



## National Sales Tax?

February 28, 2023

You might wonder what all the hoopla is over the proposal, in Congress, to impose a national sales tax on everything we purchase. After all, 45 of our 50 states collect sales taxes. And 170 different countries collect something similar: a value-added tax, which is assessed on different purchases across the supply chain for manufactured articles and digital services, which is ultimately passed on to the consumer.

The proposal, codified in something called the Fair Tax Act that was introduced in the House of Representatives on January 10, would eliminate all income taxes, payroll taxes, and corporate taxes, and incidentally also eliminate the Internal Revenue Service. It would replace those lost revenues with a tax on every item sold in the U.S., which has variably been reported to be 23% or 30%. The plan was actually created by the Church of Scientology during the Reagan presidency and has been floating on the margins of political respectability ever since.

There are several challenges to implementing a national sales tax. One of them is the practical aspects of it. The bill would have each state make the actual collections on sales within their boundaries (including, of course, the five states that don't administer a sales tax), but only provides one quarter of one percent of the collected revenue for the trouble. Instead of an IRS, you would have 50 states with their own underfunded collection bureaucracies.

The political challenge is probably more problematic. The headlines today are talking about the high cost of goods and services and the overall inflation rate. Making things more costly for consumers in a highly-visible way—right there on the price tags—might not be a popular idea at this time. Moreover, the 23% rate that the sponsors are pushing is not entirely accurate. The proposal would impose a \$30 national sales tax on every \$100 that you spend, which, if you don't have a calculator handy, comes to a 30% price increase, and should probably be referred to as a 30% tax. The 23% figure comes when someone says that \$30 is just 23 percent of the \$130 amount that the consumer is paying, which seems to be a sly mathematical sleight of hand.

Then, there's the fairness angle. The sales tax would fall most heavily on people who spend most of their income on goods and services—things like food, transportation, clothing, and the roof over their heads. People with more space between what they earn and what they have to spend on essentials would escape taxation on that 'discretionary' income. The 'fair tax' would be a Godsend to wealthier individuals, who could simply stash away a big chunk of their earnings untouched by government hands. Meanwhile, corporations would escape taxation altogether.

Finally, would the proposed sales tax replace the revenues generated by the various taxes we have on the books today? Probably not. A 2004 study from the Tax Policy Center estimated that we would need a national sales tax rate of 60% to generate the current level of tax income collected by the federal government. So if the proposal passed, it would lead to tax increases in the future.

The 'fair tax' stands very little chance of passing the House of Representatives, never mind the Senate, never mind getting signed into law by a Democratic president. But you will see something like this proposal come up again and again in the future, and who knows? Perhaps one day the political winds will blow it into law.

**Sources:**

<https://www.avalara.com/vatlive/en/vat-news/6-differences-between-vat-and-us-sales-tax.html#:~:text=VAT%20is%20imposed%20in%20around,to%20stay%20compliant%20across%20both>.

<https://www.yahoo.com/finance/news/democrats-revel-in-the-gops-doozy-of-an-idea-for-a-national-sales-tax-210400152.html>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.



**Jeffrey Broadhurst**  
MBA, CFA, CFP  
Broadhurst Financial Advisors, Inc.



**\*\*PRIVACY NOTICE\*\***

This message is intended only for the individual or entity to which it is addressed and may contain information that is privileged, confidential, or exempt from disclosure under applicable federal or state law. You are hereby notified that any dissemination, distribution, or copying of this communication, except in accordance with its intended purpose, is strictly prohibited.

**Our physical and mail address:**

1911 West Point Pike  
P.O. Box 301  
West Point, PA 19486-0301

**Contact us:**

Phone: (215) 325-1595  
Email: [jeff@broadhurstfinancial.com](mailto:jeff@broadhurstfinancial.com)