



Leakages from Sales Tax

By Dr. Mason Gaffney

Article citation:

Gaffney, Mason. "Leakages from Sales Tax." April 2000. Notes.

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Leakages from Sales 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 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, is an attention-grabber out of proportion to its current quantity).

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

9. Take big shopping trips to OR, NH, DE, AK, or MT, states with no sales taxes.

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).

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.

~~23. Buy insurance on personal assets.~~

23. Buy insurance on personal wealth, e.g. your house, car, boat, furniture, etc. (Insurance is part of the cost of consumption.)

24. Use encryption to transmit funds, store records, etc.

25. Buy newspapers, magazines, etc. The media are generally exempt. Anything mailed interstate is doubly protected from sales taxes.

26. Download programs, music, art works, articles, information, etc. from the Internet.

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.)

EXCERPT FROM:

Land as a Distinctive Factor of Production

Mason Gaffney

In Tideman, Nicolaus (ed.), 1995, *Land and Taxation*, London: Shephard-Walwyn (Publishers), Ltd.

B-13. CONSUMING LAND MEANS PREEMPTING ITS TIME

To consume most goods and services is to use them up. Land is not used up. "Consuming" land must have some other meaning, therefore, than the intuitive and common idea that consuming means turning-to-waste. To consume land is rather to preempt its service flow without impairing its substance. To consume land is to occupy it for a time-slot, which may be as brief as beating a red light or (rarely) as long as the pyramids last¹. After us life goes on, on the land once left to us which we then leave to others. "Time-sharing" was not invented by the vacation condo industry but is inherent in the nature of land and life.

How shall we measure land-consumption by owners, where no rent is paid? Is it purely subjective? Does it vary with the owner's mood and health? It is simpler than that, and fully practicable. The essence of consuming land is preempting the time-slot from others. Thus, holding land without using it, or using it below capacity, is a form of consumption. The measure is the market opportunity cost of land, e.g. the price times the interest rate.

Holding an urban site has been likened to holding a reserved seat at a play, ballgame, or concert. The seatholder properly helps pay for the event, whether or not there to enjoy it. As a result, very few paid customers fail to show up. Likewise, people who pay cash rent for land seldom leave it vacant. Doubtless if people paid regular cash taxes to hold land, they, too, would consume (preempt) less.

Proponents of "consumer taxation" almost universally overlook this point. I am not aware of one who has proposed including land-consumption in the tax base. Aaron and Galper, propounding a "cash-flow tax," explicitly allow for letting each succeeding owner expense land purchase, effectively exempting land rents from taxation 100%. (See Addenda, #2.)

Theirs, and other proposals, and consumer taxes actually

¹The other six "Wonders of the Ancient World" have all disappeared without a trace. Relative to land, human works are evanescent. "Like snow upon the desert's dusty face, lighting a little hour or two" they are gone.

imposed now and in the past, bear heavily on the necessities of median families. We deride the salt tax of the French ancien regime, and of pre-Ghandian India. We recognize them as instruments of tyranny and class warfare, even as we tolerate modern legislators who now impose comparable burdens on ourselves, and economists who rationalize such taxes by belittling the necessities of life.

Doing so, they compound the deception in the label "consumer taxation." Much of what is taxed in the name of taxing consumers is actually used for capital formation: human capital formation. The same economists who say human beings are or contain capital, turn around and tell us to tax the formation and maintenance of such capital, by calling it "consumption." Coupling this with their proposed exemption of land-consumption we have the ultimate victory and application of semantic cleansing. Inconsistency, thy name is - neo-classical economist?