

Sales tax

A **sales tax** is a tax paid to a governing body for the sales of certain goods and services. Usually laws allow (or require) the seller to collect funds for the tax from the consumer at the point of purchase. When a tax on goods or services is paid to a governing body directly by a consumer, it is usually called use tax. Often laws provide for the exemption of certain goods or services from sales and use tax.

Contents

Types

Effects

- Enforcement of tax on remote sales
- History
- Early examples
- In the United States
- In Canada

Sales tax avoidance

See also

References

External links

Types

Conventional or retail sales tax is levied on the sale of a good to its final end user and is charged every time that item is sold retail. Sales to businesses that later resell the goods are not charged the tax. A purchaser not an end user is usually issued a "resale certificate" by the taxing authority and required to provide the certificate (or its ID number) to a seller at the point of purchase, along with a statement that the item is for resale. The tax is otherwise charged on each item sold to purchasers without such a certificate and who are under the jurisdiction of the taxing authority^{[1][2]}

Other types of sales taxes, or similar taxes, include the following:

- Manufacturers' sales tax, a tax on sales of tangible personal property by manufacturers and producers.
- Wholesale sales tax, a tax on sales of wholesale of tangible personal property when in a form packaged and labeled ready for shipment or delivery to final users and consumers.
- Retail sales tax, a tax on sales of retail of tangible personal property to final consumers and industrial users.^[3]
- Gross receipts taxes levied on all sales of a business. They have been criticized for their "cascading" or "pyramiding" effect, in which an item is taxed more than once as it makes its way from production to final retail sale.^[4]
- Excise taxes, applied to a narrow range of products, such as gasoline or alcohol, usually imposed on the producer or wholesaler rather than on the retail seller.^[5]
- Use tax, imposed directly on the consumer of goods purchased without sales tax, generally items purchased from a vendor not under the jurisdiction of the taxing

BOULEVARD		
ONE MISSION STREET SAN FRANCISCO, CA 94105 (415) 543-6084 DINING ROOM		
1019 KEN		
Tbl 64/1	Crk 9458	Est 2
Feb15'06 07:20PM		
1 HENDRICKS	8.00	
1 BOURBON MANHATTAN	8.75	
1 D SOUP	13.75	
1 D ABALONE	19.50	
1 D LOBSTER LINGUI	18.75	
1 D SHORTRIB	17.50	
1 D SWEETBREADS	17.25	
1 D LAMB	32.00	
1 D PORK	31.00	
1 1/2 GL-3 SAINTIS PN	5.50	
1 1/2 GL SAUV BLANC	4.25	
1 1/2 GL-BAROLO	9.75	
1 1/2 G- UNTL SYRAH	5.50	
1 POTRERO	10.50	
1 G-CASTELNAU	9.00	
1 D BANANAS FOSTER	9.50	
1 D TRIO	9.75	
SUBTOTAL	230.25	
Tax	19.57	
Total	249.82	
BOULEVARD COOKBOOKS ARE NOW AVAILABLE PLEASE ASK YOUR SERVER THANK YOU FOR DINING WITH US		

Cash register receipt
showing sales tax of 8.5%

authority (such as a vendor in another state). Use taxes are commonly imposed by states with a sales tax but are usually enforced only for large items such as automobiles and boats^[6]

- Securities turnover excise tax, a tax on the trade of securities.^[7]
- Value added tax, in which tax is charged on all sales, thus avoiding the need for a system of resale certificates; cascading is avoided by applying the tax only to the difference ("value added") between the price paid by the first purchaser and the price paid by each subsequent purchaser of the same item.^[8]
- FairTax, a proposed federal sales tax, intended to replace the US federal income tax.^[9]
- Turnover tax, similar to a sales tax, but applied to intermediate and possibly capital goods as an indirect tax.^[10]

Most countries in the world have sales taxes or value-added taxes at all or several of the national, state, county, or city government levels.^[11] Countries in Western Europe, especially in Scandinavia, have some of the world's highest valued-added taxes. Norway, Denmark and Sweden have higher VATs at 25%, Hungary has the highest at 27%^[12]^[13] although reduced rates are used in some cases, as for groceries, art, books and newspapers.^[14]

In some jurisdictions of the United States, there are multiple levels of government which each impose a sales tax. For example, sales tax in Chicago (Cook County), IL is 10.25%, consisting of 6.25% state, 1.25% city, 1.75% county and 1% regional transportation authority. Chicago also has the Metropolitan Pier and Exposition Authority tax on food and beverage of 1% (which means eating out is taxed at 11.25%).^[15]

For Baton Rouge, Louisiana, the tax is 10%, which is 5% each of state & local.^[16] In L.A. it is 9.5%, which is 7.25% state, 2% county, 0.25% city.

