal*, 52:4 (December): 683-697. Available here.

Notes that the real value of transfer payments would fall under a NRST. If this is compensated for by raising federal spending, it will increase the deficit-neutral tax rate. Estimates that a 47.4 percent rate (tax-exclusive) would be necessary to maintain the real value of government spending (32.2 percent on a tax-inclusive basis). Further notes that if the Federal Reserve holds the price level constant, then producer prices will have to fall by the amount of the tax. The author is an economist at the Federal Reserve Bank of Dallas.

Kotlikoff, Laurence J. 1993. "The Economic Impact of Replacing Federal Income Taxes With a Sales Tax." Cato Institute Policy Analysis No. 193 (April 15). Available here.

Finds significant economic benefits from switching to a consumption-based tax system. These benefits would be realized from a switch to any consumption-based tax system and are not limited to those that might arise from adopting a national retail sales tax. The author is a professor of economics at Boston University.

Kotlikoff, Laurence J. 2005. "The Case for the 'Fair Tax.'" *Wall Street Journal* (March 7).

Krauss, Melvyn B. 1979. "U.S. Sales Tax Is Preferable to VAT System." *Wall Street Journal* (October 24).

The author is a professor of economics at NYU.

Mastromarco, Dan R. 1997. "National Sales Tax: A Few Good Reasons Why It Smells…Good." *Tax Notes*, 74:7 (February 17): 964-966.

The author responds to Brannon (1997) in a letter to the editor without addressing any of its substance.

Mastromarco, Dan R. 1998. "The 'Fair Tax' and Tax Compliance: An Analytical Perspective." *Tax Notes*, 79:3 (April 20): 379-387.

The author, a lobbyist employed by a pro-sales tax organization, asserts that compliance under a NRST would be higher than under an income tax because state sales tax compliance is now higher than that for the federal income tax.

McLure, Charles E. 1987. *The Value-Added Tax: Key to Deficit Reduction?* Washington: American Enterprise Institute.

"At rates higher than about 10 percent the enforcement and efficiency advantages of the VAT probably outweigh the advantages of the retail sales tax." (p. 107)

McLure, Charles E. 1993. "Economic, Administrative, and Political Factors in Choosing a General Consumption Tax." *National Tax Journal*, 46:3 (September): 345-358. Available here.

Points out that it is impossible, administratively, to entirely avoid taxing business purchases with a retail sales tax, thus leading to cascading and undermining the efficiency gains from such a tax.

Messere, K.C. 1993. *Tax Policy in OECD Countries: Choices and Conflicts.* Amsterdam: IBFD Publications.

Comparing countries with VATs and RSTs finds that the former taxed 70 percent of total consumption, while the latter only taxed between 30 percent and 50 percent. This is primarily due to broader taxation of services by the VAT. The author was formerly head of the fiscal affairs division of the OECD.

Messere, Ken, Flip de Kam, and Christopher Heady. 2003. *Tax Policy: Theory and Practice in OECD Countries*. New York: Oxford University Press.

Essentially an updated version of Messere (1993), which itself was essentially an updated version of OECD (1988). Discusses Australia's decision to levy a RST rather than a VAT in the mid-1980s mainly on the grounds that it would have taken an extra year to put a VAT in place, and the need for revenue was acute. On the other hand, New Zealand rejected a RST and adopted a VAT on the grounds of greater revenue potential and less evasion potential (p. 152). In 2000, however, Australia replaced its RST with a VAT for administrative reasons.

Metcalf, Gilbert E. 1997. "The National Sales Tax: Who Bears the Burden." Cato Institute Policy Analysis No. 289 (December 8). Available here.

The author, a professor of economics at Tufts, argues that the regressivity of a national retail sales tax is overstated because lifetime consumption is more equal than annual consumption.

Mikesell, John L. 1996. "A National Sales Tax? Taxing Consumption the American Way." *Tax Notes*, 72:4 (July 22): 523-527.

Discusses the idea of having the states collect a NRST on behalf of the federal government. Notes that state sales tax coverage is much narrower than contemplated by a NRST. "No state now comes close to matching the tax structure prescribed in the proposed law." (p. 524)

Further notes the evasion possibilities of giving producers exemption certificates to allow them to avoid paying sales taxes and avoid cascading. "It is not in the best economic interest of retailers to be especially suspicious of exemptions; questions may cause loss of a profitable sale, and only the government gains if the questions are asked." (p. 525)

Concludes that a NRST would have an adverse effect on state revenue systems and subvert state fiscal sovereignty.

