



Sales Tax Leakages—Why Yield Less Than Income Tax

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Sales Tax Leakages—Why Yield Less Than Income Tax

Mason Gaffney, April 2000

A catalogue of leakages, with avoidance methods, sales tax:

1. Consume city services, paid by local taxes (some of them deductible from taxable income).
2. Remit half of wages to relatives in homeland, e.g., Mexico (common among migrant workers).
3. Own land in state, reside elsewhere. Income paid to absentee owners and spent elsewhere is not taxed, at least not at home.

4. Travel out of state.

5. Buy and keep a big house and baronial lands, for pleasure. "Imputed consumption" is not taxed. Renting does it too, because rents are mostly free of sales tax.

Some of the materials in the house are taxed up front, when the builder buys hardware. The land acquisition is never taxed; neither is the purchase or sale of the building itself, once it is affixed to the ground and becomes "real estate." (Mobile homes may be taxed, though.)

Resale of used or "previously owned" personal property is taxable; resale of real property is not.

All sales taxes apply to personal property only—they are most explicitly designed to exempt real estate.

You can borrow to buy the house, and the interest and principal you pay is not taxed, even though it corresponds with your consumption of the real estate and its services. (The interest is also deductible from taxable income, unlike interest used to buy personal property. The cards are heavily stacked.)

6. Export goods.

7. Buy by catalogue, or internet. Rapid growth of internet dramatizes this, grabs lots of attention, but is only a small part of the larger set of leakages.

8. Watch TV. "Consume" advertising. Window-shop.

9. Take big shopping trips to OR, NH, DE, AK, or MT, states with no sales taxes. Residents of Washington state love to shop in Portland, OR, on the state line; and Portland workers and renters are increasingly moving north across the Columbia River divide to live in Washington, because Washington has no income tax.

10. Be a gourmet, where food is untaxed.

Eat at home, avoid restaurants (groceries are exempt in most states; restaurant meals are taxed). Hire a cook and housekeeper and groundskeeper.

11. Defer spending on taxable personal property. Save a big fraction of your income, to spend later, if ever. Buy land for pleasure use (buying land is not taxable).

12. Consume professional services (doctor, lawyer, dentist, mechanic, home repair, barber, hairdresser, clergyman, psychologist, palm reader, cleaner, accountant, undertaker, veterinarian, etc.). These are taxed in some states, but not all.

13. Park your car. The street is free or, if metered, free of sales tax. A private lot is either free (if part of a store or mall) or untaxed. Parking on your own land is untaxed.

14. Take courses for pleasure or self-improvement, e.g., in flower arranging, jazzercise, music appreciation, dance, weightlifting, Sanskrit, or horsemanship.

15. Use utilities (power, gas, water, mail, deliveries, telephone, etc.). Some of them have their own special taxes, but are generally exempt from "general" sales taxes.

If you buy a new fridge or air conditioner to save electric power, or new furnace to save gas, the equipment is taxed but the power you save is not.

Waste groundwater, e.g., on a golf course or horse farm. (Where there is a tax on water use, it is on the storage and distribution of it, not the withdrawal or extraction—just the reverse of what it should be.)

16. Play golf.
17. Invest your savings abroad, travel there to spend the money.
18. Invest in durable consumer goods. The imputed consumption over time is exempt.
19. Buy at the PX (retired officers have this privilege, along with active service people). By one estimate, 20% of all sales thus escape tax.
20. Deal in black markets. The largest of these is the market for illegal substances.
21. Go to prison. Don't laugh, the prison population is huge.
22. Enlist in the armed forces. Quite apart from the PX, your basic consumption needs are met, tax free.
23. Buy insurance on personal wealth, e.g., your house, car, boat, furniture, etc. (Insurance is part of the cost of consumption, but is not taxable.)
24. Use encryption to transmit funds, store records, etc.
25. Buy newspapers, magazines, etc. The media are generally exempt. Books are taxed when bought at retail, but not if mailed interstate, ordered by catalog or .com.
26. Download programs, music, art works, articles, information, etc. from the internet.
27. Barter; flea markets.
28. Peddling—if you don't get caught.

29. Lands exempt from sales taxes.

Retailing is where sales taxes are collected. Most land pays no sales tax directly, and perhaps not much indirectly. Here are kinds of land use that pay no sales tax:

- Armaments production
- Government and military bases
- Education
- Religious
- Golf clubs—at least the private part
- Parking
- Recreation
- Game and wildlife preserves
- Banking—the entire FIRE sector, e.g., of Manhattan
- Construction
- Housing
- Forests
- Hotels (a service). They do get hit by special taxes, though
- Media
- Transportation
- Utilities
- Streets

So only retailing, a tiny fraction of all land use, is the “point of sale” where tax is collected. Industry, wholesaling, pay indirectly. Farming of food is mostly exempt, except food sold through restaurants where food is consumed on the premises.

With all those loopholes, some of them huge, only a fraction of real consumption is taxed. There is nothing “uniform” or “comprehensive” about it. (Even if it were uniform, the Ramsey Rule tells us that is not a good idea, anyway.)