In California, sales taxes are made up of various state, county and city taxes. The state tax is "imposed upon all retailers" for the "privilege of selling tangible personal property at retail".^[17] Strictly speaking, only the retailer is responsible for the payment of the tax; when a retailer adds this tax to the purchase price, the consumer is merely reimbursing the retailer by contractual agreement. When consumers purchase goods from out-of-state (in which case the seller owes no tax to California) the consumer is required to pay a "use tax" identical to the sales tax. Use tax is levied upon the "storage, use, or other consumption in this state of tangible personal property".^[18] Consumers are responsible for declaring these purchases in the same filing as their annual state income tax, but it is rare for them to do so. An exception is out-of-state purchase of automobiles. Then, use tax is collected by the state as part of registering the vehicle in California.

The trend has been for conventional sales taxes to be replaced by more broadly based value-added taxes. Value -added taxes provide an estimated 20% of worldwide tax revenue and have been adopted by more than 140 countries. The United States is now one of the few countries to retain conventional sales taxes.^[19]

Effects

Economists at the Organization for Economic Co-operation and Development studied the effects of various types of taxes on the economic growth of developed nations within the OECD and found that sales taxes are one of the least harmful taxes for growth.^[20]

Because the rate of a sales tax does not change based on a person's income or wealth, sales taxes are generally considered regressive. However, it has been suggested that any regressive effect of a sales tax could be mitigated, e.g., by excluding rent, or by exempting "necessary" items, such as food, clothing and medicines.^[21] Investopedia defines a regressive tax as "[a] tax that takes a larger percentage from low-income people than from high-income people. A regressive tax is generally a tax that is applied uniformly. This means that it hits lower-income individuals harder".

Enforcement of tax on remote sales

In the United States, every state with a sales tax law has a use tax component in that law applying to purchases from out-of-state mail order, catalog and e-commerce vendors, a category also known as "remote sales".^[22] As e-commerce sales have grown in recent years, noncompliance with use tax has had a growing impact on state revenues. The Congressional Budget Office estimated that uncollected use taxes on remote sales in 2003 could be as high as \$20.4 billion. Uncollected use tax on remote sales was projected to run as high as \$54.8 billion for 2011.^[23]

Enforcement of the tax on remote sales, however, is difficult. Unless the vendor has a physical location, or *nexus*, within a state, the vendor cannot be required to collect tax for that state.^[22] This limitation was defined as part of the Dormant Commerce Clause by the Supreme Court in the 1967 decision on National Bellas Hess v. Illinois. An attempt to require a Delaware e-commerce vendor to collect North Dakota tax was overturned by the court in the 1992 decision on Quill Corp. v. North Dakota.^[23] A number of observers and commentators have argued, so far unsuccessfully, for a Congressional adoption of this physical presence nexus test.^[24]

The Internet Tax Freedom Act of 1998 established a commission to study the possibility of internet taxation, but the commission did not make any formal recommendations. In a report issued in 2003, the Congressional Budget Office warned of the economic burden of a "multiplicity of tax systems, particularly for smaller firms".^[25]

In an effort to reduce the burden of compliance with the tax laws of multiple jurisdictions, the Streamlined Sales Tax Project was organized in March 2000. Cooperative efforts in this project by 44 state governments and the District of Columbia eventually produced the Streamlined Sales and Use Tax Agreement in 2010.^[25] This agreement establishes standards necessary for simplified and uniform sales tax laws. As of December 2010, 24 states had passed legislation conforming with the agreement. Whether the Streamlined Sales Tax can actually be applied to remote sales ultimately depends upon Congressional support, because the 1992 Quill v. North Dakota decision determined that only the U.S. Congress has the authority to enact interstate taxes.^[26]

History

Early examples

A tax imposed on the sale of goods is depicted on the walls of ancient Egyptian tombs, which have been dated as far back as 2000 BC. These paintings describe the collection of tax for specific commodities, such as cooking oil.^[27]

Sales tax amounts, measured in drachmas at a rate of one percent, were recorded in a separate column of a record prepared for the auction of 16 slaves in Piraeus, Greece in 415 BC.^[28] Nearby Athens collected duties on the import and export of commodities, recorded at a rate of two percent in 399 BC. At that period of time, Athens did not rely on government agencies to collect its taxes; the responsibility was delegated to the highest bidder a practice known as tax farming.^[29]