The author is a professor of public and environmental affairs at Indiana University. He is also co-author of the standard text on state sales taxation (Due and Mikesell 1994).

Mikesell, John L. 1997. "The American Retail Sales Tax: Considerations on Their Structure, Operations, and Potential as a Foundation for a Federal Sales Tax." *National Tax Journal*, 50:1 (March): 149-165. Available here.

"A federal tax piggybacked on the existing state taxes would be completely inappropriate for a national tax because of the considerable state-by-state differences in the tax." (p. 161)

"At the high rates required to yield enough revenue to replace the income taxes, problems of evasion and higher reward from avoidance, distortion caused by incomplete exclusion of business purchases, and narrow coverage of consumer services diminish the attractiveness of the retail sales tax." (p. 162)

"Attempting to levy a national tax as a supplement to state sales taxes would be folly." (p. 163)

Mikesell, John L. 1998. "Changing the Federal Tax Philosophy: A National Value-Added Tax or Retail Sales Tax?" *Public Budgeting & Finance*, 18:2 (Summer): 53-68.

Notes that there is less transparency with a NRST than the income tax because it is difficult for consumers to know how much tax they pay on an annual basis. Further notes that audits of state sales taxes, as well as individual and corporate income taxes, is greatly facilitated by data from federal tax returns. If the IRS disappeared, this would lead to much greater evasion of all state taxes.

Mikesell, John L. 2001. "Changes in State Retail Sales Taxation: Can These Taxes Survive Prosperity?" *93rd Annual Conference on Taxation*. Washington: National Tax Association.

Mitchell, Daniel J. 1997. "Flat Tax or Sales Tax? A Win-Win Choice for America." Heritage Foundation Backgrounder No. 1134 (August 14). Available here.

Points out that sales tax supporters would have to repeal the 16th amendment to the Constitution to truly achieve their goal and avoid the possibility of having both a NRST and an income tax. Also points out that the Hall-Rabushka flat tax is a pure consumption tax and that the goal of taxing only consumption could be achieved by adopting this proposal as well.

Moore, Stephen. 1996. "The Economic and Civil Liberties Case for a National Sales Tax." In *Frontiers of Tax Reform*, ed. Michael J. Boskin, pp. 110-120. Stanford: Hoover Institution Press.

Says that the principal argument for a NRST is civil liberty. It would no longer require federal government intrusion into personal financial affairs.

Motley, John J. 1996. "Consumption Taxes—No Cure for What Ails Us." *Tax Notes*, 71:9 (May 27): 1235-1236.

The author is senior vice president of the National Retail Federation. He is mainly concerned that taxing consumption will reduce consumer spending, and cites a study done for the Federation by Nathan and Associates that estimated a loss of 200,000 jobs in the retail sector if a consumption tax is enacted. See also Sharp (1997).

Murray, Matthew N. 1997. "Would Tax Evasion and Tax Avoidance Undermine a National Retail Sales Tax?" *National Tax Journal*, 50:1 (March): 176-182. Available here.

Says that the experience of the states in administering sales taxes provides no guide to the effects of a NRST, because no state attempts to levy sales tax rates as high as even the lowest estimate of a NRST. In particular, the incentive to evade a high-rate NRST would be much greater. For example, people could set up sham businesses in order to qualify for an exemption certificate. Barter transactions would increase, as would cross-border shopping. (Note: the Internet has made these possibilities even greater since this paper was written.) The author is a professor of economics at the University of Tennessee.

Murray, Matthew N. 1998. "Issues in the Taxation of Housing Under a National Retail Sales Tax." *90th Annual Conference on Taxation.* Washington: National Tax Association.

Discusses some of the problems of taxing housing under a NRST.

NICB. 1932. *Sales Taxes: General, Selective, and Retail.* New York: National Industrial Conference Board.

Notes that Congress rejected a NRST during the Civil War, during the First World War, and in 1932. In each case, Congress preferred specific excise taxes to general sales taxes.

OECD. 1988. *Taxing Consumption.* Paris: Organization for Economic Cooperation and Development.

