

THE PROGRESS REPORT

## **Taxes: 19<sup>th</sup>-century Sales versus 21<sup>st</sup>-century Rent**

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The sales tax is a 19th-century tax that is becoming ever more unsuited for our global mobile 21st century economy. There is no logical or economic reason whatsoever for taxing sales. Yet there are those who advocate expanding this antiquated tax and forcing high transaction taxes on the global commerce of the internet.

It is unfortunate, and may even be a tragedy, that some USA tax reformers, seeing the evil of the income tax, advocate shifting to a national sales tax. This misguided movement for consumption and sales taxes is splitting the tax-reform movement and diverting energy and time away from realistic and beneficial tax reform.

In the September 1999 issue of the National Tax Journal, economist Bill Gale of the Brookings Institution estimates a 50 percent tax rate would be needed to replace all federal taxes with a national sales tax. In addition, without the federal income tax, state income taxes would become much more difficult to administer, and the states too would shift to higher sales taxes. Local governments would add to and complicate the sales tax.

Economist Evan Koenig of the Federal Reserve Bank of Dallas, in the December 1999 issue of the National Tax Journal, points out that a sales tax raises the prices of all goods and services. This requires higher tax rates to maintain the real level of Social Security benefits and other programs. Koenig estimates it would require a 60 percent sales tax rate to replace all current federal taxes.

Like the income tax, sales taxes would have exceptions, exemptions, loopholes, credits, deductions, special rates, alternative rates, and different schedules for low-income, single-parent, disabled, energy-saving and non-profit payers if they keep records of every penny spent and taxed. Politics would create loop-the-loops and merry-go-rounds just like we have with income taxes.

With a federal-state-local tax rate of up to 75 percent, many sales would go underground. Enforcement would then have to be draconian. Not only would sellers and manufacturers have to keep complicated records and face audits, but buyers too would need to keep receipts of every item bought to prove that sales taxes were paid. There would have to be unannounced random police inspections of your home and business to check on whether you have any untaxed goods.

The zero-tolerance enforcement that is now de rigueur, combined with the fashionable civil asset forfeiture confiscations, would make every owner of cars, houses, furniture, computers, and pets vulnerable to instant confiscation if there was a slight suspicion of tax evasion.

Not just goods, but all services would need to be taxed. And to avoid evasion, the tax would have to be paid on the actual value of the service, and not just the sales price. Anything we do to help

others is a service, and it would be taxed, even if we offered it for free. This would require universal monitoring of all acts. No good deed would go unpunished.

If we are looking for a replacement for 20th century income taxes, rather than regress to 19th-century taxation, we need to progress towards 21st-century public finance based on land rent. The 21st century is the age of mobility and globility. The suitable source for 21st century public finance is an asset which must stay put - land. Anything that moves will flee from taxes at electronic speeds. Taxing sales will require electronic monitoring and record-keeping that could push tax rates above 100 percent.

The 21st century will be a world of virtual and global commerce, and speed-of-light transmissions. Money as well as many goods will consist of electrons. Taxing electrons will be expensive, futile, and counterproductive. But space, both in real-estate and in the radio spectrum, and natural material resources such as oil, water, and minerals, can be tapped for revenue without hurting production or making it run away. Land is fixed and immobile.

We can move towards progressive 21st-century public finance based on land that stays put, or try to fit 19-century sales taxes on electrons with fleeting locations. The sales tax is inherently tied to locations as points of sale, but tracking the location of the recipient will require totalitarian monitoring. In a world where commerce is fluid and etherial, those authorities which use land rent for public finance will have an ever better advantage.