The Roman emperor Augustus collected funds for his military aerarium in AD 6 with a one percent general sales tax, known as the centesima rerum venalium (hundredth of the value of everything sold).^[30] The Roman sales tax was later reduced to a half percent (ducentesima) by Tiberius, then abolished completely by Caligula.^[31]

In the United States

Although the United States government has never used a general sales tax, an excise tax on whiskey enacted in 1791 was one of its first fund raising efforts. The unpopularity of this tax with farmers on the western frontier led to the Whiskey Rebellion in 1794.

Federal and state sales taxes in the United States remained selective, rather than general, through the 19th century. However, excise taxes were applied to so many specific commodities during the Civil War that they functioned collectively as a general sales tax.^[27]

The first broad-based, general sales taxes in the United States were enacted by Kentucky and Mississippi in 1930, although Kentucky repealed its sales tax in 1936.

The federal government's per-gallon tax of gasoline (beginning at .01 cent per gallon in 1932) and per-package tax of cigarettes (\$1.01 per package since 2009) are the most well-known current sales taxes administered by the federal government.

Twenty-two other states began imposing general sales taxes later in the 1930s, followed by six in the 1940s and five in the 1950s. Kentucky re-enacted its sales tax law in 1960. Eleven more states enacted sales tax laws during the 1960s, with Vermont as the last in 1969. Only five states currently do not have general sales taxes: Alaska, Delaware, Montana, New Hampshire, and Oregon.^[27]

The 2010 health care reform law imposed a 10 percent federal sales tax on indoor tanning services, effective July 1, 2010. Unlike previous federal excise taxes, this tax is collected directly from the consumer by the seller and based on the sale price rather than a quantity. However, the new tax is *selective* rather than general, applying only to a specific service.^{[32][33]}

In Canada

Canada uses a value-added federal Goods and Services Tax (GST) with a rate of 5 percent, effective since January 1, 2008. Every province in Canada except Alberta has either a Provincial Sales Tax (PST) or the Harmonized Sales Tax (HST), which is a single, blended combination of the GST and PST

Sales tax avoidance

Businesses can reduce the impact of sales tax for themselves and their customers by planning for the tax consequences of all activities. Sales tax avoidance often includes the following:

- Designing invoices to reduce the taxable portion of a sale transaction. In Maryland, for example, a delivery charge is exempt if it is stated separately from handling and other taxable charges.^[34]
- New facilities. Jurisdictions with no sales tax or broad exemptions for certain types of business operations would be an obvious consideration in selecting a site for a new manufacturing plant, warehouse, or administrative office.^[35]
- Delivery location. For a businesses operating in several jurisdictions, choosing the best location in which to take delivery can reduce or eliminate the sales tax liability. That is particularly important for an item to be sold or used in another jurisdiction with a lower tax rate or an exemption for that item. Businesses should consider whether a temporary storage exemption applies to merchandise initially accepted in a jurisdiction with a higher tax rate.
- Periodic review of recordkeeping procedures related to sales and use tax. Proper supporting detail, including exemption and resale certificates, invoices and other records must be available to defend the company in the event of a sales and use tax audit. Without proper documentation, a seller may be held liable for tax not collected from a buyer.^[1]

In the United States, online retailers without physical presence in a given state may ship goods to customers there without collecting that state's sales tax because as of 2011, there is no federal sales tax. Amazon.com has been criticized for not collecting sales tax and has intentionally disaffiliated itself from businesses in certain states to continue doing so legally

See also

- Consumption tax
- Excise tax
- Goods and Services Tax (Australia)
- Sales Tax Audit
- Sales and use taxes in California
- Sales taxes in Canada
- Sales taxes in the United States
- Streamlined Sales Tax Project

References

1. Purchases for Resale (<http://business.marylandtaxes.com/taxinfo/salesanduse/resold.asp>) Maryland State Comptroller's website. Retrieved 2010-05-19
2. "Business tax tip #4: If You Make Purchases for Resale" (<http://business.marylandtaxes.com/news/taxtips/business/bustip4.pdf>) (PDF). Maryland Comptroller of the Treasury. Retrieved April 14, 2011.
3. "Manufacturers," wholesale and retail sale taxes (<http://taxhistorytax.org/Civilization/Documents/Sales/hst6646/6646-1.htm>)
4. Chamberlain, Andrew; Fleenor Patrick (2006-12-01). "Tax Pyramiding: The Economic Consequences of Gross Receipts Taxes" (<http://www.taxfoundation.org/news/show/201.html>). Tax Foundation. Retrieved 2007-02-21.