"The 1964 Royal Swedish Tax Commission advocated a move to a VAT largely on the grounds that a significant raise in rates would be feasible only under a VAT and because of the relative fragility of RST with regard to tax evasion. It is understood that this consideration had an important influence on the governments of all three Scandinavian countries in their move to a VAT between 1967 and 1970." (p. 103)

OECD. 1993. *Taxation in OECD Countries*. Paris: Organization for Economic Cooperation and Development.

"Governments have gone on record as saying a RST of more than 10 percent to 12 percent is too fragile to tax evasion possibilities, and it is probably not entirely accidental that in OECD countries VAT rates are nearly always above 12 percent and that except in Canada and Iceland, RST rates have always been well below 12 percent." (p. 78)

OECD. 2001. *Consumption Tax Trends*. Paris: Organization for Economic Cooperation and Development.

Pilla, Daniel J. 1993. *How to Fire the IRS.* St. Paul, MN: Winning Publications.

A self-described "tax litigation consultant," the author mainly supports the NRST because it would abolish the IRS. Interestingly, he no longer lists this book among his publications on his web site.

Pollack, Sheldon D. 1997. "The Campaign for Radical Tax Reform: Round Two." *Tax Notes*, 74:7 (February 17): 957-960.

Poterba, James M., Julio J. Rotemberg, and Lawrence H. Summers. 1986. "A Tax-Based Test for Nominal Rigidities." *American Economic Review*, 76:4 (September): 659-675.

Finds that because prices are sticky, tax changes that are assumed to have little deadweight cost may in fact have large costs. See also Carlton (1986).

Finds that about 40 percent of state sales taxes fall on business inputs. The author is a professor of economics at the University of South Dakota.

Ring, Raymond J. 1999. "Consumers' Share and Producers' Share of the General Sales Tax." *National Tax Journal*, 52:1 (March): 79-90. Available here.

Finds that only 59 percent of state sales taxes fall on consumers. The rest falls mostly on producer inputs. See also Cline, Mikesell, Neubig & Roberts (2005).

Schuyler, Michael A. 1984. *Consumption Taxes: Promises & Problems*. Washington: Institute for Research on the Economics of Taxation.

Sharp, Richard L. 1997. "Don't Turn Retailers Into Tax Collectors." *Wall Street Journal* (April 14).

The author is chairman of Circuit City Stores and complains that a NRST would shift the entire cost of tax collection to retail businesses. "IRS encroachment into the retail sector would expand dramatically to ensure that the government captures taxes due on billions of sales." See also Motley (1996).

Shoup, Carl S. 1973. "Factors Bearing on an Assumed Choice Between a Federal Retail-Sales Tax and a Federal Value-Added Tax." In *Broad-Based Taxes: New Options and Sources*, pp. 215-226. Baltimore: Johns Hopkins Press.

"My own view is that the value-added tax is preferable to the retail sales tax at the federal level in the United States at the present time if such a tax is considered necessary." (p. 226).

Simons, Henry C. 1938. *Personal Income Taxation*. Chicago: University of Chicago Press.

"As regards minor dependents, it would be hard to maintain that the raising of children is not a form of consumption on the part of parents." (p. 140)

Simons, Henry C. 1950. *Federal Tax Reform.* Chicago: University of Chicago Press.

With reference to the sales tax, "It is a simple tax only in the sense that most people have no part in its technical operations." (p. 9)

Slemrod, Joel. 1996. "Which Is the Simplest Tax System of Them All?" In *Economic Effects of Fundamental Tax Reform*, ed. Henry J. Aaron and William G. Gale, pp. 355-391. Washington: Brookings Institution.

Notes that only 5 countries have ever tried to collect a NRST at rates over 10 percent, and two them (Norway and Sweden) switched to a VAT. "At rates of 20 percent or more, enforcing equitable collection would be extremely challenging.... There is no reason to believe that such a tax is administrable at accepted standards of equity." (p. 370). The author is a professor of economics at the University of Michigan.

Starobin, Paul. 1995. "No Returns." *National Journal* (March 18): 666-671.

Discusses the role of the Church of Scientology in developing the national retail sales tax proposal. See also Davis (1997).

Strauss, Robert P. 2001. Statement. In *Internet Tax Issues.* U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Oversight. 106th Congress, 2nd session, Serial 106-81. Washington: U.S. Government Printing Office. Available here.