5. "Excise essentials" (<http://www.ato.gov.au/businesses/pathway.aspx?pc=001/003/095>) Australian Taxation Office. Retrieved April 14, 2011.
6. Nina Manzi (June 2010). "Use Tax Collection on Income Tax Returns in Other States" (<http://www.house.leg.state.mn.us/hrd/pubs/usetax.pdf>) (PDF). *Policy Brief*. Minnesota House of Representatives Research Department. p. 4. Retrieved April 14, 2011.
7. Thom Hartmann (September 26, 2008). "How Wall Street Can Bail Itself Out Without Destroying The Dollar" (<http://www.commondreams.org/view/2008/09/26>) CommonDreams.org Retrieved April 14, 2011.
8. "Value added tax" (http://www.liechtenstein.li/en/liechtenstein_main_sites/portal_fuerstentum_liechtenstein/fl-wuf-wirtschaft_finanzen/fl-wuf-steuern/fl-wuf-steuern-mehrwertsteuer.htm). Government Spokesperson's Office, Principality of Liechtenstein Retrieved April 14, 2011.
9. Laurence J. Kotlikof (March 7, 2005). "The Case for the 'Fair Tax'" (<http://people.bu.edu/zackcost/fairtax.pdf>) (PDF). *The Wall Street Journal* p. A18. Retrieved April 14, 2011.
10. "What is turnover tax and how does it work?" (<http://www.sars.gov.za/home.asp?pid=43122#1>) *Turnover Tax for Small Business*. South African Revenue Service Retrieved April 14, 2011.
11. "VATGlobal" (<http://www.vatglobal.com/global-vat-table>)
12. VAT Rates Applied in the Member States of the European Community (http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/how_vat_works/rates/vat_rates_en.pdf) European Commission Taxation and Customs Union (2009-7-1), retrieved 2009-12-7
13. Guide to Value Added Tax in Norway (<http://www.skatteetaten.no/no/Bibliotek/Publikasjoner/Brosjyrer-og-boker/Guide-to-Value-Added-Tax-in-Norway/?chapter=7174>) Skatteetaten (2009-4-7), retrieved 2009-12-7
14. Julia Kollwe (June 28, 2010). "How to beat the VAT hike on groceries" (<http://www.walleepop.co.uk/2010/06/28/how-to-beat-the-vat-hike-on-groceries/>) *Wallet Pop UK*. Retrieved April 14, 2011.
15. Tax Rate Finder (<http://www.revenue.state.il.us/Publications/taxratefinder.htm>) Illinois Revenue official website, retrieved 2009-12-7
16. Sales and Use Tax Rates effective 7/1/2009 (http://www.laota.com/parish2/East_Baton_Rouge_Parish.html) East Baton Rouge Parish, retrieved 2009-12-7
17. "Chapter 2: Imposition and rate of sales tax" (<http://www.boe.ca.gov/lawguides/business/current/btlg/vol1/sutl/6051.html>). *Sales and Use Tax Law*. California State Board of Equalization. 2011 Retrieved July 19, 2011.
18. "Chapter 3: Imposition and rate of use tax" (<http://www.boe.ca.gov/lawguides/business/current/btlg/vol1/sutl/6201.html>). *Sales and Use Tax Law*. California State Board of Equalization. 2001 Retrieved July 19, 2011.
19. Kathryn James. "Exploring the Origins and Global Rise of VAT" ([http://www.taxanalysts.com/www/freefiles.rsf/Files/JAMES-2.pdf/\\$file/JAMES-2.pdf](http://www.taxanalysts.com/www/freefiles.rsf/Files/JAMES-2.pdf/$file/JAMES-2.pdf)) (PDF). *The VAT Reader*. Tax Analysts. Retrieved April 14, 2011.
20. "America the Uncompetitive" (<https://www.wsj.com/articles/SB12187557035042551>). Wall Street Journal editorial. August 15, 2008 Retrieved 2010-08-05.
21. Carl Davis; Kelly Davis; Matthew Gardner; Robert S. McIntyre; J. McLynch; All Sapozhnikov (November 2009). "Who Pays? A distributed analysis of the tax systems in all 50 states, 3rd edition" (<http://www.itepnet.org/whopays3.pdf>) (PDF). The Institute on Taxation & Economic Policy Retrieved 2010-08-05.
22. "Facts on Internet and Mail Order Purchases" (<http://www.michigan.gov/taxes/0,1607,7-23843529-155531--,00.html>). Michigan Department of Treasury. Retrieved April 14, 2011.
23. "Economic Issues in Taxing Internet and Mail Order Sales" (<http://www.cbo.gov/ftpdocs/46xx/doc4638/D-20-InternetTax.pdf>) (PDF). Congressional Budget Office. October 2003 Retrieved April 15, 2011.
24. See, for example, Sidney S. Silhan, *If It Ain't Broke Don't Fix It: An Argument for the Codification of the Quill Standard for Taxing Internet Commerce* 76 Chi. - Kent. L. Rev 671 (2000), setting forth reasons for maintaining the existing standard.
25. "Streamlined Sales and Use Tax Agreement" (<http://www.streamlinedsalestax.org/index.php?page=modules>) Streamlined Sales Tax Governing Board, Inc. December 13, 2010 Retrieved April 21, 2011.
26. "Frequently Asked Questions" (<http://www.streamlinedsalestax.org/index.php?page=faqs>). Streamlined Sales Tax Governing Board, Inc Retrieved April 21, 2011.
27. William F. Fox (March 13, 2002). "History and Economic Impact: Sales Tax History" (<http://cber.bus.utk.edu/staff/mnmecon338/foxipt.pdf>) (PDF). University of Tennessee Knoxville, Center for Business and Economic Research Retrieved April 15, 2011.