Emphasizes the substantial share of state sales taxes falling on business inputs. Notes that this often leads to uneconomic forms of business organization, such as vertical integration, and hides the true burden of taxation. Estimates that 40.6 percent of the state sales tax burden fell on business inputs in 2000, varying from a low of 11 percent in West Virginia to a high of 72 percent in Hawaii. The author is a professor of economics at Carnegie-Mellon University. (This statement also appeared in *Tax Notes* on June 19, 2000.)

Sullivan, Martin A. 1995. *Flat Taxes and Consumption Taxes: A Guide to the Debate.* New York: American Institute of Certified Public Accountants.

Discusses some of the ways evasion would be facilitated under a NRST. Also argues that the assumption that the NRST would be imposed without exemptions is extremely unrealistic. Notes that every state and every nation with a sales tax has provided preferential treatment for some sales. "There is nothing in the history of the Federal tax legislative process to suggest that a Federal consumption tax would be untainted by special interest provisions." (p. 13)

Tait, Alan A. 1988. *Value Added Tax: International Practice and Problems.* Washington: International Monetary Fund.

Regarding a NRST, "even under favorable conditions, problems begin to accumulate as the tax rate rises. At 5 percent, the incentive to evade tax is probably not worth the penalties of prosecution; at 10 percent, evasion is more attractive, and at 15-20 percent, becomes extremely tempting.... In other words, a

single point retail sales tax is efficient at relatively low rates, but is increasingly difficult to administer as rates rise." (pp. 18-19) The author was deputy director of the Fiscal Affairs Department at the International Monetary Fund.

Tanzi, Vito. 1995. *Taxation in an Integrating World.* Washington: Brookings Institution.

"The general view among experts…is that 10 percent may well be the maximum rate feasible under an RST." (pp. 50-51) The author was director of the Fiscal Affairs Department at the International Monetary Fund.

U.S. Congress. 2005. *Fair Tax Act of 2005.* H.R. 25, 109th Congress, 1st session. Available here.

Spnsored by Rep. John Linder (Republican, Georgia), would establish a 23 percent tax-inclusive tax rate on all consumption. This is equivalent to a tax-exclusive rate of 30 percent, comparable to existing state sales taxes.

U.S. Treasury Department. 1984. *Tax Reform for Fairness, Simplicity, and Economic Growth.* Vol. 1. Washington: U.S. Government Printing Office. Available here.

"A Federal retail sales tax, when combined with the retail sales taxes levied by most states, would provide irresistible inducement to tax evasion at the retail level." (p. 34)

"Assuming an accommodating monetary policy, a sales tax would almost certainly increase the price level by roughly the percentage it represents of consumption spending…. To the extent the sales tax replaced part of the income tax, there would be little offsetting reduction in prices or wages." (p. 221)

"On balance the administrative advantages of the value-added tax appear to outweigh the primary administrative advantage of the retail sales tax in the American context, its much greater familiarity." (p. 225)

Varian, Hal R. 2001. "Economic Scene." *New York Times* (March 8).

"The sales tax is one of the worst taxes we have, and no amount of chewing gum and bailing wire will fix it." The author is a professor of economics at the University of California, Berkeley.

Wilkins, John G. 2000. Statement. In *Fundamental Tax Reform.* U.S. House of Representatives, Committee on Ways and Means. 106th Congress, 2nd session, Serial 106-115. Washington: U.S. Government Printing Office. Available here.

Reports the results of an analysis of the NRST by a PriceWaterhouseCoopers econometric model. Finds that a budget-neutral tax rate of 37.5 percent would be needed just to replace federal income taxes, excluding the payroll tax. Although

the proposal raises long-term GDP, it sharply reduces short-term GDP and employment. (pp. 99-105) The author was formerly the Treasury Department's chief revenue estimator.

Will, George. 2005. "The Tax Plan to Kill K Street." *Washington Post* (March 13).

Prominent conservative columnist supports the NRST.

Zodrow, George R. 1999. "The Sales Tax, the VAT, and Taxes in Between—or, Is the Only Good NRST a 'VAT in Drag'?" *National Tax Journal*, 52:3 (September): 429-442. Available here.

Argues that a VAT is clearly superior to a pure NRST. However, some proposed modifications to the NRST could narrow the gap. But in doing so, they blur the difference between a VAT and a NRST such that there is no real distinction between the two. See also Armey (1995). The author is a professor of economics at Rice University.