28. Dillon, Matthew & Garland, Lynda (2010). *Ancient Greece: Social and Historical Documents from Archaic Times to the Death of Alexander the Great, 3rd Edition* (<https://books.google.com/?id=vkguTquQ3igC&pg=PA188&lpg=PA188&dq=Ancient+Greek+sales+tax#v=onepage&q&f=false>) Routledge, New York. p. 188. ISBN 0-203-85455-1 Retrieved April 15, 2011.
29. Dillon and Garland, p. 41
30. S. Percy R. Chadwick (January–December 1918) "Some Roman Trade Routes Along the Pathway of the Great War" (<https://books.google.com/books?id=uBDGAAAAMAAJ&pg=PA193&lpg=PA193&dq=centesima+rerum+venalium#v=onepage&q=centesima%20rerum%20venalium&f=false>) *The Historical Outlook: The History Teacher's Magazine*. IX. McKinley Publishing Company New York. p. 193. Retrieved April 14, 2011.
31. Leonhard Schmitz (1875). "Vectigalia" (http://penelope.uchicago.edu/Thayer/E/Roman/Texts/secondary/SMIGRA*/Vectigalia.html). *A Dictionary of Greek and Roman Antiquities* John Murray, London. p. 1184 Retrieved April 14, 2011.
32. Tax Provisions in the Health Care Act (<http://www.journalofaccountancy.com/Web/20102724.htm>) AICPA Journal of Accountancy, retrieved 2010-04-02
33. H.R. 3590 Sec. 10907 (<http://healthreformstat.com/senate-bill-homepage/h-r-3590-sec-10907/>) HealthReformStat, retrieved 2010-04-02
34. What is included in the taxable price? (<http://business.marylandtaxes.com/faq/faqanssalesuse/q1.asp>) Maryland State Comptroller's website. Retrieved 2010-05-19
35. Healy, John C. & Schadewald, Michael S. (2008). *Multistate Corporate Tax Guide 2009, Volume II Sales/Use Tax* (<https://books.google.com/?id=yy0A/Swido8C&pg=PT389&lpg=PT389&dq=manufacturing+exemption+multistate#v=onepage&q=manufacturing%20exemption%20multistate&f=false>) CCH Group. p. 373. ISBN 978-0-8080-9229-2 Retrieved April 14, 2011.

External links

- [Whitepaper: Managing Sales and Use Tax Compliance for US and Canada](#)
-

Retrieved from ["https://en.wikipedia.org/w/index.php?title=Sales_tax&oldid=833025106"](https://en.wikipedia.org/w/index.php?title=Sales_tax&oldid=833025106)

This page was last edited on 29 March 2018, at 07:58.

Text is available under the [Creative Commons Attribution-ShareAlike License](#); additional terms may apply. By using this site, you agree to the [Terms of Use](#) and [Privacy Policy](#). Wikipedia® is a registered trademark of the [Wikimedia Foundation, Inc.](#), a non-profit organization.